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HEADLINE: Too Good to Be True; A penetrating look at how the third way became an economic tar pit.

BYLINE: Reviewed by David Maraniss

THE ROARING NINETIES

A New History of the World's Most Prosperous Decade

By Joseph E. Stiglitz. Norton. 379 pp. \$25.95

On the morning of Aug. 29, 1996, just past the midpoint of a decade that he now calls "the Roaring Nineties," Joseph E. Stiglitz, then chairman of the Council of Economic Advisers in the Clinton administration, stood before the nation's political press corps at the Democratic National Convention in Chicago, eager to present robust economic data that would show how effective the president and his team had been during their first term. Stiglitz was in the wrong place at the wrong time.

Instead of exhibiting their usual behavior during a complex policy presentation, snoozing unobtrusively or pretending to comprehend what was being uttered, many of the assembled journalists became hostile -- jeering, interrupting, flipping pens in the air. How dare this earnest economist occupy the podium to announce second-quarter domestic product results when the press posse (including this sorry scribe) was pursuing a hotter story, the resignation of Clinton Svengali Dick Morris, who had been caught in a toe-sucking sex scandal?

The Chicago episode is not detailed in Stiglitz's new book, nor should it have been, but the memory of that unfortunate morning came back to me, unbidden, as I was reading his insightful account of the economics of the 1990s. It reminded me, first of all and once again, about what is important in public life (the economy, stupid) and what is not (stories about private sex). But more than that, it served as a haunting evocation of how distant the '90s seem now, and how things can change so quickly in so many unexpected or unintended ways -- even, or perhaps in this case, especially, the economy.

When the financial health of a nation shifts as dramatically as it did in the United States from 1996 to now, the recent past seems not so much gone as completely transformed. Comfortable government surpluses and millions of jobs have abruptly vanished almost as though they never existed. Supposed heroes of finance inevitably showed their fallibility, and new, new things have become old and stale. Hence the need for a reinterpretation, the "new history" of Stiglitz's subtitle.

Since his childhood in Gary, Ind., an archetypal dying city of the passing industrial age, where, as he once said, "the poverty, the discrimination, the episodic unemployment could not but strike an inquiring youngster," Joseph Stiglitz has been asking essential questions about how and why economic policies work or fail. Drawing on his experiences from inside the Clinton administration, as well as on the economic theories he honed at America's elite universities (ideas for which he won a Nobel prize for economics in 2001), he seems particularly well suited to deal with the financial boom of the Clinton era and the bust that followed.

Stiglitz writes that he came to Washington in 1992 wanting to change the world but not quite knowing how. He arrived, like many of the Democratic advisers surrounding Bill Clinton, as a proponent of what the president called "the third way." This was always a somewhat amorphous neoliberal concept, meant to signify a new balance between the traditional Republican embrace of unfettered free-market capitalism and the traditional Democratic reliance on government regulation to protect average citizens from the excesses of Wall Street and big business.

In *The Roaring Nineties*, Stiglitz supplies a penetrating and occasionally devastating analysis of the Clintonian application of the third way. Stiglitz argues that Clinton's difference-splitting approach to economic policy at once eased the way for the good times and greased the skids for the bad. Philosophy teaches that within every argument lie the seeds of its own refutation. Within the boom of the '90s, Stiglitz says, could be found the seeds of its own destruction. He praises Clinton for working hard and intelligently on economic issues, and there are polemical sections of the book that give far worse grades to the conservative regimes that bracketed the decade (Reagan-Thatcher and the Bush family), but all of that is secondary to his critical reinterpretation of the Clinton era.

Although he never said it publicly during his White House days, Stiglitz now asserts that the Clinton administration, in searching for its third way, tried to please the big boys of finance so much, and became so enthralled by the buzz of the new economy, that it lost its balance and sided too often with free-marketeers. "What happened in the nineties was that a set of longstanding checks and balances -- between Wall Street, Main Street, and labor, old industry and new technology, government and the market -- was upset in some essential ways by the new ascendancy of Finance. Everyone deferred to its judgment," including, Stiglitz says, Clinton and many of his advisers, especially in Treasury and Commerce.

As the decade progressed and Wall Street boomed, economic policy became beholden to what Stiglitz now sees as a series of myths: that deregulation and self-regulated markets were the key to sustained prosperity; that economic success came only by "subjecting oneself to the discipline of the financial markets"; that economic problems resulted from big government; that "American-style globalization will inevitably lead to global prosperity"; and that deficit reduction in and of itself was the engine of economic recovery. Along with all this came a "hero myth" that attributed the good times to the brilliance of economic leaders, particularly Alan Greenspan, chairman of the Federal Reserve Board. All of these myths, he said, "were useful in the short term but ultimately harmful."

When Clinton and his team bought into deregulation, and used it as a neoliberal selling point to show they were not antibusiness, they might have done significant damage to the economy in the long run, Stiglitz argues. The two segments of the economy that were deregulated on Clinton's watch -- the financial world and telecommunications -- were precisely where the boom topsy-turvied into bust, helped along by diminished government oversight and relaxed accounting standards. This happened while Republicans controlled Congress, Stiglitz points out, but was an unnecessary concession, he believes. "What was needed was not deregulation but reformed regulation."

The most interesting aspect of Stiglitz's argument is that the Clinton team was naive and ultimately wrong in searching for consensus and allowing monetary decisions to remain, in appearance at least, outside the realm of politics. The notion that Greenspan and the Central Bank, which controlled monetary policy, were independent and nonpolitical was a myth that "became popular with journalists and a Democratic administration" during the boom years, Stiglitz argues, even though "the voices of workers and consumers were barely audible" and the central bankers "always did what Wall Street wanted." The idea that the nation had entered "an era of consensus, when everyone reasonably agreed about the 'right' economic policies" was, Stiglitz came to believe, "a nonsensical claim -- but a brilliant strategy for those whose interests it served."

During his White House days, Stiglitz acknowledges, he was often rendered virtually mute by some passive-aggressive advice from Greenspan, who had himself once served as chairman of the Council of Economic Advisers. Keep quiet in public, work behind the scenes, Greenspan told him. Stiglitz also realized that if the Clinton team dared to criticize the Fed it would send Wall Street into a tizzy. This was the setting that prompted Clinton and his advisers to buy into the idea that deficit reduction was at the center of economic policy. They emphasized cutting the deficit above all else, abandoning large chunks of a social agenda in the process, and now, only a few years later, with the world changed and America at war, they have little to show for it but a larger deficit. They were overpowered by the roar of finance, Stiglitz argues, so that other relevant voices and perspectives could not be heard.

It might be of some small ironic comfort to Stiglitz that Dick Morris, before his self-implosion on that morning in Chicago when no one wanted to listen to an economist, was among those telling Clinton that deficit reduction was the key to everything. As another presidential election year approaches, the economy likely will once again move to the front of the issues agenda. One can only hope that the press, and the public, will not be diverted again by the short-term buzz of the moment or the toe-sucking circus and will actually listen to serious and relevant voices from all economic perspectives, including the experienced voice of Joseph Stiglitz. *

David Maraniss is a national reporter for The Post and the author of the recently published "They Marched Into Sunlight: War and Peace, Vietnam and America, October 1967."