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HEADLINE: A grand tour of crises: This brilliant analysis of failed development economics in the past decade is marred by overstatement, says Wiliam Easterly:

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BODY:

During my time in the World Bank, I benefited enormously from contact with three brilliant chief economists of the research department: Stanley Fischer, Lawrence Summers and Joseph Stiglitz. It is a sign of the disarray in development economics that these three now violently disagree about the events of the past decade, with Fischer and Summers on one side and Nobel laureate Stiglitz on the other. (A fourth brilliant chief economist of the World Bank, Michael Bruno, probably could have sorted things out but for his untimely death in 1996.)

Its title notwithstanding, Stiglitz's book is a sustained attack on the International Monetary Fund (where Fischer was the first deputy managing director) and the US Treasury (where Summers was under-secretary and later secretary). Who says economics is not a contact sport? To put it mildly, Stiglitz is not keen on Treasury and IMF management of three big events in the 1990s: structural adjustment in developing countries; the east Asian financial crisis of 1997-98; and the transition from communism to the market economy in Russia.

Each of these events was a big-time embarrassment for the development economics profession. Structurally adjusted countries proved resistant to treatment, with dismal growth performance and uneven reform leaving behind a trail of globalisation protesters, disillusioned politicians and angry citizens. The Asian crisis blindsided economists just as we were celebrating east Asia as the one clear success story of development. And the transition from plan to market in Russia was disastrous, with first hyperinflation, followed by collapsing output, followed by stabilisation, followed by the financial crisis of 1998 in which the currency collapsed and the government defaulted on government bonds.

Stiglitz is brilliant on the weaknesses underlying all three fiascos. To put it succinctly, there are more things in heaven and earth, Horatio, than are dreamt of in your simplistic reform prescriptions. Privatisation of state enterprises and marketing boards under structural adjustment does not do wonders if private monopolies just replace public ones. Free trade does not generate many new jobs if interest rates are simultaneously at punishing levels. Freeing short-run capital to flow in and out at whim is perilous with imperfect international capital markets. Simple models that call for fiscal austerity in countries with large budget deficits and collapsing currencies should not be used to recommend austerity in countries with healthy fiscal policy but collapsing currencies. The east Asian crony capitalism pilloried during 1997-98 was the same capitalism as the government-business partnership celebrated during the east Asian miracle of 1960-96. The transition from plan to market in Russia did not work its magic when such basics as enforceable contracts and honest judges were absent. The international financial institutions coped badly with the turbulent world of the 1990s (and the 1980s and the 1970s . . .).

Stiglitz has a few weaknesses that undercut his effectiveness as a critic. The most unfortunate is his penchant for personal attacks. Fischer and Summers are honourable, extremely well respected economists who understood perfectly well the complexities that Stiglitz describes. Stiglitz unjustly implies something different. It is not exactly a damaging revelation that Summers had a Russian public official over to his house for dinner. Anyway, international economic policy is not made by two individuals but by a complex system of bureaucracies bound by political constraints in the middle of crisis.

One wonders why he singles out the IMF and the US Treasury for blame and gives a free pass to other important operatorssuch as the Europeans, the rest of the US government, the governments in developing countries and, most glaringly, his former employer the World Bank.

Stiglitz also has a weakness for overstatement. The east Asia crisis was not the greatest economic crisis since the Great Depression. The crisis was less damaging than the Latin American debt crisis in the 1980s - which suggests that the criticisms of the IMF response to the crisis, while having considerable validity, are a little overdone.

Last, it is clear why Stiglitz won the Nobel prize for economics, not literature. The book reads like a long conversation over a beer with Joe, which is reported to be a great experience in person but works less well on the printed page.

Having said all this, I concede that the book is a great tour of the complexities of economic policymaking. Getting a top economist to subject the US Treasury and the IMF to withering scrutiny, while sometimes unfair to individuals, is good for the long-term health of the system. The fiascos of the 1990s were fiascos, in the last analysis, and the more thoughtful people such as Stiglitz call these institutions to task for these failures, the better.

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