

A Turbulent Decade

About: Adam Tooze, *Crashed. How a Decade of Financial Crises Changed the World*, Random House

By Matthew Soener

The 2008 financial crisis revealed significant frailties within global capitalism. How did the political response shape the ensuing decade? In his book, economic historian Adam Tooze narrates the key events over this period, from financial sector bailouts to geopolitical shifts worldwide.

It has been ten years since Lehman Brothers collapsed and sent shockwaves through the global financial system. At the time, former chair of the House Financial Services Committee, Barney Frank, said September 15, 2008 would be remembered as “free market day.” Frank’s jeer is an appropriate farewell to an era when economists, politicians, and international financial bodies touted self-regulating markets as a political and economic cure-all. The crash would require massive bailout packages and political coordination. Ten years later, the financial malady is contained, but the world seems to be sliding further into political crisis. Indeed, the last decade seems like an inexorable march towards Trump and Brexit. As a recent *Financial Times* headline ran, “populism is the true legacy of the global financial crisis.” How did it come to this?

Approaching Global Finance

The history of the last ten years is masterfully chronicled by the British economic historian Adam Tooze in his book, *Crashed: How a Decade of Financial Crises Changed the World*. In rich detail, Tooze narrates the key events over this period from financial sector

bailouts, stimulus programs, austerity cuts, the management of Europe's sovereign debt crisis, and geopolitical shifts worldwide. At more than 700 pages, this book is the most authoritative account of the global crisis and the fallout from it.

The book is sweeping in scope but centered on finance. In Tooze's view, only by understanding the "inner workings of the dollar-based financial system and its fragility" (p. 5), can we appreciate the rise of figures like Donald Trump and uneasy multipolar tensions in the world. This is not so much in defense of "economic determinism" (though readers interested in the role of xenophobia and racism will have to look elsewhere), but because the American-led financial system is a central axis on which the world turns in the 21st century. To make sense of it, he draws on the financial press, diaries of key architects, official monetary reports, and new research from the Bank of International Settlements (BIS) to map global finance and the key political decisions made to it.

In *Crashed*, we get a sophisticated analysis of finance as a dense transnational web of claims. While at times technical, this is one of Tooze's most impressive accomplishments because he shifts the focus from dynamics between nation-states to look at finance as an "interlocking matrix" of balance sheets globally. A second critical insight we gain from the book is the enormous degree of political support that finance requires. Karl Polanyi's claim that liberal and politically neutral markets are utopian fantasies is just as true today.¹ For Tooze, the 2008 crisis revealed that we still live in the age of "big government" and that the monetary system is "irreducibly political." Moreover, these technocratic interventions simultaneously staved off the worst of the crisis and edged to world closer political tumult.

Tooze's approach to studying finance allows him to link seemingly disparate events. There is a straight line from the wave of American foreclosures, to the Eurozone crisis, to Russia's war with Ukraine, for example. This thread is more than a clever narration. It has profound political implications. Behind the stories we tell ourselves about these events lurks an unstable monetary system. It is not simply enough to blame European economic integration, or Russian belligerence, or American de-regulation, or reactionary sentiments held by Western middle-classes—however real these issues are. We must appreciate the centrality of a dollar dominated financial system in world affairs. Tooze does precisely this. However, he avoids politicizing this topic and doesn't pay full attention to the socio-economic inequalities at the heart global finance. Without directly addressing this matter, we are no less sure of how to confront the power of finance—a central problem of our time.

¹ Writing in response to the collapse of the gold standard, the Great Depression, and the rise of fascism in 1944, the Austro-Hungarian historian, Karl Polanyi, held that market societies *appear* spontaneous and outside of politics, but are in fact governed by social customs and state regulation. "Free market" ideology, for him, was a dangerous fiction (see Polanyi 2001).

The Global Financial Crash

Tooze organizes *Crashed* into four parts: “Gathering Storm,” explaining the run-up, “The Global Crisis,” which explains the crisis and its immediate response, “Eurozone,” which (primarily) focuses on that crisis, and “Aftershocks,” where Tooze surveys the consequences of the prior years. The events in “Aftershocks” could not have been anticipated by Tooze. As he explains in the introduction, he decided to write the book around 2012 when the crisis seemed to have a beginning and an end. The United States reelected Barack Obama and the worst of the Eurozone crisis seemed to have passed. This period now seems very distant. Yet, at the time of the crisis, this political vision was dominant in the West.

Tooze begins the book discussing the Hamilton Project—an embodiment of the political project at this time. Founded by Bill Clinton’s former economic advisor and Wall Street executive Robert Rubin, the Hamilton Project served as an influential Democratic Party organization. The group stressed that balanced budgets and investor confidence were needed to keep the “bond vigilantes” from upsetting public financing. Key members carried this Third Way vision to the Obama White House. These pro-market priorities had, of course, enjoyed bipartisan support in Washington for some time and were championed in Europe. They created both the conditions for the crash and the technocratic response for managing it.

Thanks to de-regulation under both Presidents Clinton and Bush Jr., commercial banks sold home mortgages to investment banks as tradable securities. However, financing for America’s real estate market, estimated at 20% of global wealth, was hardly a domestic affair. Tooze claims that “the entire structure of international banking in the early twenty-first century was transatlantic” (p. 79). As those familiar with the crisis know, credit for American mortgage-backed securities came from short-term lending markets like commercial paper issued by companies and repurchase agreements or “repos.” Less well known is that a lot of this credit came from Europe. Under the leadership of Jean-Claude Trichet, the European Central Bank promoted low-inflation growth and deep credit markets. European banks traded in heavy volumes of dollars and bought many American homes. Importantly, these banks were much more overleveraged than their Wall Street competitors. Whereas bank liabilities as a percentage of GDP were less than 100% in the United States, they were 400% and 500% in France the U.K. respectively (p. 111).

The liability side for Tooze is the “true heart” of the crisis. As short-term credit markets began to freeze in August and September 2008, European banks were vulnerable. Tooze therefore debunks the idea that the Eurozone crisis was unrelated to America’s Great Recession. As he rhetorically asks, “was it merely bad luck that the two crises followed so closely upon each other” (p. 91)? Regulators and bankers in continental Europe prided themselves on their more stable financial systems. The problem for Europeans was the

freewheeling risk taking in New York and London. For example, Silvio Berlusconi's finance minister was not initially worried about Italy's banking system because "it did not speak English" (p. 73). Despite national and regulatory differences, Tooze emphasizes what is too often overlooked: the major banks in France, Germany, and the Benelux were firmly integrated into the orbit Wall Street and the City of London and they supplied credit for Anglo risk taking. The housing market collapse in 2008 therefore set in motion financial difficulties in Europe. A dangerous marriage between a lack of printing presses and an appetite for deficit tightening only magnified this problem in the Eurozone. What *Crashed* establishes therefore is that the international financial order is transatlantic, dollar-dominated, and centered on a small network of powerful banks.

The Politics of Crisis Management

This financial system requires substantial political oversight. Tooze is hardly alone in claiming neoliberalism requires state intervention.² He does, however, provide a very original discussion of the bailout. After the American government let Lehman Brothers fail, the financial system needed dollars. This was especially true in Europe because the European Central Bank and the Bank of England held relatively low dollar reserves. The Fed therefore acted *internationally* by lending dollars to foreign central banks through an obscure policy called "currency swap lines." Hundreds of billions of dollars flooded global markets in 2008-9. These actions, in tandem with China's stimulus program—an astonishing 12.5% of GDP in 2008—mitigated the worst of the financial crisis. The United States, moreover, showed it could still take decisive action to orchestrate global financial markets. Indeed, Tooze concludes that while the Obama leadership "lacked the urgency or the razzmatazz of the Marshall Plan era... it had helped Europe across its worst crisis since the end of World War II" (p. 444).

Crisis management, however, exacerbated existing geopolitical tensions. Here, Tooze pays particular attention to Eastern Europe. He explains that because Ukraine was dependent upon foreign capital, they were forced to take an IMF loan and borrow dollars via the Federal Reserve. As the Fed began to draw down their stimulus program in 2013 (the so-called "taper tantrum"), however, Viktor Yanukovich was under more pressure to choose between European Union membership or closer integration with Russia. After choosing the latter path, a pro-EU minority called for him to step down. This led to a serious political crisis that culminated with a Russian invasion of Eastern Ukraine.

² See for instance, Steven Vogel's *Freer Markets, More Rules*, 1998 ; Sam Ginden and Leo Panitch's *The Making of Global Capitalism*, 2012, or, more recently, Quinn Slobodian's *Globalists*, 2018.

The Deepening Crisis

Market stabilization was successful in the short-term. Liberal ideology and austerity policies, however, proved politically destabilizing in the West. Socio-economic inequality undoubtedly compounded the situation. In Tooze's chapter "American Gothic," he outlines the severity of this problem from stagnating wages to the shocking rise in mortality rates among working class Americans from "deaths of despair." Those in the Hamilton Project and the Democrat Party have nothing to offer the disenfranchised. The situation is no different in Europe. As Tooze correctly notes, "centrist liberals struggle to give convincing answers for the long-term problems of modern capitalist democracy" (p. 20). Within this climate, the right and disaffected left-of-center voters have come to resent centrist liberals in London, Washington, and Brussels. These elites did not devise political solutions around transforming capitalist institutions or offer a program to lessen socio-economic anxiety. Instead, they sought to *preserve* the way things were before through purely technocratic ends. The political class therefore reaffirmed the problems of an already problematic socio-economic system.

Tooze's narrative helps us make sense of these social consequences. In this regard, *Crashed* stands with other important diagnoses of our time like Edward Luce's *The Retreat of Western Liberalism* and Pankaj Mishra's *Age of Anger*. Yet, whereas these authors explain our current political woes through the problem of core concepts like liberal democracy (Luce) or capitalism (Mishra), Tooze does not take on this task. He sees social divisions as outcomes rather than internal to the focus of the book: the financial system. Tooze instead sticks to detailed accounting of the monetary system and high-level political decisions to map the geography of the crisis. Given his breadth of knowledge on these topics, we learn a great deal. But we could have expected more substantive discussion on the power of finance. Financial capitalism in this depiction is something "out there" that elected officials and central bankers must occasionally manage rather than a systematic force that (dis)organizes our lives. Finance is not merely about complex cross-border flows and bank lending, but powerful ownership stakes. These claims conflict with non-economic elite interests. For example, central bank commitments to inflation targeting and liberalization over the past several decades led to stagnating wages for workers and facilitated financial income growth. This growth "trickled up" and enlarged the portfolios of investors and the incomes of the "working rich" in finance. It has additionally siphoned money away from productive use to generate higher rate of return on investment (see for example, Hung and Thompson 2016; Orhangazi 2008).

Tooze's approach to understanding the politics of financial capitalism mostly focuses on the actions of key political personalities like Ben Bernanke, Barack Obama, Janet Yellen, and Mario Draghi. By contrast, Occupy Wall Street receives three paragraphs and the anti-austerity protests in Europe hardly more. The book is, in other words, a history "from above." Tooze dismisses the protests of 2010-11 in Greece and Spain as having a meaningful effect. It was politicians realizing their policies fell short. We should trust Tooze is correct. But this example raises questions about why, in a wide-ranging book on the consequences of global

finance, does Tooze minimize the social conflict and distributional problems in this system. The finer details of financial capital presented in *Crashed*, while lucid and insightful, do not directly speak to the bigger questions animating those who took to the streets from Zuccotti to Gezi park.

This perspective may reflect a bias in the sources we now have at our disposal. BIS reports and *The Economist* are not attuned to these sociological questions. However, there has been growing attention to the relationship between inequality and finance in the post-crisis world, but this relationship is sidelined in *Crashed*. Even mainstream economists like Raghuram Rajan took these links seriously in *Fault Lines*—an early book on the crisis. He argued that credit was the solution to stagnating wages in the United States. This fueled financial investments and made American households vulnerable without changing their material circumstances. Seen this way, financial-led growth comes at the expense of the 99%. This distributional dilemma created the conditions for the 2008 crash and, because it went unresolved, lies at the heart of the post-crisis political turmoil.

For Tooze, this turmoil recalls the global breakdown of 1914 which he draws parallels to at the end of the book. The 2008 rescue equally directs us to what happened after that war ended when political architects tried to restore the pre-war bourgeois epoch. System perseveration is the real legacy of 2008. As with 1918-19, addressing short-term goals in the immediate aftermath of a historical rupture gave way to long-term problems. Tooze teaches us these lessons in vivid detail making *Crashed* essential reading not only for understanding the last decade but the uncertain years to come.

Reviewed: Adam Tooze, *Crashed. How a Decade of Financial Crises Changed the World*, Penguin/Random House, 2018

Further reading:

- Edward Luce, *The Retreat of Western Liberalism*, London, Little Brown, 2017
- Ho-fung Hung & Daniel Thompson, “Money Supply, Class Power, and Inflation: Monetarism Reassessed”, *American Sociological Review*, vol. 81, n°3, 2016, pp. 447-466.
- Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, Beacon Press, 2001.
- Özgür Orhangazi, “Financialisation and Capital Accumulation in the Non-Financial Corporate Sector: A Theoretical and Empirical Investigation on the US Economy: 1973-2003”, *Cambridge Journal of Economics*, vol. 6, n°1, 2008, pp. 863-886.

- Pankaj Mishra, *Age of Anger: A History of the Present*, New York, Farrar, Straus, Giroux, 2017.
- Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism*, Cambridge, MA, Harvard University Press, 2018.
- Raghuram G. Rajan, *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, NJ. Princeton University Press, 2010
- Sam Ginden & Leo Panitch, *The Making of Global Capitalism: The Political Economy of American Empire*, New York, Verso Books, 2012
- Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries*, Ithaca, NY, Cornell University Press, 1998