A Secret History of the Crash?

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The publication of Adam Tooze's passionate, readable, and lively analysis of the global financial crisis and its impact is timed to coincide with the tenth anniversary of the failure of the investment bank Lehman Brothers. It is obviously always difficult to know what distance in time will allow a satisfactory historical account to be written. Tooze, a historian at Columbia University, points out that a tenth-anniversary history of the Wall Street crash of 1929 would have appeared weeks after World War II broke out. At the moment, it is almost irresistible to see 2008 through the lens of Trump and Brexit. But who knows what the long-term outcomes of these new political shocks might be?

Crashed: How a Decade of Financial Crises Changed the World
by Adam Tooze
Viking, 2018

History is written in a succession of first drafts, revisionist accounts, and definitive doorstoppers. Some of the very early reflections on 2008 placed it in a longer-term narrative, corresponding to a widespread sense that this was an epochal financial crisis, described by some as the worst in history. In *This Time is Different: Eight Centuries of Financial Folly*, the economists Carmen Reinhart and Kenneth Rogoff put 2008 in the historical context of comparably large-scale and damaging crises, suggesting it might take seven years to recover. That was a little pessimistic about the United States but surprisingly accurate for most of Europe, especially the countries that suffered spectacular housing busts, Ireland and Spain.

In writing my own 2009 book *The Creation and Destruction of Value*, I thought of contemporary events as repeating significant elements of the deglobalization that was part of the Great Depression, with a turn to economic nationalism, and multilateralism collapsing under strain. In fact, multilateralism held up quite well initially: the 2009 G-20 London summit was a spectacular success, and the Federal Reserve acted as a backstop to the international financial system. In the longer run, however, the parallels with the 1930s have become disturbingly clear.

By mid-2012, the failure of Europe to contain its extended version of the crisis, a "doom-loop" between overleveraged banks and overindebted governments, had produced a profound sense of hopelessness. In the United States, it already looked as if an innovative approach to monetary policy combined with bank recapitalizations had solved the problem. After July 26, 2012, thanks to European Central Bank President Mario Draghi's promise that day to do "whatever it takes" and his subsequent expansion of the ECB's balance sheet, the sense of shock gradually faded. Some rather more optimistic accounts followed, claiming that "the system worked" (the title of political scientist Daniel Drezner's 2014 book).

Since 2012, there have been many accounts of different aspects of the global financial crisis, some dealing with its US origins and others with the Eurozone crisis. There has also been a new element, a geopolitical crisis following the Russian annexation of Crimea in 2014 and continued fighting in eastern Ukraine, as well as the 2016 electoral surprises of the Brexit referendum and the Trump victory. The general mood has become much darker, and many analysts suggest parallels with the world of 1914. It is plausible to think that the recent events did not just come about randomly, but had some connection with the financial crisis. So the historian's task is to demonstrate forensically the precise nature of the linkage.

Tooze has written major studies of the earlier half of the twentieth century—*The Deluge: The Great War, America, and the Remaking of the Global Order 1916–1931* and *Wages of Destruction: The Making and Breaking of the Nazi Economy*—and is obviously very well qualified to draw the connections between financial crises and geopolitical transformations. Indeed, there are some parallels between Tooze's account of the early twentieth

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century, a major part of which is an excoriation of what he thinks of as the flawed liberal internationalism of Woodrow Wilson that served vested American interests, and his dissection of Barack Obama's modern version, which also looks hypocritical and even destructive from Tooze's perspective.

FATALLY INTERTWINED

Tooze smartly weaves together four narrative strands: US politics and the response to the subprime crisis, the European sovereign debt crisis, and also more unusually and interestingly the Russian and East European (non-Eurozone) crises, as well as the response by developing nations, especially China. The book starts out by explaining how the United States got the crisis wrong: the official mindset was focused on so-called global imbalances, American current account deficits, and emerging market (largely Chinese, but also oil exporters') surpluses. The major fear was that China might for either financial or political reasons sell off its massive holdings of US Treasury bills. Europe, whose current account was largely balanced, did not feature at all in this scenario.

The globalizers have lost their nerve.

A more accurate view of the financial vulnerabilities was elaborated by Hyun Song Shin and Claudio Borio, both now at the Bank of International Settlements. They emphasized net financial flows rather than the gross flows that result in current account positions. This perspective showed how fatally the US and European banking and financial systems were intertwined. Large European banks, desperate to internationalize, funded themselves on the US money market and bought the securitized products of US financial innovation. It is thus appropriate to speak, as International Monetary Fund Deputy Director Tamim Bayoumi does in his recent book *Unfinished Business*, of a North Atlantic financial crisis.

The explanations offered by Tooze take a "follow the money" approach: banks and the wealthy controlled the political process before and after 2008 in the rich industrial countries, and the outcome of the crisis management strategy favored the rich and increased inequality. This explanation works better for the United States and Britain than for continental Europe, where the pattern of outcomes is quite complicated: in northern Europe, there is substantially less inequality (and greater social transfers), and while inequality has risen in the crisis countries of the south, top incomes have fallen dramatically. Moreover, in northern Europe, unlike the United States, many indicators of inequality have fallen rather than risen since the financial crisis. There may be a need for more focus on the role of ideas as well as interests in explaining economic outcomes.

Tooze rightly takes his narrative further than the North Atlantic; there is another vital element to his story of crisis. Russian President Dmitry Medvedev told the UN Security Council after the outbreak of the August 2008 Georgia war that this was a turning point in the international order—the world would have to reckon with Russian power. Vladimir Putin, Medvedev's predecessor and successor, had issued a similar challenge in February 2007 at the Munich Security Conference. Russia was at the same time dependent on dollar funding, suffering a bad crash in 2008–9, while also pushing for an alternative international monetary system.

Tooze suggests that Russia in the summer of 2008 was trying to use the funding problems of the US mortgage institutions Fannie Mae and Freddie Mac to bring down the world system. Later, he considers the effects of Western sanctions imposed on Russia in 2014 in combination with the Fed's shift to monetary tightening and falling oil prices thanks to rising Saudi production. He asks "whether this conjunction was entirely coincidental, or whether the United States and the Saudis were collaborating to launch a strike against Russia." He doesn't provide a clear answer to this question. But it is not implausible to think that in some governments and for some decision makers, security and finance were intertwined.

There are many other moments in Tooze's account when he suggests conspiracies. Thus with the major European crisis-fighters: "It was surely more than coincidence that [Mario] Monti, Draghi and Otmar Issing, [Angela] Merkel's favorite economic adviser, had all worked for Goldman [Sachs]." If Tooze is serious about claiming that such connections influenced policy making, would it not be essential to try to explain in more detail what the linkages were, and what concrete results they produced?

Finally, and inevitably, there is the China issue. China was the great stabilizer in the financial crisis, unleashing an enormous discretionary stimulus program worth 4 trillion renminbi (roughly $600 billion). In the end, though, Tooze suggests that China is strong because of its dollar reserves, it has leveraged its strength by creating mega-banks, and it has thus tapped into the illusory world of debt-driven American finance. This raises the possibility of a future world crisis rather than a North Atlantic crisis, perhaps leading to a general onset of deglobalization.

Nemesis

Globalization has lost its momentum, and the globalizers have lost their nerve. The interconnected financial world is now meeting its nemesis in the form of Donald Trump—and rightly so, in Tooze's striking final verdict. He does not ask how global governance can adjust to the new situation, but rather assumes that the former global leaders have given up and there is no possibility of any alternative. It may well be, as Tooze claims, simple-minded or disingenuous to look for global leadership from "a fresh-faced president of France" or a "relentlessly reliable chancellor of Germany." But what about Asia?

Tooze looks much more to the disintegration of politics in the old Atlanticist world, and is particularly fond of unveiling the inadequacies of what he terms the "Rubin crowd" of internationally minded Clinton-era officials from the 1990s, led by former US Treasury Secretary Robert Rubin. They were intellectually central in the early phases of the financial crisis, and coordinated a new approach to international financial diplomacy and a more cautious move to fiscal expansion, which was halted by politics in 2010 when the Democrats lost their House majority in the US Congress and the Conservatives won the UK general election. The main political verdict of the book is a rather devastating assessment of Obama's inability to escape from dependence on corporate interests and its intellectual rationalization.

In the immediate aftermath of the financial crisis, populist opposition to bailouts emerged on the right and left wings of US politics. Toward the end of the narrative, Tooze has reached the conclusion that Trump and Bernie Sanders were not "crazy" but "simply stating what should have been obvious . . . Financial globalization that [Alan] Greenspan and his ilk had worked so hard to institutionalize as a quasi-natural process had been exposed as just that, an institution, an artifact of deliberate political and legal construction with stark consequences for the distribution of wealth and power." The new populist forces were just reacting to a big policy failure that became a political failure: "The idea that Trump constituted a sudden and shocking break with a prevailing liberal success story depends on an unduly sanguine view of the global backdrop."

Tooze's book provides a very different sort of linkage than does the riveting account by his former Yale colleague, Timothy Snyder, in his 2018 book *The Road to Unfreedom*, which also looks at geopolitics but gives more of an explanation for the turmoil of the past decade. Snyder depicts a fundamentally new technology driving a new age of information and above all disinformation, tracing through the politics of social media a link from the security crisis in eastern Europe to a full-fledged onslaught on the European Union, and then to political chaos in Europe and the United States.

Tooze's account is at its strongest in its suggestions of geopolitical linkages. It is much weaker when it comes to the analysis of the effects of new technology: WikiLeaks, for instance, is used as a source, but not as an explanation of a new politics. Tooze's blind spot about technology also affects his approach to economics and finance. It is not clear that the slower growth in world trade (and an actual fall in 2015) is, as he claims, the result of protectionist measures (there weren't so many at that time), rather than technology that allowed supply chains to be shortened.

The post-crisis period has also coincided with a wave of innovation in financial technology involving the emergence of digital currencies, which don't appear in Tooze's account. Could blockchain be a real alternative to the dollar-based financial superstructure? Or is it a speculative tool that, like previous financial innovations, could be useful but is likely to be subject to South Sea Bubble–style excesses? The age of financial crisis is not over. But there are plenty of reasons to believe that the challenges generated by Brexit and Trump may spur new approaches to global governance, with a heightened awareness of the triple linkage of security, economics, and technical change. ■