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A VERY POLITICAL MACRO-FINANCIAL INTERPRETATION OF THE CRASH OF NEOLIBERALISM REVIEW OF ADAM TOOZE, *ON CRASHED. HOW A DECADE OF FINANCIAL CRISES CHANGED THE WORLD*

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Crashed. How a decade of financial crises changed the world by Adam Tooze (2018) is a book of considerable interest: by far the best on the last major global crisis of capitalism. The book has two dimensions. The first dimension is the rigorously documented historical reconstruction of the unfolding of the crisis. The richness of the detail can be a difficulty for some readers, given that the volume ends up extending in huge number of pages. At the same time, it is precisely the attention to detail that makes this book an unmissable text for those who want to have a non-reductive vision of the crisis: it leads to a series of unexpected discoveries, and denies the most common clichés.

The historical reconstruction can be divided into three time horizons, with the first and second partially overlapping. At the beginning, the outbreak and the first course of the global collapse, from 2007 to 2009, when it seems to have been on the way out of the most dramatic phase. The period of years from 2010 to 2013 follows, when one of the centres of the crisis becomes Europe, and the eurozone in particular. This is the moment when Tooze, dissatisfied – et pour cause – by the interpretations of the crisis, and equipped with an alternative analytical key, conceives the idea of the book, which he then begins to work on. The third time horizon is the one from 2013 to 2017, when the volume ends, but not because the story it tells is 'closed'. It is the phase in which geopolitics, already present even before,

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takes centre stage: there is not only the Greek drama, but China, Ukraine, Brexit, and above all Trump among the main protagonists.

The second dimension is that which develops around the analytical key that constitutes the *Crashed* skeleton. Because if the book has the advantage of not being a journalistic story but a story in depth, and not merely describing events, of the 'contemporary' reality it tells, its pulsing centre is about political economy: and a truly 'political' one. In fact, the volume is based on an original and heretical reading of 'neoliberalism', starting from its incubation with the collapse of Bretton Woods, with then the two turning points of the early and late 1980s, and the structural reasons for its crisis. Here we meet a rigorous criticism not only of the common sense of the political, industrial and financial management ruling elites between the two sides of the Atlantic, but also a marked deviation from the interpretative paradigms widespread even among those who want to be proponents of a critical approach.

What is the central point of Tooze's critique of the reconstructions of the crisis, both of the dominant and alternative thoughts? The British historian – who had moved from Cambridge (UK) to Yale, and now teaches at Columbia University in New York – takes as a reference the theoretical approach of the Bank for International Settlements. A less than obvious reference, given that the BIS from the economic policy point of view is, so to speak, anything but 'left' and favours a restrictive line on bank credit, in some way attributable to an update of the monetary and cycle theory with an 'Austrian' imprint. An eye on the author's training and publications is useful here. Tooze studied with Wynne Godley,[1] and with him developed an attention to the accurate and consistent accounting reconstruction of flows and funds. Another important reference in his formation was Alan Milward.[2] His dissertation, and then the first book, were devoted to the 'making' of economic knowledge (the period of statistical innovation) between 1900 and 1945; he then dedicated himself to research on the Nazi economy; and therefore, came to the redefinition of the global order on the transatlantic axis between 1916 and 1931.

Tooze employs the analytical scheme of Claudio Borio (in his writings with Piti Disyatat) and Hyun Song Shin on two crucial issues. In Shin's case, the reference is to the need to abandon the 'islands' conception of the international economy.[3] Without giving in the slightest to the rhetoric of a generic globalization, it is a question of taking leave of the traditional

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1 Cf., among his many works, Godley and Lavoie 2006.

2 Cf., among his many works, Milward 1992.

3 See, for example, Avdjiev, McCauley and Shin 2016.

Keynesian vision of the mid-twentieth century, where the basic units are the 'nations' that trade, incur in surpluses and deficits in current accounts, and in this way they accumulate financial assets and liabilities. A whole vision of politics, and geopolitics, is gathered around this reality. The conception appropriate to the century that opens is that of a matrix that connects the balance sheets of financial and productive agents with each other. Tooze's specific attention is at the cross section of the balance sheets of the various corporations that the author defines as a 'tightly-knit corporate oligarchy'. A world where financial flows are largely independent of 'national' policy, and the poles connected have nothing to do with small units of a supposed reality of perfect competition. Such a vision for interrelated balance sheets is what structures Hyman Minsky's analysis.[4]

In the case of Borio and Disyatat, the work that most affected Tooze is that of 2011 which claims there is no link between the so-called global imbalances (actually mainly referring to trade imbalances between countries) and the financial crisis.[5] The theoretical background of the (non) relationship between capital flows and current account imbalances is, however, better clarified in their 2015 paper on taking 'financing' (more) seriously.[6] In a logic of the monetary circuit (here the reference is for us quite immediately to the analysis of Augusto Graziani),[7] the question that is highlighted is that it does not (anymore) make much sense to focus on the net capital flows: simplifying, subtracting from what enters via exports what exits via imports. Instead, attention must be paid to gross capital flows, given that every expenditure must be financed, even when these flows are 'covered'. They can be volatile or build unstable and / or unsustainable conditions.

The relevance of the discourse on the global (but also European) crisis is immediate. It is not that the crisis was not foreseen: the point is that the crisis that was foreseen was the wrong one. In the same US capitalist circles, as among mainstream economists, the huge problem was thought to be the massive trade liability of the United States relative to China. According to a most influential interpretation, it would have been a *global savings glut*, an excess of global savings, which would have flowed to the United States in search of 'safe' government bonds, thus lowering the yields on treasury bills and unleashing the hunt for higher yields: hence the subprime

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4 Cf. Minsky 2008a and 2008b. But see also Minsky 1986. For a recent assessment on Minsky on the occasion of the centenary of his birth, see Bellofiore 2020a.

5 See Borio and Disyatat 2011.

6 See Borio and Disyatat 2015.

7 Cf. Graziani 2003. To understand Graziani the early years of Italian circuitism have to be considered: cf. Bellofiore 2020b.

crisis. The obvious scenario, not only economic but geopolitical, of a flight of those capitals from the United States is dreadful, followed by a sharp devaluation of the dollar coupled with a dramatic rise in the interest rates. Current account imbalances are also often placed at the centre of the European crisis, which would then be due to the trade surpluses in the 'centre' of the eurozone compared to the 'periphery'. However widespread, such an idea is just as wrong as the one according to which the crisis was due to public debt: when it was instead due to the implosion of a huge private debt. Tooze rightly points out that the financial circulatory system is now independent of commercial ties because in the new financial era the liquidity that can be obtained is not a fixed sum, limited by the 'fundamentals' of the so-called real economy (though this in our opinion was also true before, through some longer chain of mediations). Finance is an 'elastic' amount, which in the event of bubbles of activities (financial or real estate) can expand without limits on a transnational scale.

It is easy to name widely known interpretations of the above criticized approaches. A negative model for our author is the book, with a supposedly 'historical' cut, by Reinhart and Rogoff, *This time it's different. Eight centuries of financial madness*:[8] and it is certainly significant that the book of a true historian like Tooze is not only historically sound but also lies on the frontier of a much deeper economic analysis of the crisis, while the reasoning of the two economists mentioned has been revealed as full of elementary errors. In the Italian case, it would suffice to cite a wide range of authors ranging from Alesina & Giavazzi (2008) to Brancaccio & Passarella (2012), from Bagnai (2012) to Cesaratto (2016), and one could go on, who share one or the other of these limited or completely incorrect views of the crisis. Other analyses are left behind by Tooze's discourse. First of all, the one that mistakes the epiphenomenon for the cause. The subprime crisis was the trigger, but it could have been something else: Minsky expressed the same concept with his *if anything goes wrong*, to indicate the variability of the determining element of the turning point and his non-mechanical perspective. A Keynesian under-consumptionist vision ('it is the crisis of a world of low wages', it was said, while the new capitalism was characterized in its centre by overconsumption through debt or capital market inflation), or the revival in vulgar terms of the tendential fall of the rate of profit (when in reality since 1980 the profits had almost entirely recovered in terms of profit share, and the rate of profit is a very dubious figure).

Then, what is the nature of the crisis? It is a crisis of that 'funding' (as Tooze writes) or 'financing' (as we prefer to name it) that agents can obtain

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[8] Cf. Reinhart and Rogoff 2009.

more and more easily and in the very short term on the money market to invest long term, expanding their 'leverage' in ever higher percentages, without seemingly giving rise to financial stability risks. This financing, which includes shadow banking (to which we will return), was annihilated in no time, from the subprime crisis (summer 2007) to the bankruptcy of Lehman Brothers (September 2008). The crisis occurred not on the Sino-US financial axis but on what Tooze calls the 'transatlantic finance' that after the collapse of Bretton Woods connects the eurozone and the European Union (with the United Kingdom as part of the center from a financial point of view) to the United States: this is where we must look to understand the 'metabolism' of the so-called neoliberalism in its mature phase and its crisis. If you look at the gross flows to and from the United States, you can see how the size of the Chinese or even Japanese pales in comparison with the Eurozone or the United Kingdom. In fact, European banks – in this also forced by the rules that made competition dramatic, and which saw Mario Monti as European Commissioner as a protagonist – were very active protagonists of financial innovations. For this reason, the 2007 crisis hit them immediately, often ahead of overseas banks. The consequent collapse of the 'collateral' of financing meant the need for the agents involved, and therefore all one after the other, to 'realize' liquidity by selling off their activities. It was a truly enormous 'panic' (a form of global bank run) that in the new transnational macro-financial economy could take an unprecedented speed, and thus took on a destructive power never experienced. Debt deflation started in new shape, even larger than the Great Crash of the 1930s.

If this is the core of the first part of the volume, the second part of the volume sees the eurozone crisis at its heart. Even in Europe the movement of funds was not driven by commercial flows but by 'bankers' on the hunt for cheaper loans that guaranteed the highest returns. Here too, what drives trade is not the relations between national economies, but the broad transnational value chains. Financial interconnection feeds and shapes industrial interconnection, through the mechanism of supporting indebted consumption via asset price inflation. In Europe as well as in Anglo-Saxon capitalism we find what we have called elsewhere *the real subsumption of labour to finance*. It was not the eurozone's trade imbalances that generated the financial imbalances, but rather the opposite.

If also in Europe the banking and financial system is the hub of the crisis, the birth defect of the Euro should not be seen only in the absence of a 'fiscal constitution' that would allow an internal generation of effective demand, together with targeted industrial and structural policies, as well as redistributive policies between regions. The inability to put in place instruments and rules that make the eurozone capable of managing a banking crisis adds to its gravity as well as the absence of a will to act on this ground in a cooperative and disciplined way, with adequate determination. All the more serious shortcomings given that bank finance in Europe had grown in an extreme fashion. As we will see, however, the European crisis since 2010 was all but inevitable. It was a political rather than an economic crisis, according to Tooze: and we cannot agree more.

The Eurozone stood out negatively from the point of view of the quality of the interventions. While in the United States the Federal Reserve immediately pumped liquidity into the banking system, in the eurozone it was the balance sheets of the banks that absorbed sovereign debt, and with a certain delay, due to the choice of Trichet's ECB to implement a long-term refinancing plan instead of (and refraining from) buying securities. In the United States, to help Main Street, that is, real activities, Wall Street, that is finance, had to be saved. The exclusive focus on the financial system has mobilized all the resources the state had available to save the financial infrastructure from the risk of systemic implosion, a risk that was assimilated to a military emergency. Certainly, from this point of view, it must be said, the world has escaped in part the recurrence of a collapse as in the thirties, by virtue of this financial rescue, but also, just as essentially, thanks to the imposing Chinese (traditionally Keynesian) fiscal manoeuvre and to the 'automatic stabilizers', as Paul Krugman insisted. Furthermore, the author's observation should not be neglected that the stress tests for banks and the banking macro-regulation have introduced the model of a new far-reaching 'precautionary' control regime, in which the intertwining between the state apparatus and large banks, if legitimizing finance, potentially makes it subject to political discretion.

Also, with regard to European stabilization, Tooze's attention is looking towards the transatlantic finance, and shows how the United States has also, once again, reaffirmed itself as the dominant center in this circumstance. The crisis has certainly challenged the financial and political resilience of states. On the other hand, the United States established itself as the only nation-state that could not only parry the blows within, but also impose a global solution. The latest crash reconfirms how the supposed crisis of the hegemony of the United States is the means of its reaffirmation – a story we have seen developing in front of our eyes many times since the 1970s. Let's see how, this time.

Passed the most critical period, fiscal consolidation had returned strongly to the international agenda. The public debt had grown immeasurably as a result of the deflation of the private debt but the causal relationship, in political rhetoric, was overturned, blaming the public debt. Since 2010, the return to austerity policies in the public budgets in the eurozone has been particularly violent and has led to a dramatic deepening of the crisis throughout the European area: a development that puts at risk the very existence of the single currency. In the face of the intractability of the Greek debt, a bail-in, a restructuring of the debt, and therefore a haircut, that would make it manageable would have been necessary. The illusion of being able to recover bad debts assumes the form of the typical case of 'extend and pretend': it extends the credit, aggravating its terms; and pretends to be able to recover it in the future. The contagion threatens the imminent bankruptcy of major banks such as the Irish, Portuguese and Spanish cases. Balance sheet connections put all of Europe at risk, but if this had happened because of the internal ties to the transatlantic financial circulation, the crisis could have returned to the United States.

It is now Europe that risks dragging global finance to the bottom. When the succession of crises made spreads jump upwards, there would have been the need for the ECB to buy sovereign bonds: an intervention which did not happened at the time. Berlin's refusal to lead as a 'benign hegemon', something which Europe desperately needed, emerges in the book as what may be called a political horror story. The general exit from the crisis materialized only thanks to the opening by the US central bank of swap lines: an exchange of cash flows with which in fact the Fed injects liquidity, that is, it gives dollars, to the global banking system, authorizing a selected few of other central banks to grant credit in dollars on their behalf. The one who benefited most was indeed Europe, into which trillions of dollars were pumped. In Tooze's logic, and rightly so, we have neither a rescue nor something non-transparent here. It is however certainly something that flies 'under the radar', and is therefore mostly neglected in the analysis and discussion.

Tooze does not save any of the actors. Trichet's ECB stubbornly refused, both to buy sovereign debt, and to allow a cut in the credits that private individuals had accrued towards Greece. Germany, a prisoner of its internal political dynamics, refused to allow any coordinated initiative that could vaguely recall a debt mutualisation. Again Germany, with the complicity of France, pushed for the balanced budget to be constitutionalized, as a precondition for any intervention. In the middle of a full recession, a part of the Atlantic academic and financial world theorized the virtues of frugality, that is of austerity built on cuts to public budgets. These choices produced, first, an unnecessary torture inflicted on the Greek people and heavy sacrifices both on the countries of the Eurozone and England; then the need to circumvent any democratic constraint to entrust the countries at risk to the control of technocratic tutors who had to redesign the welfare state, downsize the state and trade union rights.

In fact, it was the United States that saved Europe from a vicious cycle of insolvency and a lack of liquidity in the public and private sectors, taking on the role of the lender of last resort. This was followed by Draghi's now famous *whatever it takes*, and quantitative easing also in the eurozone: thanks to it, the ECB itself eventually accepted to act (albeit indirectly) as a lender of last resort. To better understand we add some hints on a point that Tooze, it seems to us, does not go deep enough, but which is consistent with his scheme. We refer to the intervention on 'shadow banking', a phrase with which we refer to loans on the money market (or in any case of a very short term) to then extend long-term loans. In the United States, shadow banking was built on increasingly sophisticated securitization processes for private businesses, which ended up as a collateral for an (increasingly intricate) pyramid of loans. During the crisis, as early as 2008, the Fed understood the need to support the money market, becoming not only a lender of last resort but also *dealer of last resort* through massive purchases of securities, and this is precisely what the quantitative easing measures contribute to. In Europe, things are different. The intervention of the ECB in the construction of the repo market and the securitization of 'safe' assets to be used as collateral is essential, and revolves around sovereign bonds. This action was firstly used for 'disciplinary' purposes, to impose compliance with budgetary parameters. This ended up proving to be pro-cyclical right in a recessionary phase, and this was one of the reasons that compelled Draghi to adopt *quantitative easing* as well. The event is not devoid of significance. It shows perfectly that the supply of liquidity now depends on a collateral that is ever increasingly commanded politically, and that the risk of falling back into the crisis has made itself felt strongly in European management.

At the end of 2013 – when, as said before, Tooze started writing his book – the crisis seemed overcome. Not in its root causes: neoliberalism is still alive as a zombie. Not even for a recovery in growth: monetary policy is not enough to stimulate it, and indeed the spectre of 'secular stagnation' emerges. Nonetheless, in its strictly financial aspect, stabilization seems to work. Cold comfort, it will be said, but comfort nevertheless given the risks taken, and the inability to see an alternative. However, the crisis has revealed that the world of the monetary-financial system we have described stands on an irreducibly political foundation: and that in this reality some face choices, all others face rules and discipline. The cost, however, is high, and translates into the collapse of 'centrist' politics, the revival of sovereignty, the racist drift, and so on: certainly not of a recovery of the left. Capitalist governance and democracy appear on a collision course. Within this story there are destabilizing factors that Tooze pays attention to in the third part of his book, written in real time, and which opens up an uncertain future, without 'closing' the discussion on the crisis. The protagonists are Greece, Eastern Europe (especially Ukraine), China, Trump and Brexit. We cannot deal with it, and we limit ourselves to just a couple of observations.

China is a separate case. It has been said that in 2009 for the first time, China is driving the world economy. The fiscal policy package addresses, on the one hand, the modernization of the country's infrastructure (railways and highways) and technological innovation and environmental protection, on the other hand, to satisfy a set of social demands hitherto less covered by public expenditure: public healthcare, education and public housing in less developed regions. However, the expansionary fiscal policy also led to the easing of monetary policy, and this brought with it a bubble of private debt which led to a crisis in 2015-2016 with characteristics similar to those of transatlantic finance. It was again the United States, and in particular Janet Yellen's Fed, that shielded from a crisis, having delayed the expected rise in interest rates which would have dangerously destabilized the picture. This means that the world, on the one hand, depends on China being capable of carrying out a sovereign fiscal policy because it controls capital movements, but on the other hand, China depends on the monetary support of the Federal Reserve.

In Trump's case, Tooze's dismay and almost terror of the last president of the United States is evident, linked to his being a crazy wild card. There is a risk, and perhaps by now the actuality, of a drastic (and regressive) return of blatant and aggressive protectionism, in new shape. Brexit may have appeared to the author on a minor note when the book was being closed, but its significance is growing: the volume itself reveals the potentially devastating impact for that country of the loss of the role of fundamental hub of transatlantic finance between the United States and the eurozone, with the related settlement *tsunamis*; added to this are the jolts and perhaps the risk of long paralysis of some transnational value chains, such as the automotive one. As for Greece, the author attributes too many chances to Varoufakis 'game' against the ECB, but it is true that it was totally a political affair, far from any economic rationality, of violent affirmation of the power of Brussels. On this, in our opinion, it must be measured the self-referenced inertia of the left, moderate as well as radical. Finally, as regards to Ukraine, it is interesting not only the emphasis on the return of geopolitics, but also the underlining in this case of the role of capital inflows / outflows which extends the analysis to the Baltic countries, Poland and Hungary as well.

A review is not a review if, alongside an appreciation of the book, it does not indicate its limits. In English there is an expression that is right for us: full disclosure. Total transparency. It is good that the reader knows the reasons for our praise and criticism. Together with Mariana Mortágua we published a volume in 2019, preceded by an essay in 2015 which now constitutes the first part of our book.[9] Our book offers a macro-financial

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[9] Cf. Bellofiore, Garibaldo and Mortágua 2015 and 2019.

vision of the crisis, global and European, in many ways convergent, and often identical, to that of Tooze, referring to the same intellectual line. In our volume, however, the emphasis on the central role of transnational finance in the 2007-2008 crisis is framed within a conceptual Marxian understanding of neoliberalism and is complemented by an investigation of the equally central role of transnational production chains. Tooze says almost nothing on the first question (and neoliberalism cannot certainly be identified with North Atlantic finance) and very little on the second (on which the works of Annalisa Simonazzi, Andrea Ginzburg and associates are fundamental).[10] Tooze's seems to us to be an essential contribution to a literature which, however, is only now beginning to be written, and which must include many other chapters.

The book ends by stressing the importance of the historical and political dimension to address the analysis of the complex social systems in which we live. They appear and are represented as not susceptible to action, decisions or political debate, outside of history and politics. The book documents the poverty of this conception. In reality, political choices, ideology, actions and mediations are extremely important because they are vital reactions to the enormous volatility and contingency generated by the malfunction of these 'systems' and of these gigantic 'machines' and financial engineering apparatuses. The moral, not optimistic, seems to be that the forms of power are fungible, and that violence is central again: as a reality, or as a threat. We do not live in a 'post-American' world, but the United States herself no longer takes her centrality for granted, in the face of a China that is too large not to be somehow the protagonist of the future being built. The meeting ahead is shaping up to be a clash. Every perspective is open, and the crash is certainly not behind us.

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[10] See in particular Celi, Guarascio, Ginzburg and Simonazzi 2018.

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