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THE 2008 FINANCIAL CRASH: LESSONS LEARNED AND LESSONS FORGOTTEN REVIEW OF ADAM TOOZE, *CRASHED. HOW A DECADE OF FINANCIAL CRISES CHANGED THE WORLD*, NEW YORK: VIKING, 2018

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It will be interesting to see how the Brexit believers in 'take back control' deal with the City of London, once they have achieved their prime objective of extracting the UK from the European Union. The website of the Association of Foreign Banks (in London) declares (23/9/19): "Founded in 1947, the AFB today has around 200 international banking group members, representing about 80% of the UK's foreign banking market, providing financial services through branches, subsidiaries, and representative offices in the UK". As Adam Tooze reminds us in *Crashed*, his monumental narrative of the financial crisis of 2007 and its aftermath, the number in that year was 250. So, in spite of dire warnings by interested parties, little appears to have changed. The biggest operators were and are American, and together with their UK counterparts, they formed the axis of the transatlantic eurodollar area round which the world's financial system has turned since the 1960s and the general shift to floating exchange rates after 1973.

Spinning ever faster following the financial deregulation of the Thatcher-Reagan-Clinton eras, this axis finally ran out of control in September 2007, flinging off components on both sides of the Atlantic in chaotic and costly fashion, alarming governments, investors and consumers everywhere. The crisis of global governance set off by the catastrophe is at the heart of Tooze's account, which covers in great detail every major geopolitical and geo-economic consequence down to 2017. In his introduction, Tooze openly proclaims him self to be 'left-liberal', and almost all the many

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admiring comments on the book appear to have come from that cultural area. Of the protagonists in government at the time who have produced memoirs – men such as Bernanke of the Federal Reserve, Geithner of the US Treasury, Darling the ex-Chancellor – only Varoufakis, briefly Greek finance minister, has produced an in-depth commentary on it.[1] No banker of the time or since appears to have dared step into the debate. Indeed to read the speech given by Mark Boleat, Policy Chairman, City of London Corporation to the Association of Foreign Banks in June 2015, urging the Remain point of view,[2] the bankers not only have ignored the debate, but prefer not to think in any way of the lessons the crisis taught everyone else, the implications spelled out in such detail by Tooze.

The overwhelming message conveyed by *Crashed* (as by almost every other commentator, such as Martin Wolf and Gillian Tett of the *Financial Times*, Paul Mason of *The Guardian*, Joseph Stiglitz), is that the crisis was unforeseen by anyone in authority, and that its scale and dynamics were eventually brought under some sort of control only by the wildest, grandest forms of financial improvisation, of which the most egregious example was the incomprehensibly named 'quantitative easing'. Only a tiny group of top level American and European politicians, treasury experts and central bankers faced up to the storm. Outside them few understood what was going on. The long term result, writes Gillian Tett, is to have produced an enduring sentiment of anxiety among bankers, fund managers, currency traders etc., the sense that the authorities are probably concealing bad news, while consumers get the impression that at any moment they might fall "into a bottomless hole of bizarre economics". The psychological basics of capitalism – confidence and trust – has suffered serious damage, says Tett.[3]

In *Crashed* Tooze makes much of the 'swap lines' which the Federal Reserve established in order to funnel vast quantites of dollars to shore up the balances of a variety of foreign banks central and private, almost all European. This of course was 'virtual money', as a critical commentator of Tooze pointed out in reply to an anticipation of the book published in the London magazine *Prospect* in June 2017: 'Bernanke' (of the Fed) says to Trichet (of the European Central Bank): "I will pretend you give me €100m and you pretend I gave you $120m". 'Robert NYC' went on: "What nobody seems to understand is that these central bank swap lines consist

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1 https://www.yanisvaroufakis.eu/2018/08/13/crashed-long-version-of-my-observer-review-of-adam-toozes-new-book-on-the-crash-of-2008/.

2 https://news.cityoflondon.gov.uk/the-importance-of-foreign-banks-to-the-city-of-london/.

3 *Financial Times*, 12/13 Oct. 2019.

of accounting entries that are just made up. The money to fund the swaps literally doesn't exist".

At the time the improvisation worked to restore some sort of confidence in the stability of the central banks, but as Tooze repeatedly underlines there was nothing in this method to suggest it would work should a similar crisis arise again; in a sense it depended on the *political* good faith of the protagonists. As the former US Treasury Hank Paulson put it: "What would have happened if a divisive character such as Trump were president?" (in 2008). Republicans and Democrats had worked together to ensure the first, Republican, stabilising effort. After Obama such a synthesis was inconceivable.

The second great lesson of the book then is the supreme and continuing centrality of America and its dollars to the functioning – for better or for worse – of the world's financial system. Interpendence there is, but it is grossly assymetric, indeed hierarchical: the world is not flat. Not only did the Federal Reserve put in vastly greater resources, real and virtual, to its own and the transatlantic financial system, but no other regional or national power come close to offering an alternative pole of attraction, of money or of ideas. Certainly not the EU, whose key treaties – Maastricht and Lisbon – explictly vetoed – at German instance, as Tooze shows – any use of European Central Bank Funds for propping up the current account balances of Eurozone governments. Nor could or would the Chinese help: they would spent a $1trn of their reserves defending their own banking system in 2015, and had in any case long become structurally dependent on the stability of the dollar.

Lesson number three then concerns the deeply ambiguous role of Merkel's Germany in the saga. In an episode not cited by Tooze, Josef Joffe, the famously pompous former editor of *Die Ziet*, proclaimed at one point in the crisis, "We will not sacrifice our memories", referring to the never-ending hangover of the terrible inflation of the 1920's, and apparently forgetting just how many memories of Germany the rest of Europe had to sacrifice after 1945 to enable any sort of European reconciliation to begin. From the 1920s to the era of the monetarists, the dogma stood unchallenged that when states 'created' money in whatever form, inflation would follow as night follows day. By 2007 inflation in Europe was on average 3%. Even after trillions of dollars had been thrown into the financial system on the transatlantic axis by the Federal Reserve (mostly), the ECB and other European central banks, it stood at 1.1%. Yet as the *Financial Times* reminded us in September 2019 – "Germans are the most outspoken critics of the unconventional measures taken over the past decade to ensure the eurozone's survival", a consensus based on fear of inflation, distrust of any further form of monetary – not mention fiscal – integration in Europe, and deep contempt for the way others, especially in southern Europe, run their debt-laden economies.[4]

And their concerns were repeated and amplified by the public letter of a group of ex-central bankers (and ex high functionaries of the ECB) who in early October 2019 virulently attacked the exceptional measures of taken over the last ten years by the ECB to fight deflation and attempt to stimulate growth by the purchase of government bonds on a huge scale. The result, they complained, had been to force down interest rates so far that they had even become negative in some cases, thus depriving savers of a just reward for a lifetime of work and thrift, and banks of any incentive to lend out money in exchange for a decent return.[5] The *Financial Times's* reply denounced this group as Bourbons who had learned nothing and forgotten nothing from the crisis.[6]

If "you too can be like us", was the generous promise of the Marshall Plan in 1948, "why can't everybody be like us?", is the angst-filled question German public opinion asks whenever it looks at its own European neighbourhood. Tooze shows how Germany would have expelled Greece from the EU if it had had its way in 2010: but the Greeks dug their heels in and suffered what Varoufakis later called 'financial water-boarding', as result.

"Since 2007 the scale of the financial crisis has placed (the) relationship between democratic politics and the demands of capitalist governance under immense strain", writes Tooze at the end of his monumental text. Indeed: in the words of David Edgerton, historian of science and technology in London, the British state no longer has the legal and political strength, or the technical capacity, to understand the global capitalism all round it, much less exert any sort of genuine regulatory control. In Edgerton's view the City of London has become "the place where the world comes to do business, not where British capitalism does the world's business".[7]

Since the crisis defensive protectionisms of all sorts have erupted on every side. Utterly unable to control their 'too big to fail' banks, a part of American society has chosen the trade protectionist Trump. A part of British society fancies it can 'take back control' by leaving the EU, even as the City sells off swathes of the nation's vital functions to any overseas buyer appearing with an offer. Signs that the lead bankers have learned the lessons Tooze teaches are precious few. Judging from the selection of

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4 *Financial Times* 27 Sept. 2019.

5 https://www.ft.com/content/71f90f42-e68f-11e9-b112-9624ec9edc59.

6 https://www.ft.com/content/d1f9d276-e69b-11e9-b112-9624ec9edc59?emailId=5d9a08d583ed4600046e295d&segmentId=488e9a50-190e-700c-cc1c-6a339da99cab.

7 (https://www.theguardian.com/commentisfree/2019/oct/09/brexit-crisis-global-capitalism-britain-place-world#comments).

reviews available on-line, none appear to have read his book. Wall Street lobbies successfully for Obama-era regulations to be dismantled. In London the bankers took home £15bn in bonuses at the end of 2017. In Basel the Bank of International Settlements (BIS) warned in late 2019 that "leveraged loans, ie bank loans to firms that are highly indebted, have high debt service costs relative to earnings and are typically rated below investment grade… (have) surged in recent years to roughly $1.4 trillion outstanding".[8] The IMF has denounced the $15 trillion hidden in various fiscal paradises in the world, especially in Holland and Luxemburg.[9] At the July 2019 meeting of the BIS, the former Governor of the Bank of England, Mervyn King, told his colleagues: "We must not rely on the wisdom of hindsight. We are no more likely in future to be wiser than we were in the past".[10] But with Tooze, there is a formidable alternative to hindsight: that's what historians are for.

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8 *Il Sole 24 Ore*, 28 Sept. 2019.

9 https://www.imf.org/external/pubs/ft/fandd/2019/09/the-rise-of-phantom-fdi-in-tax-havens-damgaard.htm.

10 https://www.bis.org/publ/bppdf/bispap103.htm.