Adam Tooze's *Crashed*: The limitations of a Left-liberal historian

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The historian Adam Tooze has published a detailed account of the origins and development of the global financial crisis of 2008 and its aftermath.

In the introduction to *Crashed*, the author describes himself as a Left-liberal historian for whom the tenth anniversary of the financial crisis of 2008 is "not a comfortable vantage point."

Pointing, at least indirectly, to one potential outcome of the crisis, the consequences of which continue to reverberate, he notes that: "A ten-year anniversary of 1929 would have been published in 1939 [the year of the outbreak of World War II]. We are not there, at least not yet. But this is undoubtedly a moment more uncomfortable and disconcerting than could have been imagined before the crisis began." [p. 21]

Tooze's self-characterisation as a Left-liberal points, at least to some extent, to both the strengths and weaknesses of his book.

On the "left" side he makes an important analysis of the operations of the global financial system which led to the meltdown and the "class logic" with which the immediate crisis was overcome.

But as a liberal, whose outlook does not go beyond the framework of the capitalist order, he regards the free market and the profit system as the only possible form of society—a view buttressed by the academic milieu in which he works. Therefore, he does not probe the deeper historical significance of the crisis. Thus, in the end, while at times expressing "outrage" at the measures carried out to bailout the banks and their shareholders, while millions of people had their lives destroyed, he ends up providing a justification for what was done.

It is significant that in a book of more than 600 pages, the name of Karl Marx, who had something to say about the contradictions of the capitalist system and their recurring eruption in crises and breakdown, and the way in which "the executive of the modern state is but a committee for managing the common affairs of the bourgeoisie," does not rate a single mention.

Tooze, however, does detail this latter political fact of life, noting that "the absolute priority to save the financial system shaped everything else that followed. It set the stage for a remarkable and bitter ironic inversion. Whereas since the 1970s the incessant mantra of the spokespeople of the financial industry had been free markets and light touch regulation, what they were now demanding was the mobilization of all the resources of the state to save society's financial infrastructure from a threat of systemic explosion, a threat they likened to a military emergency." [p. 165]

Tooze explains that when he began work on the book it was from the standpoint that the 2008–2012 crisis was over. "It was intended to be an anniversary retrospective on a crisis that had reached closure."

But closer examination showed that not to be the case. "What we have to reckon with now is that contrary to the assumption of 2012–2013, the crisis was not in fact over. What we face now is not repetition but mutation and metastasis … the financial and economic crisis of 2007–2012 morphed between 2013 and 2017 into a comprehensive and geopolitical crisis of the post-cold war order." [p. 20]

This is a point well made. It serves to underscore that when another financial crisis erupts, for which all the conditions are present—continued rampant speculation and increased levels of debt—it will take place in conditions where geopolitical tensions and conflicts are far more intense than they were a decade ago.

As far as the immediate political consequences are concerned, Tooze locates the victory of Trump and the "extraordinary uncouth variety of postfactual politics that he personifies" in the 2008 crisis and its aftermath. But, he continues, to attribute "postfactuality," that is, lying, to Trump and his cohorts, is to succumb to "delusion."

The inability to deal factually with the situation lies at the heart of "mainstream politics."

"We need not go back to the notoriously misleading and incoherent case made for the war against Iraq and its fawning media coverage. It was the current president of the European Commission [Jean-Claude Juncker] who announced in the spring of 2011: 'When it becomes serious, you have to lie.'" That is, "a posttruth approach to public discourse is simply what the governance of capitalism currently demands." [pp. 21–22]

But the implications of this suggestive comment are never explored, because for a liberal, no matter how "left," they would raise too many troubling questions about the historical viability of the system they ultimately defend.

Having said that, Tooze provides some valuable insights into the origins and development of the financial crisis.

These insights are grounded in his methodological approach to the global financial system. The source of its dynamics, he maintains, cannot be grasped within the framework of Keynesian economics, with its focus on national data such as gross domestic product and trade balances.

In order to understand the financial system, national economic data have to be replaced by a focus on corporate balance sheets "where the real action in the financial system is."

"The financial system does not, in fact, consist of 'national monetary flows.' Nor is it made up of a mass of tiny, anonymous, microscopic firms—the ideal of 'perfect competition' and the economic analogue to the individual citizen. The overwhelming majority of private credit creation is done by a tightly-knit corporate oligarchy. … At a global level twenty to thirty banks matter. … The stark truth about Ben Bernanke's 'historic policy' of global liquidity support was that it involved handing trillions of dollars in loans to that coterie of banks, their shareholders, and their outrageously remunerated senior staff. … Though it is hardly a secret that we inhabit a world dominated by business oligopolies, during the crisis and its aftermath this reality and its implications for the priority of government stood nakedly exposed. It is an unpalatable and explosive truth that democratic politics on both sides of the Atlantic has choked on." [p. 13]

Nowhere was that "choking" more clearly demonstrated than in Greece. The various bailout operations organised through the infamous troika—the International Monetary Fund, the European Union and the European

Central Bank—were implemented to ensure massive cuts in the living standards of the Greek people, to ensure the funnelling of money into the hands of the private banks. No opposition would be tolerated. As the German finance minister Wolfgang Schäuble declared, "elections cannot be allowed to change economic policy."

In tracing the origins of the financial crisis, Tooze importantly draws attention to the historic significance of the decision by President Nixon on August 15, 1971 to withdraw the gold backing from the US dollar.

This marked the end of the post-war monetary system established at the Bretton Woods conference of 1944, in which each of the world's major currencies was tied at a fixed rate to the US dollar, which, in turn, was backed by gold, at the rate of $35 per ounce. This arrangement formed a vital component of the financial system that provided the basis for the post-war capitalist boom of the 1950s and 1960s, and was sustained by tight controls on the movement of finance capital.

The Bretton Woods system provided a stable basis for the expansion of US international investment, particularly in Europe. And where production goes, finance follows. But the entire system was, from the outset, marked by a profound contradiction. Global liquidity depended on the outflow of dollars from the US, but this outflow had the effect of undermining the relationship of the US currency to gold.

From the late 1950s onwards, and increasingly in the 1960s, the City of London became the centre of what became known as the euro-dollar market, through which financial operations could be carried out, escaping the regulations imposed in the US. As Tooze points out: "By the 1960s Eurodollar accounts in London offered the basic framework for a largely unregulated global financial market." [p. 80]

He draws out that, driven by the search for profit and powered by bank leverage, offshore dollars were a disruptive force, having scant regard for the official dollar value under Bretton Woods. And it was this pressure that made the dollar-gold peg untenable.

This role of the City of London expanded rapidly in the 1970s when, as a result of Nixon's decision, no currency in the world was based on a metallic standard. The City's role developed following the "Big Bang" deregulation of the Thatcher government in 1986. Deregulation continued under the Blair Labour government such that "for many of the most fast-paced global transactions, it was London, not Wall Street, that was the location of choice." [p.81]

By 2007, 35 percent of the daily global turnover of foreign exchange, running at $1 trillion per day, was conducted in the City of London. It was also the centre for interest rate derivatives. Out of an annual global turnover of $600 trillion, London claimed 43 percent, compared to New York's 24 percent. As Tooze remarks "what we know today is American financial hegemony had a complex geography" and is "no more reducible to Wall Street than the manufacture of iPhones can be reduced to Silicon Valley." [p. 80]

This focus on the global character of the financial system is a strength of Tooze's analysis. One of the recurring themes in commentary on the crisis over the past ten years is that it was set off by the scrapping of regulatory mechanisms in the US, culminating in the repeal of the last of the major legislation put in place after the 1930s with the repeal of the Glass Steagall Act in 1999 and the passing of the Financial Modernization Act under the Clinton administration. This decision was motivated by the pressure of international competition, above all from the City of London.

In promoting the legislation, the Democrat senator from New York, Charles Schumer, insisted that "the future of America's dominance as the financial centre of the world" was at stake and that if Congress did not pass the bill then London, Frankfurt or Shanghai would take over.

"New York certainly stood to benefit, but that should not mislead one into thinking in terms of national champions. No one had been more active in shaping the global marketplace in London than expat American bankers working for the London offices of major Wall Street firms. What Wall Street wanted was license to bring back home the adventurous practices developed among 'consenting adults' in London." [p. 82]

This interconnection points to the reason for the rapid transmission of the crisis across the Atlantic. The entire North Atlantic financial system, British and European continental financial houses, often operating through the City of London, were deeply involved from the outset in the increasingly speculative, and in some cases outright criminal activities, that set off the crash.

Tooze dismisses the claim that "social Europe" had "deviated" in any essential way from the logic of turbocharged "financial capitalism" as an illusion. "In fact, Europe's financial capitalism was even more spectacularly overgrown and it owed a large part of its growth to its deep entanglement in the American boom." [p. 116]

In drawing out the historical origins of the crisis, its global character and the "class logic" of the bailout operations, Tooze provides some important insights.

The same cannot be said when he ventures into the field of politics, particularly in his treatment of one of the aftershocks, the political upheaval in Ukraine in 2014, which saw a regime-change operation carried out by the US. He refers to the activities of Victoria Nuland, the assistant secretary of state for European and Eurasian affairs, in orchestrating the downfall of President Yanukovych.

But he faithfully toes the official line that, in the end, this was the result of a "vocal and bold minority among the Ukrainian population" and that the government was overturned by "popular protest." He carefully passes over the fact that the driving force of this "bold minority" and "popular" movement was extreme right-wing and fascist forces, whose antecedents were directly associated with some of the worst crimes of the Nazis.

In his concluding chapter, Tooze engages in some ruminations on the meaning of the events he has analysed. He delivers his verdict on the bailout operations, noting that: "In its own terms, as a capitalist stabilization effort, the response patched together by the US Treasury and the Fed was remarkably successful. Its aim was to restore the liquidity of the banks. It not only did this but also provided massive liquidity and monetary stimulus to the entire dollar-based financial system, to Europe and the emerging markets beyond." [p. 610]

In the immediate sense, that may be the case. But as an economic historian Tooze is more than aware that economic "solutions" at one point very often become the starting point of a new crisis. And the last word has certainly not been said on the financial measures developed over the past decade, as the very bailout by the Fed and other central banks has fuelled rampant speculation, an increase in debt, an unsustainable stock market boom in the US, the creation of an ever more wealthy and rapacious financial oligarchy and an increase in social inequality, the like of which has never been seen.

This is not to suggest that Tooze considers the great historical problems raised by the events he has recounted have been resolved. Far from it. As he puts it, the year 1914, the outbreak of World War I, may be "a good way for thinking about the kind of historical problem that the financial crisis of 2008 represents. There is a striking similarity between the questions we ask about 1914 and the questions we ask about 2008." [p. 615]

He then lists a series of issues such as: How does a great moderation end? Did we sleepwalk into the crisis, or were there dark forces pushing us? Is the uneven and combined development of global capitalism the drive of all instability for the ensuing human-induced, man-made disaster? As well, he mentions others.

"These are the questions that we have asked about 1914 for the last one hundred years. It is not by accident that their analogues are also the questions we ask about 2008 and its aftermath. They are the questions that haunt the great crises of modernity." [p. 616]

However, it is significant that he is not able to provide an answer to any of these questions. In an earlier period, a liberal historian would have proffered a perspective, at least suggesting some kind of reforms. But Tooze is not able to do that because there are none within the framework of capitalism on which his whole political outlook is based. So he leaves the questions dangling.

But, for billions of people the world over, it is a matter of life and death that they be answered. That means undertaking a journey into historical territory, which Tooze, because of his class position and political outlook, does not want to traverse.

Let us at least outline that journey by starting, as he suggests, with 1914. In his famous pamphlet *War and the International*, Leon Trotsky explained that: "The War of 1914 is the most colossal breakdown in history of an economic system destroyed by its own inherent contradictions."

He emphasised that the perspective of world socialist revolution, the overthrow of capitalist property relations on an international scale, had to be advanced by the working class as a "practical program" of the day if mankind were not to be thrown back to barbarism.

In the event, the revolutionary upsurge, which began with the Russian Revolution of October 1917, was pushed back and defeated. The outcome was the Great Depression of the 1930s, the emergence of fascist regimes, mass murder and then the outbreak of a second world war, culminating in the use of atomic weapons. In short, barbarism.

On the basis of the blood and bones of millions, some stability was restored and capitalism even underwent a boom. To short-sighted observers it appeared that its contradictions, if not entirely overcome, had at least been brought under control. But they continued to develop, leading, within the space of just a generation, to the end of the post-war order, setting in motion the processes that gave rise to the capitalist breakdown of 2008 and its aftermath.

In other words, the very historical processes and events that Tooze himself has analysed and detailed, mean that, as Trotsky set out at the beginning of this epoch, the perspective of world socialist revolution, the development of a higher form of social organisation based on human need and not private profit, must now become the "practical program of the day." That is the significance of the crisis of 2008.