The first words of Adam Tooze’s *Crashed: How a Decade of Financial Crises Changed the World* are: “This book was written with urgency.” So what’s so urgent? Is it that the negative effects of the 2008 financial crisis are still being severely felt and need immediate explanation? Or is it, as Tooze seems to suggest, that the world is newly imperiled by the impact of Brexit; nationalist leaders in Poland, Austria, and Hungary; and Donald Trump, described in the book as the “heir to [Sarah] Palin”?

The 2008 financial crisis did have a real impact on the world, and it is a story worth telling. But it is not unique in world history, nor has it permanently altered the pace and pattern of the global economy or of politics. Even the secondary economic effects of it were largely over five years ago.

A professor of history at Columbia, Tooze writes very subjectively from the “vantage point of a Left-liberal historian,” as opposed to what he calls the “centrist liberals” of the Obama Administration or “celebrity economists of the center-left” like Paul Krugman. Krugman is many things, but being associated with the “center” is usually not one of them. How a Left-liberal historian sees the world becomes clear early: “Bush and his cohorts on the right wing of the Republican Party were not easy for bien-pensant, twentieth-first century citizens of the world to assimilate.… [T]hey flaunted their disregard for the conception of modernity in which both the EU and the UN like to dress themselves—enlightened, transparent, liberal, cosmopolitan.”

According to Tooze, the American deregulatory climate of the 1990s and early 2000s led increasingly to dangerous practices in banking and financial services. Capital requirements were relaxed, and dubious new financial instruments (“repos”) emerged. Mortgages were now packaged together and “securitized,” that is, sold to investors. Previously, banks issuing a mortgage wanted the borrower to repay since the banks themselves would bear the financial brunt of a loan default. When banks sold securitized mortgages to a large financial institution, however, they lost interest in the ability of customers to repay. Lending standards declined. A real estate bubble inflated. Greedy financial entrepreneurs derived huge gains from rising but unsustainable profits. Government regulators turned their back and did nothing to head off the inevitable crisis that became apparent with the failure of Lehman Brothers in 2008. Tooze believes the resulting downturn was aggravated by government’s failure to punish the wrongdoers (the banks); on the contrary, through TARP (Troubled Asset Relief Program) and other bailouts, the government protected the perpetrators of the debacle, incidentally causing unemployment, bankruptcy, and economic misery to millions of lower-income ordinary Americans. The Obama stimulus package, while appropriate, argues Tooze, was much too small.

European banks had strong ties to institutions in America, and European governments had often issued debt in U.S. currency. So the American financial disease spread. As of this writing, it takes 28% more Euros to pay back a loan in dollars than 10 years earlier at the beginning of the financial crisis; for nations in the Eurozone the burden of debt repayment has grown.

Tooze writes that foreign investors owned one fourth of U.S. securitized mortgages when the financial crisis hit. When mortgage defaults rose with the collapse of the U.S. housing boom, foreign institutions faced large losses, putting them in precarious shape as uneasy depositors withdrew funds. Major banks like Britain’s Royal Bank of Scotland and Germany’s Deutsche Bank teetered on bankruptcy, forcing governmental intervention and recapitalization. Countries with already massive government debt obligations like Greece and Spain were hit particularly hard and for a longer period. Of particular concern to supporters of the European Union was the possibility that nations like Greece and perhaps ultimately Italy might abandon the Euro, returning to the drachma and lira in order to make themselves more competitive via currency devaluation.

The heroes in Tooze’s story are the leftist politicians who promoted bank recapitalization, giving bond investors and stockholders big “haircuts” (i.e., writing off some of the loans), and promoting big stimulus programs, resisting cuts in the welfare state. Other heroes were the heads of multinational agencies promoting international solutions, moving, for example, to integrate the policy responses of the entire E.U. and beyond via the European Central Bank (ECB), the International Monetary Fund, and the newly created G20.
Tooze’s villains are, aside from conservative Americans with excessive faith in laissez-faire capitalism, the overly nationalist and cautious heads of European nations, especially Germany’s Angela Merkel, who resisted bailing out nations on the fiscal brink like Greece. Tooze is a strong believer in “the European project,” finding single-nation solutions to financial problems anachronistic.

The book is impressive for chronicling in detail a large amount of financial and political history in dozens of countries (including China, Japan, and other non-European nations) over an extended period. It goes into detail—probably far too much for the average reader—on the specifics of the financial pressures that developed. It is not casual reading for non-afficionados of financial history.

**Yet I Think His Basic Thesis Is Mistaken.** Tooze believes that blind faith in laissez-faire capitalism led to a paralyzing crisis that caused misery to millions while leaving largely intact wealthy perpetrators of the fiasco.

Starting with the U.S., where it all began, I think a stronger case can be made that the crisis would not have happened were it not for several monumental acts of government failure. For years before the downturn, the federal government had been pressuring banks to make loans to credit-unworthy customers, individuals with low incomes and dubious credit history. The Community Reinvestment Act of 1977 and strengthened legislation in 1989 and in the 1990s forced banks to make more loans to persons with a questionable ability to repay. The major mortgage lending agencies Fannie Mae and Freddie Mac were ostensibly privately owned, but their liabilities were backed by the federal government. These institutions had notoriously low amounts of capital, and were very lightly regulated because of their lobbying clout in Congress. They promoted much of the toxic lending during the 2002-06 boom.

Adding fuel to the fire, Alan Greenspan’s Federal Reserve followed an aggressive low-interest policy to stimulate the economy. Low interest rates made mortgages more affordable, leading to a boom in lending, often to individuals with (again) dubious credit histories. At the macro level, the federal government was running substantial budget deficits, in keeping with the view that debt-based economic expansion was fine. Although the federal budget was in surplus in 2000, by 2004 the annual deficit exceeded $400 billion despite falling unemployment and well over 3% GDP growth. Within five months of the 2008 financial crisis, the Obama Administration’s Chair of the Council of Economic Advisers, Christina Romer, predicted that if the much vaunted $800 billion deficit-financed stimulus package were passed, unemployment would not go above 8%. Yet it stayed above that rate for 43 consecutive months—the worst downturn since the Great Depression. During the Obama years, the median monthly unemployment rate of 7.75% was the highest since President Franklin Roosevelt’s time, and the median annual GDP growth rate of 1.95% was the lowest. (The best book available on the government’s complicity is John Allison’s *The Financial Crisis and the Free Market Cure* [2012].)

**Regarding Europe, Tooze Has No Explanation for Why Some Nations (Poland and Albania, for example) Had No Years—from 2005 to 2017—of Negative Economic Growth, Almost Completely Avoiding the Impact of the Financial Crisis, and Why for Many Others the Last Year of Negative Growth Was 2009 (Including Such Large Countries as Germany, France, and the United Kingdom). Could It Be That the Disaster Hitting Greece and, to a Lesser Extent, Countries Like Spain and Portugal Was Largey Self-inflicted? Spain’s High—Well Over 20%—Unemployment, for Example, Has Been Attributed to Disastrous Labor Market Policies in Which the Government Made Two paving a Jobs Initiative Before the First Place. Nobel Prize-Winning Economist Edward Prescott Has Noted That the Low Labor Force Involvement in Countries Like Italy Reflects High Rates of Taxation Needed to Finance Tooze’s Beloved Welfare State. The E.U. Has Always Been a Far More Fragile Institution Than Intellectuals and Political Elites Would Like. When Voters Are Allowed to Express Themselves, the Results Are Often Decidedly Against the E.U. Constitution Was Never Adopted Because Voters in France and the Netherlands Voted It Down. The Lisbon Treaty Was Rejected by the Irish in 2008, Only to Be Approved after Some Changes. Great Britain’s Brexit Vote Was Not the First Rejection of the Vision of European Elites. The Median Annual GDP Growth in the 19 Countries ADOPTING The Euro and Accepting the European Central Bank in 2006-17 Averaged Over One Third Less Than in the 13 European Nations That Were Non-Euro or Non-ECB. Bulgaria and Albania, for Example, Boomed While Neighboring Greece Languished. The Fact That E.U. Decision-Makers Are the Most Unaccountable to Voters May Partly Explain Why Both Europe and the Euro are So Frayed.**

**With Crashed, Adam Tooze Has Called Our Attention to an Important Episode in World Financial History, but He Has Not Explained It. Richard Vedder is Distinguished Professor of Economics Emeritus at Ohio University and a Senior Fellow of the Independent Institute.**
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