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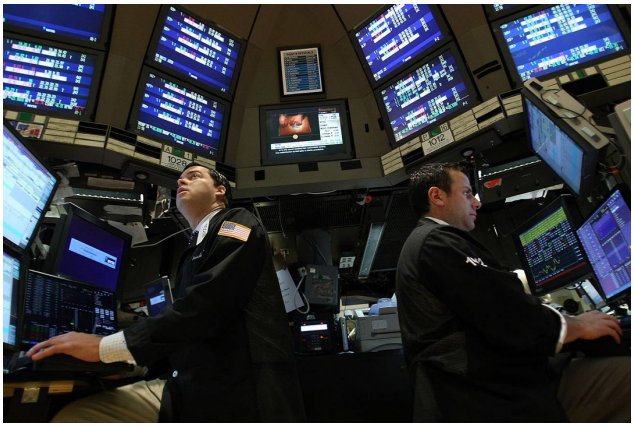
‘Crashed’ Review: The Trouble Is Trans-Atlantic

The financial crisis was caused, in part, by the excesses of an undercapitalized international banking system—and it is not yet fixed. Marc Levinson reviews “Crashed” by Adam Tooze.



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By Marc Levinson
Aug. 6, 2018 6:53 p.m. ET

In American eyes, the financial crisis that began in 2007 is old news. Our banking system is strong, General Motors is back in the black and the Federal Reserve is easing its way out of quantitative easing. With home prices soaring and employers desperate for workers, America’s crisis is over—or so it seems.

But such a conclusion, Adam Tooze argues, is both simplistic and short-sighted. In “Crashed: How a Decade of Financial Crises Changed the World,” he undertakes a sweeping examination of the global effects of America’s enthusiasm for subprime mortgages. In the process, he rewrites the conventional history of a tumultuous decade and reconsiders the roots of a crisis that is still under way.

There have been many, many books about the financial crisis, but few, if any, have treated it as a world-wide event. Mr. Tooze, a Columbia University historian well versed in finance and economics, moves seamlessly from

discussing the domestic pressures on German Chancellor Angela Merkel to explaining why Japan, whose banks owned little of the subprime paper that proved so toxic in the United States and Europe, suffered a far sharper drop in exports. This is economic history on an epic scale, and readers who persevere through the book's roughly 600 pages of text will find many surprises.

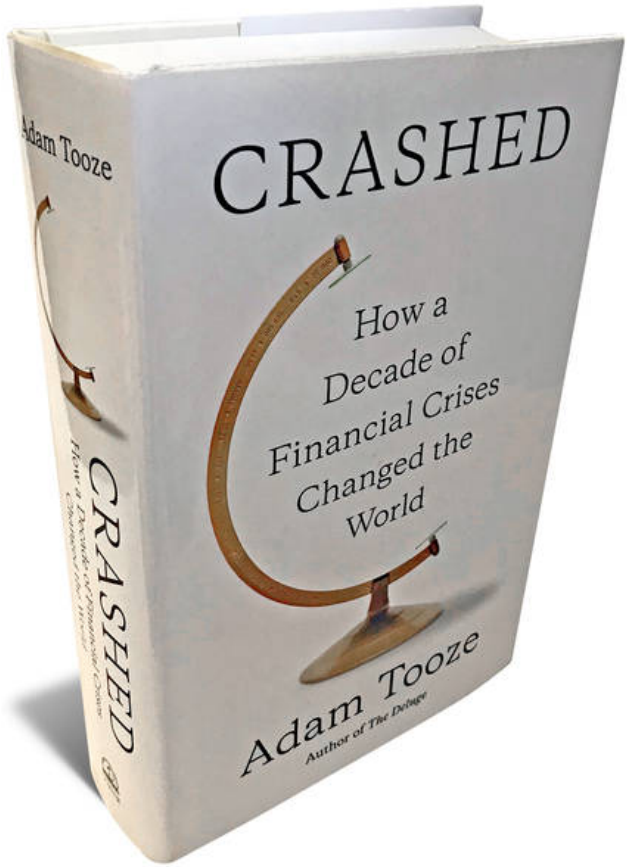

PHOTO: WSJ

CRASHED: HOW A DECADE OF FINANCIAL CRISES CHANGED THE WORLD

By Adam Tooze
Viking, 706 pages, $35

To start with, Mr. Tooze takes aim at the notion—widely accepted on this side of the Atlantic—that the subprime crisis has been vanquished and that some separate crisis, attributable to spendthrift governments and intra-European squabbles, still burdens Europe. Instead, he insists, the crisis has been a single and continuous event, caused not only by subprime mortgages but by the excesses of an undercapitalized international banking system abetted by weak regulation.

The irresponsible lending to homeowners who couldn't possibly repay was an American problem, Mr. Tooze notes, but much of the demand for the mortgage-backed securities into which those loans were bundled came from Europe, and the funds to purchase them came from deposits denominated in euros. When the underlying loans went bad and the securities cratered, U.S. banks could seek help from the Fed, but the European banks had no source of dollar-denominated funding. "In case of emergency, where would they get the dollars they needed?" Mr. Tooze asks.

The answer, he says, was the United States, which in effect bailed out Europe. Europe's central banks collectively held only a fraction of the dollars that they would have required to resolve their banking systems' problems. Enter "quantitative easing": Between 2008 and 2010, as the Fed purchased massive quantities of mortgage-backed securities, 52% of its purchases were from foreign banks, mainly European, which desperately needed the Fed's dollars to meet their commitments. The Fed also signed swap agreements that gave foreign central banks almost unlimited access to dollars that they could then use to aid troubled commercial banks. "The Fed, without public consultation of any kind, made itself into a lender of last resort for the world," Mr. Tooze writes.

Mr. Tooze's disappointment with Europe's inability to cope with the crisis is palpable as he takes us through seemingly endless negotiations that fail to resolve underlying problems. Years later, this "extend-and-pretend" approach to decision making has left Europe's financial institutions no stronger and its troubled economies no healthier than before. He is particularly critical of Germany's failure to take the lead in restoring economic growth as the crisis devastated Eastern Europe and tore Ukraine apart. The hard-nosed German response to Ukraine's plea for financial help in 2013, Mr. Tooze asserts, drove that country's government closer to Russia, contributing to the pro-Europe revolt that brought the overthrow of the government in Kiev in early 2014 and the Russian military intervention in Crimea that followed.

The world-wide economic crisis, Mr. Tooze argues, would have been far less severe had governments raced to pump money into their economies. It was China, he notes, that first acted in such a way to forestall an economic downturn in the autumn of 2008. Other countries that had no responsibility for the financial crisis, from Russia and Argentina to South Korea and Australia, followed with timely stimulus. Meanwhile, Republicans in Washington and Christian Socialists in Berlin insisted on limiting budget deficits at precisely the wrong time. "Earlier and more sharply than in any other recession in recent history, the fiscal screw was turned," Mr. Tooze asserts. "On both sides of the Atlantic the result was to stunt the recovery."

At times, Mr. Tooze lets his outrage get the better of him. He suggests that the United States might have shortened the crisis by nationalizing sick banks, but he fails to note that Britain and Germany achieved little by doing just that. His attempt to link the financial crisis to negotiations over a trans-Pacific free-trade area that would exclude China—viewing the proposal as the Obama administration's effort to restore the geopolitical power of an economically weakened America—is a stretch. At one point, he claims that

the U.S. “pressured” Canada and Mexico to join in such an effort; at another, he says the U.S. “inveigled” them. Neither claim is supported by the sources that Mr. Tooze cites. Both countries, it is worth noting, recently signed such an agreement despite the withdrawal of the United States.

Nonetheless, Mr. Tooze has written a valuable book about the challenges of managing a tightly connected world economy. The questions he raises resonate in the Age of Trump. On July 15, the president told an interviewer, “I think we have a lot of foes. I think the European Union is a foe, what they do to us in trade.” So ask yourself: If financial crisis strikes again, will we stand ready to bail out our foes? And if we don’t, who will be better off?

Mr. Levinson’s most recent book is “An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy.”

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