

# Discussion of *Crashed* by Adam Tooze

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# Why You Should Read *Crashed*

- **Overdue analysis of the 2008 crisis**
  - *North Atlantic crisis of dollar system with Eastern European tail*
- **Well researched and eloquently written**
  - Reader expertly guided through financial thickets
- **Takes stands on issues and motivations**
  - Intellectual drive is engaging and fresh

# Main Themes

- ***Crashed* focuses on decisions of policy makers**
  - Narrative focuses on personalities not tectonics
- **Two important intellectual subthemes:**
  - **Economic: Keeping confidence of bond markets**
    - Bond vigilantes forced decisions on unwilling debtors
  - **Political: Erosion of liberal democracy and belief in elites**
    - Crisis forced unpopular policies on reluctant publics
- ***But* tectonics important, especially in Europe**
  - My book *Unfinished Business* outlines *economic* tectonics
  - Account of *political* tectonics yet to be written

# Cast in (approximate) order of appearance

- **Heroes:** Resourceful and flexible Americans (Geithner and Bernanke)
- **Villains:** Inflexible and hidebound Europeans (Merkel and Trichet)
- **Tragic Heroes (appropriately mainly Greek):** Tsipras and Varoufakis
- **Driven by Circumstance:** Draghi and (most interestingly) Putin
- **Gives narrative energy: But was it really that simple?**

# US: A+ Crisis Response, but B- Before/After

- **US crisis response flexible, innovative, and wide-ranging**
  - Fed had to give support to foreign banks given dollar dominance
  - **But *before* Geithner/Bernanke backed loose financial regulation**
    - Under-regulated investment banks became dangerously fragile
  - **And *after* “overwhelming force” protected bank management**
    - Not jailing bankers fueled populist backlash on expertise and elites
- **Shelia Bair had better instincts before *and* after the crisis**

# European Task Much More Difficult

- **Europe always going to have a bigger crisis:**
  - **Banking problems in core, not edge**
    - Key Euro area banks on life support, US banks often part of solution
  - **Euro banks too big to save due to national supervision**
    - Citi's assets 15% US GDP, Deutsche's almost 90% German GDP
  - **Euro area architecture excluded loss-sharing by creditors**
    - Federal rescues and transfers cushioned US regional shocks
- **Europe *forced* to extend and pretend its banks**
  - Created dissonance, delayed response, and political confusion

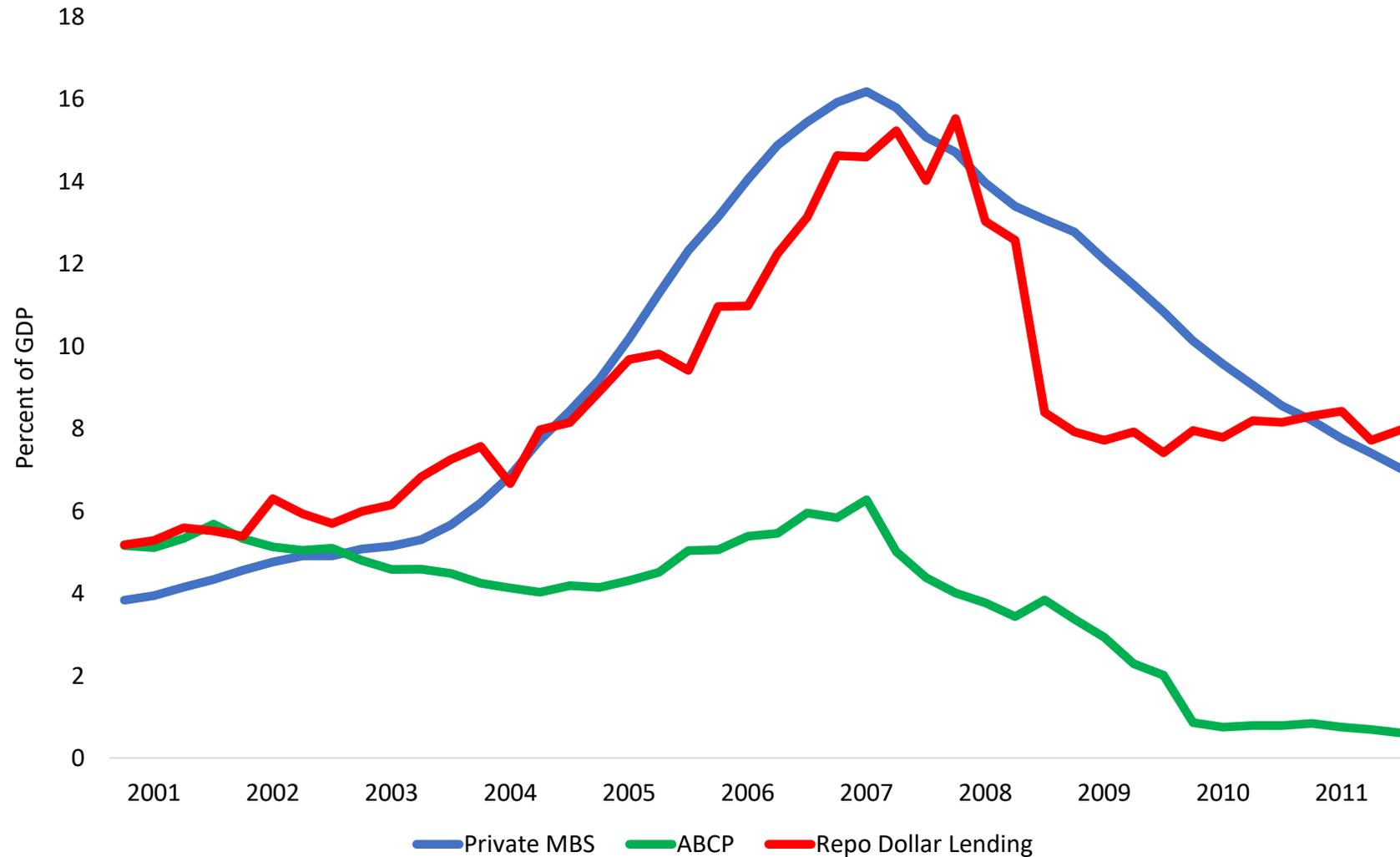
# Euro Politicians Driven by Circumstance

- **Rescue programs choice:** debtor or lender taxpayers?
  - Initial forced bailouts of local banks was real problem
- **Merkel's stance:** unreasonable to strike a hard bargain?
  - Crisis was exactly what Germans had feared from the start of EMU
- **Greek leaders:** tragic heroes or pied pipers?
  - Greeks and others signed up to no-bailout architecture
- **Merkel's rejoinder:** backed Draghi's "whatever it takes"

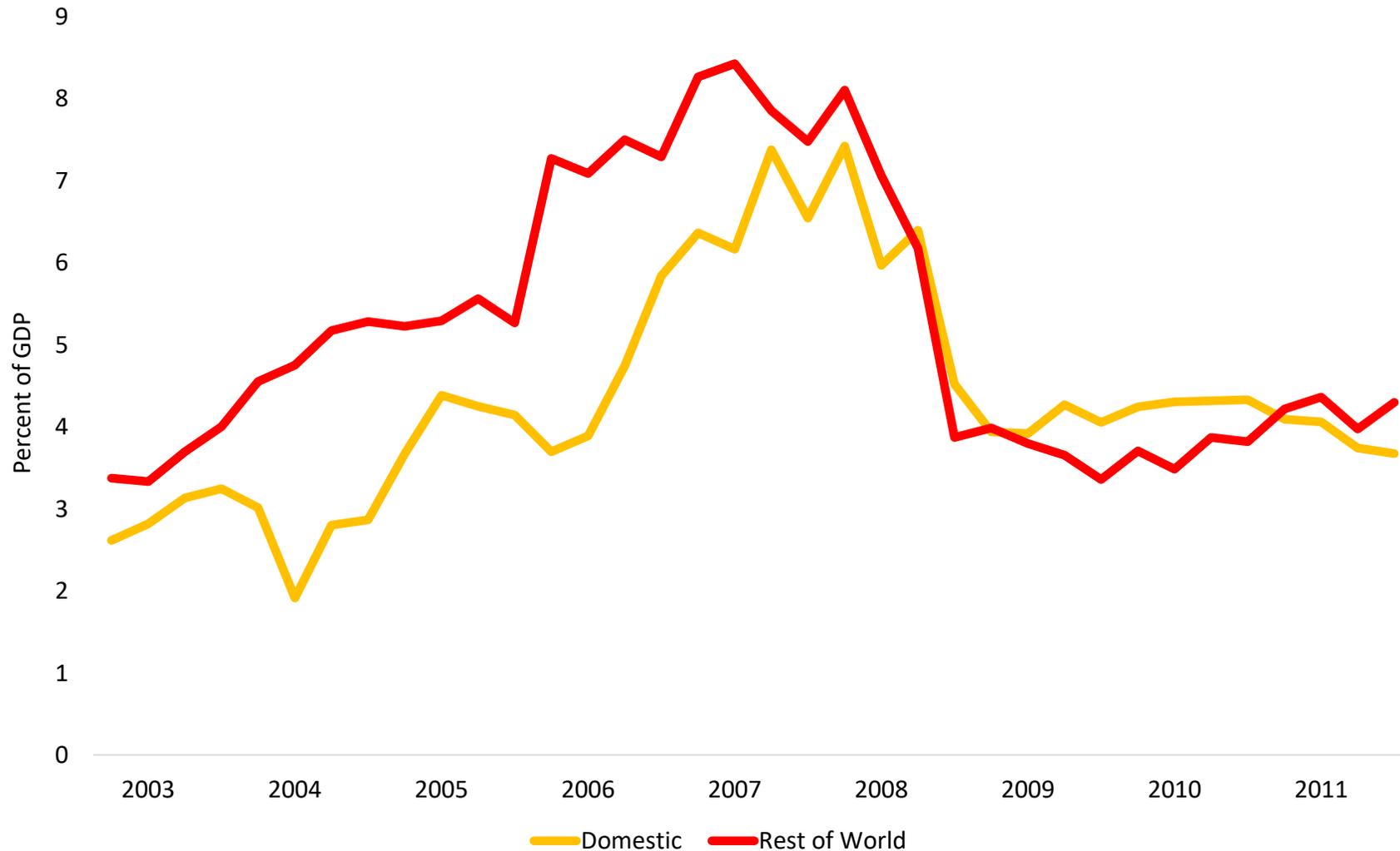
# Bad Regulation or Crafty Bankers?

- **Crisis driven by too much money chasing assets**
  - Mostly bad (investment) bank regulation, not crafty bankers duping clients
- **Rapid Euro (and US investment) bank expansion seen in:**
  - Easing of financial conditions during US and European booms
  - Simultaneous bubbles in US, Euro periphery, eastern Europe
  - US markets: More repos than asset-backed commercial paper
- **Core northern Euro banking system was hit hard by the crisis**
  - Reflecting failed bank supervision, not some bad apples

# Crisis Drivers: Borrowers or Lenders?



# Foreign Banks were Heavy Repo Borrowers



# Erosion of liberal democracy

- **Crisis amplified trend underway since 1980s**
  - Growing political and social alienation
- **Market-based reforms failed citizens:**
  - Rising inequality
  - Mediocre growth
  - Falling flexibility
- **Book on political tectonics yet to be written**

# Conclusions

- ***Crashed* will be benchmark for judging other crisis books**
- **Acute analysis of US, European, and RoW political-economy**
  - Contributor to WSJ (right US), Guardian (left Europe) and FT (rightish RoW)
- **Discussion of RoW and US better than Western Europe**
  - Analysis of Eastern Europe particularly new and enlightening
  - Deep descriptions of GOP transformation and multi-polar world
  - Western Europe narrative riveting but less insightful
- **Hopefully, now more focus on crisis origins, as in *Unfinished Business***