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# How financialization undermines democracy

**Adam Tooze, Crashed, How a Decade of Financial Crisis Changed the World, London: Penguin, Random House UK, 2018. 706 pp., £30, hardcover.**

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## INTRODUCTION

Adam Tooze's *Crashed – How a Decade of Financial Crisis Changed the World* is an extremely ambitious project. Organised in four parts, it captures the build-up to the 2007/8 Global Financial Crisis (GFC), its unfolding and containment in the United States (US), its sequel in the guise of the Eurozone sovereign debt crisis and, finally, the political aftershocks we face today, particularly rising nationalism and the increasingly visible cracks in democratic systems around the world. Unlike other books on the GFC it sheds light on the grand narrative behind this financial turmoil, connecting the dots not just between major economic but also political events of the past two decades. In Tooze's own words, the aim is to answer the following questions:

> What is the relationship of the economic crisis of 2008 to the geopolitical disaster of 2003 and to America's political crisis following the election of November 2016? What arc of historical transition do these three points stake out? What does that arc mean for Europe, for Asia? How does it relate to the minor but no less shattering trajectory by the United Kingdom from Iraq to the crisis of the City of London in 2008 and Brexit in 2016? (p. 5).

To do so, Tooze goes further back in time starting with changes to the global financial architecture in the late 1970s, particularly financial deregulation and liberalisation of cross-border financial flows. This perspective allows Tooze to discuss the structural, that is long-term and underlying reasons, that contributed to the build-up of the GFC rather than peering through a keyhole onto the immediate crisis events. The grand story that *Crashed* tells us is that of financialization and how the rise in the importance and influence of all things finance undermines democratic accountability. The consequence of this hollowing-out of democratic processes are far-reaching and have contributed to bringing us a US president who shouts 'fake news' every time he is caught red-handed and a British prime minister whose only competence appears to be the complete inability to admit defeat.

Notably, Tooze stays away from the term 'financialization' until page 204, so one third into his discussion. This might be wise since the concept is notoriously broad (see Epstein's pertinent definition, Epstein 2005: 3) and has been criticised for being simultaneously too vague and too narrow (Christophers 2015). While some academics seem stuck on debating what financialization *is* or fixated on proving that it *exists*, Tooze gets on with the job and details how financialization has emerged, the processes at its core, and how it has changed society and, importantly, democracy in major rich and emerging economies over the past two decades. His exposition is firmly grounded in the insights of financialization research – especially about the impact of deregulation on what we euphemistically call 'financial innovation' and that of financial liberalisation on international capital flows and the volatility they introduce (Krippner 2011, Fliegstein and Goldstein 2012, Engelen et al. 2012, Streeck 2013). In that way, *Crashed* tells a familiar story to those who have been critical of the finance industry for a while now – especially heterodox economists influenced by the thinking of Hyman P. Minsky and other Post Keynesians. Tooze himself is visibly shaped by this tradition (p. xi). His early mentor, Wynne Godley, met Nicholas Kaldor while at the United Kingdom (UK) Treasury and later worked alongside Minsky at the Levy Institute, where Minsky was an honorary fellow during the 1990s.

However, *Crashed* also contributes to a new, emerging research agenda, highlighting how finance influences politics and vice versa. The GFC deeply rooted in structural changes since the 1970s, captured by the term financialization, has exposed the limits to conventional monetary policy tools, the inadequacy of mainstream macroeconomic thinking and teaching and, crucially, led us into a deep crisis of modern politics (p. 13). Tooze accomplishes his ambitious project, revealing the complex political and economic links between the events of 2003, 2008 and 2016 in accessible language and through a gripping and witty writing style which often reads more like a best-selling thriller rather than a non-fictional account of global finance.

In the context of the financialization research agenda, the book identifies limitations of the current debate and avenues for future research without always spelling them out, which might be a deliberate choice given a popular readership as target audience. Therefore, this article will put Tooze's insights into the context of the broader research agenda, focusing on three main aspects: (1) How changes to financial regulation and monetary policy pioneered by the US and UK fuelled the gathering storm of the global crisis, (2) how a fixation on secondary markets for public debt, meaning the promotion of these markets as part of sovereign debt

financialization and wooing of financial investors by governments, choked off the recovery, transforming the GFC into a European crisis and finally, (3) how austerity policies are quietly transforming public provision into the basis for a new financial asset class, while leading democratic societies into a political crisis. These three dimensions map broadly onto the four parts in which Tooze presents his account, while capturing the major dimensions of financialization in the realm of monetary and fiscal policy (see Karwowski forthcoming, for a typology). *Crashed* documents the powerful influence that finance has on the political system, undermining democratic accountability by eroding regulatory control and narrowing policymakers' options. At the same time, it exposes the complex and sometimes contradictory interests of the financial industry, shedding doubt on the idea of a monolithic transatlantic financial elite. Hence, finance, while extremely influential, is far from uniquely powerful, especially in situations when civil society succeeds in leading the public debate. Thus, pushing financialization research forward we need to strengthen our understanding of the interaction between finance and democracy, paying attention to the agency of specific interest groups and their representatives as well as to the type of power they are able to exercise.

## FUELLING THE GFC: FINANCIAL REGULATION AND MONETARY POLICY

Financial deregulation has paved the way for financialization, which played a major role in the GFC. Contrary to common perception, the pressure to deregulate finance (and the resistance to re-regulate it stringently) came to a large extent from Europe rather than the US. For Tooze, the popular misconception that the subprime mortgage crisis, and consequently the GFC, was a US problem is one of the important myths in need of debunking. Historically, this pressure came from the UK. Regulation in London, a leading international financial centre at the heart of a network of off-shore tax havens (Shaxson 2012), is famously hands-off. This is most visible in the City of London's unique legal status as corporate city outside of the administration of the Mayor of London. In the 1980s, Margaret Thatcher promoted the aggressive financial deregulation of the UK stock exchange and banking system, which was then keenly continued by Tony Blair's New Labour, 'streamlining' nine regulatory bodies into the Financial Service Authority (FSA). The FSA's first chair's perception of the institution's role and philosophy is telling: 'Consenting adults in private? That's their problem.' (as cited in Tooze, p. 86). This lenient regulatory approach allowed for much

higher leverage on financial institutions' balance sheets while putting other financial centres, including Wall Street, under pressure to follow suit in loosening regulation.

Unsurprisingly, Basel II, a set of recommendations on banking law and regulation issued in 2004 by the Bank for International Settlements with the proclaimed aim of improving standards of capital requirements, further entrenched lax rules, emphasising self-regulation and transparency instead of external inspections by the regulator. As result, 'home country rules' were admitted, meaning foreign banks in any jurisdiction – such as European banks operating in the US – only had to comply with their domestic rules and capital requirements, for instance the light-touch regulation in London. In the spirit of self-regulation, banks were allowed to use their own in-house risk-weighting models when assessing capital requirements. Furthermore, the weight of mortgages in capital requirement calculations was substantially reduced. These changes favoured large internationally operating banks (over small and medium-sized ones limited by potentially more stringent domestic rules as was the case in the US), while further fuelling the trading boom in mortgage-backed securities (MBS) underway in the US. MBS were regarded as safe since they are backed by a genuine underlying asset, the issued mortgage on a house, and at least in theory a regular income stream, the borrower's interest payment. In addition, MBS and other collateral debt obligations (CDOs) were typically 'structured' financial products, meaning they were based on the cash flow not just from a single financial asset but on a pool of mortgages, bundled to guarantee a specific risk profile. Thus, financial innovation made it possible to turn subprime mortgages – meaning low-quality assets because issued to poorer household at higher risk of default – into a safe asset.

Some of the major players in MBS transactions were large European banks including Deutsche Bank, UBS and Barclays, who ran up their leverage ratios (of bank balance sheet to bank capital) before the crisis to levels twice as high as their US-based counterparts. Large banks' leverage was particularly dangerous in combination with their shift in banking model towards a heavy reliance on short-term wholesale financing of lending activity, what Hardie and Howarth (2013) call 'market-based banking'. The text-book view on banking activity is that banks take in deposits from saving household and, as financial intermediaries, pass them on to investing firms, making profit on the interest rate spread. Financial innovation, together with rising debt among households exposed to stagnating wages, often in the face of increasing house prices, and worsening income inequality have done away with this traditional way of banking, at least among internationally operating banks. Instead, such

banks used short-term funding and especially repos (repurchasing agreements, a type of borrowing against safe assets) to expand their lucrative mortgage business. Repo lending is linked to minimal risk since it tends to be based on high-quality assets such as US government bonds. Additionally, lenders in repo transactions are entitled to seize their collateral ahead of all other claimants in the bankruptcy queue. The MBS banks issued also served as collateral for their borrowing of short-term funds.

First signs of trouble emerged when house prices slowed in summer 2006. A year later, in August 2007, BNP Paris Bas, heavily involved in the MBS business itself, declared it ‘impossible to value certain assets fairly regardless of their quality or credit rating’ (as cited in Tooze, p. 144). The French bank mainly doubted the quality of MBS, but borrowing premia across the board jumped visibly. Short-term lending among financial institutions came close to a complete standstill. In this situation, some banks, regarded to be perfectly healthy with large volumes of what seemed like high-quality collateral only yesterday, could not fund themselves any more. This is the paradox of liquidity[1] (Nesvetailova, 2012).

Thus, the GFC’s invisible bank-runs, which did not happen on the High Street but in the repo markets, began. In March 2008, the almost 100 years old investment bank Bear Sterns, unable to access market lending, was rescued with the help of the Fed and US Treasury. While US policymakers tried to act swiftly, bailouts were difficult due to their unpopularity among small-government Republicans in the Senate. The crisis broke out while the Bush administration was still in office. Tooze’s gripping account of the fall-out from the wholesale funding credit crunch shows that financialization is far from uncontested, shedding severe doubt on the assumption that financial elites are uniquely able to exert power. Even in the US, where a revolving door of appointments closely links the administrative and finance elites, Republicans did not back up their own president when asked to bail out the government-sponsored mortgage issuers Fanny Mae and Freddy Mac. According to Tooze, this was a crucial moment in propelling forward the extreme right of the Republican Party, who fueled the populist perception that the political system and public sector is rigged against the average US American, so that only a radical cutdown in state provision could stop this calamity. This political set-up potentially led to a major miscalculation on the part of the US Treasury and Fed in allowing the bankruptcy of Lehman Brothers on 15 September in the

[1] During the GFC, a perception that the global economy was experiencing a global liquidity glut turned into ‘a sudden and fatal disappearance of “liquidity”’ within mere days. Nesvetailova (2012, p. 201) coins this the paradox of liquidity.

hope that it might end uncertainty. To the contrary, the reaction of the markets was sheer panic. With liquidity drying up completely, the giant insurance company AIG became the next institution in line for failure. The New York Fed stepped in at the last minute to avert further disaster.

But even the panic in financial markets across the globe did not suffice to mobilise political support for the US Treasury's request for $700 billion of discretionary and non-reviewable funding for MBS purchases under the Troubled Assets Relief Program (TARP). There were calls for the nationalisation of the increasingly unpopular banks and bailouts of overly indebted households, who faced home foreclosures. The rhetoric employed by the Bush administration did not help; the military language asking for carte blanche to stabilise financial markets was too reminiscent of the weapons of mass destruction threats employed in the run-up to the disastrous Iraq war which brushed aside checks and balances. Thus, TARP was voted down in the first round and only passed in a modified version, enshrining oversight and linking it to tax breaks for the middle class and some support for homeowners. This crisis episode demonstrates that we are urgently in need of a more nuanced understanding of power and agency in financialization research. Lehman Brothers did obviously not hold much instrumental[2] power when it failed to secure government support in September 2008. Instead, the argument that bank failures were necessary gained discursive power, pushing the institution over the edge.

## THE EUROZONE CRISIS: FINANCIALIZATION OF SOVEREIGN DEBT

The (continental) European reaction to the subprime mortgage crisis illustrates extremely well that we should doubt the existence of a transatlantic financial elite, effortlessly influencing public institutions and policy. While the US and UK were relatively swift in containing the outbreak of the GFC by putting into place a mixture of bank bailouts and mildly coercive measures to recapitalise their banks, administrations within the Eurozone kept sleepwalking into even larger financial turmoil: the sovereign debt crisis. Tooze highlights the tensions in the traditionally close US-Western European relationship since the fall-out between the Anglo-Saxon partners (US and UK) and old Europe (mainly German and

[2] For different concepts of power, see Fuchs and Lederer (2007). Relational or instrumental power refers to having the ability to take direct influence over others' actions. Discursive power is the ability to shape the public discourse.

France) over the 2003 Iraq war. Thus, in 2008 (Western) European leaders seemed to proclaim with some glee that the subprime mortgage disaster was a US crisis, meaning the responsibility and the failure of US capitalism. In the autumn of 2008, the German finance minister, Steinbrück, told journalists: 'When we look back 10 years from now, we will see 2008 as fundamental rapture. I am not saying that the dollar will lose its reserve currency status, but it will become relative.' And the French president Sarkozy proclaimed 'that the dollar – which after the Second World War under Bretton Woods was the only currency in the world – can no longer claim to be the only currency in the world. What was true in 1945 cannot be true today' (as cited in Tooze, p. 218).

The Europeans either did not understand financial globalisation or willingly ignored it. Major banks across 'old' Europe were deeply embroiled in the subprime mortgage crisis and, in fact, in more severe trouble than their US competitors, not just due to higher leverage, but because of their dependence on access to dollar-denominated credit which had all but dried up. They only managed to stay afloat due to the Fed's generous interpretation of its role as lender of last resort, safeguarding the international, not just the US, financial system. European banks picked up around half of the liquidity support offered by the Fed in 2008. In addition, the Fed reactivated dollar swap lines with central banks of major traditional allies in August 2007, including the European Central Bank (ECB). The ECB, despite holding negligible dollar reserves and to stark disbelief among Fed officials, reacted with scepticism and only accepted these swap lines in December. The US dollar was far from being replaced as the dominant international currency. In fact, the GFC further entrenched its status at the top of the global currency hierarchy as private investors fled to the safe haven of US-dollar denominated assets.

The ECB's inaction caused extreme distress across Central Eastern Europe (CEE). Just like the rest of the international financial system, the region suffered a shortage of dollar liquidity. The Fed expected the ECB to step in by extending the received dollar swap lines to CEE countries. Geopolitically, CEE fell under European Union (EU) influence. More importantly, many of the banks lacking dollar liquidity in these countries were subsidiaries of Western European banks, which had aggressively expanded their business into the region, fuelling easy mortgage and consumer credit in the wake of European integration. But the ECB flatly refused dollar funding against assets in local currencies, insisting on euro-denominated ones. As result, CEE countries were relegated back to their subordinated position within Europe, which they had hoped to have finally surmounted with EU admission. In consequence, the

International Monetary Fund (IMF) was called in and Fund assistance programmes were rolled out across the region, starting with Hungary in October 2008. The conditionality of IMF lending was perceived as a humiliation among central Europeans, while the biting austerity packages that came with it sparked nationalist resentment.

Tooze calls this episode Europe's forgotten crisis since internationally CEE economies[3] experienced the largest gross domestic product (GDP) contractions as result of the global crisis, while receiving little attention. What he does not discuss in detail is that in many ways, these events marked the beginning of the total breakdown of solidarity within the EU. CEE countries have often been accused of a transactional and purely economic understanding of the EU project, lacking the full appreciation of the European idea of peace and solidarity. In autumn 2008, Central Eastern Europe needed the financial support but also the solidarity of its Western European peers. But nothing was forthcoming. Pushing austerity measures onto countries such as Latvia and Hungary ensured that CEE societies had little sympathy with Greece's woes once Syriza came to power and tried to oppose ineffective contractionary policies. Western Europe's dismissal of CEE needs for liquidity assistance also meant that Germany's pleas for a Europe-wide solution to deal with increasing refugee numbers in 2015 fell on deaf ears.

In fact, leading EU governments were completely unable to rally behind a plan that could save their own banks, let alone other European economies. Tooze's account, if sympathetic, is particularly damning of the German leadership. Merkel severely opposed a joint European response (favoured by France, the UK and the Netherlands) to the trouble on European banks' balance sheets, despite German banks being some of the major financial institutions in need of recapitalisation. On the one hand this demonstrates how much further German political circles are removed from the influence of financial institutions – and by extension from financial globalisation. On the other hand, Germany's reaction was entirely rational in the light of sovereign debt financialization, meaning the active use of financial markets and innovation for public debt management. A prime concern for Merkel was that no EU-level responsibility for European debt, be it private (held by commercial banks) or public (owed by European governments), should be created, thus avoiding the emergence of a fiscal union. Such a *Transferunion* was not popular among Germany's taxpayers. Perhaps more

[3] With the sole exception of Poland.

importantly though, a fiscal union could have undermined Germany's ability to meet its own creditors' demand and therefore investors' perception of German bunds.

As pointed out by Streeck (2013), financial investors, or the 'market people' to use his terminology, have gained substantial political influence as debt financing of government spending rose across OECD countries over the past three decades. This trend has been further entrenched in Germany and across the eurozone with the emergence of so-called debt management offices, emulating private-sector financial practices (including financial innovation, accounting techniques and even pay levels) to actively promote their national government bonds, while aiming at reducing debt servicing costs (Fastenrath et al. 2017, Preunkert 2017, Trampusch 2017). These developments characterise the financialization of sovereign debt.

But 'market people' have different interests from citizens. In fact, the need for policies and budgets to be market-conforming, which Merkel recognised in the midst of the Greek crisis in 2011, can seriously undermine democratic institutions which are meant to represent and work for citizens. The past decade of financial crises demonstrated this conflict of interest time and time again. Thus, at the height of subprime mortgage crisis containment the Fed used all legal means at its disposal to prevent detailed information about international support measures, including swap lines, from being revealed. The assumption was that transparency would jeopardise efforts to calm financial markets. In 2009, once the immediate fallout was contained but a global recession was under way, the governor of the BoE, Mervyn King, undermined the UK Prime Minister's announced spending to stabilise the economy, voicing worries about confidence in the bond markets. King's wading into fiscal policy did not just jeopardise the gilt bond auction the following day, but his repeated interventions set British politics on a socially destructive austerity path, which arguably has contributed to the Brexit vote (Fetzer, 2018).

During the Eurozone crisis, Juncker as the head of the Eurogroup of eurozone finance ministers claimed that to safeguard financial markets it was necessary to be secretive. He in fact admitted to 'being insufficiently democratic, but … [w]hen it becomes serious, you have to lie' (as cited in Tooze, p. 382). This sheds some light on behind-the-scene operations. Especially French and German officials appeared to scheme repeatedly, ousting democratically elected leaders when they questioned previously agreed austerity measures. This includes the Greek Prime Minister Papandreou who in late 2011 after violent demonstrations in Athens suggested a referendum on freshly announced austerity measures.

He was followed by Berlusconi, the Italian Prime Minister, forced to resign since he was perceived to be too populist to push through austerity policy.

Of course, the observation that capitalism and democracy are fundamentally contradictory is not new (as, for instance, already argued by Karl Polanyi in the 1940s, Polanyi, 2001[1944]). The way in which we organise our economic activity and distribute wealth has little to do with the democratic dictum that every citizen is equal before the law. However, this contradiction is further exaggerated through financialization (Jessop 2013, Karwowski forthcoming). The large size, networked character and complexity of the financial sector undermine democratic control processes and outcomes (Nölke forthcoming). Thus, we need to urgently strengthen research efforts on the link between finance and democracy.

## POLITICAL CRISIS: AUSTERITY, PUBLIC PROVISION & FINANCIALIZATION

The fixation on secondary markets for sovereign debt pushed the austerity agenda across the EU. Germany enshrined a debt break into its constitution voluntarily, while austerity packages were imposed (often in the face of popular protest) on countries in need of external assistance. A curious case is that of the UK. Here, austerity was introduced over fears of a potential future debt crisis without much sign of it at all. Similar to the rhetoric that was to emerge in the US on the far-right, the narrative of the GFC was rewritten. A political project emerged to shrink the state, cutting public provision. One UK government minister proclaimed: 'People blame the bankers, but I think big government is just as much to blame as big banks' (as cited in Tooze, p. 350).

What Tooze does not stress is that this political project is highly lucrative for those close to the political elites. Budget cuts opened avenues for outsourcing projects, privatisation and the creation of new financial assets (Froud et al., 2017; Karwowski, forthcoming). Particularly in the UK, public provision, be it infrastructure or programmes tackling homelessness, has been increasingly turned into questionable financial instruments such as social impact bonds. The consequences of these budget cuts are wasteful mismanagement (see the case of bankrupt UK contractor Carillion, Leaver, 2018) and, more crucially, the further impoverishment and marginalisation of the most vulnerable members in society. Right-wing rhetoric against immigrants and 'scroungers', attempting to distract from the harmful consequences of austerity (Hoggett et al., 2013), has transformed the social crisis inflicted onto the UK into a political one. Brexit is a symptom of it. Fellow democratic society such as the US, France and

Germany face similar problems, while in countries like Hungary and Poland the serious erosion of democratic institutions is already under way.

The recession in the wake of the GFC supported a surge in nationalism, fuelling politically authoritarian sentiments – the link between austerity and far-right resentment is particularly well documented for the UK (e.g. Hoggett, Beedell, Wilkinson, 2013; Fetzer, 2018) and Greece (Ellinas, 2015; Koronaiou et al., 2015), but there is also evidence for CEE countries, especially Hungary (Johnson and Barnes, 2015). The crisis response cemented the popular perception that politicians and state institutions had failed the average citizen. While bank bosses were able to go back to business as usual, paying out handsome bonuses regardless of the crisis and on the back of government bailouts, many ordinary people had lost their jobs and were highly indebted. But the turn to right-wing sentiment is also evidence of the failure among (social) democrats to deliver on a progressive agenda. In Europe, the trouble in the real economy – where most people are still employed rather than in finance – was exacerbated by austerity. In the US, restrained fiscal spending, shaped by the powerful austerity argument, resulted in a slow recovery. Remarkably, politicians who were running or elected on a progressive ticket in major democracies never went through with their promised policy agenda.

This is a central theme that Tooze picks up but never tackles in full, leaving the reader somewhat unsatisfied and failing to connect the political dots there. The most prominent example is Barack Obama who was elected, promising to tackle the socio-economic problems that came with decades of de-industrialisation in areas like the rust belt. He seemed to listen and understand the disenfranchised blue-collar workers who had lost out in a post-industrial US. While the crisis struck still under Bush's presidency, once in power in early 2009 the attention of the Obama administration shifted to rescuing the financial sector. When this was accomplished the time would have been ripe to push through financial reforms while using fiscal stimulus to tackle the impoverishment and regional inequalities caused by de-industrialisation. Instead, Obama's stance towards the financial sector was timid if not sympathetic, shielding it from the popular 'pitchforks' by brushing aside calls for bank nationalisation (p. 296). Maybe even more puzzling given his progressive rhetoric was Obama's failure to freeze foreclosures which would have saved millions of US households that were not able to keep up with mortgage payments from eviction.

Tooze suggests that the Democrats under Obama had understood the pressing socio-economic problems of ordinary Americans, offered a convincing analysis of their complex underlying reasons and even some solutions but it remains unclear why they failed on delivering. This is a crucial issue because the socialists in France under president François Hollande and the German social democrats with their chancellor candidate Martin Schulz went through similar motions. Even the UK Tory Party under May felt at some point compelled to comment on rising socio-economic injustice: 'It wasn't the wealthy who made the biggest sacrifices after the financial crisis, but ordinary, working-class families' (as cited in Tooze, p. 557). She promised to lead a government at the service of working-class people, clamping down on tax avoidance and bad employment practices. Of course, in her case these remarks can be put down to cynical opportunism. However, we remain stuck with the major question why seemingly progressive candidates such as Obama or Hollande failed to deliver: Were they facing insurmountable and structural constraints? Were they, as Schulz in Germany, lacking a coherent agenda and political imagination? Or were they in fact never quite as progressive (especially in the face of finance and large corporations) as they claimed? Of course, this is not an easy question to answer. But blaming weak electoral results among centre left-parties on a lack of inspiring leadership, weak policy agendas, or campaigning mistakes appears circumstantial, failing to acknowledge the wider geographical spread of this phenomenon especially across Europe (Krell, 2017). And crucially, these explanations do not fit the US case where Obama led a highly successful campaign based on a progressive political agenda which in turn inspired much volunteering particularly among younger voters who are often characterised as apolitical, thus, a prime example of what Crouch (2016) calls the 'march towards Post-democracy'.

Since the mid-20th century class identity among workers has become fragmented, receding in importance as identity and diversity have come to the fore, while powerful business and financial sector interests have become more pronounced with globalisation. Crouch (2004), putting forward his concept of Post-democracy, argues that working class identity and interests are increasingly less clear and acted upon in contemporary society, whereas the political consciousness among international business and especially transnational finance elites has strengthened as international (financial) markets have integrated more closely. As a consequence, political parties struggle to relate to voters, while corporate and financial lobbyists provide clear policy guidance based on a market ideology and often pronounced through offers and threats. Since social democrats have traditionally represented working-

class voters it is unsurprising that they are particularly affected by these changes in voters' political identity and behaviour.

Nevertheless, these observations do not satisfactorily explain why the centre-left fails to deliver once in power, leaving voters that could be mobilised under a progressive agenda of change and social justice – such as in the case of Obama in the US or the initial stages of Schulz's candidacy for German chancellor – disappointed, which pushes them away from their traditional party allegiance to the centre-left. Here the so-called Third Way of the 1990s and early 2000s, meaning the buying into neoliberal reforms by social democrats across Western Europe and the US, is arguably part of the problem. In many countries the centre-left has embraced and often championed reforms aiming at the roll-back of social safety nets, enabling unequal growth while curtailing redistribution. This ultimately undermined centre-left parties whose policy agendas are traditionally built around social justice (see, for instance, Mudge, 2018).

In Germany, the labour market reforms introduced by Gerhard Schröder (under the name *Agenda 2010*), aggressively cutting workers' and employees' rights and social benefits, is until today a thorn in the side of many left-wing and working-class voters. Tellingly, the German social democrats have doggedly avoided a debate about the impact of *Agenda 2010* on social justice, which briefly surfaced at the beginning of Schulz's appointment as chancellor candidate, arguably fuelling his short-lived popularity among voters. The Democrats under Obama are a crucial case study and in fact one of the book's foci. They have surmounted some of the circumstantial difficulties faced by the European centre-left (such as a lack of leadership and campaigning skills) while seemingly listening to the concerns of their working-class electorate (declining job quality and security paired with rising social inequality). Only to then fail on delivering the promised solutions.

## CONCLUSION: THE SHAPE OF THINGS TO COME

Thus, the reader is left with some pressing, but unanswered questions about the failure of the Democratic left-wing policy agenda. This appears symptomatic for a notable weakness of the book. In places, Tooze combines too many narratives which do not always come to a resolution. His discussion of Russia's fate since the 1990s, for instance, is insightful to

understand that today's geostrategic set-up is multipolar rather than characterised by the rivalry between East and West that dominated global politics throughout the Cold War era. But his treatment of emerging market economies (EMEs) beyond Russia and China is rather scant. This is somewhat surprising in a book dealing with the question *How a Decade of Financial Crises Changed the World*. Especially since an EME perspective is introduced early on when Tooze diagnoses that these countries are disadvantaged through an international currency hierarchy that penalises them during times of economic turmoil regardless whether the trouble is domestic or international in origin. As result of such trouble, international investors withdraw their support for EME financial instruments, running to the safe haven of dollar-denominated assets. That in turn puts downward pressure on these economies' currencies, in the worst case plunging them into financial crises.

Such crises occurred repeatedly and across very different (groups of) countries during the 1990s. Russia, for instance, suffered a major economic fallout in 1998 as result of a sudden reversal in international capital inflows which led to a steep ruble devaluation, forcing the Russian government to default on its foreign-denominated debt. This was a major humiliation as the government had to appeal for international humanitarian aid because its population was faced with food shortages. Consequently, Russia's central bank, alongside most of its EME peers, accumulated large foreign reserves during the early 2000s and was much better prepared for the GFC (McKinley and Karwowski, 2015). Thus, dollar funding difficulties among Russian corporations and banks could be solved internally in 2008. The same was true for China where the government in response to waning global trade demand embarked on a major fiscal stimulus paired with strong incentives for Chinese banks to increase credit extension.

In fact, in 2008 there was talk of EMEs' decoupling from the financial woes of rich countries since the US and Eurozone markets were plunged into deep turmoil whereas China and other emerging economies were still growing strongly. The GFC did not spare these economies. In October 2008, Brazil, Mexico, Singapore and South Korea thankfully accepted the Fed's offer of dollar swap lines. Nevertheless, until today there are big hopes in EMEs' economic potential since emerging and developing countries have been the world economy's growth engine since 2008, generating 80 per cent of global GDP increases since the GFC (Lagarde, 2016).

Tooze captures this remarkable shift in global sentiment towards EMEs, which for a long time were regarded as riddled by corruption and a lack of prudent macroeconomic policies supposedly illustrated by their financial crises during the 1990s, only briefly in a chapter on the G20. This international governance forum that apart from the rich and influential G7 economies[4] also comprises of Argentina, Brazil, China, Egypt, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey was constituted in the late 1990s. However, the GFC provided an impetus to upgrade its international importance. *Cashed* details the crisis responses in Russia, China and to a lesser extent South Korea but a more detailed assessment of the hoped-for growth potential of EMEs would have been desirable. Just like rich economies these countries have been increasingly affected by the growing power of finance, that is they have been facing financialization (Karwowski and Stockhammer, 2017). Given the very different international status of their currencies EMEs are however more vulnerable to these changes in financial markets. The liberalisation of domestic financial markets and their closer integration into global financial structures have come at a high cost. For instance, their ability to support investment at home is weakened as interest rates must be kept high to attract foreign capital while government resources are used to accumulate hard-currency reserves rather than channelling them into other policy priorities (see Kaltenbrunner and Painceira, 2017, for a discussion of financialization in Brazil). Since emerging and developing countries are vital for the health of the world economy more attention to the rising vulnerabilities and costs generated by financialization in these economies is crucial for understanding what the *Shape of Things to Come,* addressed by Tooze in the last chapter, might be. The fallout from rising financial vulnerabilities in EMEs is unlikely to be limited to their economies. Reforms favouring finance tend to undermine democratic processes and accountability (see Karwowski, forthcoming), making a discussion on EME financialization an even more pressing political issue.

Nevertheless, *Crashed* tells the story of finance's influence on politics and democracy masterfully, drawing on a wide range of academic, policy and media sources. Therefore, it should be required reading for everyone studying financial economics. In fact, putting it on the reading list of major economics and finance degrees would definitely support efforts to mitigate future financial crises and their political aftershocks.

[4] Consisting of Canada, France, Germany, Italy, Japan, the UK and the US.

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