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# Book Review: *Crashed: How a Decade of Financial Crises Changed the World*

Book Review

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By Adam Tooze  
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This is an ambitious book, not only due to the historical relevance of the period and the global reach of its analysis but also because it focusses on the major issue of the changes brought about by the successive financial crises that have occurred since the latter years of the first decade of the 21st century: the crisis triggered by the crash of subprime lending in 2007–2008; the crisis in the Eurozone during the early 2010, which was mostly associated with the high level of sovereign debt and the bailouts in some of the member states, and also the crisis in emergent economies which became apparent in 2015–2016, characterised by a fall in commodity prices after a long boom and high turbulence in currency exchange and stock markets. At the end of the first decade, it was clear that the effects of these crises went well beyond the economic and financial realms or even beyond the domestic politics of the main world powers and put into question the established beliefs regarding international politics and global geo-strategy during the post-Second World War period and after the end of the Cold War. In this context, Adam Tooze presents a detailed analysis of the roots of the financial crisis and its subsequent developments. However, he is not seeking old or new theoretical explanations, but rather he primarily identifies facts aiming at providing a good understanding of the process and their implications. As a historian with an interest in economics, I consider the main contribution of Tooze's book to be *the richness of facts regarding the financial crises and the unraveling of their causal relationships*. For example, the author argues that there is a link between the kind of solutions encountered to overcome the financial crisis during its earlier stages and subsequent political reactions, such as the election of Donald Trump and the vote on Brexit. Let us move on to consider a more global view of the book and its substance.

Originally planned as an undergraduate course for Yale and Columbia universities, *Crashed* is the result of intensive research led by Tooze, particularly in the transatlantic

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context, including interviews with leading and representative personalities, from the USA, the European Union (EU) and the United Kingdom (UK), some of whom had been directly involved in the main events. As referred to in the acknowledgements, he also benefitted from having participated in conferences and workshops on both sides of the Atlantic, mostly in academic and financial environments. After an introduction on the “First Crisis of a Global Age”, *Crashed* is divided into four parts: “Gathering Storm” (I); “The Global Crisis” (II); “Eurozone” (III) and “Aftershocks” (IV). Among other reasons, in this review it is obviously impossible to provide a full account of all the insightful questions raised by Tooze and to discuss them, owing to the size of the book and its wide-ranging scope. For example, one of the most interesting topics of the book is the detailed account of how some small countries and their banking systems reacted to the crisis (ranging from Switzerland to the Baltic countries!) what cannot be analysed in full here. Notwithstanding these limitations, with a view to identifying avenues for current and future research, some of the most challenging issues arisen from reading *Crashed* are highlighted below.

In Part I, one of the main points stressed by Tooze is the transatlantic nature of the financial crisis. It must be noted that, at the heart of its outbreak in September 2008 and during the following months, there was a trend among world leaders to blame the Anglo-Saxon financial system for the origin and consequences of the crisis, particularly in the USA. Things were however far more complicated. Without pretending to establish the true start of the crisis with great accuracy, Tooze begins by highlighting the fact that the onset of the crisis became clear to well-informed people on the 9th of August, 2007, when the BNP Paribas issued a public notice warning that some of its credit lines in the USA would be suppressed due to their risky and uncertain outcomes (“a decisive moment in the opening of the crisis”, p. 144, a fact that is repeated in several passages of the book). In reality, European finance, which during many years had massively invested in risky US assets (most notably in the so-called “innovative” financial products such as asset-backed commercial paper, credit default swaps and Repos, among others), was deeply involved in the process that led to the crisis, not only in the EU but also beyond it, as the Icelandic case showed. The UK was one of the first countries to be affected by the bankruptcy of the Northern Rock Bank (September 2007). However, not only were obviously “rotten potatoes” of the European financial and banking system affected but also countries which were recognised for their financial and macroeconomic credentials. Indeed, in a previous period, many European banks had been eager to invest in US assets that were incorrectly rated as AAA by credit rating agencies and were supposedly capable of generating high yields. Due to its high savings rate, Germany was a typical case, where more than 40 banks (including Landesbanken) fell into serious troubles after these investments abroad and all required urgent recapitalisation (with regard to bailouts, “only Germany’s program rivaled that of Britain”, pp. 193–196 and 288).

Although the subject has been the focus of a large volume of literature, Part II of the book, on the global crisis, is central to Tooze’s rationale. In broad terms, he shows how, once the financial crisis was declared with its many extensions across the globe, some major actors such as the Federal Reserve (FED) and other central banks, governments, institutional groups and personalities acted to overcome the situation with the objective to put the world economy on its feet again or at least to reduce the damages caused by the financial crisis. In a few words that translate well, paraphrasing Tooze, the crux of the matter is as follows: “if the Anglo-Saxon financial system was at the origin of the crisis, due to its leverage it was also this same finance that was able to deal with it”. The mechanism operated through the provision of liquidity, sometimes indirectly, to the global financial and banking system in need. However, the idea was quickly abandoned that the financial crisis would be basically solved by market rules (as had occurred up until the beginning of the 20th century). Therefore, the global liquidity (“the Big Thing”, as Tooze calls it) was mainly provided through lending and relief programmes of public origin or underwritten by the public domain (often requiring politically sensible decision-

making). As stressed by Tooze, times were changing again towards “big government”. However, it was not at all an easy operation during the critical phase of the process, especially for the FED, which had a pivotal role, and also the late Bush and the new Obama Administrations in the USA; however, all this is carefully recounted in detail in the book.

In spite of the fact that the rescue programmes for banks and financial institutions produced important results designed to stabilise the economy, in a sector, which is key for any recovery, the process created heavy consequences for the future. Indeed, many agents and forces responsible for the financial crisis almost paid no attention to the costs of their reckless actions and behaviours, which, more often than not, fell on the general public, particularly the taxpayer. This fact contributed to a deep change, in a negative sense, in the perception of large layers of the population about the benefits of the activity of banks and financial institutions, creating a fracture, which will be very difficult to overcome. As pointed out by Tooze, the impact of this perception was further increased by the lack of transparency throughout the whole financial rescue process. Furthermore, and in a few words, the financial sector is in fact very powerful in both political and economic terms, and regulations were hardly ever fully implemented or even approved (p. 308), whether new or prior to the financial crisis, either at the Bank for International Settlements level (the various Basel programmes) or in the domestic domain (as in the case of the USA after the crisis with the enacting of the Dodd-Frank Act and the Volcker’s rule). The consequence was that banks, assurance companies and other institutions were left with a large leeway and continued to operate under the logic of being “too big to fail”, i.e. facing quite different conditions from those prevailing in the real economy. If effectively applied, these regulations could at least have reduced the damages caused by this kind of crises. It must be added that, later on, the new Trump Administration failed to change this *status quo* and promoted a soft approach to the Dodd-Frank Act (pp. 587–8). Tooze shows the importance of this deadlock quite clearly in several sections of the book.

As could not be avoided, Part II also calls attention to the role of China in the crisis, which is closely taken into consideration. Within this context, it must be remembered that in 2013, in the pursuit of the trends emanating from the last two decades of the 20th century, China overtook the USA in terms of gross domestic product (GDP) measured by purchasing power parity. As emphasised by Tooze, in accordance with its own interests, China played an important stabilising role during the earlier stages of the crisis, insofar it implemented a major domestic stimulus policy (through a huge investment programme), which had quite significant external effects, most notably by contributing to reduce the impact of the crisis on international trade, which facilitated the recovery (the lowest point of the world recession was effectively felt in 2009).

Nevertheless, Tooze also shows that the new international position of China is far from limited to achieving world economic stability alone. For it also had an impact on the global strategy and arrangements, raising new questions at this level. During the initial stage of the crisis, the process leading to a reinforcement of the G20 was accelerated, with China playing a major role in this global restructuring. Furthermore, and quite significantly, the Central Bank of China proposed a reform of the international monetary system in March 2009, inducing a minor role for the US dollar; although facing the true realities of the moment (for instance, China was incapable of anchoring a comparable global liquidity rescue such as that of 2008–2009), the proposition was subsequently muted. Whatever its future form, what has been called the “New Bretton Woods” system, is not yet on the global agenda (pp. 482–3).

In Part III, the author concentrates on the Eurozone issues, particularly those associated with the increasing sovereign debt that seriously affected several member states at the beginning of the first decade of the 21st century. “In the wake of the 2008 crisis, Greece, Ireland and Portugal slid into an increasingly untenable budgetary situation. Of the three, the situation in Greece and Ireland were the most severe” (p. 322). Naturally, it was not just a

problem that belonged to these countries (even if we add Italy and Spain), but of all the Eurozone. The huge debt (public or not) in those countries had been mainly fuelled by the credit of banks located in other Eurozone countries, particularly in the North. With regards the remedies adopted to overcome the situation, Tooze points out how late the solution of “Whatever it takes” came to save the euro (July, 2012). The analysis of the Eurozone troubles by Tooze is extensive (pp. 322–446), yet balanced. In spite of being a critic of austerity and favourable to the use of fiscal stimulus, Tooze does not politicise these kind of issues too much. However, he rightly calls attention to the reluctance of Germany to apply effective and necessary measures at the European level, either during the first or second stages of the crisis, considering that each member should be the first entity responsible in that path, underestimating the capabilities of joint cooperation.

In Part IV of the book, one of the most crucial points is the analysis of what Tooze appropriately calls the “Fear Projects” (p. 549). By the middle of the first decade, and most particular in 2016, it became clear that nationalism, xenophobia and “illiberal democracy” were again on the rise in large parts of the world. Examples such as the Brexit vote in June of that year, which was in effect a refusal to accept closer cooperation in Europe (leading to more restrictions and domestic controls), and the soon-after election of Donald Trump to the Presidency of the USA in November under an openly nationalist and protectionist agenda were landmarks. What are the connections between these outcomes and the first stages of the financial crisis? Some of the main features of Tooze’s view are summarised below.

In Chapter 23, Tooze is relatively detailed on the UK case (or better the case of England!). Given his background as a historian, and as a citizen of British origin living in the USA, his position as a spectator from inside is of course of considerable interest. Some points need to be highlighted in his analysis of both sides of the Brexit issue. With regards the Remain campaigners, Tooze rightly points out the fact that they were unable to stand above the logic of “it’s the economy stupid”, which was an idea that had been successful in other conditions and times, but not during those prevailing in the UK a few years after the break out from the crisis. Indeed, voters became much more concerned with other rather different topics, such as immigration, or the dreams of the return to national “grandeur”, and furthermore, insofar as the wake of the crisis, a variety of other feelings were also spreading like resentment towards the EU and capitalism, creating a heterogeneous “anti-establishment” mixture. With regards the Brexit campaigners, Tooze is realist, showing how they profited without scruples from the nationalistic and authoritarian wave and even from racism (see the criticism of Obama by Johnson and Farage, pp. 552–3).

As far as globalisation is concerned, it is interesting to note Tooze’s comparison between Brexit and the Trump Administration. He doubts that the former were indeed against globalisation (“What is far less clear is that a Brexit vote was a vote against globalization”, p. 554) and considers that the vote was for more the UK to remain open after Brexit, if not perhaps more open to the rest of the world economy. It is true that, echoing a controversy of the 1950 and 1960s, part of the Brexit supporters argued that economic integration (EU type) is allegedly against free trade and multilateralism and is not a first choice. Naturally, this is not the place to discuss in more depth such an issue, especially if it is regarded as an opportunistic argument put forward in such a specific context, although it is important to recognise that Tooze carefully raises the topic. Anyway, and although we are in different times, we must recall that through the Brexit process, the UK will be in a similar position as that of the years between 1946 and 1972.

Does the book have any defects? Of course it has. Understandably, it concentrates on economic and financial developments during a recent decade and the changes that they brought about. For example, climate change issues, which became so overwhelming over the recent years, are clearly underestimated. This link could be considered relatively marginal to

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the objectives of the author, if he did not complain over the slow path of growth in several passages of the book (where he is right). It is now clear that, in most of the cases, any acceleration of growth must also equate the climate change factor, which became a major conditioning factor for the evolution of the crisis in its later stages, and the financial sector is not a world apart from that. This does not mean that taking climate change into account would necessarily lead to a reduction of growth, but surely it alters the terms required to achieve this policy objective. Other “failures” or “insufficiencies” could also be mentioned: for example, the author do not explicitly consider previous financial crises, particularly the “Great Depression 1929–1933”, nor their aftermath, and the lessons that could be learned from these events – which is a subject that as a historian he is well placed to analyse, even though any reviewer can easily accept his remarks, such as those that could lead to the writing of an even bigger book, which would hardly be manageable for a normal reader. Accordingly, *Crashed* must be taken as it is and should be complemented by other works.

In summary, *Crashed* deserves close attention for a wide range of readers. It should be obligatory reading for professional economists and managers, including faculties, researchers and students, particularly when interested in public policies and international economic relations. This audience would become better informed in their functions. Furthermore, our science has too often followed a path towards narrowness over the last decades, and this book is an antidote. In fact, after experiencing a decade of financial crises and their effects, we now clearly enter an age of turbulence and uncertainty, if not of contradictions, at a global level, and changes have even been accelerated since the publication of *Crashed*. It is therefore essential to be open to other contributions to solve complex economic and financial problems, which involve many actors with quite different backgrounds across the globe.

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