

What both the left and the right get wrong about the coronavirus economic crisis

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Protesters and police clash outside of the London Stock Exchange on February 28, 2020, in England. That same day, now-former Bank of England governor Mark Carney warned that the coronavirus could mean a downgrade in economic growth for the UK.

Ollie Millington/Getty Images

Adam Tooze is the Kathryn and Shelby Cullom Davis professor of history and the director of the European Institute at Columbia University. He's the author of many books, including *Crashed: How a Decade of Financial Crises Changed the World* — which is, in my view, the single best history of the 2008 financial crisis and its extraordinary aftermath.

That aftermath shapes the context in which the coronavirus is happening — both the economic reality it's disrupting and the intellectual and policy tools the world's governments are calling forth in the response. In some ways, that's a good thing: The world learned much about responding to financial crises in 2008. But in other ways, it's dangerous: This is a very different sort of economic crisis than 2008, and if we can't see it for what it is — if we refight the last crisis, rather than this one — we will fail.

I spoke with Tooze over the phone. A transcript of our conversation, lightly edited for clarity and length, follows.

Ezra Klein

In your great history of the financial crisis, *Crashed*, you argue that American policymakers had spent years preparing for the wrong crises, which left them confused when the real crisis came and it wasn't what they expected. With that history in mind, do you think policymakers are seeing this crisis clearly, or are they locked in past arguments?

Adam Tooze

It's been shocking. So much of what's happening in financial markets today seems incredibly familiar to anyone who spent a lot of time in the 2007-'08 story and its aftermath. The language, the script, even the names — the people who are actually contributing to the conversation — are a very similar group.

On the other hand, there's this incredibly unfamiliar trigger. This isn't how most of us imagined this would happen at all. It isn't as though I was unaware of pandemic risks, but very few people contemplated the exact playbook we've seen: the very deliberate government shutdown of all of the major economies of the world, triggering this epic shock in the financial markets.

So we need to differentiate between two strands of the conversation. One strand of the conversation is what's been going on in the financial markets. That is, to an extraordinary extent, a rerun of 2008 with slight modifications. We understand macrofinance far better than we did 15 years ago, so none of us are spending too much time on macroeconomic imbalances, like America's current account deficit. To that extent, 2008 is a good guide to the mechanics of stabilizing the financial markets. And I think the Fed and ECB [European Central Bank] have internalized this.

It's on the fiscal policy side where I think we are at risk of running in the wrong direction, because the real economic measures that we're adopting are completely unprecedented. To think about what we need as a kind of wartime mobilization seems to me to miss the point completely. This is a much more peculiar task than that. The job is maintaining the economy on life support during a period of an artificially induced coma while we address the public health challenge.

We can all come up with idealized, perfect policies that maintain the status quo for three months so we can put the hammer down and then dance our way out. But that's a completely unrealistic account of how politics operates. Right now, everyone is faced with a sort of prisoner's dilemma logic: They must advocate for the kind of policies they would normally advocate for, or else someone else will get their policies passed. You're forced by the dog-eat-dog nature [of] the American political system to engage in that kind of politics.

Ezra Klein

One of the things that has been so striking to me is the bifurcated nature of the conversation. There are people arguing for social democracy or a Green New Deal. And that argument takes place in a world where we have not just the political will to respond to the crisis, but the political will to build toward a new future.

On the other side of it, there were only a couple of days where Donald Trump was convinced that coronavirus was a big deal, and he had to act like the president and try to do the hard work of slowing it. Now he wants to pivot back to business as usual — the cure can't be worse than the disease. It feels like there's one conversation happening among people who want to imagine a new political future, and then another happening among people who can't imagine themselves two weeks into the future.

Adam Tooze

The ultimate perversity is that their inability to imagine a future will not enable them to return to the pre-crisis situation. If people were to take Trump's words literally and act on them, the result would be some apocalyptic mess on the scale of Iran, not Italy.

So it's a conservatism which is wholly ineffective because it's not going to deliver a continuity with the present — the situation is too dramatic for that. The Chinese Communist Party are the truly conservative ones right now. They recognize that everything has to change so that everything can stay the same. Trump isn't able to perform that basic kind of statecraft of conservatism. You have to move precisely in order to stabilize the situation. If we don't, what we're headed toward is unspeakable mass death and huge economic losses.

Ezra Klein

I think that's a really important point. And bringing China into this is a good bridge to something I want to talk with you about. I think people get that coronavirus is a global problem, but the economic crisis is being framed as a domestic problem. But it isn't. What are the biggest international finance or geopolitical risks you see right now?

Adam Tooze

The first is the most boring and the most familiar: the eurozone and Italy. That issue is achingly tedious, but it looks as though the Europeans have woken up and moved to fix that situation.

Then there's the China risk. China is the dog that hasn't barked in this crisis so far because of the success of [its] conservative strategy. There has not been a big movement in the Chinese exchange rate and very little action on the Chinese balance of payments. But the situation may be more fragile than Beijing is comfortable with. And that has

implications for everyone around them: the South Koreans, the Taiwanese, Singaporeans, the Japanese, the Australians. If the Chinese economy doesn't come back strong, that's a game changer for all of them.

I think the third element is the crisis that is hitting the big emerging markets: the South Africas, the Brazils, the Nigerias, and potentially the Algerians, the Indias, the Indonesias. These are huge countries with big economies, with large American interests in them, and big geopolitical ramifications. And they are in harm's way. Their currencies are plunging, they have large debts, and they're going to be hit by the public health crisis on a really epic scale — especially in South Africa, where they have a big immunocompromised HIV[positive] population.

The fourth zone of risk is the OPEC [Organization of the Petroleum Exporting Countries] complex. A trigger for the crisis in the financial markets was the breakdown of the OPEC-Russia negotiations and the signal from the Saudis that they were just going to produce and let the oil price crash. That was the moment that the financial markets really plunged. We tend to focus very much on Russia, Saudi, and shale in the US, but the vulnerable high-cost oil producers and energy producers is a really alarming list of countries. On top of the list for me will be Algeria and Nigeria — I think there is the potential for quite substantial regional destabilization.

Ezra Klein

It seems to me that another risk is that we're scapegoating and blaming and escalating tensions with China — the Trump administration, and others in the Republican Party, have already pivoted to this as a political strategy. The Trump administration tried to force the UN to call this "the Wuhan virus." Senior Chinese officials are saying the virus came from the US military. Rising fury between the two largest economies during a crisis of this scale seems like a very dangerous situation.

Adam Tooze

There's no doubt at all that the antagonism between China and the US is a central fault line. Yesterday I stumbled over the perfect complement to the Chinese-American standoff. The Iranian regime is quite committed to the idea that coronavirus was genetically engineered by the Americans to attack Persian genomes. The supreme leader went on television the other night to say that this was the reason why Iran would be refusing external aid, especially aid involving American doctors. Meanwhile, the Pew Research Center is finding very substantial minorities of Americans who are wholly persuaded that this came out of a Chinese weapons attack.

But the absolute worst case has not happened. A lot of us, I remember, had conversations with ex-Obama people lingering in international organizations who were very worried that in the event of a new financial crisis, the GOP in Congress and the Trump administration would sabotage their efforts to conduct global financial stabilization. What we've seen so far in the last couple of weeks is [that] the situation is

so discombobulated, and the Trump administration is such a headless chicken, that there isn't even a concerted nationalist pushback against the global stabilization efforts being pursued by the Federal Reserve and the International Monetary Fund.

At the same time, the disarticulation of levels of power in the US government is such that you can have people pursuing security policy in one corner and you can have people pursuing global stabilization of the global financial system in another corner. And then you have the clown car performance in the White House. Sometimes, of course, these things interfere, but by the standards of the great Marshall Plan era, where all of the elements lined up, American power is grotesquely incoherent at this point.

This allows separate solutions to be pursued in different arenas. So, for political purposes, you run the anti-Chinese stuff. Meanwhile, the Fed is pursuing a policy which is actually quite accommodative of the People's Bank of China. There's a sort of a functionality that actually emerges out of the incoherence.

Ezra Klein

There is the debate right now over how you stop a mass wave of business closures. And I think, in the wake of 2008, that people tend to think demand-side stimulus was good, even if we didn't do enough of it, and that the bailouts were morally and politically bad. Now there is a fight about how to do oversight on loans to businesses so you make sure it's not a slush fund. On the one hand, I very much understand that fear. But on the other hand, we're not in the same situation where businesses bear the responsibility for what's happening. I wonder how you think about that question.

Adam Tooze

Like you say, the fundamental difference is that in '07-'08, the truly egregious bailouts were being delivered to the people who engineered the leverage and reaped the rewards that generated the crisis. And that's just not the case here.

On the left especially, it seems like there's a desire to reenact the battles of '08, but this isn't the same sort of crisis. In the meantime, we've developed an antitrust critique of the tendencies of American capitalism of the last 20 years, which I truly sympathize with. But the question is: Is this really the moment for that? Or would you, by way of that kind of politics, foreclose the possibility of maintaining an adequate level of employment for many millions of Americans whose jobs are at risk?

Three million people have lost their jobs in a week. And they're not losing them in the big companies. They're losing them in the thousands and thousands of small- and medium-size enterprises. We don't really have a good model for doing stimulus for them. So to my mind, the priority really has got to be on stabilization, which is a status quo politics — it's a kind of conservative politics. But that's really where the problem lies.

Ezra Klein

Let me ask you the question from the opposite side. There's a critique by conservative economists which says that a lot of these businesses are going to go down no matter what, so by bailing out these businesses, you're just putting taxpayers on the hook for this massive wave of business failures and slowing an economic transition afterward.

Adam Tooze

To me, that's the economist's equivalent of Trump's Darwinian approach on the public health side — it's a sort of an unreal realism. In practice, what that will do is create such a catastrophic collapse in employment and business activity that it will be completely untenable as an economic policy or politically.

The left wants reformist change and the right wants to allow the market process to operate unencumbered. Both of them, I think, are operating with a kind of unrealistic understanding of the nature of this crisis. If we're looking at as many as 10 million jobs lost in a matter of months, these arguments go out the window and the argument for preservation of what we can still preserve becomes absolutely overriding.

These people saying that we've got to bite the bullet and get back to business just don't comprehend the reality we're facing, which is a scaled-up version of what we're seeing in the hospitals of northern Italy. That's realism. If you can maintain your position in the face of that, then we can take you seriously — not while you're pontificating from the White House before Americans have really started to die in large numbers. Let's come back to this argument in two weeks' time, when the hospitals of DC and the hospitals of New York are running over and they are triaging thousands of people every day.