

experiences of (re)creating rule of law and turning dictatorships into democracies, as well as the development of and fight for human rights. It is very hard to not read her well-meaning pamphlet as naïve, especially in light of Krastev's book.

Yet, both authors are convincing in their stress on identity, memory, and history as core to the EU's crisis and the project's long-term sustainability. It is tempting to suggest that, rather than signalling the start of the end, dealing with crises may be a sign of a certain maturity. Now that a series of crises have unfolded and the union is still—more or less—hanging together, the capacity to 'muddle through' might indeed be one characteristic of a shared European identity. The ambition of the EU should be higher than this—indeed, it is sad to see how the electorates in all the member states have become more xenophobic, suggesting a convergence in a direction away from the core values of the EU. But recognising such capabilities and experiences may be just as important for holding the European project together and moving it forward as formulating a grand (liberal) ideology is. As Krastev notes himself, 'the Union's various crises—much more so than any of Brussels's "cohesion policies"—have contributed to the sense that we Europeans are all part of the same political community' (p. 110). All in all, *After Europe* is a book for anyone interested in trying to understand Europe today and for those who care about its future.

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**Atif Mian and Amir Sufi: *House of Debt***  
Chicago, IL, 2015: University of Chicago Press, 219 pp.

**Adair Turner: *Between Debt and the Devil: Money, Credit and Fixing the Global Finance***  
Princeton, NJ, 2016: Princeton University Press, 320 pp.

Both these books are focused on the reasons behind the economic crisis of 2007–2008 and they propose possible solutions to avoid similar scenarios in the future. While the topic is the same, the authors make their observations from different perspectives and positions. Mian and Sufi are American academic economists, while Turner was the chair of the British Financial Services Authority at the beginning of the crises, and then he participated in the drafting of the *Basel III* banking regulations before becoming a senior researcher at the Institute for New Economic Thinking (INET). *Between Debt and the Devil* reflect those experiences. While *House of Debt* is a vulgarisation of an important corpus of research papers published by the authors in various academic journals, Turner's book is much more interested in the institutional and historical side of the events and focuses especially on the role of financial regulation and economic policies.

Both books share the same hypothesis: namely that the key factor for understanding the crisis of 2007–2008 is the excess of private debt. The two books offer a complementary reading of the crisis. Turner quotes several times, in agreement, the work of Mian and Sufi, which was published one year earlier, and Mian and Sufi acknowledge that comments by Turner were 'extremely helpful' while drafting their book.

*House of Debt* is a straightforward book, written in a very accessible style, even for the uninitiated. It tries to understand analytically the origin of the crisis and it finds

it in the American housing market. The book is structured in three parts: in the first they describe their theory of 'levered losses', what they consider to be the nature of the problem; in the second, they explain the reasons behind financial euphoria and bubbles and in the third and final part they deal with alternatives hypothesis and possible solutions.

Mian and Sufi's *levered losses* theory bears a close resemblance to the classic Irving Fisher's *debt-deflation theory* [Fisher 1933]. After the great crisis of 1929 Fisher wrote *Boom and Depression* in which he identified the excess of credit as the main reason behind the crisis. He showed how after a debt-fuelled bubble, all the economic activity was sucked up into repaying existing debt, which diminished real growth and created a recession. Like Fisher, Mian and Sufi show how the high leverage of households created a very unstable economy, but they do it with the latest counterfactual methods and focus on the case of 2007/2008. The authors argue that too much mortgage credit created a bubble in the housing market, where prices were soaring uncontrollably. Families had to borrow more and more to purchase houses in order to follow the rise in prices. That significantly increased the leverage of families. At this point, the economy is in a condition where even a modest fall in household prices would lead to a big decrease in the net worth of leveraged families. In other words, if the value of houses were to drop to below the amount of debt contracted, families would find themselves near bankruptcy. And that's exactly what happened.

Mian and Sufi are attentive to the distributional consequences of debt dynamics. They show how the people hit the hardest by the crisis are the lower-middle classes, and they show how the crisis increased wealth inequality considerably between 2006 and 2009. For every debtor there is a lender, and the lenders finds

themselves much more protected against adverse events: they can claim part of their money back, or they can claim the collaterals. Mian and Sufi note that debt is deeply asymmetrical, all the burden of debt repayment is on the weakest. In some way, we can say that the crisis debt shifted money and goods from the lower-middle class to the wealthy lenders. This increase in inequality depressed the economy even further: the poor and middle classes are those who have the higher marginal propensity to consume, but the excess of debt drastically reduced their consumption. People felt that instead of spending, their activity should have been focused on repaying debt. Lower consumption entrained lower production. And lower production entrained higher unemployment. This made the situations of middle-class and working families even more complicated.

The authors argue that debt works like an amplifying mechanism (levered losses). Debt is the chain of transmission that links the losses from the housing market, to the world of production and, finally, to finance. The debt crisis engendered a crisis of consumption that conveyed the crisis from the mortgage world to the world of production. While families were busy repaying existing debt, they lowered their consumption so much that this caused many industries—even if not remotely related to the housing market—to go belly-up for lack of demand. The massive fall in production driven by reduced demand entrained a massive unemployment crisis, which made the situation of working families even more complicated: the conjunct effect of debt and unemployment created an enormous social distress.

In the second part of the book, Mian and Sufi show how finance added another layer of risk. New technologies, like securitisation, were developed to spread risk, but they ended up multiplying it, by infecting the world of finance with the losses generated on the housing market. Individ-

ual debts were aggregated in financial packages and sold all over the world, and that served as the link by which the housing crisis was transmitted into global markets. As soon as families were unable to repay, those products revealed all their limits.

Adair Turner starts his story from this point. But his book goes further in exploring two dimensions that are not the focus of *House of Debt*: the banking sector and the world of financial regulation. Or more generally, he describes what in political economy are called different types of growth regime: a mix of policies and regulation that are meant to orient economic activity. His goal is to understand why we relied so much on household debt to pursue the goal of growth.

The book is divided into five parts. Like Mian and Sufi, in the first part of *Between Debt and the Devil* he describes the 'financial deepening' of the economy, or how the economy developed a very intricate and technologically complex financial system, using technologies such as securitisation. In the second part, he focusses on what he believes to be the source of many financial problems: the possibility of banks and shadow banks to create new money through credit. In the third part he explains why some economies rely so much on private credit, while others completely avoid it. In the fourth and fifth parts he proposes possible solutions to those problems.

The problem of the increased importance of finance in the economic world is for Turner a problem of efficiency. Turner argues that the financial deepening may also create a great deal of socially useless or even socially dangerous finance, when it encourages a less stable economic environment. During the crisis a particularly important role was played by banks and by quasi-bank institutions, or what is known as 'shadow banking' (institutions that acted like banks, by collecting money and

lending, but without a banking license and avoiding banking regulations). Those hybrid institutions were possible because of the deregulation of the financial sector.

Deregulation was desirable for both theoretical and ideological reasons. The Efficient Market Hypothesis (EMH) postulated that the market knew better where to allocate funds, and it would have automatically adjusted. And especially thanks to the independence of central banks, and of banks from governments, there would be less of a risk of politically induced wastes or bubbles. The credit would have been allocated according to objective criteria.

Unfortunately, reality is pretty inefficient, and banks started to lend too much to unproductive endeavours, such as the housing market. Turner argues that debt is not dangerous per se, but it is dangerous when it is used to buy things that already exist, like houses. That will easily encourage price bubbles. He shows instead how in many countries, and especially in Asian countries like South Korea or Japan, the creation of credit has been directed by the state, specifically to target productive investments, with a great degree of success. Open capital markets were another element that made world finance less stable. A persistent surplus needed persistent deficits somewhere else. And in part what financed the housing bubble in the United States was an excess of investment from abroad. Turner argues that intelligent capital controls can be efficient and rational in some cases.

The two books offer several ideas regarding policy solutions. Mian and Sufi argue that debt forgiveness should be really considered given the nature of the problem: they argue that the burden of debt is only on the weak part, and that makes lenders too irresponsible. Forgiveness is not a wealth transfer 'to a guilty party from an innocent one' because both lenders and borrowers are equally responsible for their choices. Their main proposal is to

avoid debt contracts and to switch towards financing that makes use of instruments more like equities, where both the lender and the borrower share some risk. That will make lenders much more attentive before lending money.

To this solution, Turner adds that in fact we have many 'combinations of levers' to use against financial instability: public debt write-offs, bank recapitalisation, and, more importantly, 'money creation by government fiat'. He argues that a strategy to avoid instability would be to regulate banks, to avoid an excess of leverage in their balance sheets. Banks should hold enough reserves to make credit creation less dangerous for banking stability. That measure has been somewhat implemented with Basel III. He also proposes some 'Ring-Fencing' between commercial and investment banks to reduce the complexity of the system. His last proposal is the more radical one: the creation of fiat money by the government to counter recessions. This is a classical strategy [Friedman 1969], but the modern economic system has been structured to avoid this very possibility, with independent central banks avoiding excessive quantities of credit and politically driven misallocations of money. That put us in a situation 'between debt and the devil', where the answer to debt is tempting but also dangerous and heterodox.

While both books present extensive visions of the causes of the crisis, and they propose bold and creative solutions, they fail to address some essential sociological

and societal issues. The first one is the fast-changing nature of work, with many jobs becoming more precarious and less well paid. Both share the frame of a rise in debt, as it is caused by more borrowing; but less income would produce the same effects. In other words, it's not that families borrow more, but they have less income than before, and that's why the level of debt (always a ratio) is increasing. Another issue ignored by the two books is the field of social policies. All the solutions they advance are in the field of banking, banking regulation, monetary policies, or new financial instruments. Both books ignore the fact that great economic stability can be achieved with a well-functioning welfare system that 'bails out' individual and families in distress. This form of 'macroprudential regulation' is usually not on the radar of economists, but it is a very effective system and it needs to be explored more in other literature.

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