

Boris Begović

Retired Professor
University of Belgrade,
School of Law,
Serbia
✉ begovic@ius.bg.ac.rs

Shutdown: How Covid Shook the World's Economy

by **Adam Tooze**

Allan Lane, 2021.

Adam Tooze is hardly a stranger to the field of economic history. His track record includes two breakthrough contributions in the discipline: one on the economic history of Nazi Germany (Adam Tooze 2006) and the other on the economic and not only economic history of the post-First World War Europe up to the Great Depression time (Tooze 2014). These contributions established Tooze as one of the most prominent contemporary authors in the field of economic and not only economic historiography. Accordingly, the expectations of the reader of his recent book on the economic consequences of Covid are substantial. Nonetheless, these expectations are somewhat moderated by two elements. One is that his recent contribution on the Great Financial Crisis, published on its tenth anniversary (Tooze 2018), was somewhat disappointing, as it was more a chronicle rather than an economic history exploration of the crisis. What was somewhat missing from that book is the “bread and butter” of economic history narrative: the interpretation of the developments, the analysis of causality, and the review of academic controversies. The other element for the moderation of the expectations of this book is the timing of its release. According to the author, the book went to press at the end of April 2021, at a time that not only was the Covid pandemic not over – with more twists and turns yet to come and the death toll to increase – but the accounts of the Covid impact were not final even at the time of this book review going to press, as the pandemic is not over yet. Perhaps, more importantly, there was no time for the profound analysis of the consequences of the Covid pandemic in the methodological framework of economic history, so remarkably applied in the mentioned two previous contributions by Tooze.

It seems that the author's academic ambition this time was only producing an early and detailed chronicle of the Covid pandemic, since in the Introduction of the book he specifies that “The aim of this book is to trace the interaction in the economic sphere between constrained choices being made under conditions of huge uncertainty at different levels all across the world, from main streets to central banks, from families to factories, from favelas to traders hunched frantically over improvised workstations in sub-urban basements” (p. 9). So, it is, the reader understands, about tracing – not about exploring, not about providing interpretations, not about causalities and controversies. Nonetheless, just a few pages later the reader becomes aware that tracing is about to be

accompanied by political economy preaching, as the author specifies that: “State finances are not limited like those of a household. If a monetary sovereign treats the question of how to organize financing as anything more than a technical matter, that is itself a political choice. [...] The real challenge, the truly political question, was to agree what we wanted to do and to figure out how to do it” (p. 13)¹. Accordingly, political will is everything – it can move mountains and there is no room for conventional wisdoms of economics like that resources are scarce, that there are alternative allocations of them, and that there are inevitable trade-offs and opportunity costs, as an inevitable outcome of the choice that is made. Not a promising start of a book from a trained economist viewpoint.

The author claims that “In the historic record of modern capitalism, there has never been a moment in which close to 95 percent of the world’s economies suffered a simultaneous contraction in per capita GDP, as they did in the first half of 2020” (p. 5), and he believes that this was caused by collapse of aggregate demand. For Tooze, everything is about aggregate demand and for him demand management is about political decisions on public consumption. In addition, it is about the central banker stepping in when there was no political will for urgent action to lower interest rates, backstop debt securities and inject liquidity into the financial system. As pointed out by Stephanie Mehta (2021), Tooze’s Covid crisis heroes are not the front-line health-care workers or the scientists racing to find a vaccine – but the central bankers. The main star is Jerome Powell, chair of the Board of Governors of the US Federal Reserve System, praised by the author as a pragmatic and decisive protagonist of the crisis. It was, according to the author, the only central banker who reacted fast enough, with a batch of monetary and effectively fiscal interventions that enabled aggregate demand during the first stage of Covid lockdown to be buoyant and thus saved the world.

The author’s obsession with aggregate demand is the mirror image of his obsession with full employment as the supreme value for advanced economies – more precisely for the US. With sufficient aggregate demand, full employment will be achieved, and everyone will live happily ever after. Keynesianism on steroids! Basically, Tooze fully subscribes to Paul Krugman’s macroeconomic views and political philosophy. According to Tooze (2021), it was Krugman’s belief that the man who finally sorted out the Great Depression was – Adolf Hitler. According to Krugman, “he created a human catastrophe, which also led to a lot of government spending”. The argument is that without him, his war effort, and the US response to that effort, the aggregate demand would have remained sluggish and there would have been no full recovery. What a pity that Hitler was not exactly considering the macroeconomic consequences (in the US) of his moves. Then a macabre trade-off could have been made – tens of millions of dead for full employment in the US economy.

Tooze (2021) reminds the public that Krugman speculates that the advent of space alien invaders would provide enough incentive for public consumption to defend

¹ As for the theoretical underpinning of this position, the author refers to Modern Monetary Theory (MMT), advocated by Stephany Kelton (2020). As demonstrated in John H. Cochran (2020) and Boris Begović (2021) MMT is not a theory, as it explains nothing, but rather an unconvincing and inconsistent macroeconomic proposal, with a promised magic wand that will sort out all problems and achieve full employment – the ultimate goal.

ourselves (Krugman means Americans), America (as in Hollywood movies) would lead war against the Martians, perhaps the way it has led the war on terror, and “full employment would be achieved in a year and a half”. Well, Tooze concludes that these days the Martians is the coronavirus, their technical name is SARS-CoV-2, and they came from Wuhan, China, not from the outer space. As advocated, there has been enormous government expenditures due to Covid and massive fiscal deficits across the board. The only problem is that we have not witnessed full employment yet, just inflation.

So, for the ignorant reader, according to Tooze, an avid subscriber to Krugman’s economic philosophy, the 2020 Covid pandemic is a happy hour, as it has broken all political constraints to massive public expenditures, both consumption and transfers, and the substantial fiscal deficits. With millions of human beings dying (we still do not have a final figure), both directly or indirectly (excess mortality as the true indicator) from Covid, with our lives turned upside down in many ways, with lockdowns and shut-downs, there is a great spill-over effect generating the political will for hefty and ever increasing public expenditures and substantial fiscal deficits that should make all of us happy no end. Good to know!

As to the spill-over effects of the Covid pandemic, the author of the book is silent regarding any others. It is not even mentioned that the Covid pandemic triggered an unprecedented race for a vaccine, which enabled the advent of mRNA vaccine technology, which will provide efficient remedies not only in the case of Covid prevention, but many other non-contagious diseases. Although a few pages of the book are allocated to the vaccine development, these pages are nothing but a superficial chronicle, a list of events with their timing. What is missing is a review of the arguments related to the crucial controversial issue in Research & Development (R&D) of vaccines: the regime of intellectual property (IP) protection for vaccine inventors (effectively patent protection of their inventions), which enables successful risk-taking innovators to appropriate (economic) profit. The reader finds nothing about that in the book, apart from the author disclosing his moral anguish as he points out that “Vaccine development was a race, driven not just by scholarly or humanitarian ambition, but by the pursuit of power and profit. In light of the urgency of the collective need for a vaccine, this could seem scandalous. It is in fact the norm” (p. 239). Well, the world has lived in capitalism in few recent centuries and profit as an entrepreneurial motive has been legitimised even in societies run by the Communist party, such as China. So, the reader wonders what is or seems to be scandalous here?

In the real world technological progress is based on the incentives for entrepreneurs to innovate, grounded in patent protection, because it is innovators who bear the risk of the endeavour, irrespective of whether a segment of the funding came from the public sources. For a trained economist, new vaccines are technological progress, so it is rather difficult to subscribe to the author’s rather populist view that “Despite the public funding that had been provided to them, the intellectual property rights to the first three vaccines remained with the private vaccine makers (p. 245)”. The crucial (economic) question is what would be incentives for innovation in the future otherwise, because business decisions are based on rational expectations, and they depend on the track record of the behaviour of economic/government agents. In short, there are cons to patent protection, but still the virtues of that protections are much greater than the

vices. To slightly modify Churchill's verdict on democracy, patent protection is the worse form of invectives for innovation, except for all those other forms that have been tried from time to time.

For modern industrial organisation (IO), as an economic discipline that deals with the issues of patent protection, the normative dilemma is not whether patent protection, as a form of IP protection, is beneficial or not, but what is the optimal length of patent protection, with the trade-off between incentives for the inventors on one side and slow diffusion of new technology and adverse market structures on the other. Closely related relevant questions are those related to licensing, compulsory licencing, and the principles of pricing in that case. When considering Covid vaccines, the author is silent about all these issues.

This is perhaps not surprising and quite consistent with his approach in the book, which completely neglects the supply side – the book is about aggregate demand and its structure. There is virtually no word in the book about supply, about the costs of producing a value, about economic efficiency, about technological progress, let alone about disruption of global chains of supply due to Covid shutdowns and other supply side Covid-related developments. The latter are perhaps one of the most important economic consequences of Covid, one that will have impact for decades to come, as investment decisions about alternative, not-so-global chains of supply have already been made. The reader is not surprised with this failure of the book, as it is simply a logical consequence of the author's "Keynesianism on steroids" approach. There is no room for supply in such an analytical framework.

Another feature of the book is its ardent general ideological conclusion. The author has no second thoughts, emphasising that "Seeing 2020 as a comprehensive crisis of the neoliberal era – with regard to its environmental envelope, its domestic social, economic, and political underpinnings, and the international order – helps us find our historical bearings. Seen in those terms, the coronavirus crisis marks the end of an arc whose origin is to be found in the 1970s" (p. 22). The strange thing is that the author is silent about what should be our new "historical bearings", those we are about to find during and after the pandemic.

For the author, the 2020 Covid pandemic and governments' reactions to it provide "the death knell of neoliberalism", as a coherent ideology of government. For the reader not accustomed to the term neoliberalism being used in serious writings, the following sentence from the book provides a clue that under *neoliberalism* Tooze considers *economic liberalism*, an adherence to the ideas of economic freedom. "The idea that the natural envelope of economic activity could be ignored or left to markets to regulate was clearly out of touch with reality. So too was the idea that markets could self-regulate in relation to all conceivable social and economic shocks. Even more urgently than in 2008, survival dictated interventions on a scale last seen in World War II" (p. 13). What a nice academic discourse: when the author does not agree with the other side, that side is "out of touch with reality"!

The author provides no evidence about the ostensible death of what he labels as neoliberalism, save the massive rise of government expenditures and deficit prone stance of fiscal policy. Austerity, specified as fiscal consolidation (Alberto Alesina, Carlo Favero, and Francesco Giavazzi 2019) obviously is not a flavour of the

month/year these days, but Covid pandemic, save some urgent one-off government measures, recorded no changes of economic institutions and government policies in the field of general or specific government regulation: legal barrier of entry has not increased, no tougher regulation of financial markets have been recorded (quite the contrary), no foreign trade restriction have been introduced (save urgent one-off measures regarding the export of medical and related equipment), no capital movement restrictions have been imposed – the level of economic freedom by and larger remains the same. Government policies in all these areas are still as neoliberal as they were before the Covid pandemic, hence as a comment to “the death keel of neoliberalism” it seems prudent to modify Mark Twain’s famous cable message – the reports of neoliberalism’s death are greatly exaggerated. Perhaps a balanced view on the role of government during the of pandemic is that its size in the emergency has increased, that public finances and provision of public services become more important, and that the time of bigger government came, but whether this increase is sustainable is yet to be seen. Only time will tell, and the findings will be available in history books at least two, but probably three or more decades from now.

As to the desirable fiscal deficits, Tooze’s principle is straightforward: the bigger, the better. Only the sky should be the limit. The well-established macroeconomic concept of debt sustainability (S. Ali Abbas, Alex Pienkowski, and Kenneth Rogoff 2020) is not an issue for the author at all. Debt sustainability is, according to Tooze, only a political concern of the US Republican Party conservatives, because they subscribe to the balanced budget notion for ideological reasons. The problem with such a view by the author is that history has demonstrated (Carmen M. Reinhart and Kenneth S. Rogoff 2009) that mountains of debt that have been created, which are sustainable at one moment in financial history, can easily become completely unsustainable in another, with the fast changes in markets, not only the financial. It is a rule of the thumb that the sovereign debt is sustainable if the growth rate of the economy (and its fiscal capacity) is higher than the interest rate, hence an adverse change of the two can bring havoc to the sovereign debtor and the prospects for further borrowing.

Inflation is also not an issue for the author – it is not considered in the book as a threat, despite of the massive injection of liquidity by major central banks. Well, whether the author likes it or not, it became an issue, far before the beginning of war in Ukraine and the spike in the prices of food and energy, and that was quite expected with such injection of liquidity and the backstopping of government bonds market. The problems in macroeconomics are – surprise, surprise – interrelated, and now the major central banks are increasing basic interest rates to suppress inflation and to make real interest rates positive, so debt rollover means that in some cases the growth rate will be below the interest rate. With a longer duration of inflation and with an increase of its rate, interest rates will go up further, rolling over the debt will be more expensive, and sovereign debt will not be sustainable in more cases – with sovereign defaults in sight. Increased interest rates pushes down bonds prices in the secondary market (due to the decrease of the net present value of debt securities), making it harder for governments to borrow, as investors closely watch developments in bonds secondary markets. There is nothing about this in the book. It appears that this does not fit well with the author’s beliefs.

There is virtually no reference in the book to the 1918-1919 Spanish flu pandemic. The author only refers to the lethality of this pandemic. "If the same percentage of the world's current population were to die of Covid as died of Spanish flu in 1918-1919, the death toll would come to over 200 million people" (p. 37)². At the time of writing of this book review, according to the World Health Organization (WHO) figures, the Covid direct death toll is 5.4 million and indirect (excess mortality, comparable to the Spanish flu casualty figure) is almost 15 million. With 40 million deaths as the most reliable estimate of the Spanish flu pandemic, the death toll of Covid is much lower so far, both in absolute and relative (compared to the world population) terms.

Save this estimate, the lack of reference to the Spanish flu pandemic in the book on Covid is strange, for at least two reasons. The first one is that the author is an economic historian, and the reader expects that previous pandemics and their economic consequences, of which the Spanish flu pandemic is the most recent one, should be taken into account at least as a clue for estimating the economic outcomes of the ongoing Covid pandemic.

The second reason that puzzles the reader is that the economic consequences of the Spanish flu pandemic have been thoroughly evaluated in the economic literature, especially in terms of its effects on economic growth, with separation of the effects on the demand and the supply sides (Martin S. Eichenbaum, Sergio Rebelo, and Mathias Trabandt 2020). The supply side effects were much more important because the main victims of Spanish flu were people ages 20-39, not only the working age population but the most productive segment of the working age population, leading (irrespective of demand) to the decline of potential gross domestic product (GDP) and its growth (Elizabeth Brainerd and Mark V. Siegler 2003), although on the *per capita* basis, immediate adjustment of production process, due to the substitutions of labour with capital, produced an increase of the GDP per worker and *per capita*. Contrary to that, the age structure of Covid fatalities has been extremely biased towards the old age population, most of it already out of the working age, hence the impact on the supply of labour has not been so significant. The impact on reduction of pensions entitlements has been much more significant.

Especially interesting case of the long-term effects of the Spanish flu pandemic on human capital is the foetal origin hypothesis (Douglas Almond 2006), i.e. the situation in which the mother's disease during pregnancy affects the foetus, decreasing the capabilities/potentials of the child (Almond and Janet Currie 2011). It was demonstrated that in cases when pregnant women contracted Spanish flu but survived it and gave a birth, the new-borns whose mothers were infected during the pandemic achieved substantially reduced human capital, as their health and cognitive capabilities were compromised, when compared to cohorts of children born before and after the pandemic. In short, the very long-term effects of the Spanish flu on human capital, as a production input, were significant, as was the effect on output and economic growth. The book is

² According to this calculation and world population of the time of the Spanish flu pandemic, it is evident that Tooze accept 50 million people as the estimated death toll of the pandemic, considered not as number of death from the diseases, but as excess mortality of the period. Probably the most accurate estimate is 40 million (Robert J. Barro, Jose F. Ursua, and Joanna Weng 2000). That estimate gives 165 million death toll as comparable figure.

silent about that development that may be very relevant for the long-term effects of the Covid pandemic. The point is that protracted Covid cases are numerous, and we still do not know what will be the consequences regarding the impact on human capital, i.e. the long-term effects on the human capital of those who contracted and survived the disease. The long-term effects in the previous pandemic were evident, but the author dismissed all these considerations. Perhaps, the reader infers, Keynesianism on steroids accepts that in every single issue “in the long-run we are all dead”.

Even worse, there are very few considerations in the book about the future, about the legacy of this pandemic, which will be with us for decades to come. Will the size of the government, embodied in boosted public consumption during the pandemic, stay huge or will it go back to the pre-pandemic level? Will the issues related to global supply chains generate measures that will mean the retreat of globalisation? What will be the role of central banks in the future and should advance economies expect the return of stagflation? Will the experience of the pandemic and in many cases inadequacy of responses generate strong incentives for reforms of health insurance and provision of health services? Will the experience of the pandemic, as basically an environmental problem (except for those who consider it to be a conspiracy), generate stronger incentives for addressing global warming as the most important negative externality of our day? This is not a *numerus clausus* list – it is not closed. Far from it!

What is the book’s conclusion? Most of the final chapter is about the outcome of the 2020 US Presidential elections, Joseph Biden’s inauguration, and details of the fiscal policy to which he committed himself and his cabinet. Not quite the conclusion appropriate for the end of the book on the pandemic. Then, there is a general insight “Though it had long been foreshadowed, the coronavirus cruelly exposed the deep incapacity of most modern societies to cope with the kinds of challenges that the era of the Anthropocene will throw up with ever-greater force” (p. 292). Such an insight and similar thoughts do not make the reader any wiser. What follows is a predicament. “The future challenge laid down by 2020 seems clear. Either we find ways to turn the billions invested in research and development and futuristic technologies into trillions, either we take seriously the need to build more sustainable and resilient economies and societies and equip ourselves with the standing capacities necessary to meet fast-moving and unpredictable crises, or we will be overwhelmed by the blowback from our natural environment” (p. 292). The reader already lost all patience, but also lost is the hope that in the final chapter there is some specific conclusion, some specific questions, some specific agenda for further research, some list of specific challenges. After all, the word “specific” does not go well with this book.

Strangely enough, at the very end of the book the author describes the book. “So this is the project of *Shutdown*, as it was of my earlier books: to wrestle with power and knowledge in time. Uncovering arcane expertise, situating and interpreting it, unpicking concepts and rearranging the narratives that power incessantly spins about itself, recognizing and turning to critical purposes the innovations that power-knowledge produces. This book like the others is cast as ‘grand narrative’. I hope thereby to do justice to the momentousness and complexity of the shocks and transformations we are living through and to the importance of the stakes involved” (p. 304, italics in the original). Well, it is significant for the reader that the author refers to his previous book, as if aware of the

weakness of this one and trying to drain some of the well-deserved and hard-earned reputation from the past and to transfer it to this book. Alas, this is not possible – this book is about the ‘grand narrative’. His early books are not – they are remarkably well-done economic history studies, not books doing justice to momentous historical events.

Philip L. Graham, former President and Publisher of the Washington Post, claimed that “Journalism is the first rough draft of history”. Tooze’s book fits that definition, because it is journalism and not an academic contribution, and journalistic and academic texts are evaluated according to very different standards. For a journalism, this book is too opinionated, too extensive, covering too many countries and cases, and a bit overloading on the reader, with too much data on what happened on what day – just an unnecessary huge chronicle of year one of a pandemic that is in its third year at the time this review going to press. For serious journalism, for example that of London-based *The Economist*, the book is too superficial and the approach to the Covid pandemic too shallow.

What is desperately missing from this book is analyses of causality, i.e. why something (primarily political decisions) happened, what were the alternatives in terms of policies, what was the historical context in which the choices were made, and what were the incentives that decision makers faced. Not only are there no answers to these questions in the book, but not even hints are provided. What a pity!

The first draft of the Covid pandemic history, provided by Tooze, is incomplete, covers only its first year, is biased and opinionated, with too many instances of jumping to conclusions. Why such a prominent economist and historian rushed to publish such a book of publicist writing in the midst of Covid pandemic, remains to be answered. The answer to that question is far beyond the scope of this review.

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