

Adam Tooze: 00:00 There are huge risks out there, financial, climatic, epidemic. They require complex analysis of hidden forces. When you have complex analysis of hidden forces, it rapidly gets political because they're hidden, and it's not obvious what they are, and so what they are in your mind depends crucially on what kind of framework of analysis you bring to bear. And so, here too you see, precisely the theme really of your show, right? How do modern societies deal with the fact? How do we sensibly discuss? How do we get literally litigate in this case the deep interconnections that make things tick?

Demetri Kofinas: 01:02 What's up everybody? My guest today is Adam Tooze. Adam is a professor of history and the director of the European Institute at Columbia University. He's also a prolific author, and unlike most people who comment frequently on politics and the economy, Adam's work addresses many broader, more philosophical questions, and we spend the second hour of our conversation exploring exactly these types of questions, including a discussion about the ways in which the current pandemic calls into question our sense of mastery over the world and our own lives.

Demetri Kofinas: 01:40 That our dramatic response to COVID-19 may say as much about our own unresolved fears and anxieties around death and disease as it does about the dangers posed by the virus itself. It's a conversation about history, philosophy, and the benefits and consequences of human progress, and it's available to our premium subscribers at patreon.com/hiddenforces.

Demetri Kofinas: 02:08 The first part that you're about to hear today is actually the second half of our conversation but it's timeliness. The fact that much of it deals with the implications of the recent German High Court's ruling makes it something that I want everyone to hear. The presumption of central bank independence has always been predicated on a political consensus about what the proper role of monetary policy is, how it should operate, and what its objectives should be. This consensus no longer holds.

Demetri Kofinas: 02:42 The contradictions between the mandates of central banks and their policy actions left unresolved will only worsen the type of political dysfunction that threatens the very independence that they seek to protect.

Demetri Kofinas: 02:57 And with that, please enjoy this timely and very important conversation with my guest, Adam Tooze.

Demetri Kofinas: 03:09 So, Adam, I'm not sure what your conversations are usually like on other podcasts. I imagine that for the most part, you're asked to give economic commentary. I mean, I know you've wandered into conversations about death in your writings, but how often do you get asked questions like this on other podcasts?

Adam Tooze: 03:32 I mean, I think the extended conversation we had about religion and mortality and so on, that was unusual. I don't think you can avoid it when you're talking about COVID-19 fundamentally, and for that reason, I've touched on it repeatedly in writing about the problem, because I think that's the level at which this crisis has to be ultimately addressed. But no, you're absolutely right. Most of the time. I'm known as a history guy on the one hand and a financial crisis, global economic crisis, kind of commentator and that's what I spent most

of my time talking about for sure. So, it's certainly refreshing and interesting to explore other issues.

- Demetri Kofinas: 04:07 So, since we did plenty exploring other issues, let's take advantage of your expertise and experience as a historian and as someone who's written one extremely popular book, but many books, but one very well-known book called Crashed, which dealt with which was a sort of forensic accounting among other things of historical accounting of the 2008 crisis. Let's talk a little bit about this German Supreme Constitutional Court decision. And first of all, what am I talking about? What was the decision that was made recently and what is the significance of that decision and how can we understand the sources of it? Where did that come from? From the nationalist forces in Germany, the cultural forces, where does that come from? What does that reflect?
- Adam Tooze: 04:53 Yeah, I mean, there's at least two lines of the historical development converging here or that they've sort of clashed together. The first is one that's familiar from the United States side, which is the increasing role of central banks, as central agencies of economic policy in all of the advanced economies the world over, and we're all really familiar with the Fed as the driver of economic policy in the United States today. But in Europe, the ECB plays that role, and the ECB is, of course, the creation in Europe of a political process of European integration.
- Adam Tooze: 05:30 That when it comes to monetary integration, it doesn't go back to World War II like the rest of the European project, but goes back to the late 80s, the early 90s when Germany was reunified and as part of the bargain, Germany's very powerful currency, what's called the Deutsche Mark was submerged with all the currencies of the rest of the key partners in the European Union into what we now know as the Euro with the Eurozone and its central bank was the ECB.
- Demetri Kofinas: 05:57 It was a precondition for European Monetary union.
- Adam Tooze: 06:00 It was an agreement by the Germans to surrender, if you like their national currency, which was the dominant currency of Europe, and throw it into a pool along with the weaker currencies of France and Italy, and this was the bargain that was brokered between the then Chancellor of Germany, Helmut Kohl and the president of France, François Mitterrand, and it lead-
- Demetri Kofinas: 06:22 Which became Maastricht.
- Adam Tooze: 06:23 ... Yeah, exactly, and it led by degrees after 2000 to the formation of the Eurozone as we now know it and the creation of the ECB, which is now the world's number two central bank. And like the Fed, the ECB, driven by the complexities of the financial crisis has had to undergo a huge expansion of its activity. But unlike in the US where the expansion of the Fed's role has gone, we comment on it critically, you go on finance, podcasts, and so on, people will discuss the extraordinary expansion of Fed activity, but there hasn't been a Supreme Court challenge.
- Adam Tooze: 06:56 There hasn't been a fundamental legal constitutional challenge to the expansion of the Fed, and in Europe it's different because part of the deal done between the Germans and their European partners was that the new European Central Bank would be in the image of Germany's old central bank and Germany's old

central bank Bundesbank, which still exists as a subcomponent part of the Euro system was created, in fact by the Americans and the British in the then what was then the buy zone, the bits of the Germany that were under the control of the British and American armies in 1948.

- Adam Tooze: 07:32 Before there was even really a West Germany which came into existence in 1949, we unified our zones and created a new currency, the Deutsche Mark and created an independent central bank whose job it was to ensure there was no inflation in Germany again. Germany was scarred by the experience of hyperinflation after World War I in the Weimar Republic, and then after World War II is Hitler's regime collapse, the German currency became valueless again, and one of the ideas was that you would anchor stability in the new West Germany in the context of the Cold War by giving West Germany an independent central bank. And it's that vision of an anti-inflation limited mandate, unpolitical, non-interventionist central bank that the German public was sold as being the embryo for the new European Central Bank that was going to come into existence with the formation of the Euro.
- Adam Tooze: 08:27 In other words, they were surrendering their national currency but the DNA of the new common central bank would be German. And so, although the French, the Italians, the Spanish and so on, the Greeks would have part of the system, it would basically operate according to German rules, and the shock of the last 10 years, 15 years has been that you can't actually run the modern financial system. You can't run the Eurozone with all of its problems with that kind of a central bank. And so there has been a time bomb ticking in the German political system as they have come to realize that they were sold monetary unification on the principle that the new system would be a larger version of their old national system, and have discovered that they're in fact living in a currency zone with a very different kind of economic logic, and now the next piece of the puzzle is the German constitution created in 1949 after the experience of Nazi dictatorship, not surprisingly, it was a checks and balances constitution.
- Adam Tooze: 09:31 It was all about decentralizing power and ensuring that there are adequate checks on the unfettered exercise of executive prerogative, and that takes lots of different forms in the German constitution, and it's been a highly successful constitution. And one of the most successful bits of it is that it has a Supreme Court modeled originally on the American model, which has become some people I think, and jurisprudence would argue the most authoritative Constitutional Court in the world as a result of the sad politicization of the American Supreme Court. But in any case, whether or not you want to put it at number one or number two, it's the second most significant Constitutional Court in the world. It has the most authoritative, most complex body of jurisprudence.
- Adam Tooze: 10:17 Now, because Germany is part of the EU you had in the jurisprudential area in the matter of law, the same problem that you have with monetary policy, which is that as Europe has merged into a more and more coherent entity, the German court has found itself subordinate to the European Court of Justice, which doesn't sit in Brussels, it sits in Luxembourg, and it's the Supreme Court of Europe.

- Adam Tooze: 10:40 So you can see the tension building up here. But what has happened really since the 1990s, the early 2000s, is that the German Supreme Court has with increasing assertiveness began to put in limits. It's begun to say things like, well, yes, we're all in favor of European integration but we need to set a high bar of democratic legitimacy for European integration. We can't allow European integration to be a way through which the democratic sovereignty of the German people is unhinged and disarmed. And so are the series of issues they pick up to push back against a process of European integration, which looks to them as though it really lacks proper democratic legitimacy. Europe has its parliament, but people don't take it seriously enough. It doesn't have enough power within the Constitution of Europe. The national governments have too much power, the commission.
- Adam Tooze: 11:34 And so this is where we come to the central bank because powerful conservative voices, you might think of them as kind of gold bugs in the American context but of course in Germany, they're just people who want the Bundesbank back, the old central bank, have begun to use cases in front of the German Constitutional Court to say that their rights are being infringed by the expansion of power and authority on the part of the European Central Bank, and there's been a series of cases starting in 2013 that have progressively asked the German Supreme Court to rule on whether it thinks that the European Central Bank is infringing on German national parliamentary and therefore democratic sovereignty, and they kick this, the last one, the last set of suits they got were to do with Europe's equivalent of QE.
- Adam Tooze: 12:30 So, through some complicated legal argument, these German monetary conservatives argued that QE basically overstepped the boundary between legitimate monetary policy which is the central bank's job and economic policy, which is not the central bank's job and is specifically not the European Central Bank's job, but the job of national governments, and they brought a case to the German Supreme Court and the German Supreme Court said you know what? This is about European institutions. We ought to kick this upstairs to the European Court of Justice.
- Adam Tooze: 12:58 This happened in 2018, and at the end of 2018, the European Court of Justice said you know what? This is a debatable point, but we think that the European Central Bank made a decent fist of trying to figure out whether they were acting appropriately. This is okay, and the German Supreme Court just didn't think they did a good enough job. They got the impression I think that the European justices weren't taking themselves seriously enough. So, they brought the case back, had hearings last summer 2019, and then this spring announced that they were going to print out their judgment.
- Adam Tooze: 13:28 Originally, they were supposed to do this in March, the timing couldn't have been worse because of COVID crisis breaking out. So, they postponed it to the 5th of May, and in a socially distanced court with like half the number of justices is there and hardly any journalists, they pronounce that in fact, they found that the European Court had not done its job in adjudicating this issue.
- Adam Tooze: 13:50 They therefore aggregated to themselves as a national court the rights to adjudicate the issue, and they found the justifications of the European Central Bank for its policy of QE inadequate, said therefore that the German central

bank should withdraw from cooperation with its partners unless within three months, the European Central Bank delivers the justifications for its policy that the German Supreme Court demands to satisfy its concerns about the democratic rights of German citizens. And so that's the situation that we're in right now, where we have a German court judging and claiming authority over a German central bank, which is part of a European institution after the Europeans court, the Supreme Court of Europe has in fact adjudicated the issue with decided in favor of the central bank. And so, this is-

- Demetri Kofinas: 14:41 You're saying that was the ECB response. The ECB response was that the European Court of Justice has already given us a response and we don't need to respond, right.
- Adam Tooze: 14:49 ... There are no do overs, this is it. This issue was decided. You kicked it up to the European Court of Justice in 2018. They gave their ruling. There's no do overs. We can't have a rerun of this. We don't answer to you. Any way you're a German court we're in the European institution. The problem, of course, is that the German central bank is the largest member central bank of the euro system and the German government is answerable to the German court. And the German government is the most powerful in Europe. And the German government was answerable to the charges, right? So, when the German court ruled in favor of the plaintiffs, it ruled against Germany's own government.
- Adam Tooze: 15:25 It was the German finance ministry that was the defendant in the case. So, the German government has found itself embarrassed by its own court. The German central bank has found itself embarrassed by the court, and it's extremely difficult to know at this point, how are we going to extricate ourselves from this.
- Demetri Kofinas: 15:39 But the markets don't seem to be particularly troubled by this.
- Adam Tooze: 15:43 No, no.
- Demetri Kofinas: 15:44 Why do you think that is?
- Adam Tooze: 15:46 Because the court was clever, the court realized that the timing of this in light of COVID, which took them as much by surprise as everyone else was embarrassing, because they don't want to look as though they're radically undermining the efforts of the European Central Bank to stabilize the European financial system. And so, what they said was that this pertains, this entire judgment, all this complicated argument pertains to a QE program which the ECB launched in 2015, which is not the mainstay of crisis fighting this year. So, the judgment doesn't directly pertain to the crisis fighting they're doing this year.
- Adam Tooze: 16:21 But of course, it's only a matter of time, given the template offered to them by the German court that the plaintiffs who have now brought two rounds of litigation, bring a third round of litigation to do with the pandemic interventions. And in any case, the position of the German central bank is impossible in the meantime, because they've basically been told that in three months, they have to cease cooperation with their partners on one very major program that the central bank used to run, and it's very difficult to see how cooperation continues

in other arenas if the German national institutions are essentially being withdrawn from the combined functioning of the European Monetary System.

- Adam Tooze: 16:58 So it is a pride even though tactically it doesn't produce an immediate crisis. One shouldn't underestimate this as a signal of the profound stresses in the system. The question of course is-
- Demetri Kofinas: 17:09 The political stresses.
- Adam Tooze: 17:09 ... The political stresses, and what I've tried to tease out is that there are two dimensions to this. One is the Germany Euro national sovereignty issue. Well, three dimensions. The next issue is conservative visions of economic policy as opposed to more interventionist visions. And the third dimension, which is common to everyone really in the developed world is what do we expect our central banks to do? And what the ECB is doing is fundamentally no different from what the Fed or the Bank of Japan or the Bank of England or the Swiss National Bank, all of the major banks, central banks of the world are doing stuff now that they would have considered anathema completely beyond discussion 15, 20 years ago.
- Adam Tooze: 17:51 They're all now doing it. It's a matter of course, and it's this European case and the specific politics of the German monetary conservatives that have pushed this up if you'd like to the top of the stack, but in a sense, it begs the question of where we are in the US. And we know that beneath the surface Ben Bernanke, as Fed chair was really struggling quite hard to tamp down the gold bug people on the right wing of the Republican Party. We know that Trump has periodically considered and there's I think right now backing the nomination to the Fed Board of one candidate whose name, contemporarily escapes me who's actually a bit of a gold bug, and on the left wing, we know of course, that Bernie Sanders, AOC were supporters or adherence of modern monetary theory, which is a radically different theory of money.
- Adam Tooze: 18:39 So in the US as well, monetary policy is being politicized. It's in the crosshairs of debate. It's just that in Germany by way of this complicated judicial argument, it's been forced to the center of a real showdown.
- Demetri Kofinas: 18:52 You know something you mentioned in either an article you wrote, or maybe it was a past interview, but regardless, it had to do with this idea that our modern conception of central bank independence derives its legitimacy from a period where central banks were very much focused on fighting inflation, right? This, of course, evokes archetypal images of the towering Paul Volcker. But now central banks have moved to one of supporting asset prices and making debt burdens sustainable.
- Demetri Kofinas: 19:27 But what I would say is that what they've really done is to accommodate the growing stock of private sector debt, and-
- Adam Tooze: 19:35 Yes, they call it continuity. They say, well, it's all about price stability, anyone does have to ask, pull the other leg please. We know that once upon a time, price stability meant stopping rampant inflation, and now what you're actually talking about is allowing nominal debt contracts to be sustainable by way of avoiding deflation.

Demetri Kofinas: 19:58 ... Right, and sustaining, sorry, go ahead.

Adam Tooze: 20:02 They're totally different missions, and they do indeed sustain in the modern form, they sustain a kind of speculative upward growth in leverage.

Demetri Kofinas: 20:10 Right, yeah, exactly, and they sustained asset price growth. So, is there an appreciation in Germany for why so many of its neighbors in the Eurozone and across the world have had such a hard time paying them back? Do they appreciate their role in the disequilibria and in the imbalances of savings and consumption and supply and demand across the world?

Adam Tooze: 20:35 I think we have to distinguish two different problems. I mean, the debt buildup could happen even in a perfectly balanced economy in which no one was readying trade surpluses and trade deficits. I mean, the debts of the Italians, for instance, or the debts of the Greeks are not the result of trade imbalances with Germany.

Adam Tooze: 20:54 But there are trade imbalances with Germany and it's clearly true that Germany's own growth model, the one that they are so complacently self-satisfied with depends on the willingness of other people to generate consumer demand, investment demand to run more unbalanced systems. And no, on the whole, there is a blithe disregard for this essential fact that not everyone can run the trade surplus.

Demetri Kofinas: 21:21 But isn't this also the fact that interest rates have been so low, doesn't that also reflect a push from the side of the creditor? That the demand for financial assets has been greater than the supply of willing creditors? I mean, it's a weird statement to make and it's something, I'll tell you where I sort of came to this particular view of looking at interest rates was trying to understand this.

Demetri Kofinas: 21:47 I mean, I've always thought about this. I thought a lot about it. But recently, I read Michael Pettis' new book on this and he's coming on the show tomorrow.

Adam Tooze: 21:56 I thought I was hearing that the shades of--

Demetri Kofinas: 21:58 Exactly.

Adam Tooze: 22:00 ...Matt Klein and Michael Pettis in the background here. Yeah. Yeah.

Demetri Kofinas: 22:01 Yeah. Exactly. So, I'm fresh off of reading his book, and I found this part very interesting. This idea that the low interest rates partially reflect this in terms of doing a forensic analysis of trying to understand is this because surplus countries and countries with savings gluts are looking for places to get a return on that primarily or is it being driven by countries looking to accumulate those savings? And I think that's an interesting question.

Adam Tooze: 22:28 You see, I would connect this to our earlier conversation. What I see is the drama in the German courtroom in which the German Constitutional Court is hearing the complaints of associations of German savers who say, the world doesn't make sense anymore to me. I don't understand. I'm a thrifty German saver, why can't I get a decent rate of interest for my savings? Surely, it must be that. Nasty Italian man who runs the ECB who used to work for Goldman Sachs,

who has been forcing interest rates down, and then you have very smart economists like Matt Klein and Michael Pettis coming along and say no, no, no, no, look, it's really totally different from that. Germany itself is responsible for this by way of its export surplus.

- Adam Tooze: 23:14 To me, this is really and I know, I fundamentally of course side with Pettis and Klein. But if you think about the broader constellation, this is a little bit like our inability to decide how we deal with something like the risks of COVID-19, right? There are huge risks out there financial, climatic, epidemic, they require complex analysis of hidden forces. When you have complex analysis of hidden forces, it rapidly gets political because they're hidden, and it's not obvious what they are, and so what they are in your mind depends crucially on what kind of framework of analysis you bring to bear, and those then become really fundamental doctrinal arguments and what the German Constitutional Court has done is to stumble unwittingly, if you like at the behest of a bunch of rather small minded German savers who think there's something fundamentally wrong and different about the world, and they put their finger on it by blaming the Italian head of the ECB.
- Adam Tooze: 24:18 But they literally in their complaint say that Mario Draghi who operated this program was obviously unsuitable as a central bank boss, because he was an Italian who came from a country with a lot of debts was therefore pursuing this policy for that reason. It's essentially not conspiracy exactly. But if you like-
- Demetri Kofinas: 24:35 I always thought it was a bit of a risk putting in Italian as the head of the ECB.
- Adam Tooze: 24:40 Good. Good. Good. You see, the point I'm trying to get at is that year two you see precisely the theme really of your show, right? How do modern societies deal with the fact? How do we sensibly discuss? How do we literally litigate in this case the deep interconnections that make things tick? And precisely because they're hidden, that discussion is really difficult. And what we see in the German constitutional court case is a bunch of aggrieved savers saying there's something fundamentally wrong with the world. We're pretty convinced it's the ECB. We want somebody to give us answers, and the German Constitutional Court has just naively said, yeah, good question. I definitely think the ECB should be answering your questions, right? Whereas Michael Pettis and Matt Klein would sit back and say, guys come up, let's start with some macroeconomics, and maybe then we can understand why German savers can't get a decent interest rate, and it really doesn't have anything to do with the nationality of the central bank head.
- Adam Tooze: 25:38 Meanwhile, the central banks themselves, the ECB and the Fed both are currently engaged in serious internal arguments about how to conduct monetary policy in future because none of their models work anymore. Both the ECB and the Fed are doing fundamental in house discussions about what they call their monetary policy framework, because they're not sure that they understand how this system works. They in other words are also grappling with the hidden forces problem.
- Adam Tooze: 26:05 They don't know whether maybe they're in part responsible for interest rates being out of whack. This maybe reason to think they are or maybe it's to do with this phantom thing called R-Prime or R-Star, which is the fundamental rate of

interest that you might be able to estimate if you knew the overall balance between the demand for savings and investment on the one hand, and the provision of savings in the global economy on the other, right? And people in central banks are seriously doing long run analysis of data all the way back to the 18th century in the hope of somehow situating our current moment in time.

- Adam Tooze: 26:38 Now, I don't mean to sound sort of postmodern as though anything goes. What I'm saying is we have to recognize our confusion. We are no longer certain about what makes these basic variables tick. The central banks themselves are operating to a considerable extent in the dark, flying by the seat of the pants. They are for us older folks, it's as though you're black and white television was wonky, the picture was all blurred and you just periodically would get up and slap the thing, and then the picture would be sharp again. That's kind of the way in which quite a lot of monetary policy is being conducted.
- Adam Tooze: 27:16 This is not a fine grained, highly technical exercise, and the court case for me is indicative as much as anything else of our inability to find the solid ground for making judgments, and as a result, very, very intelligent agencies like the German Supreme Court full of super intelligent, brilliant constitutional lawyers, with amongst the highest reputations in the world will make judgments like this, which to the vast majority of people interested in modern central bank policy it just made no sense at all. But we have to ask ourselves how it's even possible that, that could have occurred.
- Demetri Kofinas: 27:51 So is this really a question? Are you kind of saying that we've been operating since the crisis, central banks have been questionably operating beyond their mandate but we've all kind of looked the other way?
- Adam Tooze: 28:07 Absolutely.
- Demetri Kofinas: 28:07 Because there's been no other game in town? Is this why Lagarde do you think was made head of the ECB to help broker a solution through this? And if so, what solution might that be?
- Adam Tooze: 28:18 Well, I certainly was one of the people that spoke out in favor of Lagarde. She was a controversial appointment. There were two types of commentary. One is that she's French and not German, and the other one was that she's not really qualified. She's not a technician. She's not an economist. She's not a Janet Yellen or Ben Bernanke era Mario Draghi, all of whom were kind of blue blooded economists, and I think that kind of missed the point because I think that central banking has become an increasingly political exercise. And I think, broadly speaking, that judgment has been borne out as much by Jerome Powell as by Christine Lagarde because Powell in particular has demonstrated an extraordinary capacity to rally political support behind far more radical policies than Ben Bernanke pursued or Janet Yellen or indeed Christine Lagarde at the ECB.
- Adam Tooze: 29:06 He's demonstrated a really consummate ability to muster support on the hill from the congressional GOP, which is where the danger really lies behind his emergency his crisis program. So we're in a new era, there was a period I think, which started with Paul Volcker of this sort of super wonk, the titan economists who governed the world by way of the central banks, and I do think that Powell

and Lagarde's appointments signal the emergence of a more obviously bought, also and in some sense appropriately political role. Not in the naive sense of party political necessarily, both Lagarde...

- Demetri Kofinas: 29:46 But in the recognition that central banks have been, and always will be political institutions.
- Adam Tooze: 29:51 ... Exactly, exactly, and precisely in that role. And it helps really, in some sense to have a centrist conservative like Lagarde or Powell in that role because they find it easier to sell intervention to the hawks on the right.
- Demetri Kofinas: 30:04 Yeah, I think also there's a really interesting point and I don't want it to go unacknowledged that you made, which has to do with models and central bank models and the way that we think about the economy, so many of these models are really out of whack but so is the conception of what the role of a central bank is, and I wonder, do you think that this is an opportunity that may come first in the ECB? I think you've hinted as much or in Europe, that is where the Europeans that the Constitutional Court, whether it's it or whether this is a sort of a canary in the coal mine for what we can expect to see which is increasing political pressure to resolve this issue in Europe to come to some sort of next phase? And I've thought about this.
- Demetri Kofinas: 30:52 I studied Europe in college and the treaties on European Union and the evolution of the EU going back to 1957 I think it was with the European Coal and Steel Community, and I don't think there ever was a single treaty that was ratified or considered during a non-bull market period, and the only period I can think of that would qualify is Maastricht. But of course, Maastricht was during a period of political euphoria, political uncertainty, certainly when there were loose nukes, there's a lot of concern, but there was a sense of euphoria around the fall of the wall and the reunification of Germany. How challenging is this? This has always been the concern, right?
- Demetri Kofinas: 31:38 I mean, like integration, something I've talked about on the show before, the whole idea of integration, I think Valery d'Estaing had commented on this, but others have as well, which is that the European project, specifically monetary integration was always going to be imperfect. They knew that there was going to be a problem trying to run a common monetary policy without a fiscal union, but the expectation, or the hope, at least was that eventually when they got there that the crisis would serve as the means through which the Europeans could achieve further integration. But I'm just not sure that this model can work anymore or certainly work in a climate of such political and economic dislocation. So how do the Europeans manage this? How do they convince their citizenry? How do you see that happening?
- Adam Tooze: 32:26 I mean, obviously I agree. One can despair, I think of the European project at times, and the last couple of months have not been particularly uplifting. But we should recognize, on the other hand that Macron looked as though he'd assembled a very powerful coalition of nine states including France, Italy, Spain, Portugal, Ireland, behind a project of much deeper fiscal integration by way of what were called Corona bonds. So joint borrowing to face for Corona crisis. That was shot down, but I know enough about the German political scene to

know that the mood there is really shifting and including in some very important institutions.

- Adam Tooze: 33:03 I mean, even the Bundesbank came out in favor of Corona bonds, and there are a very powerful groups of opinion inside the German finance ministry as well, that is interested in the possibility of moving in that direction. So, things are shifting.
- Demetri Kofinas: 33:18 Is that because there's an appreciation at that level for just how important integration and the EU is to Germany's economic model?
- Adam Tooze: 33:26 Yeah, and I understand the damage that was done in the period particularly of the second Merkel government between the CDU and the FDP, that sort of right liberal coalition. Merkel has governed after all in different configurations, and that one which governed between 2009 and 2013, was particularly difficult for Europe at a moment of maximum crisis in the Eurozone, and the SPD now controls the finance ministry. The SPD are cut from a different cloth. This is like a coalition between Biden democrats and McCain Republicans govern Germany right now, if you like, and with some left wing elements in the German finance ministry and they have a very different vision. Always have had a different vision, feel embarrassed by their own government's actions.
- Adam Tooze: 34:12 Countries don't act in aggregate, these are democracies. Majorities act and large minority of people can feel fundamentally at odds with their own national governments policies, and this is a coalition style political system. So, you have, a coalition's of very different parties acting together. Anyway, so that opinion is there in Germany, it is progressively shifting, and so there was some degree of hope. There still is some hope and the reconstruction budget that they're putting together will be large. It will be unprecedented in its scale. Will it be big enough? I don't think so but it's a step in the right direction.
- Adam Tooze: 34:47 It isn't what we hoped for, and the ECB is behaving totally differently in this crisis the way it did particularly from 2010 under Jean-Claude Trichet. So, there is change, but I agree, I mean, the great democratic political synthesis has not arrived. There is entrenched opposition in many of the northern states. There is increasingly embittered frustration and hostility, notably in Italy. It's a souring relationship. When people ask me, is it going to break up? I say no.
- Adam Tooze: 35:17 I think my forecast, my prediction is that of a kind of increasingly bitter a dysfunctional marriage, which is bad for everyone involved in various ways, and some people might regret ever having entered into it but on the other hand, the costs of breaking it up is simply too high. So, people hang in there, and that I think, is the sort of that's the bleak vision of Europe's future. That at this point looks likely, I don't think it's inevitable.
- Demetri Kofinas: 35:43 It's ironic, but paradoxically, I'm actually more optimistic on the EU staying together in recent months or in the last year than I was for a long period of time after the crisis and I'm not sure if that's just because I think the amount of time they've spent dealing with this suggests a kind of resiliency. And I think it's also reminded me again, I mentioned I studied European history, and I studied the EU in my college years, and there is strong historical reasons for European Union.

Demetri Kofinas: 36:25 It was a political project first and foremost, and I think that remains a, I don't know, it's interesting to raise the question. To what degree have those lessons been taught in the school system in Europe? I mean, how much do the citizens of Europe appreciate that? How much is that understood? How common is that sense? But I would say I'm more optimistic than I was about their ability to stay together.

Adam Tooze: 36:50 Yeah, yeah. I mean, I'm think the...

Demetri Kofinas: 36:51 But it's going to require a lot of sacrifices and there's going to be inevitably a lot of people who didn't deserve to end up on the losing end of whatever compromise is made, not just in Europe but this is a larger point about central banks and their role in helping to reset the global monetary order, to reset a dysfunctional allocation of wealth that has developed over the course of numerous business cycles and credit cycles going back to the late 70s, early 80s.

Adam Tooze: 37:23 I don't think that a breakup is likely at all. I mean, the Euro remains, has been a more popular now than ever, remarkably, the currency itself. There is indeed a deep attachment to the high functionality of the European institutions for all of the criticisms you can make. If you were behind the famous rules, the unveil of ignorance, I think you'd have to be a fairly risk friendly person to choose a life in the United States over a life in the EU. The levels of social security, the standard of living remains pretty high.

Demetri Kofinas: 38:00 Depending on the country, obviously but you mean the Western European countries.

Adam Tooze: 38:05 Nevertheless, yeah. I still think it's a remarkably successful unit that isn't really under the fundamental question of whether it continues or not, and Brexit has taught a pretty tough lesson to take the risk of trying to break it up.

Demetri Kofinas: 38:21 But that's also a really interesting point, right? Because so much of this political dissatisfaction in Europe doesn't really have to do with economics. I don't think all of the nationalist impulses of the Europeans are displaced economic anxiety, do you?

Adam Tooze: 38:38 No, I don't think they are, no, but I think that is the main driver of dissatisfaction in Italy and Spain. I don't think that the other factors and probably the most prominent of them is the issue of immigration and the failure of the EU to support the frontline states in the immigration crisis adequately or would be as acute as they have been if the unemployment situation was better.

Adam Tooze: 39:07 So I think in that way, there is a common economic route. I mean, Italy as a society is struggling now with almost two decades of close to zero growth, and very diminished opportunities for its young people, and that does impact the entire framework of political choices.

Demetri Kofinas: 39:26 Wait, I do think though, so you're a German citizen?

Adam Tooze: 39:29 No, I'm not unfortunately, I wish. I have a UK passport.

Demetri Kofinas: 39:33 You have a UK passport. So, I'm a Greek citizen. I'm also an American citizen, and I remember what Europe was like before a certain point in time, and I do think one of the challenges for the EU is how to continue to integrate, and to build greater political and institutional solidarity, while at the same time finding a way perhaps, to make walk back some of the, I don't know even if I would call it cultural integration. It's more of this kind of McDonald's thing. The cultural aspects of globalization, the commercial cultural aspects, consumer cultural aspects have not been for the best in my view, and I think this also speaks to a larger issue and you could pull in questions about death and meaning, but I think this is also comes up a lot and this is a problem.

Demetri Kofinas: 40:30 You heard this when Nigel Farage and UKIP would stand up in European parliament, a lot of what they were railing against, forget whether their intentions were entirely benign, and all of that, but I think that the sentiment of their speeches, so much of it was not economic. Sometimes it was wrapped in economic rhetoric. Sometimes it certainly was economic, but a lot of it had to do with the sentiment and the sentimental, yeah.

Adam Tooze: 40:58 Yeah, I think that's true. Poland as well, I mean if you-

Demetri Kofinas: 41:00 From who?

Adam Tooze: 41:01 Poland of the very powerful national conservatism there, which is very closely associated with that kind of resistance. It does then attach to issues like the rights of gay people in a way that was clearly they're not reducible to economics, and it does indeed represent a kind of defense of local conservative standards against supposed no cosmopolitan violations of those norms. And I don't frankly, I just think that's a flat out political choice. I have absolutely no sympathy for that kind of identity, that kind of politics, and I just hope that, my interest would be that the alternative kind of politics would consistently win elections and consign that kind of attitude to the margins where I think it belongs. I wouldn't want any fundamental changes to be made in reaction to that kind of reactionary kind of politics, but I recognize its force.

Adam Tooze: 41:58 It's clearly a political force and in the right context and with the right kind of political entrepreneurship and against weak centrism against weak efforts to mobilize alternative politics, it can prevail and become dominant.

Demetri Kofinas: 42:12 Well, this makes me think of another episode that we did maybe five or six months ago with one of the great American realists John Mearsheimer, And it was very specifically about the forces of nationalism, and Mearsheimer's contention was that nationalism is a much stronger force than liberalism, and that nationalism always wins out. And I think, to bring up my earlier educational experience, I went to college in the early 2000s, and this was still a time when neoliberalism and globalization was very much in vogue and was seen as a universally good thing, and nationalism was taught as a generally bad thing certainly as far as European history was concerned, and the complicit role that nationalism played in the lead up to both World Wars whereas Mearsheimer would argue that World War II really had nothing to do with nationalism, and I would certainly agree that I think we have undervalued and underappreciated how much people actually need a sense of identity, and that nationalism is a very powerful form of identity, and that it needn't be destructive.

Demetri Kofinas: 43:31 And so maybe one of the early assumptions and driving forces of integration, the desire to end nationalism or to weaken it, that this may not in fact be an overall good thing, and that maybe we need to find ways to celebrate our differences within Europe, while still being able to come into union on the sorts of things that can bind the continent together. What do you think about that?

Adam Tooze: 43:58 Yeah. I mean, I haven't a certain degree of sympathy for that. I'm not. I mean, personally because of my own migrant upbringing. I don't really know what it means to have that unquestioning attachment to a particular nation because that's just not been my life story. I understand that some people feel this. I find it difficult...

Demetri Kofinas: 44:18 That's really interesting, what is it like for you? I'm just curious about that because I also, although I said I am a citizen of Greece, and I am a citizen of the United States, I've lived almost my entire life in the US. But I also was in Greece constantly every year, all of the summers, and I've also lived in Italy, and that's always kind of been a challenge for me too, my sense of identity. What am I? Am I American? Am I Greek? Well, obviously, I'm sort of both but I-

Adam Tooze: 44:47 So I don't really feel, I'm strongly of the view that we can have syncretic complicated identities that attach us to different points of association and identity and loyalty and my commitment is to the frameworks that enable that in the most open ended, freely chosen way possible, right?

Demetri Kofinas: 45:12 ... Sure.

Adam Tooze: 45:12 That's the kind of politics I'm interested in. I'm viscerally opposed to the sort of politics which makes it more difficult for people who live complicated lives to have legal frameworks which support the complexities of their lives. I don't think there's anything wrong with mobility. I think on the whole, I favor it, I think it's a good thing for people to have the experience of migration. I don't think of it as like, I understand obviously, this huge social inequality and the sort of migration that I've been privileged to enjoy is much more comfortable than that in most people, but I nevertheless, sort of have certainly a kind of an attachment to a melting pot idea. But yeah, so the broadly speaking, I think if you choose to turn patriotism and nationalism into an obstacle to the progress of European politics, you can do this. It's not compelling to me politically or personally, and it's not compelling intellectually, it just doesn't follow.

Adam Tooze: 46:08 It is a politics you can choose because you for whatever reason are hostile to that project. There is no reason why being French and passionately committed to the sense of Frenchness is incompatible with being also extremely positive about the project and building a common European fiscal policy or a common approach to 5G technology or common foreign policy or merging bits of the proud tradition of the French army and the French military into a far more effective European defense organization.

Adam Tooze: 46:44 I mean, you can of course at each one of those stages say, well, in fact, no, my Frenchness prohibits this, but that's a choice. There's nothing forced about that move, and constructive European politics should say we want to blend together, bring together and articulate all of these rich, complicated heritages, some of which are conflictual, but nevertheless, we want to bring them all together in a

big rich collective project, and that seems to me really almost entirely unproblematic.

- Demetri Kofinas: 47:13 I think you made a really important point, which is that come together freely. I think the sentiment that was expressed often, and I heard it also with Brexit with when you heard about people talking about being tired of the experts, and I mentioned Farage and UKIP and their speeches in the European parliament. You got a sense that a lot of people felt as if the technocrats in Europe were sort of lording over.
- Adam Tooze: 47:40 Yeah, this is nonsense. At some point, sorry. I mean, I end up sounding like an impatient elite, which broadly speaking is a realistic description of both by social.
- Demetri Kofinas: 47:50 But weren't there legitimate reasons to be concerned about that when, let's say, the EU installed technocrats in certain countries. In other words, I mean, I understand exactly-
- Adam Tooze: 48:01 It was European politicians that made those choices, what was going on. I mean, a big complicated argument but it was the government of Germany, Conservative government in Germany, solicitous of its majority in Germany that chose to resolve the Eurozone crisis in the way that it did. It wasn't, I mean, sure technocrats were their willing instruments, and there is a technocratic politics that counts, and they had a certain vision, but they were authorized and empowered to act in the way that they did by national government answering to national concern.
- Demetri Kofinas: 48:34 ... But there is a power dynamic element in the EU.
- Adam Tooze: 48:38 Of course.
- Demetri Kofinas: 48:39 That different nations know that they're on different levels of the totem pole, and it's not just rhetorical, they can see it in negotiations and countries that are in the periphery that have dealt with serious debt problems have felt that, and I think that sort of, again, this makes me think a little bit about central banking because it's sort of, what's the expression? It gives the light... What is that expression? It gives the light to this idea of democracy in this case, which is, do we really have democratic countries if we ultimately are subordinate to the whims of our creditors? And again, I'm not making, I think what I'm simply trying to or not trying to do, maybe simply doing is maybe giving voice to some of these incongruities, all right, that make European Union so difficult.
- Adam Tooze: 49:30 They are. I mean, I think they're expressive of their particular local manifestation of much more general incongruities, of which of course, one is that we live in profoundly unequal societies governed by structures which in no way conform to democratic ideals. Some of which are deliberately created to be counter majoritarian. Some of which are just de facto counter majoritarian by way of the influence of self-interested elites, and that is absolutely the reality of our situation, and that can manifest itself nationally in the disadvantage of minority populations or people in lower class positions. And it can, of course, in a complicated political unit like the EU manifest itself in part as cross national

hierarchy in which absolutely voters in Germany, decision makers in Germany have more influence over the situation than voters in Greece.

- Adam Tooze: 50:22 But the ECB also demonstrates the complexity of that, and after all the pushback from the German side over the politics of the ECB, emerges out of the realization on the part of European conservatives that they have lost control of that institution.
- Demetri Kofinas: 50:36 Yeah, exactly.
- Adam Tooze: 50:37 So that the institution like that offers avenues for a certain sort of countervailing power, not absolute of course, and not equal, but nevertheless very real, and it is not by accident that the Italians and the French have largely monopolized control of that institution and that they will not contemplate the prospect of having a German in charge of it, because they understand the countervailing force that it exercises.
- Demetri Kofinas: 51:02 So, Adam, I know you have a hard stop. You've been exceedingly generous with your time today. This was such a great conversation. It was so wide ranging especially the first hour. Since we didn't get into the Constitutional Court decision until the second half, I'm going to release this part of the conversation as the full episode and give our Premium subscribers and supporters on Patreon access to the first hour on our overtime feed.
- Demetri Kofinas: 51:27 For anyone who is new to the show, we don't rely on advertisers or sponsors. I don't want the show to feel like a commercial enterprise. Instead, Hidden Forces is supported directly by listeners like you who value the content and want to support the show and keep it free of commercial interruptions. Audiophile subscribers gain access to all our overtime segments, which usually lasts between 30 minutes to an hour, as well as the Premium episodes that are released exclusively on our overtime feed.
- Demetri Kofinas: 51:59 The Autodidact subscription gives you access to all the audio file content, plus human transcriptions of episodes including this one that I proofread before the episode drops and Super Nerds get it all including my episode rundowns, which are 10 to 20 pages documents full of notes, questions, images, charts, and materials that I pieced together in preparation for my recordings.
- Demetri Kofinas: 52:23 All of the content going back to episode one is available through our website. Transcripts are available for every single episode, rundowns go back to episode 19, and I started doing overtime segments beginning with episode 72. You can subscribe directly through our website at hiddenforces.io/subscribe, or on our Patreon page at patreon.com/hiddenforces.
- Demetri Kofinas: 52:51 Again, Adam, thank you so much for coming on the show today. It was such a great conversation.
- Adam Tooze: 52:56 It was a real pleasure. It was fascinating conversation.
- Demetri Kofinas: 53:00 Today's episode of Hidden Forces was recorded in New York City. For more information about this week's episode, or if you want easy access to related programming, visit our website at hiddenforces.io and subscribe to our free

email list. If you want access to overtime segments, episode transcripts, and show rundowns full of links, and detailed information related to each and every episode, check out our premium subscription available through the Hidden Forces website or through our Patreon page at patreon.com/hiddenforces. Today's episode was produced by me and edited by Stylianos Nicolaou.

Demetri Kofinas: 53:41

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