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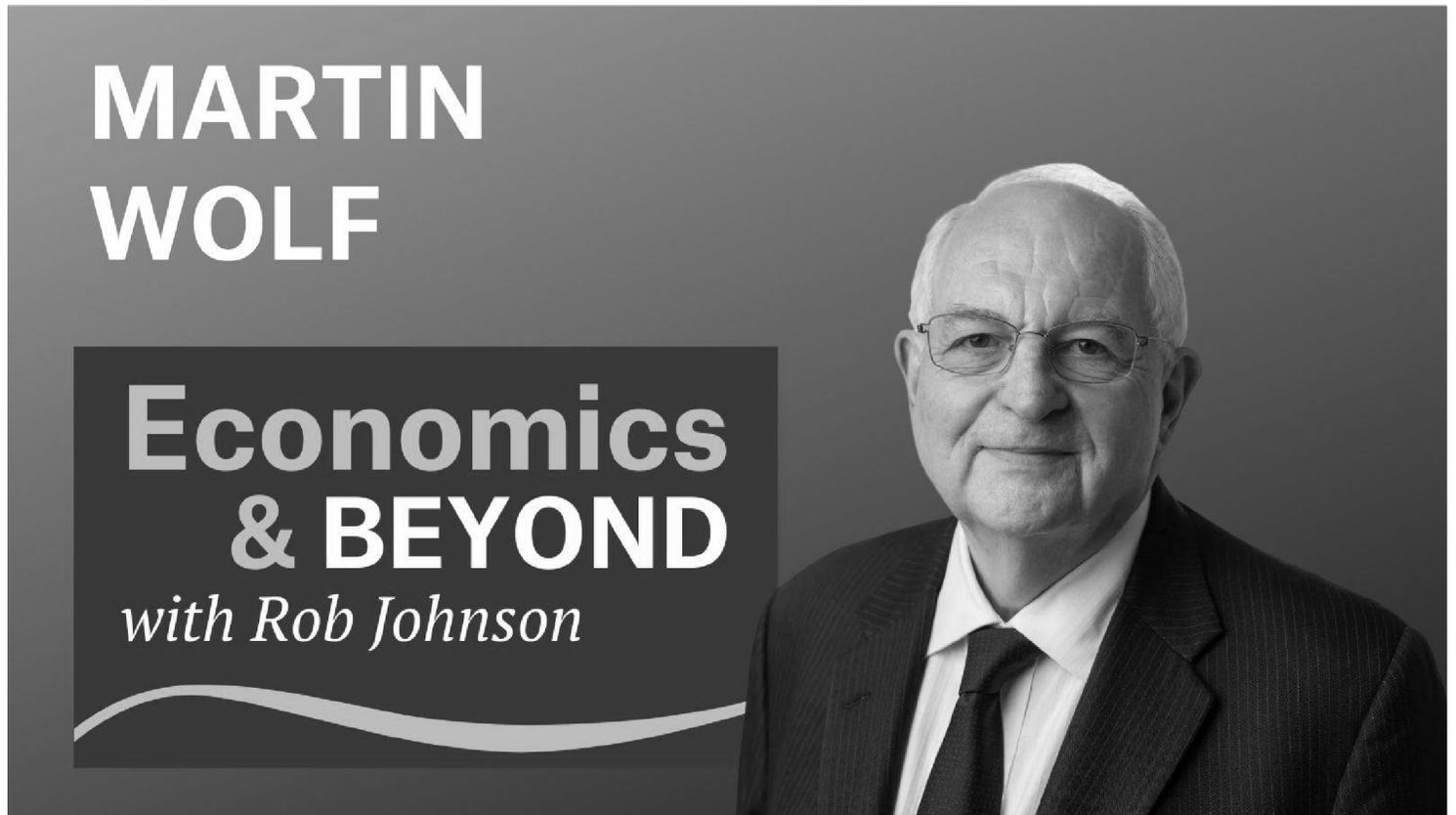
The Crisis of Democratic Capitalism

FEB 7, 2023

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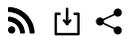
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Economics & Beyond with Rob Johnson

The Crisis of Democratic Capitalism

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Transcript

Rob Johnson:

Welcome to Economics & Beyond. I'm Rob Johnson, president of the Institute for New Economic Thinking.

I'm here today with Martin Wolf, the well-known and extraordinary columnist with the Financial Times of London, to explore his most recent and, I must say, very powerful book, *The Crisis of Democratic Capitalism*. It's to be released in the United States, I know, around the 7th of February, Penguin Press.

I've had the good fortune to be able to review some of the chapters, and I'm very excited today to be able to be with Martin and impart his wisdom and insights to all of you. Martin, thank you for joining me, and thank you for writing this book.

Martin Wolf:

It's a great pleasure.

Rob Johnson:

So let's start with... You've written numerous books about India, about finance, Asian crisis, all kinds of different vantage points. This book feels very powerful to me. And so, I want to start with, what inspired the themes that we will explore today?

Martin Wolf:

I suppose one can think about it in two ways, the broad context and the historical moment. The broad context of the way I think about the world of who I am is basically a product of my life history, which I discuss in the preface.

I was brought up in a family of refugees, two people who met in London during the Second World War as refugees from Europe, from Hitler's Europe. They would never have met without Adolf Hitler. So I exist as a product of the Second World War. And in both cases, their wider families, not their immediate families but their wider families, which contained, I think, about 40 or 50 aunts, uncles, and cousins, were all killed. They were all killed in the Holocaust.

And I was aware of this in the sense, not explicitly, but in the sense that I knew my family was a bit peculiar. I knew



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appeared in my previous book, *The Shifts and the Shocks*, which was published, I think, in 2014.

Then the historical moment. Well, the historical moment which mattered most was the appearance of Donald Trump as the likely candidate and then the candidate for the presidency of the United States and his victory. Brexit was also important. It was also a shock. And, of course, I was aware of rising tides of populism across the world, of autocracy across the world, including in European countries.

But there's no doubt that Trump was the huge shock because, I suppose, one of the assumptions that I had and that my parents very much had is that the United States was the bulwark of freedom and of democracy in the world. It had been the country that essentially saved these values during the Second World War. I've always been clear about that. And after that, in the Cold War, in light of the apparent and, I think, real Soviet threat.

So suddenly, I was seeing the emergence of a man who seemed to me pretty clearly a would-be autocrat, the classic temperament, mind, ambitions of an autocrat, admittedly without a policy program of any coherence. And certainly, I'm making no comparison with Hitler. None.

But nonetheless, this was, to me, a stupendous shock. And that led me to think, well, why had this happened, and what might it mean? I wrote columns about this at the time, but I came to think that I needed to do something more substantial to work out, at least to my own satisfaction, what was going on, why had our system ended up in this way, and what might it portend and what, if anything, can we do about it? So that's the big answer and the immediate answer to the question of why I wrote this book.

Rob Johnson:

Well, I find it fascinating. You are also a PhD economist, so as we explore... I want to explore... When you see something daunting, like, in this case, the election of Trump, how do you see that which you might call the ideas of economics contributed to the misunderstandings that led us to where we are?

Martin Wolf:

I should've, by the way, correct you. To be precise, I am what we in Oxford would call an MPhil economist. I did a graduate degree. I didn't do a thesis. And therefore, I'm not quite a PhD economist, for what it's worth. But I've managed to get a very, very good job as an economist at the World Bank without it. I never wanted to be an academic. So I was reasonably content.

And at the time I did it, by the way... This is a strange thing. It was still very common in Oxford for the brightest people... I'm not saying I was one of them. To pursue their academic careers without a doctorate because they were given lectureships without it.

The most famous example in Oxford in my time was Sir John Hicks, Nobel laureate, and the most distinguished economist of all time who never did a doctorate, nor, for that matter, did Keynes. So that's the general perspective.

Now, on the question of economics and politics, my views in this have changed quite a bit over time in what I think of as a sort of circle, and it's influenced by what I felt were the biggest problems of the time. So I started



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because they had adopted extraordinary distortions in their trade policies, an excessive intervention of all kinds. And I felt much the same about the Soviet system.

So in the late '70s and '80s, I became very interested in freeing markets, becoming more interested in deregulation, but my focus was always on the real side, not on the financial or monetary side. I didn't think much about finance at this time. It wasn't a big issue. I hadn't done much financial economics. So this was about deregulating the real side of the economy.

And I became very involved particularly in the arguments for liberalizing trade, particularly in developing countries, exploiting trade opportunities, which I'd seen places like Taiwan and Korea, Hong Kong, and Singapore do while I was in the World Bank. And I wanted to see this done elsewhere. And by the way, I don't regret this at all. That, I think, was broadly correct.

But in the course of my work at the Financial Times, and particularly in the '90s, I began to become concerned. I'd already got some of this with the debt crisis, Latin American debt crisis, but that seemed to me very sui generis. But in the '90s, and particularly with the Asian financial crisis, I became aware that finance could go very, very seriously wrong.

And I began to be aware, also in the late '90s and early 2000s, that we were getting pretty classic macroeconomic problems. It was becoming increasingly difficult to sustain demand. We were getting some of these huge global imbalances that Keynes had worried about, balance of payments imbalances. And we were beginning to manage our economies pretty obviously through unsustainable credit expansions and asset price bubbles. And that was very clear. So I was changing my mind.

And then, of course, the financial crisis came, and that was sort of the coup de grâce and forced me to rethink a lot about the financial side of capitalism. But that also forced me to go back and start asking myself, "Well, what about the wider political economy of our society, which made this sort of macroeconomic system apparently necessary? Why did we need these credit bubbles?"

And it seems to me a significant part of that, of the reason for that, was rising inequality, the shift of income away from people who spend, the inability to offset that effectively and the interaction of that with the financial system seemed to me a very important part of why we got into this tremendous crisis, which was immensely significant for me.

I didn't think such a thing would happen again. It seems so close to the Great Depression. Though fortunately, policymakers understood better what to do partly because of the lessons learned, and we dealt with it. And then, of course, along came Trump. And that made me really think that in addition to all those issues which were obvious, that we had somehow lost the loyalty and trust of a very large proportion of our populations in the working of our system. And that was incredibly dangerous.

And it was very clear at the same time that this great thrust towards democracy worldwide, which had begun in the '80s and continued after the fall of the Soviet Union, was reversing all over the place. So then you've got a really, really big issue, which is not just macro stability, important though that is, and the worries about that because it reminded me of the early '30s and what it did, particularly in Europe. But here was this concern that



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Well, I know it's nowhere near as daunting, but I often attribute some of my perspective to having grown up in the years in Detroit when Detroit was in decline in what many people felt was a federal government that neglected a region in part, I believe.

The inference was because after the Civil Rights and Voting Rights Act, Democratic senators in the South or house members were not going to vote for adjustment assistance to a Black-majority city. But I watched what I'll call increasing despair.

And I remember I once met a psychologist named Jampolsky, who said, "When things go right is when fear disappears. When fear rises, it feeds back and exacerbates." And he wrote a famous book called *Love is Letting Go of Fear*. But I guess, I feel like, even in my lifetime, we've been through ebbs and flows of optimism and despair.

I know at the outset of what I'll call globalization, about the time I was in college, books like *Global Reach* and others were emerging. Richard Caves at Harvard was exploring multinational enterprise and its implication. So the question of what you might call the integrity of the Treaty of Westphalia and the nation-state was, how did it put on the table in the architectural change?

People in Detroit were afraid of globalization. People in Cleveland were afraid of globalization. On the other hand, others were saying, kind of moral framework, "God wasn't born in Pittsburgh or Detroit." And as Branko Milanović and others have talked about, the rise of the Global South, the rise in the per capita income in places like China, is something one could cheer for, provided transformation assistance was provided in the Global North.

And I'm curious how you believe we went from the advent of globalization, the adjustments, and then back to what you might call the polarity and the rise of essentially potential dictators like Trump, Xi Jinping, Bolsonaro and Boris Johnson, and others. What do you think took us off what you might call the win-win game and fomented the despair?

Martin Wolf:

This is a very complicated question. So I suppose... I mean, first of all, I take the view that, as a word, the will to power and the will to absolute power is a fundamental attribute of quite a number of people, mostly men, and that in most political systems we know, people like that have been pretty good, remarkably good, at obtaining and holding power.

So the fact that in politically and socially fragile emerging and developing countries, which are undergoing extraordinary upheavals in the transformation that is associated with development and, often, its failures, that they end up with a discredited political system and a dictator at the top doesn't seem to me fantastically surprising.

And, of course, it is part of the story of what happened with fascism in Europe in the '20s and '30s, particularly the story of Mussolini fits, I think, pretty well into what we are seeing with an Erdoğan or a Bolsonaro, or even dare I say it, a Modi, namely a combination of nationalism with a promise that having the strong man in charge will deliver fast growth, prosperity, all the other things that are promised, as long as you put your trust in such a person.

This is a recurrent theme of human history. And as I point out in my book, after all, nearly all the regimes we know



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What did surprise me is that I thought in our Western democracies, we had by now a long experience of the democratic process. And that was often rooted, notably in the US and the UK, in a pre-democratic world, which at least had some sort of rule of law for all its manifest imperfections and inequalities and some sort of Republican idea about freedom of speech, freedom of action, again, with all its obvious imperfections. So that it seemed to me these were, as the experts say, "consolidated democracies."

They'd fought wars, and they'd fought wars in the context of a democratic order. And I'm putting to one side the obvious grotesque racial inequalities and racism and, of course, sex or gender inequalities, which have continued. But nonetheless, these were countries that seemed to have cracked this. They were also in all successful economies, and their people were, on average and overall, despite all the difficulties, unprecedentedly prosperous compared with the people of a century or two ago.

So I assumed we had broken out of this age-old danger, falling back into the belief in some heroic despot, some new Julius Caesar or Octavian Caesar, who would solve all our problems by taking all our freedoms, as it were. I assumed we'd grown out of that. But it turned out I was wrong. And it became pretty obvious already before this happened. But as I said, with Trump, it became completely obvious.

PART 1 OF 4 ENDS [00:24:04]

Martin Wolf:

But as I said with Trump, it became completely obvious that, and it has become obvious, that the differences between a Brazil and a United States are much smaller than I'd ever imagined. And now that's frightening because if the U.S. goes, I think it's very plausible that large scale democracies will disappear. A few smaller countries might manage to sustain this, but it will be difficult and that's not a world I want to live in. In fact, to me, having the basic idea of democracy, which is we are all citizens, we all have the right to participate in public life freely, to speak freely, to act in accordance with the law, to trust one another, even if there are opponents, share in decision making and have personal freedoms of many kinds, including economic ones, which I think are valuable. And I want that to last. I don't want this to disappear and I think we'll come to this later.

I'm still not convinced that we have a stable democratic order in our societies. I can go through the various countries. In Italy they have now got a woman in power. I know nothing about her, but she is head of a party which claims lineage directly back to Mussolini. In the last French presidential election, a woman, again, I'm not claiming she's anything like the fascists of the thirties and forties, but a woman who is the descendant without any doubt of French far right fascistic thinking, got well over 40% of the vote. And the only reason she lost and they did even better in the parliamentary election, is that Macron is actually quite a charismatic figure. Now, let's suppose the next, and not part of any of these completely discredited old parties which have now disappeared, well what will happen in the next presidential election? Particularly if as seems likely we're going to have a deep recession, unemployment will get worse.

We have the consequences of this horrifying war. And I'm not even talking about the obvious fact that Britain, which used to be a relatively stable, reasonably well governed country, I don't think it's going there. But it isn't self-governing in a sustainable, sensible way. And that's the sort of thing that explains why all the polls show that



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understand how to use rage and fear to gain support and seize power. And that's a very old story and it terrifies the wits out of me.

Rob Johnson:

It does appear, I'm working in New York and young people who work at my foundation will tell me things like, "this isn't stable. You can't pay rent, healthcare, and own an automobile or lease an automobile on the income for a college educated person in their twenties any longer." So they don't see themselves, which you might call on an up ramp of prosperity. And these are people who are relatively advantaged. And so I don't know how... There is a tremendous amount in the United States right now of anxiety or hostility manifest from anxiety, towards two or three people who are the richest young technical technology billionaires. And I'm just watching that foment. And the question I guess I would ask is, what they accomplished in the transformation of information system? [inaudible 00:30:01] can be quite beautiful. But how they dominate what you might call the social architecture of public policy in a money politics system in part leads people to believe that the experts you refer to are just marketing men for power now. Not which you might call visionaries for the common good.

Martin Wolf:

Well I think this is correct. So in the course of writing the book inevitably in confronting all these fears and worries and echos from the past, and I was also influenced because I had to be by my own prior education, which I haven't mentioned. So I spent five years of my life between 15, six years actually, 15 and 21, which are seminal years, basically doing nothing but read Latin and Greek, which you would probably think is rather a strange thing to do. But it actually changed me and I think in many ways for the better. But one of the things this brought me back to was the way Aristotle and Plato thought about these things and both were very relevant to my book, but the particular point, which you raise, made me realize that while there are always plutocratic elements in a liberal democracy with a capitalist economy, they're always have been.

And that was true in Britain throughout and of course in America pretty obviously, just think of all those slave owners. And that's just the same issue that the Athenians faced and all the other democracies. Similarly, the Romans, this isn't new, it's just the different guise. But there has to be a balance between the ability of the system to allow ordinary people or people of ordinary background. And without extraordinary means to exert influence and power on the one hand with the inevitable influence that wealthy people will have, at least to some degree. And it seems to me clear that we crossed the line and when the more I looked at America, the more I came to the view, which didn't even occur to me 15 years ago, that we were seeing in the U.S. as a whole are not accidental but on the contrary deliberate recreation of what I had thought of as the old southern system to the country at large.

Namely you have the plutocrats or in that case the plantocracy. You have, if I may say so, the poor whites who are told that they're superior because they are at least white and they are told and encouraged to identify with the elite, the commercial elites, the plutocrats, and to the degree that in the Civil War they fought and died in extraordinary numbers for this cause, which I discussed in the book.

Now I thought that was historical curiosity, that was over. But coming back to your point, well it isn't over. That's what I think to my immense distress, the current Republican Party is about. I think the Democrat party also has big problems, but they're not these ones. And it is quite clear to me that in the Democratic... In the context of an



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presidency are very large if ruthlessly used and supported by the Supreme Court, essentially to transform the fading divisive and in many ways despise plutocracy you talked about with an autocracy, which is essentially what happened at the end of the Roman Republic and its transformation into the empire. I'm not saying of course very clear that this is an exact analogy, I'm not an idiot, but there are parallels here.

So I think the plutocracy you describe is the path to that. And now looking back at American history, and you are of course vastly more expert than I am, I think that was sort of the danger that was emerging in the early 20th century. But it was corrected partly by luck and partly by happenstance in part by Teddy Roosevelt who seems to be rather an important politician in that he was a conservative who seems to me to have recognized this danger. At least that's the way I read it. You can tell me better. And of course even more startlingly by FDR who was an aristocrat, a scion of the plutocracy in some sense, who made it his life's work to make the United States a more genuine republic. A republic with a far more inclusive view of whom mattered. And I think now that saved both the United States and then went on to save the world.

Well that's what is needed again. And that's sort of where my book ends, with lots of ideas. So I have no idea who will produce it, but this is a very lengthy answer to your deep question. I think that what you see in the U.S. for example, with Elon Musk's takeover of Twitter, a very important media and the way he has used it and the way he's taken for granted that he's entitled to use it in this way, whatever the context for the public good, which has obviously vast consequences. These are all signs of a pretty near complete, I don't want to exaggerate, a very substantial shift into a plutocratic order with the autocratic order very clearly in the wings. I think the immense good fortune of the United States was that Trump, for all his very real abilities as a demagogue, remarkable abilities as a demagogue, had absolutely no idea how to go about consolidating autocratic power.

I'm not sure that the people who will follow him, and I will not name names, will be equally incompetent at concentrating power. And the power is there if they get hold of the Department of Justice, of the FBI, of the CIA and equivalent agencies, of the armed forces possibly by putting in their people in the higher commands, they already have the Supreme Court. What will happen? Well, we know what will happen because this has happened in many, many countries in history. And I think it's now pretty obvious it could happen in the U.S.

And I don't think what's just happened in the midterms, now this is perhaps jumping the gun, is enough to encourage one to believe that this worry is all over. It seems to be probably not given the elections. And in Britain we have similar questions, exactly the same questions, because we don't have outright autocrats now. But another 10 years of the sort of economic failure we've experienced in the last 15, stagnant real incomes, falling real incomes for many, will our systems survive? It seems to me that our system depends exactly as you say, on giving widely shared prosperity and a belief in the future. And if we don't do that and we haven't been doing it consistently and widely enough, then we will end up with conflict, rage, despair, and a loss of legitimacy. And that's exactly what we are seeing.

Rob Johnson:

All kinds of things come to my mind as I'm listening to you, but the parable for Emma, come from a nautical family. A rising tide raises all boats. Well, it's not raising all boats, then we got a real problem. And I'm very concerned as I look at the process of where, as you know in the United States, we've had various court decisions which have



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side will win, whether you can create a stable however miserable plutocracy, I don't think so. It's very difficult. Or whether in fact one of the would be autocrats, and there are plenty of them around, will actually seize and consolidate power, including of course over the plutocracy. That's not difficult for them to do. If they control the arms of a well-resourced and powerful state, which the U.S. certainly has.

Which of them will win I don't know, but I'm perfectly clear who will not win. And that is ordinary people in the Democratic order. And that's why, as I said, I've written this book as a wake-up call, and I think on these things and these points, we are increasing [inaudible 00:43:15]. The difficulty is knowing what to do about it. And of course, even greater difficulty if you know what to do about it, and some of the things are obvious. Your campaign financing laws are grotesque, just grotesque. And it's pretty obvious. Your media laws and rules are pretty mad too. But the question is, is there any more, as our committees would say, is there a point from which you can apply a lever which will move all this? And the answer to that is, I don't know.

Rob Johnson:

One of the things that's haunted me in recent years, including panels at the World Economic Forum and books recently written like Douglas Rushkoff's book, which your colleague and our board member Julian Tent recently wrote about. The book is called Survival Of The Richest. And what I'm getting at is that many good-hearted wealthy people are now feeling powerless to create the kind of change that leads to a sustainable healing of our social system and put it on a dynamic trajectory. So in Rushkoff's book, people are considering how to build their own private bomb shelters and get away. Others are talking at the World Economic Forum privately at the dinners about building airstrips and how to evacuate their countries. So I see despair, how would I say? And it relates to your rise of authoritarianism to consume capitalism. I think some of the prosperous people can see the non-sustainability of the system.

While they don't want to be architects of that, they don't know how to thwart the resistance. And so they're building or contemplating escape hatches. And I think that that's very haunting and what I will call feeds the despair. We talk about filling the void versus deepening the void. We all have to do diagnosis, but we need remedies. We need north stars to aspire to. And when I see some of the most insightful and prosperous people showing symptoms of despair, I think the alarms that you're setting off in your book are, how do you say, are very the... It's not a paranoid fantasy. It's very much on the agenda.

Martin Wolf:

I think in a strange way, the possibility of escape is quite dangerous because it makes people think that they really have a credible escape. Obviously to some degree they might. But in the sort of world we are imagining, nobody really is going to be secure. Wealth won't be secure. Ultimately what protects wealth everywhere and at all times is power. And if power is held in predatory hands, wealth is not safe. Now what has tended to happen in the past where Republican regimes with a plutocratic tinge to them, and the Roman Republic is obviously one of the most famous examples, have become dictatorships, is that this leaves the wealthy with a choice.

One is the sort of retreat to their estates as it were, withdraw completely from public life, enjoy the pleasure of having wealth. The dictator might well leave you alone because can't do everything and essentially choose the



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generations later, they had Caligula and they're Nero. I don't wish to make these parallels too close, but it seems to me that if the wealthy say, "Well, the best we can do is have a bolthole in New Zealand and hope we will be left alone," that makes me despair pretty much. I don't know whether it's too late, I have no idea whether it's too late to do anything. And it certainly will be very, very difficult. But it has puzzled me that in a free society where these dangers don't exist now, why so many people who are all educated and immensely wealthy, they don't want for anything, should not put their resources behind policies and politics, which have a reasonable chance of stabilizing the social order.

It's not that difficult to see what that involves. It's been done before and yet as far as I can see, many of people I know quite well who are not, God knows, naturally authoritarian in this respect, somehow seem to feel it'll all be safe, it's all fine, it will be business as usual, it's not going to make any difference. And I really don't want to pay taxes, certainly not to support these idle people who aren't working hard enough, or are criminals, or whatever else it might be that makes them so upset, even vindictive. Well, given those attitudes then it's very difficult to see how this stops. Now, a core thesis of my book, which is I think the one I've come to more slowly than I should have done.

But anyway, it's where I come back, is that if you want a capitalist order and if you want democracy, which means you don't want an autocracy and you don't want a narrow plutocracy either, an aristocracy again, then you must accept that the free market will have to be contained within and tempered by an active state, which provides fundamental security to all its citizens, because it's something they're all going to demand. It's just what's happened in every democratic state, that's, that's a demand, that some or other has to be met.

And that where fundamental problems arise, of all kinds, environmental problems, problems with bringing up children, social problems of severity. The state exists as an insurance mechanism, as an agent, to ensure these are dealt with. And the idea that all this can be done with no state purely through the benevolence of rich people, or through the market, is completely inconsistent with history and with our knowledge of humanity. And I don't understand fully why so many of the wealthiest don't understand this, that they're seduced by what seem to me, sort of infantile regimes are fantasies of essentially capitalist anarchy. And the idea that somehow people will live with this, they won't. They will insist on order. And if the demo democratic system doesn't give them order, then they will find a dictator who does.

Rob Johnson:

I've heard a lot of concerns in recent months where people have said, "We experienced Trump. But let's just go back to what we might call the Clinton and Obama neoliberalism." And then the people on the other side will say, "But it's the Clinton and Obama neoliberalism, particularly the great financial crisis bailouts that demoralized the public led to Occupy Wall Street, the Tea Party, Republican house, Republican Senate, and Donald Trump. And even Steve Bannon, the propagandist for Trump, often talked about without the bailouts being what Joe Stiglitz called the polluters getting paid." We never would've had Donald Trump if it had been a more just adjustment to a mistake, it would've invigorated a confidence.

And what I'm hearing now is people are saying, say in the UK, if we go back just to the David Cameron regime, or we go back to the Clinton regime here, that's relief compared to Trump and some of the other things. But if you go back there, you may create the despair that sends you back in the other direction quickly. That in essence, the



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had gone to prison, which is the sort of thing people used to do in America. We never did. But you did. But I actually think there are two things that went wrong.

The first thing that went wrong, and this is a much bigger one, is we allowed the development of a financial sector, which was prone to crisis like this. And that was a colossal mistake. And the scale of the mistake, I have to admit, I didn't realize before it happened. So it was incredibly important to learn from that and not repeat it. But of course, ideally it would've been a very, very good idea if everybody had listened, say to Hyman Minsky back in the '80s and '90s and said, "We should never go there." What is interesting is how remarkably few professional economists, and I'm one of them, so I'd have to say I'm partly guilty, realized that we could go back there so easily. And in addition, there were lots of other mistakes. It's clear to my mind, I still believe in market mechanisms and market forces, but it's pretty clear that the way lots of things evolved in our societies over the 35, 40 years before the crisis were extremely undesirable. So we became far too reliant on debt.

We allowed corporate governance to become completely à la Milton Friedman, which created, I think psychopathic companies. That's not very desirable and pretty big issue. We allowed our financial sector to run amuck with just ridiculous quantities of leverage and an inordinate control of the way companies operated. We allowed huge and shattering economic change to occur without helping people adjust. We ignored what was happening to the distribution of income and its consequences. We ignored the provision of fundamental public goods like health and education. And the US, you allowed the creation of an incarceration state, which is just, I think... So lots of mistakes were made, lots. And they were part of the temper of the time. Then when the crisis blew up, the various reasons, part of which I think were accidental, which was the election was in 2008 and not in 2010.

So Obama got into about while the crisis was happening and couldn't pick up the pieces after the Republicans had failed to deal with it as FDR did. I've always wondered since then what would've happened if FDR had been elected in 1930 and not in 1932. It might have made a big difference to the story. He'd had a much smaller majority and he probably had been blamed for a lot went wrong. So it was a lot of luck. But I do think, and I argued at this at the time, that you couldn't allow the banking system simply to collapse. That was an impossible thing, which only the most extreme fundamentalists were arguing for, though it's implicit what the Tea party was on, A rescue should have been done in such a way that those who clearly were associated with the crisis didn't benefit from the public's funding and the politics of that were mishandled.

I think I understand completely why they were mishandled, and I'm probably much more sympathetic to Obama at least, and his treasury secretary than you are, because it was really, really hard to do all that. And it probably impossible politically. But the combination, and this is the core of my book, the long history of Economic developments, which included slowing growth, slowing productivity growth, rising inequality, immense technological upheavals, rising trade, which without adjustment benefits and all the rest of it. And then you have this massive financial crisis, which is such a dramatically visible symbol of failure. There are very few things that ordinary people can clearly see show that the people in charge were clueless. A financial crisis is one of them. It's a dramatic demonstration of cluelessness in the top of the business community above all the financial community and in the government that they allowed this to happen. And then if you rescue them without punishing the people, well, it's politically pretty hard. And the consequences, I think is a core argument of these two things together. Gave you Trump.



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Rob Johnson:

Well, I say, and I'll have to give some credit, I worked for the United States Senate Banking Committee and the characteristic of I was a former chief economist was when there were problems, those of us who worked in the past, I'd worked on the '87 stock market crash and the savings and loan bailout, we all volunteered. And back at the time of TARP, we were in Washington. I was staying with my friend Robert Dugger, who was also a former official there. And it was very daunting as the TARP legislation went through a few iterations, but was crystallizing because that unfairness in the legislation was evident.

And I will give credit to George Soros, because as we were talking with him about creating an op-ed about this situation, he and Rob Dugger and I had lunch and he said, "I grew up in Hungary. The Nazis invaded when I was a child. And when I've studied the history of what tipped things to that horrid place, the 1931 crisis in Austria and German banking played a huge role." And he, at that lunch, suggested that we formed the Institute for New Economic Thinking to address, he wasn't putting blame on anybody, but to address the what was coming with the injustice of the structure, the bailout. He's the first person I knew that really thought.

Martin Wolf:

I cited some research which I came across in this book, because I was very interested in this theme of links between economic failure and economic injustice and politics. And there was some very interesting research, both for Italy and for Germany. I didn't think I saw any for Austria, which basically showed that even you could see this quite locally, namely places where local banks failed were more likely to shift in the radical direction than places where they didn't, but it's clearly true that the banking failures, and of course the stunning rise in unemployment in Germany, but in a country with a pretty weak welfare state there, though, they had one unemployment at 25% with all the previous problems there had been. Well, you saw this massive explosion in the Nazi vote from really insignificant levels in 1930 to 33%. I think it was 33% in '33.

I might get the exact numbers wrong. So yes, and of course that made it the largest party of the right. And Hindenberg, his associates thought they could control this and make it into a decent conservative party. And that's not exactly how it worked out. So one of the things that is obvious is that if capitalism fails and it can fail in this way, then you end up with not just a failed economic system, but a failed political system. Democracy and the working of the market economy are intimately connected in this way too, both on the upside and the downside. If it creates widely shared prosperity together, you are doing going to do well. And if it fails, you fail together. You can't separate the two.

Rob Johnson:

Yeah, I've just watched a film, the granddaughter of Roy Disney, Abigail Disney, created a film on the American Dream it's called, and it's about how Disney and Disneyland blossomed. And the top executives were all making 50, \$60 million a year. And many of the people who worked at Disneyland for many years could not afford health insurance and lived in their cars. And it was just a snapshot from one of the people who benefited by being a younger part of their generation that she's rising up, and I see symptoms like that. Alex Gibney's series called Dirty Money, some of the things in your country that Adam Curtis has been raising at the BBC.



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Well, this is where it gets really frightening. So I've profoundly committed to the idea that we mustn't despair until it's over. So my book argues that we must find our way back in within our own societies to an economic and social and political order, which most people feel really, the great majority, feel is going to give them hope for a better life. And I discuss a lot of the things that I might want to do to achieve that, and not only hope for a better life, a sense that the order is reasonably just, and that rage and fury are not enough, and somehow shift us away from this frightening blame game which ends up with these wars among ethnicities, among minorities, what I think of as the majoritarian populous response or the majoritarian identity response to identity responses of minorities. And that's part of it.

So it's a necessary condition that our politics starts generating answers. And we haven't touched on some of them, but obviously they would involve things like paying more taxes, offering better welfare, dealing with some of the most obvious social problems in your country and mine, which are very real, improving the working of our financial system and our capitalist system for more people dealing with the costs of globalization very powerfully. But let me just say something on globalization, globalization I've always felt was perhaps an unfortunate word. I just think of it as integration of economies across frontiers. And a point I make again and again to many Americans is that in America, and I think actually in America alone, maybe at some point the Chinese will think the same way, but they don't know. There is this sort of idea that we could go home and become a fortress.

We could actually be a self-sufficient country, which you were pretty close to being a hundred years ago or so, or even 80 years ago. Trade was just minuscule and you didn't really need it. And you had the know-how to produce pretty well everything that anybody wanted to consume. The United States is the only country in the world that can plausibly believe in this. So the idea in Britain, even France or Germany, let alone the Netherlands, Korea, anywhere else, that not being actively engaged in trade is an option, just has no plausibility. Of course, we're going to integrate economically, we can discuss how to do so. We can discuss what sort of complimentary policies we need, what sort of welfare support we need. And you need my book on globalization. I had a very strong argument, which is consistent with Dani Rodrik's argument, that we could have a welfare state, we could afford a welfare state, and we needed one.

Now, you can't have an absolute free market without that. I think that's clear to me. But the jumping out of globalization idea is an aspect of Fortress America. And Fortress America is a unique concept of a gigantic economy and country, which happens to be thousands and thousands and thousands of miles away from any other significant power. So that's unique, but it's not generalizable. And it's a unique debate. That then leaps us into the global issues, which is of course, particularly problematic for America, because if you think you can be self-sufficient in a fortress, then you think you can ignore everybody else pretty well. But as you rightly pointed out...

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Martin Wolf:

You can ignore everybody else pretty well. As you rightly pointed out, most countries can't, even in trade and economics, obviously they can't. They couldn't feed themselves for example, if they did. As I frequently pointed out, in World War II the most important battle was the Battle of the Atlantic. Why? Because without it, Britain would've had to surrender pretty fast. Now, but the problem is more broader, as you pointed out. Intelligent people



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over powerful entity within the system. This happened again and again. It wasn't an accident. It happened all the time as it were. Not all the time. It happened every time the balance was broken. We can not run our world now like that. It's horrifying enough that we've ended up with this war with Russia. Indeed, it's really horrifying that we have done so.

If you think of peace, you think of the maintenance of prosperity, which I was talking about before. If you think about the survival of our planet, we have to go beyond a purely Westphalian national tradition. Now, this obviously raises a question of how you govern that. My view is, again, one has to be realistic and sensible, which is very difficult to do. We need a democratic order. The democratic order, if people are educated, persuaded, and you have to do this, should be able to understand that we have needs and responsibilities and obligations to the world at large and they are in our interests to meet. We need to create institutional arrangements which build upon the democratic order, which ultimately give people a great deal of sovereign discretion that nonetheless satisfy these global demands. I have a whole chapter in the book that discusses this and I would agree with you that it is staggeringly difficult to do.

I can not believe that there is anything to suggest, nothing in fact, that we will do better at this if we're all nationalist autocracies. For all their faults, and my God they're large, the democracies have been by and large better at cooperating with one another and recognizing these dangers than the older autocracies we've known. Partly because democracies are open to ideas. Partly because the elites for all its fault tend to be at least moderately educated in understand some of these risks, and partly because relying on the rule of law, they are able to understand the role and value of treaties, of international agreements. We have thousands of them. Most of them were initially created by democracies working amongst themselves and then extended to the rest of the world. Many countries and the rest of the world were very happy to participate in these regimes because they could see the value of them.

We created global treaty systems because ultimately are as democracies and as market economies, we are at least in principle rules based, law based societies for all our weaknesses. That has to be sustained and extended even if there is much distrust as there now obviously is. That includes of course understanding that our relations with China must be such that we can achieve shared purposes. I remain optimistic, perhaps this is very infantile, but I remain optimistic that the Chinese at least, I'm not so sure about Russia now, do recognize that they have global interests and interests in the world. I remain optimistic that the United States can and will. If you don't believe that, then we are going to fail at all these things. There's a non-zero possibility and I would say very much larger than zero that we'll end up in a global war because you can see how easily it happens and we know from history how easily it can happen.

That can not be a rational way out in any way and of course you can despair because the likelihood that we will achieve these things as small, but it's not zero and I think it's a great deal more than zero, as long as we can get our politics back into some sort of sensible order and we need the political processes which will allow us to achieve that. It is clear to me as we go back through this conversation that that must start not just by correcting what went wrong 15 years ago, but correct quite a bit of what's gone wrong over the last 30 or 40 years. Not by giving up all that has been done, obviously not, but at least understanding that we actually do need, and democracies can provide a benevolent state, but one which operates within the constraints of a rules governed law, governed liberal democracy, which is a constitutional structure. It's not majoritarian tyranny, something quite different. We've done



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someone talking about what they called the century of humiliation in China from the opium war through the Japanese invasion was going to come into conflict with the Americans wanting to rule the system where the Chinese at that point were being portrayed as wanting to be at the head table again, but not in charge, but a partner, not a subordinate.

A friend of mine from Connecticut reached over and hit me on the shoulder and he said, and if we don't do that, we're going to do the Bismarck model, which is we can't solve our problems at home, so let's gather around those guys being our enemy. If we do that, nothing is ever going to work on this planet again. I remembered Orville Schell wrote something similar in his book with John Delury called *Wealth and Power*. I think as we're coming to the end here, I'm interested in your final thoughts, but I know you've over time along with myself and people like Mike Spence and others spent a great deal of time focusing on China, visiting China and collaborating with them. What would you tell Xi Jinping and Joe Biden now. They just had a relatively constructive meeting right after the midterm election in Indonesia, I am told. If that's the center stage, and that century of humiliation and American leadership and all these tensions are on the table, what guidance would you give them?

Martin Wolf:

First, as an introduction, I am very concerned for the US and for China, but in different ways, hostility to the other is a very powerful way of unifying the country. Many, many times I've made the remark both in writing and in speech that the only policy that seems to me almost completely bipartisan in the US now is hostility to China. I think that's enormously dangerous. The second point I would make is that Xi has made it remarkably easy for this to happen. I think that the regime that his predecessor created, essentially [inaudible 01:23:37] and was operated by his predecessors formally was a much more sensible way of reinserting Chinese power into the world order than the way Xi has chosen. Since it is quite obviously certain to maximize the fear and suspicion of other countries, including notably the US. I made this point really sort of reminds one frighteningly of the period before the first World War, which is what Graham Allison wrote about in his *Thucydides's Trap* book. It's an obvious parallel.

This is really terrifying. I think, to discuss this, that the ideal thing to do but may be absolutely impossible, but the only thing to do is for the presidents of these two countries with very substantial and well-informed and trusted subordinates to get together and say, "Look, neither of us is going away. Neither of us is going to allow the other to dominate the world. Neither of us will get the world we want or should want without the other. We are not going to agree on the way our societies are run and that creates some problems for us in the West." Obviously some of what China is doing domestically is very difficult to accept. Taiwan is clearly a neuralgic point and I wish they'd just forget about it. In fact, I would recommend it strongly. A complete breakdown in relations of the type that has happened in the past between great powers is simply impossible. It will blow up us all.

Let's agree on the things we must do together. Let's agree on the things where we will leave each other alone because they are so fundamental and they have to be accepted. Let's agree on the limits and principles on which we will deal with one another in areas where we can't avoid dealing with one another. Our engagement in the world economy, for example, economic development, climate and all these other things. Let's try and separate these things out. The way I described it in one column I wrote, I'm not saying this is the best way, is let's define the minimum set of agreements and processes that would allow us to have enough trust and enough cooperation to be



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Probably impossible at that time for various reasons because some people believe they could win the war easily, but now nobody but a madman could believe hostilities could end easily. That's what I think the President should be trying to do if he has the freedom to do so domestically. Mr. Xi certainly has the freedom to do so domestically. Now one little bit of encouragement. To my great surprise overnight, still don't really understand why, Mr. Xi abandoned his Zero COVID policy because it was obviously a mistake. Now I don't think he did so very sensibly, but he did. He showed pretty fair flexibility in pragmatism. Well that's quite encouraging. We can live with that. The Chinese people aren't in favor of a suicide march and neither I am quite sure the majority of the Americans. Let's build on that.

We have a mutual interest in avoiding catastrophe in every possible dimension. Why can't we do that? It's the minimum required of rational human beings. That would be what I would say to them. You'll be judged by history in doing that. An example I would give actually is Kissinger's is the detent process with the Soviet Union of the 70s, which was highly criticized at the time, but in my view was more important than Reagan's arms build up, though not perhaps more important than the collapse of the oil price in '86. It created a framework of mutual corporation and trust, however limited which allowed the United States and the Soviets to sort of deal with one another, the Helsinki process and all the rest of it in a reasonable manner. Well, we've got to do the same with China.

Rob Johnson:

Well, Martin, I hear over the course of the last 90 minutes about Greek and Rome, about the United States, China, World War I, World War II, the history and the spirit and the curiosity that you bring to the table has not only made for a marvelous book, which we're talking about today, but for a marvelous career. I am reminded that there was a group, I'll send you the link to the website called China Heritage, which created a fusion between arts and philosophy, east and west. And they called it the Invisible Republic of the Spirit. That was named from a quote by an author named Stefan Zweig who was writing about, I believe it was a biography of a man named Romaine Roland. He and Herman Hess were very good friends. I guess what I'm going to do, I don't know these people, but I'm going to suggest they give you an honorary PhD as a member of the Invisible Republic of the Spirit.

Your ability to diagnose, your ability to reach forward and back, see patterns, see analogies, understand the role of fear and move us forward with constructive hopeful vision is extraordinary. I want to thank you and my four children and my three grandchildren want to thank you for the work you've done in this wonderful book, the Crisis of Democratic Capitalism, which will come out on the 7th of February. More than that, through all the years I've known you for all the columns and all the books you've written for the speeches you've made, you are an extraordinary man.

Martin Wolf:

Well that's very encouraging. I think I'm a man whose whole life consists of mistakes, but I do at least try to learn from them.

Rob Johnson:

That's probably what makes you rise above. If people are afraid of their own mistakes, they're not evolving. You're a tremendous example



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Rob Johnson:

Well, Marvin Gaye wrote a song called Wholly Holy, first with a W, and then we have to become Wholly Holy. He said, and as Aretha Franklin sang in her famous Amazing Grace concert, she Opened with that song. We have to come together and we have to believe in each other's dreams. You are, how would I say, I come from Detroit. You stand right next to Marvin Gaye in my ranking.

Martin Wolf:

Absolutely.

Rob Johnson:

Thank you. Thank you for the ongoing work and I look forward to speaking to you again soon.

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