Hey everyone, as you've probably noticed already, there's a different voice behind the mic today. My name is Roger, and I'm the senior editor for the show. Ezra is officially on book leave for the next few months, so we're going to be having a range of different guest hosts subbing in while he's away, starting with yours truly. So let's get to it.
A few months ago, the U.S. National Security Advisor, Jake Sullivan, gave a speech that I think is the single clearest distillation of how the Biden administration is thinking about this moment for the global economy. In that speech, he argued that the world is experiencing something of an economic paradigm shift. For a whole host of reasons, from climate change to the rise of China to Russia's weaponization of its energy resources, the era of unfettered globalization and free markets is ending. And according to Sullivan, we're entering into a new era that requires very different kinds of policies and institutions. The speech really stood out to me because over the last few years, most economics coverage has been dominated by the inflation story. But this, to me, is the much bigger economic story that's been simmering in the background. The global economy is undergoing a series of big tectonic shifts, many of which are years and years in the making, and policymakers around the world are trying to figure out how exactly to respond to them. So for a while now, I've wanted to spend an episode focused on that bigger story. And in my view, there's just no better person to do that with than Martin Wolf. Wolf is a former senior economist at the World Bank and currently the chief economics commentator at the Financial Times, as well as the author of numerous books, including most recently, the excellent book, The Crisis of Democratic Capitalism. A few months ago, I happened to be at an event with Wolf. And when I asked him about how he's thinking about all of this, he outlined this framework that I found to be the most helpful analytical model for understanding this moment in the global economy. And so I asked him to come on the show and walk me through it. As is always the case, the show's email is Ezra Klein Show at nytimes.com. Here is Martin Wolf.
Martin Wolf, welcome to the Ezra Klein Show. It's a great pleasure to be with you. Great pleasure to have you. So I want to start with the big picture. Tell me about your shift's shocks, fragilities framework, and why you think that's a helpful way to think about the global economy.
Well, I think we have to step back first. It's obvious, really starting with the global financial crisis, that a lot of things have been happening in a very disorderly and confusing way over the last 15 years. And obviously, these processes started earlier, which have surprised and shocked people. And so the normal way of thinking about the world, let's just try and forecast the next year or two or three, doesn't really work very well. One needs a more analytical framework. And I've been thinking about this for quite a while and a number of different approaches. But the one I found most useful is to think about where we are in terms of these three aspects of the global environment and focusing very much on the economy.
So the first is shifts, by which I mean long-term structural processes that are occurring and are likely to continue to occur over a generation or more. Things that most of the time we don't think about, but they're constantly changing the environment we're in. And then the second rather different set of things are shocks and events that were always conceivable. You

couldn't really forecast them because the probabilities and the processes weren't known well enough, but they could happen and it so happens. A lot of them have. Very recently, been through a period of exceptional shocks in terms of their rapidity and their impact. And the final aspect of the world's economic system, if you like, is the underlying fragilities, the things that make the shocks so powerful. And those are both economic and political. And the political also includes institutional processes. And I argue that the fragilities are extremely important in understanding why we find it so difficult to cope with both the underlying shifts and the shocks well.

Well, I want to dig into each of these and I want to start with the shifts because as you said, they're the ones we often ignore even if they are often changing the global economic environment more than anything. So let's start with the first one. Tell me about the rise of China and how it has shaped the global economy.

Well, this is, I think, probably the most visible and unexpected thing if you look at the world from the point of view of 40 years ago. So I can remember very well because I was working in the World Bank at the time in, I think it was 1980, when for the very first time the World Bank was visited by a few Chinese officials, senior ones, and they were wearing Mao suits. And they really seemed to us almost like a visit from Mars. We didn't know anything about China, its potential impact,

the economy was very, very poor, very undeveloped. And we didn't really think it was particularly important and we didn't think about what it meant. Now, four decades later, four decades, this is the fastest economic transformation, I think, in world history. Even faster than the rise of the United States in the late 19th century and early 20th century, China is a superpower. And it is part of the biggest part of a broader rise of Eastern South Asia, which you have to remember contains half of the world's population and which was, one might say, the center of civilization for a very long time. So that China in particular and the broader rise of Asia has completely transformed the balance of economic influence and power and so global power. And it has changed patterns of trade. It has changed the nature of competition, both economic and political. It has changed the Western sense of itself. Remember, this was a world that the West essentially ran for several centuries and suddenly we got this non-Western, non-liberal power erupting into the middle of this. So I think that is pretty obviously the biggest shift and the most rapid shift in the world. Today, China and Russia, if you add them together, it depends on your weight, it are about half the economic size for all the Western economies together. And that's a huge shift in power. And you started getting at it in that answer, but what are some of the specific ways that the global economy is different today? In large part because of the rise of China, because of the rise of South and East Asia, how is it different than it was when you were at the World Bank in 1980 because of these trends? Well, it's important to stress and I'll come to the ways in which it isn't really different. And that's quite important. The most important one of all is the shift in world trade and world markets. So for many countries around the world, particularly the commodity exporters, but also countries quite close to China, this is far and away their biggest market. This is the market whose rise and fall both in the medium term and in the shorter term really shapes what's going on, the prices of commodities, their opportunities and so forth. So that's on the export side. It has also created a completely new set of suppliers and new set of competitors, very large number of developing and emerging countries, but also developed countries have found that industries that they thought were well established and stable have been out competed by China and have disappeared. And that's become a very big political factor, not just in the US where it clearly is. If you look at the background to what President Biden is doing, but also in Europe, the Germans are very worried about Chinese competition and many developing countries in South America, also India, feel that they're exposed to the threat of deindustrialization. A lot of the progress they made is being reversed because China is such a phenomenal competitor. And then finally and crucially, because of this new emerging power on these multiple dimensions and the growing difficulty of cooperating with them successfully, we're beginning to see real fragmentation in the world system. It's not quite decoupling very far from it, but there is much less of the sense that there is a single global order overseen by the dominant Western powers above all the US. These are really profound transformations. At the same time, it is important to stress where the West remains absolutely dominant. The world's dominant currencies are those of the United States and its allies. The dollar remains the single most important currency by far. The Western capital markets, financial markets, particularly those based in New York to a lesser extent, London remain the dominant financial markets. And overall, I would say that, and this is shown with the recent developments in artificial intelligence, that the Western countries remain technologically in the lead. But even there, there's certainly much more real competition than there used to be. So on multiple dimensions, we live in a very, very different world from the one that we took for granted four decades ago. There's so much in there I want to follow up on and that we will. But I want to stay with China for a second, because I think China's ascendancy, its continued ascendancy at least, was considered inevitable a few years ago. But in the last year or two, the narrative has really flipped in a lot of ways. So first, you had the zero COVID lockdowns that really hurt the Chinese economy. Entire cities were locked down, unemployment spiked. There was this major protest movement. But then last December, the country lifted its lockdowns. And the belief was that growth would surge. It would continue on its previous path. And that just hasn't really happened. Growth for China has been much slower than expected. The unemployment rate among China's urban youth recently reached the highest number on record, over 20%. The country's real estate sector, which has long been the engine of its growth, looked like it was recovering and then started tumbling again. So given how important China's rise has been for the global economy, how it's shifted so many things, what do you make of the trajectory now? What's actually going on with the Chinese economy? And why hasn't it gotten back on track as quickly as people expected? So actually, I've written a number of pieces on this possibility. These were quite a long time ago, six or seven years ago, both in the financial times and elsewhere. And we have to start by saying it's not yet clear whether this is a fundamental break in China's rise or merely an interruption. And that depends partly on what the Chinese do and partly what happens in the world. If it is a break, then there's, of course, a crucial question of how profound the break is. So let's just consider these aspects. And it really involves understanding what's going on. So the growth rate that China had up to about 2012, so a few years after the financial crisis, which was close to 10% a year, there wasn't any doubt that that wasn't going to be sustained. It was going to slow. And the slowdown occurred partly because export growth couldn't be sustained at that rate because China just become too big and it had saturated so many markets. But also, they had done so much of the investment that was needed. Their infrastructure had already become superlative, really almost overdeveloped for the size of the economy as it was. And they needed to find some other way of maintaining growth. And what they went for was the biggest real estate boom or bubble, I think, in world history, which meant that they then started generating huge increases in debt to finance this huge real estate boom on which demand was heavily dependent. And so China, in the last decade or so, started showing many of the characteristics of Western countries before the global financial crisis. I think of it, sometimes I refer to this as the law of the conservation of financial bubbles. We stopped and they immediately had to run into one, they blow up one, which is indeed what they did. Now, it was obvious by 2016, I was starting to write about that, that was not a sustainable driver of growth in China. And at some point, they were going to stop it. And in the last year or two, three, they really have stopped this. But that, of course, knocked out or weakened a massive part of the demand in the economies. And that's one big structural reason why demand has been weak and growth has been weak and employment has been weak. That's as it were, the macroeconomic structural challenge they have. And Japan has faced the same problems since the end of the bubble in the 80s. And the bubble in the 80s, and I've been writing this for about 30 years in Japan, was motivated by the desire to do exactly the same thing in Japan, after their high growth period ended. So it's the transition from ultra high growth to merely fast growth. It really breaks this debt accumulation, high investment model. Then even more, I think important, certainly as important as the second huge problem, which goes something like this, the Chinese system tried to achieve something quite extraordinary. And I think only Don Chopin would have had the nerve to do it, which was to combine a communist political system with a capitalist economy. And most of us would have said, can you do that? And I've asked in 1980, we said, it's impossible. And I think Don was prepared to do this because he knew they needed the growth. But one consequence of that sort of growth within a communist system with no rule of law is that corruption clearly exploded. And it was inevitable that it would, because all the resources above all the land that capitalists needed to do their business, all this depended on permissions from government. And the officials who provided it, well, quite naturally, they wanted a share of the winnings. And the capitalists were perfectly prepared to give them a share of the winnings. And in the process, the capitalist system and the party system merged. And it started making people feel this was a completely corrupt system. And there was lots of protests about this. And Xi Jinping was clearly, who is obviously a bit of a control freak, also thought this was threatening to the viability of the Communist Party. So what he did then was to crack down on corruption. But if you crack down on corruption, you are cracking down on the market economy in China, because I've written this many times, corruption is part of the system. And so the more he cracks down on corruption, the more difficult it is to sustain the dynamism of China's capitalist system. Many of the capitalists get frightened, some of them leave the country, some of them stop doing the risk taking they did before. The bureaucrats become more cautious. And the underlying growth dynamic of the system also slows. It seems to me this macroeconomic problem that I've described has coincided with this deep problem of how can you run a capitalist

economy indefinitely in a politically accessible way within a system in which all power is concentrated in the Communist Party. How do you do that? They don't know how to do that. Then, of course, along came the great shock. We're going to do the most important shocks of the last few years, indeed the most important, the pandemic. And that really started destabilizing the system, frightened the wits out of the people, constrained economic activity, and slowed down the whole engine. And a lot of the growth in a system like this depends on the expectation that growth will continue. As soon as businessmen conclude that actually the economy isn't going to grow very much, then they conclude, well, we shouldn't invest so much. And if they decide that they're not going
to invest so much, then the growth will slow. And then you are in a trap. And I think their danger is that now they are in moving into such a growth trap. And that means that where China is going to go over the next 20, 30 years is, I think, one of those great uncertainties that we have to contemplate. And other countries have written a lot about this recently, like India, may well be doing better. Well, let's talk about that, because if the story of the global economy over the last 20, 30 years has been the rise of China, now, for all the reasons we've been talking about, we're beginning to see a pretty significant shift in certain kinds of investments away from China and towards countries like India, but also Vietnam, Thailand, Malaysia. So for instance, right now, the vast majority of iPhones, and this has been the case for a long time, the vast majority of iPhones are made in China, as opposed to about one in 20 in India. But by 2025, the share of iPhones made in India is expected to rise to closer to one in four. And then you have other companies from Sony, Google, Microsoft, shifting production from China to places like Vietnam and Thailand. And so one prediction, as you sort of alluded to there, is that as China continues to become less and less attractive, both for the structural reasons you talked about, in addition to the sort of West's encirclement of it and the geopolitical risk of investing there, that you're going to see a shift in the regions and really the world's economic center of gravity, away from China specifically, and to this broader set of Asian countries centered around India and others. And so I'm wondering what you make of that possibility, and then what you think it would mean for the world economy if it did happen? Now, people are really beginning to look at India with interest. And of course, India is like China inconceivably vast. Its population is now the same size as China's. And it is expected that in the course of this century, it will become maybe four, 500 million or more bigger. So the human resource potential is essentially limitless. Now, hitherto India did liberalize in the 1990s in its trade opened. It has never made itself a really successful base for manufacturing production, though it has been quite successful in some aspects of services. There is no doubt that this government in India is very determined to find ways to get India into the production of goods for export, part of the global supply chain within this China plus one context. And of course, they would certainly like there to be more services coming from India consulting, IT services, and so forth. There is no doubt there's potential there. There's also no doubt that providing the quality of infrastructure, the quality of the bureaucracy, the integration of production systems that China has created will be immeasurably difficult. So my assumption at the moment is that China will remain a central part of supply chains for many products for the foreseeable future, but there will be additional countries playing a part. It will become, as it were, more Asian and less Chinese. From our point of view in the West, this probably means that in the things that China has been so successful at, like you mentioned,

the assembly of iPhones and the production of so many other products, it won't mean things will be so different. And it is also worth stressing that in some areas, and I think the one of the most interesting is in automobile manufacture, where China's market is far and away the biggest in the world and where they are real leaders in electric vehicles. And more broadly, they are leaders in solar cells in many aspects of the Green Revolution. More broadly, China's lead might actually grow. So it's going to be a very complicated pattern, but I do think it is plausible if people play their hand right, that the desire of our companies to diversify their source of production and to resist being swallowed by China will lead to greater diversification of the location of production across Asia and a little bit, but I suspect less, bringing back production in certain areas home, back to our homes. But it's going to be a complicated process, and I think it's incredibly important to stress that it will lead for the foreseeable future. Removing China altogether, given the immense efficiency of its productive systems, the concentration and agglomeration of skills in particular areas, removing China altogether just seems to me wildly infeasible. Well, that in a lot of ways brings us to the second big shift that you talk about, which is de-globalization. So you've been starting to get at it here already. But first, how has globalization shaped the world economy over the past, say, 40 years? And then also, how is that beginning to change now?
Well, this is a very big and complicated story. So let's look at it in the big picture. I think it's first very important to understand that globalization is not just trade, and certainly not just trade in goods. It includes trade in services. It includes flows of capital, foreign direct investment, portfolio capital, the integration of capital markets, its flows of ideas, its flows of people. It is the creation of sets of institutions, which are to some extent global ones. The World Trade Organization is a feature of this. So it's a very complicated process. And that makes it rather difficult to discuss simply. So it's very important to understand some of these things could change radically and others could endure. And my core belief is that, given modern technology, the way we can spread information around the world, however hard we try to control it, that the complete end of our, as it were, global self-awareness, the awareness that we are sharing economic systems and indeed the planet will continue in many ways
to grow. And the environmental crisis is one aspect of that. I think it's very important.
If I focus more narrowly on trade and the related investments, I think the things we can say are something like this. First of all, if you use standard measures, ratios of trade to world GDP, the proportion of a value added in a product, which comes from many different countries because the components and the assembly are all in different places, in all those sorts of dimensions, and perhaps even more important, certainly as important, the extent to which companies became transnational, genuinely organize their production systems across borders. In all those respects, what happened between, let's say, 1980 and 2010 or so, 2008 to 10, is completely unprecedented in world history. We became more integrated on all those dimensions by a really very large factor than had ever happened before. China was a big part of that, but it wasn't the only part of that. Essentially, the system that the West had created for itself, particularly say in Europe, in the post-war period went global. And what we can say now is if we look at it in terms of policy and in terms of actual flows of trade and capital, that ceased to be dynamic. It ceased to grow faster than the world economy about 15 years ago. And since then, we haven't had a huge reversal

on the evidence, but it hasn't continued to grow. So as it were, we've passed peak globalization in all those dimensions. There are other aspects give you the most obvious one, data flows. Data flows are absolutely exploding across borders, just as they are within our countries. So it's a very complicated picture, but in the big picture, globalization hasn't continued. It hasn't reversed, at least not in dramatic way, but politics are now against it. And I'm not at all sure that will reduce trade, but it will shift it around. It becomes more politicized. The liberalization process that was dominant for some decades has clearly halted, and most of the evidence suggests is now somewhat reversing. We're becoming more regional and we're becoming more suspicious of trade with countries we deem potential adversaries. That's a very important development. How far that will go towards reversing the globalization process, we don't know, but we're seeing that. I really appreciate that answer because I think there's been a narrative over the past few years that what we're witnessing is the cracking up of globalization. That's not really what you see in the data, like trade and capital flows. While, as you said, as a percentage of world GDP tended to peak around 2008, they've generally in absolute terms been increasing over the past few decades. And then COVID was a setback and everyone thought this was a big setback moment for globalization. But by 2021, global trade had recovered to past pre-pandemic levels. And then global flows dipped again in the wake of Russia's invasion, but overall trade actually increased in 2022. And that's even true in areas where there's been the most talk of de-globalization. The dollar value of trade between the US and China set a new record last year. Oil and gas markets have basically completely adjusted to Russia's invasion. And so I think one view of this is that when you look at the data, it looks like the story of the last few years isn't one of globalization's downfall, but globalization's resilience. But on the other hand, I think what you're getting at in the end of that answer when you talk about geopolitics is what I've recently come to think about sort of as the paradox of this moment in de-globalization or globalization. And this is a point made in a recent paper by Penelope Goldberg at Yale and Tristan Reed at the World Bank that I found really helpful, which what they argue is, yes, when you look at the data, globalization looks fine. But the argument they make is that the data on trade flows in particular is actually a lagging indicator, right? Trade is downstream from trade policy. Policy is downstream from political sentiment. And when you look at the policies being made right now, when you look at the way that political rhetoric around being tough on China and on-shoring industry, it seems like we're clearly moving in the direction of de-globalization. And their argument is eventually it could really show up in the data in a significant way, but that data is just a lagging indicator. And so I'm wondering sort of what you think about that theory. I think that's perfectly plausible. As with all turning points in world history, including world economic history, it's very difficult during those moments to identify what's going to happen, at least unless you have the start of World War I, in which case things are pretty dramatic, very, very, very quickly. So if that, for example, actual hostilities between the US and China over Taiwan, God forbid, then things could change very rapidly because I think we'd move quite rapidly into something like a global blockade. And the impact of that is sort of unthinkable. Certainly gigantic. It would be a transformational moment as the Great Depression was in the 30s and of course, World War II.

So I think this is very perceptive, but I would like to introduce another nuance, which is I think very, very important. The US debate on trade is sui generis because the US is sui generis. And I think it's important, particularly if we're talking to Americans, for them to understand, it's a point I made often, is that things like this don't look the same elsewhere.
And there are two or three aspects of this which are crucial. First, the US sort of thinks, and it's the only economy that can think like this at all, that it is possible and possibly even desirable to be close to self-sufficient. The United States became the biggest economy in the world largely as a self-sufficient country with a very small amount of trade and highly protectionist trade policies in the 19th and early 20th centuries. When it liberalized trade, it did it in large measure, not entirely, because it wanted to promote the development of its allies, particularly in Europe. And it was perfectly prepared to open its markets to help them as long as it didn't disrupt its own economy too much, and that worked out quite well. So it created a global order, which it sort of assumed wouldn't be too dramatic in its effects upon itself. And the similar attitude continued since this worked quite well through the 80s and 90s while China was blowing up, blowing up in the sense of becoming such a gigantic player. But more recently, it's pretty obvious that the Americans suddenly said to themselves something that everybody else knew took for granted. My God, this trade stuff is changing our economy dramatically. We're losing lots of jobs. We're being forced to specialize in areas we're good at, and we're losing labor intensive manufacturers. We don't like this. Why don't we go back to being self-sufficient?
And in addition, we expect to be a completely secure superpower. We don't depend on crucial imports from other countries. We can basically make everything ourselves. And because of its resources and scale, that's not a completely ludicrous proposition for Americans. But if you look at any other country in the world, or even Europe as a whole, we can't be self-sufficient. We're always going to be huge net importers of commodities, as China is. Our markets aren't large enough, and our technologies are not in aggregate advance enough to be self-sufficient in all the products we need. And that's even truer of the smaller countries within them, let alone all the countries around the world. In other words, all the prosperous countries in the world today, other than perhaps United States, know that their standard of living depends on sustained enormous trade with one another, some of its regional within Europe, and some of its global. I won't go into the individual countries. So they look on this as a de-risking process.
In the genuine sense, yes, there are some risks, and they want to manage it. They want to maintain crucial technological strengths. Germany is very concerned about that. Japan is concerned about it. But there is no debate that I can see, not really anywhere, about actually ending globalization, reversing the great process of integration of the last 50 or 60 years, because they know it's completely and utterly infeasible. And so the nature of the debate, the rhetoric about this, is in a very profound way different from the U.S. And all the Asian countries I mentioned, India has a little bit of this dream of self-sufficiency, though. I think it's absurd.
And this means, I'm not trying to say that the U.S. isn't crucial, of course it is, but it means that what might actually happen is very different from what Americans might envisage or imagine or conceive of from their own debate. It's just not the same debate elsewhere.
I think that's a really important point about the uniqueness of America here. But also, I think it's important to point out that there are also, I think, some really key debates within America and within the American conversation. And something that I've noticed when we're talking about

sort
of how the U.S. views the future of globalization is that there are really two major critiques
of globalization here that I think are often conflated, but lead to very different policy
prescriptions. So one is what you can think of as sort of the China shock argument, which, you know,
as the, you know, now famous paper by David Otter and colleague showed, was that globalization
and
the sort of outsourcing of jobs to China led to a pretty significant loss of manufacturing jobs
in a lot of Midwestern factory towns in the U.S. that many believe helped fuel the rise of Donald
Trump. And then the sort of the second argument is what you can think of as the China
entanglement
argument, which is that the U.S. economy is now deeply entangled with and dependent on the
economy
of a country that is increasingly authoritarian and hostile, which makes us really vulnerable
if China decides to weaponize certain choke points in the global economy like Russia recently did
with energy. And often in the U.S., I think these two different critiques are made together,
but often in practice, they can lead to very different policy directions. So to take one example,
one of the big questions in the U.S. right now is what to do about critical minerals,
because if you want to manufacture, say, electric vehicle batteries, which the U.S. wants to do a
whole lot of, you need a bunch of lithium and cobalt and nickel. And the same is true with
different minerals for a whole lot of clean energy technologies, including solar and wind.
And right now, a huge percentage of critical minerals are processed by China. And so there's
this question of how we want to go about getting those minerals here. And the Inflation and
Reduction
Act was pretty clear about this. It said that for an EV to be eligible for one of the major
tax credits in the bill, it needed to be made with a certain percentage of critical minerals
processed in the U.S. or one of the handful of countries that the U.S. has a free trade agreement
with. And the intention there was to onshore a lot of the critical minerals processing back here
to America. But something the Biden administration has been doing as a way to sort of work around
the
law is to create these new so-called critical minerals agreements with certain allies like
Japan and Europe, so that EVs with mineral source from those countries can qualify for the tax
credit.
Now, that is very nerdy in the weeds, I know. But this is where the divide in the U.S. comes in.
Because if your main worry is about the U.S. being too entangled with China, then you are clearly
going to favor those kinds of agreements because they help you to untangle from China quickly.
But if your main worry is about creating more domestic blue-collar jobs, then those agreements
look terrible because we should be mining and processing those materials right here in the U.S.
with U.S. labor. And you sort of see this divide within the Democratic Party right now.
The Biden administration signed one of these agreements with Japan earlier this year.
And it got attacked by a bunch of high-ranking Senate Democrats and not just the usual suspects
like Joe Manchin, but folks like Richard Neal, like Ron Wyden, who are usually pretty staunch
administration allies and who hold really key positions. And so it really does seem like,
even within the U.S., there's multiple different critiques of globalization. One

sort of that leads you towards more of this on-shoring, we-need-to-do-it-all-alone approach. And one that's much more in favor of a friend-shoring, let's together try to disentangle from China approach. And it seems those really lead in different directions. And so I guess I'm wondering if that's something you've seen as well, and more broadly, how you understand some of these different cleavages or divides within the deep globalization conversation.
I think that that's a perceptive and important distinction. Obviously, if you look at the recent discussions in the United States and the way these issues were handled in this very significant speeches by Janet Yellen, Secretary of the Treasury, and then Jake Sullivan, National Security Advisor, they are trying to converge on a view which is more, as it were, in the latter camp, as you defined it. Yes, they talk about a foreign policy, or Sullivan talks about a foreign policy for the middle class, which brings these dilemmas right into the open, obviously. But it looks as though the insistence that we're not decoupling, we're de-risking, is more security oriented than it is jobs-oriented. And therefore, I can understand from the point of view of those Democrats who are really concerned about the latter, it doesn't look as though where the core of the administration is landing is where they want them to land. But I think there's also an analytical aspect of this. Obviously, these are very different issues, as you've implied, which means that trade policy gets very complicated when you have all those different concerns. I mean, my own view is that there is obviously real issues about generating employment and good employment in America. But the China shock is ancient history. If you look at the data, basically happened in roughly the first decade of this century. And since then, actually, the share of manufacturing employment in total employment in the US has been remarkably stable. And there's been no repeat of this extraordinary shift. Trying to bring back all the industries that went then is, I think, going to be very costly and mostly very unproductive. And in other countries, I don't think many of us really think that we can bring back the sorts of industries that were lost to China at that stage. The reason this is such a huge issue in America is that America fails so completely to generate place-based adjustment policies that allowed crucial parts of your economy and particularly places in your country to adjust to these shocks. And that's a much broader policy error than just a trade policy error. But we do get absolutely clearly into two fundamental, long-run issues, which you can see. The one is, obviously, of huge concern to Americans, which is, can we avoid losing our technological leadership to China? My view is the main issues there will be the nature of domestic policy, the ability to sustain innovation and make sure that innovation and innovation hubs continue to be dynamic, because I think the US clearly has the best systems in the world. It should be more confident about that. And the second aspect is, of course, straight national security things, which is, can we produce the things that are actually essential for our capacity to fight wars if we have to fight them, God forbid. And there's the economic security. We don't want countries to be able to turn off the taps, and that's why we want to diversify. We want to diversify productions to friendly places. But that doesn't lead you necessarily to producing at home. It isn't the case that if everybody produced their own protective equipment at the beginning of COVID, we would all be more secure. The probability is we would have ended up in that situation with chronically inadequate domestic supply. It would have been just as bad. So we have to be very subtle in the way we think about economic and national security in the policies we frame. There's one final element, which is, how does this all look to China? The US thinks

it's very vulnerable. The Chinese know they're vulnerable. They feel very vulnerable to embargoes of all kinds. I think that reciprocal vulnerability, the Chinese awareness that they need trade, that they need investment, that they need technology is actually a stabilizing force in the world. It means that there will be very strong voices in China arguing against a hostile policy because the interests in favor of avoiding that are so great. If we really cut China off, quite apart from the huge economic threats, costs to us, they will be sizable, it's inevitable the Chinese will then feel they have nothing to lose by hostility because we cut off all the gains. So we have to be very, very careful about this policy of trying to reduce China's capacities against us and reduce our dependence on China because it means it also reduces China's dependence
on us, which I think has significant strategic value. And I do think again that the recent visits by Secretary Blinken and Secretary Yellen to China indicates that these nuances are understood in the administration. I understand fully why Congress people might take a different view because they still remember and they represent places which have been hit by Chinese competition. But I think focusing on that and trying to pursue a policy designed to reverse that is very likely to prove a costly failure.
So I'm glad you mentioned the Jake Sullivan and Janet Yellen speeches because we've been talking a lot about these big structural shifts in the global economy, the rise of China, de-globalization. We haven't got to talk explicitly about your third big shift, climate change, but for those who want to understand more about the policy response to that, we just did a great episode on the Inflation Reduction Act with Rob Meyer that we can link in the show notes. And it's very clear that these shifts have really been top of mind for the Biden administration. So to the speech you alluded to, in April, Biden's national security advisor, Jake Sullivan, gave a speech outlining what he called a foreign policy for the middle class that I felt was the sort of clearest articulation of the Biden administration's thinking to date. And I really think of it in sort of two separate parts. I'll do my best to sort of summarize it here. One is the diagnosis, which is that the era of sort of unfettered globalization and free markets was a failure on multiple fronts. Like geopolitically, it enabled the rise of an authoritarian China and empowered a rogue Russia. Economically, it created a disastrous climate, fragile supply chains, skyrocketing inequality. Politically, it made the US vulnerable to the rise of populists like Donald Trump. And then the second part of the speech is really the prescription, which is more or less that industrial policy, the kinds of policies like the Inflation Reduction Act, the CHIPS Act, that these kinds of policies can sort of help address all of these different pillars at once, right? That with these bills, we can simultaneously decarbonize the US economy, become less dependent on China and Russia, and deliver a more equal economy all at the same time. And the reason I make that distinction is because you just wrote this really great book, The Crisis of Democratic Capitalism, where I think you share a lot of the Biden administration's core diagnosis, especially this part about economic forces making the US political system vulnerable to a politician like Donald Trump. But in your recent columns, you've been a little bit more critical of the Biden administration's proposed solutions to that problem. So I just love to hear from you. I know you got it a little bit already, but what does this vision, this policy vision of the Biden administration get right, and what parts of it are you more worried or skeptical of? So this is obviously a central question. My view is that their analysis

broadly defined of what's gone wrong in America and the political consequences of the erosion of the sense of security of what you would call the middle class, and their sense of vulnerability and insecurity, which is reinforced in complex ways by cultural changes, has been a very important economic and political process, which has led, among other things, to their attraction for a classic authoritarian demagogue in Donald Trump. And that's very, very frightening. It has world significance, obviously it has significance for the US, and they're entirely right in recognizing that and wanting to do something about it. So the question is, beyond the rhetoric, are they broadly on the right lines with what they are proposing? And I think there are probably two ways of thinking about that, which indicate why I'm a bit skeptical. The general approach of economists, and I plead guilty to this, is that if you've got all these different objectives, you want to make your economy more secure, you want to get more jobs for the middle class, the working class, as I would define it, you want to improve national security, you want to promote decarbonization of your economy, you want to make, do something that really reduces carbon emissions. You would say, well, you will need multiple instruments of policy, very distinct instruments of policy, to achieve those objectives, because that's sort of the basic rule of thinking about policy. You need at least one instrument for every objective, and sometimes you need more than one. So I think that they are expecting too much from what is essentially an industrial policy. It is a multifaceted industrial policy, but nonetheless, I think they're expecting too much. In particular, I think they won't end up by generating anything like the scale of permanent employment they hope for. They will not, I think, generate genuinely globally competitive industries to the extent that they want from this. A lot of them will need subsidies indefinitely, and most importantly, the amount of resources, money that is going into this, is just not big enough fundamentally to reshape the economy. Where it might work is improving national security in a few areas, which seem to me quite important. I do understand, for example, why the US does feel very vulnerable in its dependence on imports for semiconductors, which are truly essential products and are produced in very few places in the world. Similarly, I can see the concern about, I'm less worried about this, the dependence on Chinese solar panels, but even there, I think the discussion of how you define what your economic and security vulnerabilities are and how you respond to it optimally is rather inadequate, somewhat naive. I'm concerned that the policy has great rhetoric. It has a few quite visible totemic activities, but it's not going to change US emissions very much. It's not going to change US manufacturing trajectory very much. In the end, it's not going to change the political environment that much, and a lot of that might be because really and truly Congress and therefore the American people aren't prepared to make the really radical changes that might actually do much about this. I would consider myself sympathetic with the objectives, understanding the politics of the objectives, but I'm less than confident that we will, five, 10 years from now, look back on this set of policies and say, this was truly transformative. I pointed out in some of my columns, the US has a fairly long history of industrial policy. Some of it has been a magnificent success, but a lot of it has been a pretty bad failure. Once you start on this in the sort of political

system the US has, rent seeking by people trying to get hold of subsidies can easily lead to massive distortions. In fact, distortions in the economy, which are not so terribly distinct from the rent seeking we're already seeing in many of the US economy's most important sectors. I may be wrong, I hope I'm wrong, but my view is there's too much expected from what are really overall quite totemic changes. I think that's really well put, but to put on my Biden administration hat for a minute because I have talked to a lot of folks in the administration or who recently served in the administration and I want to respond how I think they would. I think the first way they'd respond, which is something you alluded to, is that of course these bills weren't perfect, but they were the best that could be done within the constraints of the American political system. The Biden administration had a 50-50 Senate that hinged on one Senator in particular, Joe Manchin, in a highly polarized society with a budget reconciliation process that forced everything into one bill and it had tried to include things like an expanded child tax credit, care agenda, and that just didn't work. The only way you could get enough political support was to go with this more industrial policy approach, but I think the second thing they'd say is, look, we don't know if these industrial policy bets are going to pay off, but when you look at what's been happening already, it seems like they're already working, and not only working, but surpassing basically everyone's expectations. So according to the administration's estimates, more than $500 billion in private sector manufacturing investments have been announced since they took office. Biden himself recently pointed out that while spending on manufacturing construction only increased 2% in the four years of the Trump presidency, it's increased 100% in just the first two years of his presidency, and it seems like every week there's a new battery-making plan or chip fab or solar project being announced. So I think part of the case they would make is, look, it's working, and then you look at the projections outward, and I think some of the best, most extensive modeling of this has been done by the Princeton-led repeat project, which, you know, they're looking at the modeling of the jobs that Biden's legislation could create, and they're specifically looking at the Inflation Reduction Act and the Bipars and Infrastructure Bill. And under their middle-of-the-road scenario, they estimate that the combination of
just those two bills alone will create around 1.5 million additional jobs by 2030 and 2.5 million by 2035. And you mentioned, you know, you're not sure how many of these jobs will be permanent, but of those 2.5 million jobs created by 2035, just over 600,000 are in construction. The rest are in other areas like manufacturing that will continue past the construction phase.
And then lastly, I think a point they've made to me is that it is truly important to build up a domestic manufacturing base, not just because of the jobs it could create or the dependency on China in particular, but also because it's important to have the kind of flexibility to adapt to the challenges of tomorrow. And I think China here is the ironically the go-to example, right? When COVID hits, China is quickly able to manufacture a ton of PPE that it is then exporting while the rest of the world struggles with shortages. And the reason is because it has these deep reservoirs of experience and know-how and infrastructure needed to manufacture at scale. And when you talk to folks in the Biden administration, they talk about wanting to build that same capacity here, not just because it will help with the industries of today, but because we live in an uncertain world. And in an uncertain world, we don't know what challenges we're going to face next. And it's important to have that sort of core industrial capability right here at home.

And so I know that was a lot, right? It's political constraints. It's the fact that the IRA and these bills are already working. It's the need for a domestic manufacturing base. But I'm just wondering how you think about those arguments from me as the quasi representative of the Biden administration here.
Well, let's respond in turn. On the first one, I am really sympathetic to the argument. And that's one of the reasons why, unlike many of my friends, and I've been criticized by some of my friends on this, and you probably guessed who some of them are, I have been more open to the view that this is worth trying. And it's worth trying because I think something had to be down politically.
I'll come to the economics in a moment. And as you rightly say, given the nature of American politics in general, and specifically today, this was probably the best that could be done.
And I accept that. So it's conceivable that, you know, if I'd been asked by anyone in the Biden administration what they should do, and they told me this is all they could get through, I would have said, okay, of course, go for it. So that seems to me perfectly reasonable.
The second is, and Paul Krugman, who I admire and respect has made this point particularly forcefully, it does seem that these programs have led to more investment than most people expected. And that is important. And it might last. And I'm just putting the qualifications because we really don't know how this is going to end up and whether viable industries will be produced. But, and you put forward, in fact, this is where the buck comes in some figures on gross jobs that might be generated. Now, we know that a lot of these jobs will go to people who already employed. And many of those people will be people who already employed in manufacturing. So how much of it will be a net capacity increase in manufacturing is, I think, and it's not clear to me, the third element, which I think is probably true. And it comes back to our earlier discussion about the desire for a pretty large amount of self sufficiency is that to be a strong economy, one needs a strong, flexible, and resilient manufacturing sector. And that's certainly how everybody thought about this, you know, from the middle of the 19th century on until relatively recently. How far this is true in current circumstances, how far it is true that you can move people who have skills and capacities in one area to the ability to produce effectively in another area that is particularly sensitive for you is not clear to me. You pointed out that the Chinese could produce more protective equipment quickly than anyone else could.
But of course, they did actually export a lot of this, it was available. How much the US should have invested in the capacity to produce something that they thought most of the time they were not going to need, I think is at least an open question. The overall economic benefits of focusing on the revitalization of manufacturing in a very highly advanced high wage economy like the United States is something that one just has to be a little skeptical about. And I think that there could still be substantial disappointment in this. But I do recognize this is the final point.
The US is the only economy in the West that can plausibly have a go at this. And it might be because of the scale of the economy and therefore the economies of scale that can be generated within
it, it might turn out that quite a few of these industries are reasonably viable and they give therefore correspondingly reasonable degrees of increased security. I can understand those sorts of arguments. But the real test will be how costly this is going to be, how much of it will generate truly competitive industries in the long run. Is the electric vehicle industry going to end up as an American industry, fully competitive with the Chinese industry or not? These are

pretty fundamental questions and the only test there is the test of time.
So we've been talking a lot about these bigger shifts in the global economy and how the Biden administration is responding to them. But there are plenty of more immediate crises that the administration is responding to as well. So I want to pull in the second half of your framework here. Tell me about the shocks and fragilities facing the global economy.
Well, the shocks that we've been going through, I'm going to put aside the global financial crisis though actually I think we've very much been living in its shadow. It's not gone. But the shocks that matter obviously were the pandemic. Then the impact of the recovery from the pandemic with the pandemic itself on global supply chains and the disruptions caused there.
And then in my view, largely as a result of these two things together, the sudden and completely unexpected rise in inflation. Suddenly we were having inflation in the way we hadn't seen for 40 years
and it was linked of course to an energy shock partly before the Russian invasion of Ukraine but reinforced by it. So it had inevitably for someone like myself echoes of the 70s and early 80s. And that has led of course to something really important which was a big rise in interest rates. I noticed that many economists think that the Fed has now finished its tightening monetary policy but it's quite a tightening and it's been quite sudden. And of course this then links to the fragilities because the most important fragility in the economic space as it were which is global and national in the US case. We have extraordinarily highly indebted economies. It's particularly true in the US for government debt which is at very high levels by historical standards. That's overt government debt, very high levels and of course debt in the non-financial corporate sector. The financial sector is leverage and the household sector is leverage. It's less of a problem. If we look at the world as a whole and we talked about China but that's true almost everywhere, we have the most highly leveraged economy as far as we can see from the data which limited that we've ever had. And the general rule for economists is if you've got lots and lots of debt around and it gets much more expensive and it is, they're just likely to see financial shocks, financial crises and we've seen some of those and we could well see more of them. This then all interacts of course with other fragilities which the most important are political. But those are the shocks which are now interacting with one of our most important fragilities creating a real question about what the next five, ten years will be like. A crucial element here is how quickly does the legacy of the shocks dissipate and here I think recent evidence might make one a bit more confident about the path of inflation. That suggests one might be more confident about the future of interest rates in which case we may be okay but right now we don't know.
Let's talk about the inflation picture then and interest rates because this is one area where the nature of the shock has really changed in recent months. So we're recording this in late July and according to the June CPI report headline inflation has come down from around 9% at its peak last year to around 3%. Basically every other indicator even though stripping out things like energy and food and rent are down as well and meanwhile unemployment in the US has remained below 4% which is something that most economists really didn't think could happen.
Six months or a year ago the story was that a recession was inevitable if you wanted to bring inflation down and that just hasn't been the case so far. So give me a read of the current inflation story. What's happening and where do you think it goes next? I think that's really important and I think an honest statement from me so often including this discussion is I don't know

but my perspective has been that I got something importantly right and I got something importantly wrong and the question is where this plays out. I was one of the people who was concerned about the inflationary consequences of the pandemic quite early. I thought that the huge expansion of fiscal deficits combined with the huge monetary expansion of the 2020 and the continuation of that
in 2021 created very severe inflation risks and so I was relatively hawkish on this in 2020 and 2021 and that proved to be correct and I argued this wasn't going to be temporary in the sense that the Fed could just ignore it. So I supported the tightening policy and I think it was broadly correct. Now I was one of the people who thought once inflation began to be entrenched particularly in labour markets and you were seeing it in wages and earnings across much of the western world that it will be very difficult to disinflate smoothly without a rise in unemployment
and there were a number of others who took very similar views and right now it's beginning to look as though that was too pessimistic. I think there is one quite interesting reason why that might be wrong and that is that actually unemployment is not a good measure of labour slack and that in particular there is as I understand it a reduction in hours worked in some economies. I'm not sure how much in the US but certainly elsewhere and that's of course also an indication of labour slack and of course there's a reduction in vacancies and that is also an indication of labour slack and it may be that now with our very much more competitive labour markets than 50 years
ago and much more flexible labour markets a reduction in vacancies and perhaps to some extent hours
is itself enough of a loosening of the labour market a reduction in excess demand that all of their own it will eliminate or vastly reduce the pressure on wages and so might the reduction in headline inflation even though it's not a reduction in 2% levels the target levels of core inflation so at this sense I can I just jump in there just to clarify just to make sure because I think this is a really important point so what you're saying is that one reason why we might not have seen sort of unemployment have to rise for inflation to come down is because when you look at sort of typical models of the core drivers of inflation a huge one is wages and so the belief is that as long as labour markets remain tight and usually sort of employment is a measure of the tightness of labour markets wages will keep pushing up and so inflation will keep pushing up and like the typical way to solve that is that the Fed raises interest rates which causes unemployment to rise and things cool off but what you're saying is that actually what we're seeing is that the labour market seems to be cooling off without unemployment rising because there are these
other sort of metrics right like hiring is back to pre-pandemic levels vacancies are down workers aren't quitting as frequently and so what we're seeing and what economists might have not expected is that wage growth itself is starting to slow down the labour market is starting to cool but it didn't require a big spike in unemployment to do that I just wanted to make sure that I'm clear on that and that is an argument that one of the Fed governors if I think Governor Weller made and I was rather skeptical about it but it looks more plausible now or at least less implausible and let me be very clear I would be very very happy if that turned out to be the case that we can eliminate the the danger of a sort of wage price spiral without actually raising employment significantly it will mean of course that for many workers their real wages will have declined

which is not a good thing because after all there has been now an extended period of high inflation and that we're not expecting negative inflation so price level will be higher and wages won't have fully caught up and of course as the bank for international settlements recently pointed out the last mile might be the most difficult because we haven't got back to core inflation of 2% yet and that's presumably the target and it might turn out that actually we're not going to be there so easily so I'm a somewhat agnostic about the future I think it's still quite possible that getting core inflation back to 2% which I think is the right objective we can discuss that separately in the circumstances those there's a lot to be said on that that getting there will still require a slowdown which shows itself up in open unemployment but it now looks to me at least more plausible
than I thought a year or so ago that the disinflation process can be carried out without any significant
rise in unemployment and that would seem to me wonderful and it shows that the labor market and the economy which is not surprising in a way doesn't operate now in the way it did half a century ago and in a way that is rather jiffle and if that's the case it's quite plausible the feds has reached peak interest rates now and in the next year interest rates will start coming down and things will look better so I take your point that getting from 3 or 4% down to 2% inflation could be much harder and more painful than getting to this point and that core inflation you know should be the right measure of that but I think there are a few responses you'll hear from some of the more dovish economists to that argument and I want to hear what you think of them so the first one is that core inflation actually isn't the right indicator because a huge component of core inflation and just for people core inflation is inflation excluding certain volatile prices like energy and food but a huge component of core inflation about 40% actually is shelter it's rents and the price of rents has a well-known lag in the data of about a year because most people have one year leases and so the current rent prices baked into the core inflation
measure are still reflecting you know the housing market of a year before and in this case the housing
market of mid 2022 and we just know from a lot of different sources that rents have been falling for some time now even if that hasn't been reflected in the numbers and so I think the first response you'll get from economists is look when you look at core inflation it's sort of artificially high but if you look at something like super core which also strips out rent it's much lower so that's sort of the first argument is like maybe core inflation isn't the right measure but then the second and I think more important response is why are we even shooting for 2% in the first place especially if that might require really bringing the hammer down on the labor market so when I look at the current economy right GDP growth is the highest in the G7 in the U.S. right now labor force participation for prime age workers is the highest it's been in decades real wages are on the rise for the first time since March 2021 which means that even with inflation at its current levels workers across the board are coming out ahead we mentioned earlier the low unemployment rate and so in many ways this feels like exactly the kind of pro worker fast growing economy that we've been hoping for really ever since 2008 and so it feels strange to say that we're going to bring the hammer down we're going to throw people out of work we're going to possibly you know risk another banking crisis just to get inflation down from

4 or 3 percent down to 2 percent which you know the 2 percent target itself is a pretty arbitrary one anyways and so I'm wondering how you think about both of those points both the sort of core inflation point and then also the like is it even worth trying to get down to 2 percent if it's going to require some pain so excellent points and excellent questions and I think I would divide my responses into the time horizon and the target they're very different so the crucial point as I think our earlier discussion shows there's huge uncertainty about what's going to happen and you've indicated some of the aspects of that I think that the Fed has already done a very substantial tightening and I would not I think I probably wouldn't have supported the last rise it would be perfectly sensible for the Fed to say given the lags in monetary policy that we've already done a sizable tightening in response to this unexpected surge in inflation that may well be one of the reasons why inflation is slowing that people are aware that we're not going to accommodate anything but there's no reason whatsoever to tighten further given the lags we'll see what happens and if these arguments about shelter are correct we'll begin to see over the next six months to a year very appreciable slowdown in core inflation and we don't need to act given the tightening we've got in the bank already preemptively against you know bring down the hammer as you put
it any more than we've done maybe we've done too much we're going to watch and see and I think that
would have been and would be a perfectly sensible policy and if it becomes obvious that core inflation
is indeed for the recent suggest beginning to fall rapidly towards our target and we finally hit it a year or a year and a half or even two years from now that's not a big problem and as soon as it's obvious that's happening we're going to start loosening and probably quite aggressively I think that will be a perfectly reasonable approach for the Fed to take the time horizon combined with the uncertainty would suggest to me and given the arguments you made that the right thing to do
now possibly to have done is nothing and just see what happens then there's the question of what the objective is now I think that targets are to some extent arbitrary and whether it's two or 2.5% really doesn't excite me very much and I wouldn't worry if it ended up in 2.5 and there is an argument to be made that maybe inflation should be a bit higher I won't go into that argument now because it's complicated but one could make it I think there are two considerations nonetheless that the Fed does and I think should bear in mind in deciding this first if the Fed decides to change its target significantly just because it's difficult after an unexpected period of inflation to get back down to it it is going to undermine ineluctably the credibility of any target
and I think one of the great benefits of where we've been and one of the reasons we got through this crisis without a huge spike in underlying core inflation including wages is actually very clear from the figures that the credibility of inflation expectations in the medium to long run has not been undermined and so the Fed risks undermining its long-term effectiveness by being showing itself willing to change the target not the timing of getting back to target but the target itself just because it gets a bit difficult so that's the one reason the second is if it creeps up you start getting into a situation in which inflation is high enough that people start thinking about it all the time one of the reasons for 2% is Alan Greenspan said this a long time ago and I happen to agree with this point which is the most important thing we want to do is have

a rate of inflation which basically nobody really thinks about inflation it's just something that it's not part of decision making not part of wage setting it just goes away so for those two reasons provided you don't overdo it now that's very important there's no reason they have to get back to do percent you know six months from now but a year or two I would say that it will be damaging and risky to give up precisely when it looks as though they might be actually able to get back to target without huge costs and that's just the sort of circumstances in which the right thing to do is as I said do nothing and watch so I want to end by zooming back out to the big picture when you look at all of these shifts these shocks these fragilities taken together where does it leave you what are the different potential trajectories you see for the global economy moving forward well I think there's a dominant possibility I want to be optimistic so we've had three massive shocks and that's really extraordinary we've had them in a very short period well why not assume that that's just lucky in the draw and we're not going to have further such shocks and we're going to get back to something like normal the people will realize that fighting a war with China is insane people will start focusing on de-risking a bit but not actually decoupling I think that's already beginning to happen business as usual continue we'll have quite strong economies with high employment across the world we will manage the energy problem we will generate more growth
with the energy transition and we will maybe I think it's actually the more likely chance that over the next 10 years or so we'll have a good period and we will preserve a lot of what's really really good about globalization and maybe lose some of it there will be many big problems I think the climate transition is the biggest but I think there's a dominant possibility that we've survived a period of extraordinary volatility and not that badly and it will get back to normal that's the nicest is possibly the second possibility of course is that for political or geopolitical reasons we have some more really important turbulence and the thing that has worried me most here is actual war that it's not just Russia Ukraine which is frightening enough given that Russia has 5000 nuclear warheads but possibly US China over Taiwan um the geopolitical relations are not managed in a stable way I think it's a low probability but it's non-zero and of course that would be very very serious I think that it is possible that the climate situation we're seeing runs away we have a runaway climate shift which with incalculable consequences much more quickly than we now expect that would again be an economic as well as a social and human disaster that would clearly make things worse and of course we can have political developments within any of our countries but again the US is most likely which will destabilize much more of the world possibly even the whole western alliance system which is an important part of global stability I don't regard these as high probabilities and on the more optimistic side again we have technological changes underway notably in artificial intelligence which we're not discussing that might mean conceivably a huge further acceleration in global growth and um these I think would be possibly hugely beneficial so I want to stress that though there are lots of worries and concerns there were pretty large worries and concerns in 1950 and that turned out to be the beginning of 20 years of extraordinary success for much of the world and I would also like to stress that this period of globalization everybody's so critical of generated the fastest reductions in poverty worldwide ever not just in China but across the world so I remain ultimately provided we manage our politics in a sensible way both nationally and globally I'm actually an optimist and I want people to feel they should be and can be optimists we have the capacity to improve our world

and we should take advantage of that capacity and that opportunity well it seems like no
matter what trajectory we end up heading for we're going to need lots of wisdom to help us
navigate it and hopefully get to those optimistic situations so let me ask you the question that
we always end the podcast with which is what are three books that have influenced you that you'd
recommend to the audience well I'm going to do something which I think is possibly a bit naughty
but I hope it's all right I have as you know been focusing very much of my efforts intellectually
on what's happening to our democracies and the policy and the environment within which
our democracies are operating and apart from obviously my own work there are three works which
are being particularly important in my thinking about three relatively recent books two of them
unfortunately are co-authored by one person Darren Archimoglio of MIT who has I think been an
enormously significant thinker in the area of political economy he's I think the leading
economist academic economist who's written on political economy and one of them was really
important for me it's a book he wrote with Robinson this is Archimoglio and Robinson
called The Narrow Corridor and it's about the fragility of democracy and the finding that
sweet spot between the Leviathan the excessively authoritarian state and anarchy on the other
and that's organized freedom and I think it's an absolutely brilliant discussion of that
and the second book he co-authored is the most recent with Simon Johnson
is called Power and Progress and it focuses on something absolutely fundamental which is
can we shape technology to our own ends I'm more skeptical than they are but it's unbelievably
important that we manage to find a way of controlling the technology that we are generating
the energy technology which we failed to do and now the computing technology that we are
employing
so that we are the masters of our technological development not the slaves and I think this is
such an unbelievably important topic and it's one I didn't focus on so I think those two books
are really important the last is to me a seminal book which is sort of in a way an anti
achimoglio and Robinson it was by Robert Gordon it's called the rise and fall of American growth
and it really explores why would there was this huge wave of innovation between 1880 and 1940
roughly 1950-1960 actually into the 60s and then the decline and it's much more pessimistic and
that
is very disturbing for the future because if productivity growth slows I think it becomes
much more difficult to sustain our sort of society our democracy I think was the product
of growth and it depends on it that's a controversial view anyway these three books are I think
pretty important books and they're ones I would like people to read and your book of course is
the crisis of democratic capitalism it's excellent people should really pick it up
Martin Wolf thank you so much for joining me today this was really informative and I had a lot of
fun it was very hard work intellectually which shows that you've been asking the right questions
and the right questions are the the questions to which we don't actually know the answers
thank you all so much for listening this episode of the Ezra Klein show was produced by yours truly
sack checking by Michelle Harris with Kate Sinclair Mary Marge Locker and Kristen Lynn
mixing by Isaac Jones our senior editor is me Roje Karma the show's production team also includes
Imafa Agawu Jeff Geld Roland Hue and Kristen Lynn original music by Isaac Jones audience strategy
by Christina Samieluski and Shannon Busta the executive producer of New York Times opinion
audio is Annie Roe Strasser