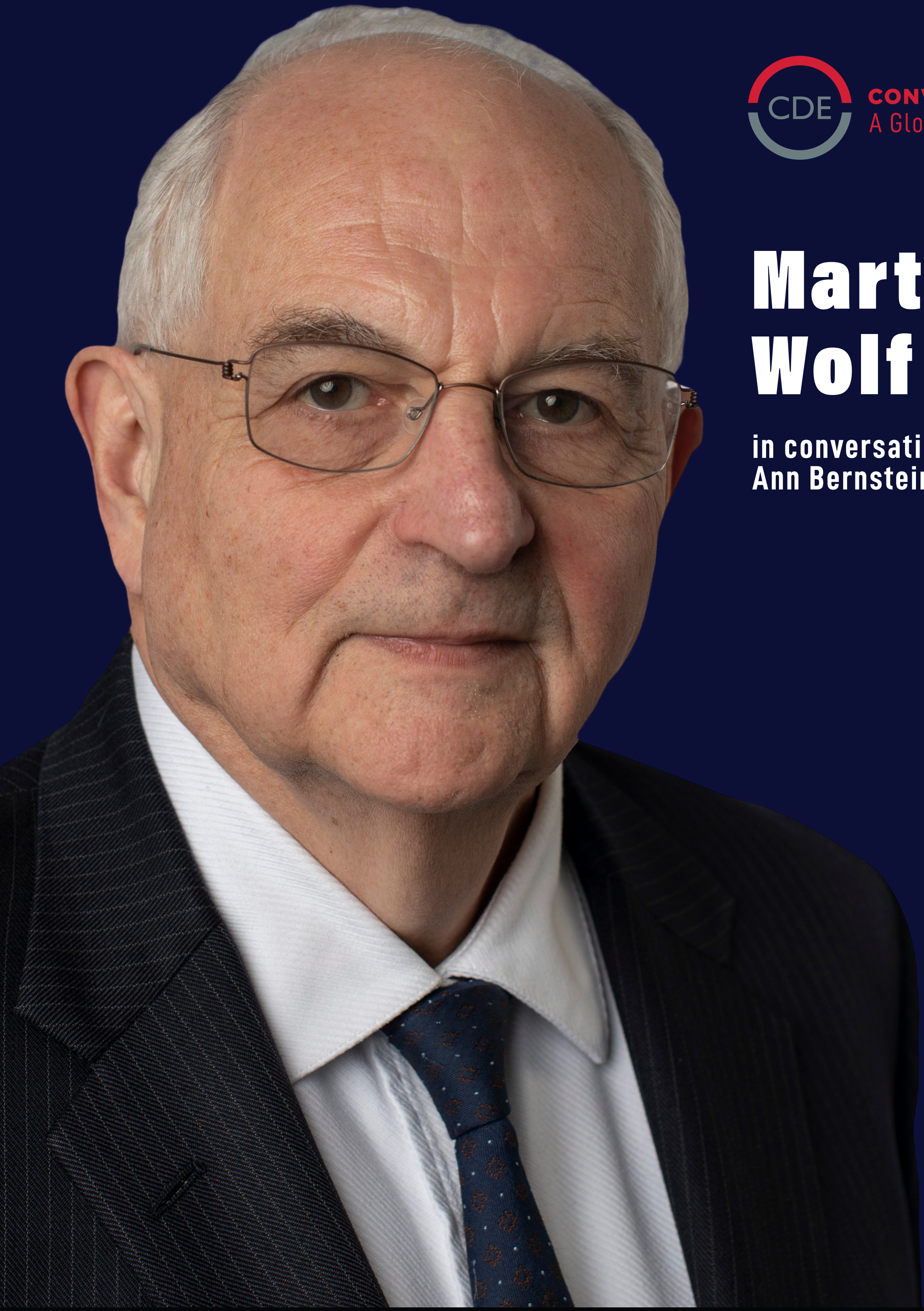

CDE CONVERSATIONS
A Global Forum

Martin Wolf

in conversation with
Ann Bernstein

Democracy | Markets | Development
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To mark 25 years since its establishment, in November 2020, CDE initiated a series of discussions with global experts and prominent individuals in South Africa on important questions on democracy, business, markets and development. The series was relaunched in 2022 as CDE Conversations. This is the 35th event in the series.

Ann Bernstein: It is my great pleasure and privilege to welcome Martin Wolf, chief economics commentator at the Financial Times, back to CDE's platform. In this time of heightened uncertainty, one turns to people like Martin, one of the world's most influential columnists and a vastly experienced expert on the global economy, to help us understand what is happening and where we are going.

Martin, your recent claim that US President Donald Trump is waging war on America's greatness, was very apt. Can you talk about what you meant, and highlight what you see as the key areas of Trump's assault?

Martin Wolf: What made America powerful, especially after the Second World War, was, first and foremost, an enormously successful economy. Secondly, America was the architect and key supporter of the post-war international order. America's president at the time the Second World War ended, Franklin Delano Roosevelt, essentially created the United Nations, the International Monetary Fund (IMF), the World Bank, the General Agreement on Tariffs and Trade, and a host of other international institutions. Without American support and encouragement, these institutions and the global order they underpinned would not have existed.

In Europe, America was instrumental in establishing the North Atlantic Treaty Organisation (NATO) and encouraged the creation of the European Union (EU). In the East, it opened itself up to increased trade with China, which made the rise of China possible.

It is fair to say that the world we lived in until recently was America's creation.

The Trump administration is seeking to undo all that. The President and his supporters are opposed to what they call 'globalism' in both politics and economics. They are against every principle of liberal trade, and they have violated or threatened to violate every agreement America has ever made. Even though they have not yet withdrawn from the IMF, the current administration has expressed its unwillingness to provide further assistance to that institution, and they have drastically reduced America's contributions to overseas development assistance. Closing USAID, for example, has, as most South Africans know, had particularly devastating consequences for public health in Africa. The Trump administration has withdrawn from the World Health Organisation and from all climate agreements.

Domestically, Trump and his supporters have started hollowing out the American state, have attacked American universities, and are working to undermine the independence of the courts, which will significantly weaken the rule of law. The administration is asserting its right to force the Department of Justice, an institution critical for upholding the rule of law and national security, to conform with the President's will. In addition, the administration has deployed American armed forces in two cities (Los Angeles and Washington, DC), and it is operating an immigration and customs enforcement agency that resembles a sinister secret police.

All these developments, taken together, amount to the reversal of core American values and the hollowing out of core American institutions and assets. Since these values underpinned America's wealth and its standing in the world, this looks like a war on America's future prosperity and capacity to innovate.

Ann Bernstein: Have you been surprised by how far Trump has gone since being elected for the second time? Is this what you anticipated, or is it worse?

Martin Wolf: I have followed Donald Trump very closely over the years. When I wrote my first article on him in 2016, under the headline, Donald Trump embodies how great republics meet their end, he had not yet become the Republican Party nominee. It was obvious to me even back then that he was an extremely able demagogue with very strong authoritarian leanings. During his first term, Trump did some disruptive things, particularly with respect to world trade, but he was constrained by his reliance on traditional Republican heavyweights for support, and they were sometimes able to keep him in line.

After the attempted insurrection in January 2021, this all changed. Radical changes in the Republican Party took place while Trump was out of power, and the Heritage Foundation put together 'Project 2025' to design a radical restructuring of American policy, the American state and the American system, should Trump win the election. It should have been evident to everyone that if Trump was returned to power he would implement most of these proposals. At the same time, it never dawned on me that he would start threatening Canada with annexation. That was not discussed before the election, and it seems inconceivable, since Canada and the US have maintained stable and peaceful relations for well over 200 years.

It was equally surprising that Trump proposed scrapping the US-Mexico-Canada Agreement, which he himself signed just five or so years earlier. I also did not expect him to impose tariffs on effectively all trading partners at radically different levels on the so-called 'Liberation Day' in April 2025. These disruptive tariffs were completely irrational from an economic point of view, and the final tariffs have pushed the United States back to an average level of protection last seen in the 1930s. Again, that was far beyond what anyone expected.

Nobody anticipated he would go all out to attack India – an important strategic partner and ally in counterbalancing China. Considering that the relationship between Trump and the Indian Prime Minister, Narendra Modi, was seen as very strong, it was surprising when India was thrown under the bus with a stupendously high tariff. Equally perplexing was the 50 per cent tariff on Brazil, another important partner, which was imposed because they prosecuted former President Jair Bolsonaro for doing what Trump was allowed to get away with in America. And then, of course, there was the proposed annexation of Greenland saga, and the attack on Ukrainian President Volodymyr Zelenskyy.

Taken together, all these things were surprising, not in their nature, but in revealing that the man has no limits and is fundamentally unpredictable. If someone said to me that five months or an hour from now all the tariffs will be changed again, I would no longer be surprised.

Ann Bernstein: To explain some of Trump's behaviour, some people claim he is a Russian agent. Does Russia benefit from what Trump is doing? Is there another country that benefits? Would you give any consideration to this seemingly crazy idea that he might be somehow beholden to Russian pressure or have some relationship behind the scene?

Martin Wolf: As a rule, I don't speculate where I have no evidence, and I don't think the claim that Russia has some kind of hold over Trump is supported by sufficient evidence. At the same time, it seems to me that the only countries that benefit from many of Trump's actions are Russia and China. Russia, because President Putin has bet his regime on winning in Ukraine. The more unpredictable Trump is, the more unlikely he is to persist with American security commitments in Ukraine. Countries that depend on the United States are weakened, and those countries close to Russia are strengthened.

China is, to some degree, negatively affected by the new tariff regime because it enjoyed fairly open access to American markets, which was crucial for many of its industries. But China has exerted pressure on the US by retaliating with tariffs on American imports, and Chinese President Xi Jinping can quite credibly now position China as a more reliable trading partner than America, saying that they have opened their markets and are in favour of globalisation. In the ensuing trade war and ongoing competition for power, China may emerge as a major beneficiary.

In the long run, this will weaken the American economy. Let me give you one example: America is a much smaller country than China in population terms. For many decades, American universities and science and technological innovations have relied on brilliant immigrants from Europe, China, India, and all over the world. A number of these people now feel very insecure because the universities in which they studied and worked are under attack. There are also ongoing reductions in research funding, notably in biosciences.

It all looks to me as though in the longer run, China, which is channelling enormous resources into its competitiveness in these areas, is going to enhance its global standing as a result. It is difficult to argue against the proposition that Trump appears to be confused about which side he is on.

Ann Bernstein: How should we understand the role of business in this? Parts of American business in Silicon Valley and on Wall Street came out forcefully for Trump before the election, and then there are those pictures of top tech billionaires, many of whom had criticised Trump during his first term, participating prominently in his inaugural celebrations. How do you explain the support he managed to get from important parts of corporate America?

Martin Wolf: There is a long history of what leading businesses and capitalists do when faced with a rising dictator, particularly when there is, from their point of view, a strong antagonistic left. The Democrats were too far to the left for many business leaders. They favoured higher taxes, an aggressive competition policy, and regulating Silicon Valley's activities, particularly with respect to social media. In his campaign, Trump actively promised to deregulate and lower taxes, and he has begun to deliver on that now that he is in office. From a purely economic point of view, it is a completely rational decision for these business leaders to choose Trump over the Democrats. They probably saw Trump as maybe becoming a nuisance, but not really threatening their interests, whereas they felt that the Democrats could become really threatening.

They were aware of the risks associated with supporting him, but they probably assumed that if they were sufficiently subservient to Trump and gave him enough money, it would all turn out fine.

I expected the owners and chief executives of leading businesses to support people like Trump if given the chance, and I expect that to happen in almost every society. I have never seen a movement for democracy and freedom led by businesspeople. That is not what they do. They might not oppose democracy, and they might be quite happy when it works - because they know it is better to have the rule of law than not - but they are not going to be the leaders in the struggle for democracy. Other people must be the leaders in such struggles.

Ann Bernstein: Surely there are people in business with a more far-sighted vision, who understand that what has made America great, as you have told us, are the rule of law, freedom of speech, predictability and policy certainty, all of which Trump threatens? They should surely understand that their prosperity is ultimately threatened by this presidency, and that may happen sooner rather than later?

Martin Wolf: There are many people who think like that, and there are some who are acting in accordance with those beliefs. But there is a problem that prevents many business leaders from acting that way. The great businesses of the day are products of history. They were created by exploiting yesterday's opportunities . These are not necessarily tomorrow's businesses, and they tend to focus on defending their incumbency. The chance that any of these businesses will create radically new and more valuable companies and activities in the future is not zero, but it's not gigantic either.

The values embodied by America pre-Trump will mostly generate benefits for activities that have not yet been created. Without these values and institutions, the current crop of successful companies may not have emerged, but now that they are established and successful, they have less need for these arrangements, and they may be threatened by the open competition that a liberal order encourages. I think that is one of the great challenges of capitalism, in that established capitalists represent a lobby for the past. It's not their fault, but they are, at least to some extent, invested in the way things were.

Thus, if big tech companies are told that Trump will protect them by removing restraints that prevent them from buying out or throttling newcomers, and if he attacks the universities – which will undermine the research of the future that might lead to creating totally new businesses - they will probably adopt the view that this could be good for them right now, and that the future consequences may be bad, but their priority is to ensure their businesses survive.

I'm being cynical, but it seems to me to be understandable that many big business leaders could be saying to themselves that Trump is going to damage the US in the long run, but they cannot stop that: the political forces in his favour are too great, so they will focus on their businesses' survival. The best option, they believe, is to make a deal with the person threatening to disrupt the world, even if that is the authoritarian in the Oval Office.

Ann Bernstein: Are there any institutions that might constrain President Trump? Is it Congress or is it the judiciary? Is there anything that gives you a little bit of hope? Are there American checks and balances that might work?

Martin Wolf: The courts ought to be an obviously important constraint. Unfortunately, the Supreme Court has become a partisan body, and I am concerned that it will not necessarily back the court rulings that found Trump's new trade policy to be illegal. I have followed trade policy in America for about 40 years, and it is clear to me that he is pushing the boundaries of the executive's emergency authority beyond any plausible interpretation of the law. Similarly, firing officials at will and his attempt to sack Lisa Cooke, a member of the Federal Reserve Board, are all under judicial review. We will have to see what the courts decide, up to the Supreme Court level.

The second important constraint is federalism. While the Republican Party controls some powerful states, it does not control all of them. In particular it does not control California, which is a very powerful state. The governor of California, Gavin Newsom, has been prominent in standing up to Trump. It will in no way be easy for Trump to take over these states, or to put the army into every major city of the country during elections, even though he has taken control of the National Guard.

The third constraint is the electoral process. With midterm elections scheduled in 2026, the burning question is whether the midterms will be fair or rigged. If they are fair, there may be some major pushback against Trump's programme from voters who have been negatively affected.

Then there is civil society. For example, universities are fighting back against Trump's attacks. But they are quite constrained. It will be interesting to see whether the federal government will be able to stop all the spending on science. But, in the end, if the federal government is unwilling to sign cheques, then it's going to be difficult for universities and others to force them to do so.

Congress's opposition will depend on the midterms. We know that Trump has taken control of the Republican Party. It has ceased to be what it was—a traditional American party, with differences of opinions and currents of thought within it— and has become instead a Make America Great Again (MAGA) party. It has been astounding to me how far Trump has been able to influence Congress to confirm appointments for immensely important positions like the Secretary of Defence, head of the Department of Justice, and Attorney General, which all went to individuals hopelessly unqualified for these jobs.

Without a reversal in the midterms, it does not seem as though Congress is going to make much difference. It is hard to know to what extent, over the next two to four years, the normal electoral, legal, and institutional processes of American life will be perverted. I am not sure of the odds, but it is going to be quite a battle.

Ann Bernstein: What happens to the global trading system in the wake of Trump's presidency? Will countries be able to find new markets? What does Trump's protectionism and unpredictability do to world prosperity? It seems that China has been the most effective in standing up to Trump. What can we learn from other countries, from the EU to China, on how to deal with Trump on trade?

Martin Wolf: Assuming that the current situation holds, we know that we are now trading in a protectionist world, with high average tariffs of close to 20 per cent on imports to the US. Therefore, we must assume a very significant contraction in imports into the US. Every country's situation is different, so we must be careful not to generalise, but there will almost certainly be a negative effect on the rest of the world. It may not necessarily be a colossal effect, as the only countries that are wholly dependent on the US market are Canada and Mexico. With the right policies, the new situation should be survivable for most countries. One challenge that most countries face, with a few exceptions, is that they cannot compensate for the loss of global demand by using fiscal policies to stimulate local demand. Most affected countries have large fiscal deficits that prevent them from going down that road.

At the same time, Trump has no intention of triggering a giant recession in the US. That means domestic demand in the US should be strong, and trade with the US will continue, even if at a somewhat lower level. Macroeconomic policy in the US looks like it will be very expansionary, particularly if Trump gains control over the Federal Reserve, which, in its current form as an independent institution, will oppose irresponsible monetary policies.

Furthermore, the US is not a very trade-dependent economy, which means imports are not a large share of GDP, and so Trump's tariffs may not impact the US economy as badly as they would a country more dependent on imports. At the same time, Trump's trade policies in conjunction with bad fiscal and monetary policies could easily create a resurgence of inflation three years or so from now. And look what happened to Biden as a result of the inflation he presided over.

The rest of the world should further offset the losses from Trump's tariffs by pursuing more liberalisation and encouraging more international trade. A lot depends on what happens to the rest of the world's trading system and the macroeconomic policies those countries pursue. I would hope for coordination, however difficult it may be, between the Europeans, the Chinese and the Indians to try and work out what a macroeconomic and trade policy looks like in this new world.

Ann Bernstein: You have written a lot about the Russian invasion of Ukraine and its impact on Europe. Europe is under greater threat than before in the face of the uncertainties regarding NATO and American support. How do you see this?

Martin Wolf: Every assumption on which post-war Europe was built has been eroded. The Europeans pursued economic and political union, which resulted in deep integration into the liberal international order created by America. The Marshall Plan was, to a very significant extent, the first step towards the integration of the European economy internally and externally with America.

America was the guarantor of the liberal economic system and its security architecture. NATO was created in 1949 to contain Soviet activity in Eastern Europe, and particularly to defend against the Soviet threat to Berlin. The Europeans thought they were becoming good democrats and good liberals by adopting market-friendly policies, and they were joining a solid West led by America.

The defence guarantees have now been thrown very strongly into doubt, and this is shown both in what Trump and others have said about NATO and their attitude to the Russia-Ukraine war. In addition, as Mario Draghi's excellent report from a year ago showed, Europe has fallen hugely behind as an economy in the last 20 or 30 years, in terms of productivity, growth, and innovation. In that context, the Europeans have been told by the Americans that they are on their own, and if they look around the world, they have no powerful friends. China may be an important ally for certain purposes, but it is clearly not a friend, nor a country with which Europe shares values.

This is an enormous crisis for Europe. It is clear that they have to integrate more and spend more on defence. They must create a defence union and a common foreign policy. However, despite Draghi's report, the leading European countries are reluctant to integrate sensitive sectors like the technology sector, the universities, and the financial sector. This is a massive crisis, although it has been said that "Europe progresses through crisis". I would love to believe that Europe is going to really rise to the occasion, but I am not really convinced.

Ann Bernstein: It's hard to see how they manage this situation as the divisions in European countries seem to have gotten stronger. Moving more money to defence inevitably means you have to cut something, most likely elements of the welfare state.

Martin Wolf: These are slow-growing economies, and they have poor demographics. The elderly are lobbying for higher spending, and the countries face huge pension burdens as a result. Most of them, with Germany being an important exception, have terrible fiscal positions, so they are reluctant to raise public spending. They made a commitment to increase defence spending to 5 per cent of GDP "sometime in the future". I think that is unlikely to happen, although, even with lower spending, if they integrated their spending more effectively, they would still spend much more on defence than Russia does.

But it is all fragmented. National armies and national defence suppliers lack the benefits of economies of scale, and the same applies to innovation. Europe is not a single market because it does not follow a single policy, and that is a major constraint. It will be incredibly difficult for what is effectively a League of Nations to become an integrated power like the US or China.

Ann Bernstein: If the Democratic Party in America can get its act together and can put up a centrist candidate who could win in three years' time, can America recover?

Martin Wolf: To make that happen the candidate needs to win a landslide victory. There is a reasonable chance that the mistakes Trump has made (and will continue to make) will be damaging enough to drastically reduce support for him and his party. It is, therefore, quite possible that the Democrats could win in a reasonably fair election. The difficulty is, what then? Ultimately, a democratic system and credible rule of law depend on an entrenched legal system that everybody trusts.

A foreign policy which is reasonably predictable is, furthermore, based on the existence of a government and institutions staffed by people who believe they are serving the country's interests, not just a particular party's. It is going to be very difficult to reestablish these things. We can see a good example of this in Poland today, where the democratic forces won the last election against the autocratic forces, but the government is full of bureaucrats who are on the authoritarian side, as are the courts. It is proving very difficult, therefore, to go back to the status quo. In America too, the changes in the government system and core institutions, including possibly the Federal Reserve, will take a long time to reverse.

If there were a complete fracturing of the MAGA movement, and the dominant public opinion in America became that Trump was the wrong way to go, that would also help. But, looking at his current supporters and the values they espouse, there is an increasing number who are just outright authoritarians. And quite a few of the Silicon Valley people have gone over to the side of dictatorship.

That means getting America back on track is not a four-year project, it's a multi-term project. From the rest of the world's point of view, until they can be confident that there is a durable, credible new establishment in America that ends the influence of MAGA, they will not be ready to trust America again.

My view is that the Democrats might come into power in the next election, but MAGA will remain. It won't be Trump's movement anymore. It will be different. But that might be even more dangerous. For example, JD Vance is much more intelligent than Donald Trump. He is younger and more coherent, and for that reason, he may be more dangerous.

If Donald Trump had lost in 2024, you could have said, Americans were offered him and chose him once, and then realised it was a mistake, and they never did it again. Then Trump would have just been a messy interlude. But we know that is not true. There are millions of voters in America who voted for Trump in all three elections, and they are probably not going away. The rest of the world will not forget that very soon because that is the new reality in America.

Ann Bernstein: Well, Martin, on that thought provoking note, thank you very much for a fascinating hour. I hope everyone listening found this as interesting, if depressing, as I did.

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