Martin Wolf has outdone himself. The FT’s chief economics commentator has written a book that not only explains the malaise in which we have been mired since 2008 but also – depressingly – provides a convincing analysis of why we are likely to remain so. Already, the crisis has spawned a plethora of titles examining what went wrong. The Shifts and the Shocks is among the first to address the absence of a robust recovery and it sets a high bar for those that will surely follow.

The data show how badly things have gone. Adjusted for inflation, UK and US median incomes are still below pre-crisis levels. There is an average unemployment rate of 12 per cent in Europe and youth unemployment of more than 50 per cent in two of the worst-affected countries, Spain and Greece. For the north Atlantic as a whole, there is a cumulative gap of trillions of dollars between what output would have been had it followed the pre-crisis trend and actual production. Wolf argues persuasively that these results were not inevitable but rather the predictable results of policy failures, and that they will have long-run consequences.

He rightly points out that, in a fundamental sense, the advanced industrial economies were not performing well before the crisis. In the US as well as many European countries, weaknesses in aggregate demand were disguised by the bubble that weak regulation and low interest rates helped create. Among the underlying problems are persistent global economic imbalances and growing inequality, the latter exacerbated by a financial sector that has become ever more dysfunctional since the mindless liberalisation that began in the 1980s. But one of the things that distinguishes Wolf’s analysis from so many others is that he sees the crisis as more than a financial crisis – an insight that is essential if we are to understand the failure to achieve a robust recovery.

While there are common problems afflicting virtually all the advanced economies, the plight of the eurozone is a special case. Wolf explains why the policy of austerity that Germany insisted upon was doomed to failure, why it has imposed such enormous costs on the rest of Europe, and why there is no expectation that things will get better. He likens the situation to a bad marriage in which divorce would be very costly but so would continuing to live together – unless ways are mended.

If I have a point of difference with Wolf’s analysis, it is that he does not push his arguments as far as he could. In discussing global imbalances, he is insufficiently critical of the “savings glut” hypothesis advanced by former Federal Reserve chairman Ben Bernanke, among others, which presents what used to be a virtue (savings) as a vice, shifting blame to China and (less vocally) to Germany. Yet the investment needs of today are staggering: for infrastructure in the developing world, let alone in the US; for retrofitting the global economy to cope with global warming; even for small and medium-sized enterprises starved of capital in much of the world. This should make it obvious that the problem is not an excess of savings but a financial system that is more fixated on speculation than on fulfilling its societal role of intermediation between those with excess funds and those who need more money, in which scarce savings are allocated to the investments of highest social returns.
It is striking how much Wolf, like so many advocates of financial reform, focuses on protecting us against the banks: making sure that they don’t engage in excessive risk-taking that imposes huge costs (or externalities, as economists like to put it) on the rest of society. Wolf doesn’t dwell much on some of the more antisocial aspects evidenced in the aftermath of the crisis: the market manipulation (as in the Libor and forex scandals), the anti-competitive practices, the predatory and discriminatory lending, the lack of transparency, the fraudulent behaviour. Presumably, this is because he believes, or hopes, that even too-big-to-fail and too-big-to-jail banks won’t be politically powerful enough to continue such behaviour unimpaired. But he says too little about what might be done to make banks actually fulfil the societal role that they should be playing.

In the list of fundamental drivers of today’s distress, Wolf leaves out the structural transformation of the advanced countries – the shift to services that has been caused not just by globalisation but also by huge productivity gains that would have led to declining manufacturing employment in any case. Markets on their own don’t make such transformations smoothly. And since among the services that people really want are health and education – linked naturally to public support – the austerity that has become politically fashionable in some quarters is especially costly. These are the sectors of the future and they need more spending, not less.

One finishes the book feeling gloomy. Wolf identifies a number of reforms that would make a difference. I share with him, for instance, the belief that a fundamental reform of the global reserve system could increase economic stability and enhance growth today. Still, there is a sense that the list he proposes, and especially the list of politically feasible reforms, is not up to the task of addressing the magnitude of the problems that he has articulated so well. If inequality is one of the fundamental macro problems (a view that is increasingly becoming mainstream), then the list of policies should include those that might make a dent in our ever-growing inequality. Wolf convincingly shows that even the things that should be easy to do, from which all, or at least almost all, would benefit, are not likely to be undertaken.

Wolf may have written the book to shake us out of our stupor. The dismal picture painted by The Shifts and the Shocks is a forceful warning against the unfounded optimism that has episodically struck each of the countries in the north Atlantic as they grasp at any wisp of positive news: we are mired in a malaise, from which we are not likely to emerge any time soon.

The Shifts and the Shocks: What We’ve Learned – and Have Still to Learn – from the Financial Crisis, by Martin Wolf, Allen Lane, RRP£25/Penguin Press, RRP$35, 496 pages

Joseph Stiglitz is a professor at Columbia University and a winner of the Nobel Prize in economics

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