



Trending: Slowbalization, Big Tech, Political Pendulums

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Patrick Foulis, business affairs editor for The Economist, discusses the top global economic trends to watch and gives us a glimpse into the inner workings of the 176-year-old publication. See how the sausage gets made, including the importance of hiring intellectual rebels and writing good puns.

Patrick's comments are edited excerpts from our podcast, which you can listen to in full below. (40:52)

https://content.blubrry.com/the_active_share/The_Active_Share_-_Trending_-_Slowbalization_Big_Tech_Political_Pendulums_-_Revised_Mix.mp3

How do you decide what to write about and when to write about it?

Patrick: There's probably a parallel with investing. We have to identify where we might have an edge. It usually comes from one of three areas: 1) where we have thoughts that no one else has; 2) where there's an accepted wisdom about a subject, and we disagree with that strongly; or 3) where we have information that differs from the competition's information.

But there's also the issue of timing. It's possible to be too early with an idea. The holy grail is a piece where we have an edge that's perfectly timed, so that readers are keen to look at it on that particular day.

One of the things you write about often is the idea of “slowbalization.” What is it, and what's the evidence for it?

Patrick: Slowbalization is the trend of global integration reversing over the past 25 years. There are different measures—cross-border lending, cross-border portfolio flows, investment by multinational companies across borders—and they all are going backward. We call it slowbalization because it's not happening in high speed; it's gradual.

And it has big implications for how the global economy works. There's no question that this big rupture to the global system will have a profound effect on companies and investors. It's not one that's very easy to judge at the moment, but I think it will be the big question in economics over the next decade.

Is slowbalization natural, or is it policy-driven?

Patrick: There's no question that globalization has been technology-driven over the past 20 or 30 years. On the other hand, the liberalization of finance, the collapse in tariffs, and the entry of China into the World Trade Organization were also significant events. So it's been driven by the commercial and technological impulse of the world, but also policy.

There must be serious implications for the multinational companies that were the poster children of the era of accelerated globalization.

Patrick: Almost all of the world's biggest companies by market cap have some sort of global business integration that's key to how they operate. And the unwinding of global supply chains and businesses is a process that's really just begun. Apple is a fantastic example of a company that should be dramatically affected by this, but I think the stock market has just given up trying to figure out how until the evidence becomes a bit clearer.

You've written extensively about the increased concentration of corporate profits, especially in the United States. Is this concentration necessarily bad?

Patrick: For 10 years, we've seen a set of economic problems that include low productivity growth, inequality, and a relatively high share of profits flowing to capital as opposed to labor. Economists have been struggling to understand why, and I think competition and monopoly is a super theory that explains a lot of it.

Does it matter? If we gave a chunk of the high profits that firms generate to workers, the world would be more equal, which might or might not be a good political goal. I think it is more important to think about the relationship between competition and productivity. A very competitive system drives productivity, which is ultimately what drives wealth.

On many measures, the United States seems to have become less competitive. But isn't this supposed to be the purpose of a business? You come up with a better business model; you crush the competition; you make money.

The most interesting view on this comes from Joseph Schumpeter, the Austrian economist. You have windows where monopolies are created, then someone comes up with a better idea that blows away those incumbent companies. The big question is whether the United States is in a window of excessive profitability, which tempts a whole new generation of business models.

Do you have faith in the market solving this, or do you think intervention is required?

Patrick: I think there are two reasons to be worried. One concern is tech stock valuations. The market, if you assume it has some kind of insight, is not pricing in the idea that these companies are disrupted over any reasonable time frame. They're viewed as perpetual profit machines. That's very striking.

The other concern is the behavior of big tech firms themselves. You could argue that it has become defensive (and to a degree predatory) in order to avoid the disruptive process. In the United States, regulation is unlikely to turn Facebook and Google into government-regulated utilities, but it will probably try to restrict big tech firms taking over small competitors in adjacent industries that might pose a threat.

Are the rules different for a digital economy than they are for a physical economy?

Patrick: Today, we pay with our data rather than with our money, and the U.S. antitrust regime finds that incredibly hard to deal with. At the end of the day, I think the test that should be applied to these businesses is one of economic size—gross value-added, for example, which is profits before labor cost.

Taking the other side, though, big tech companies are big employers and big spenders on research and development. They're a positive pulse for the economy.

Patrick: That's right, although it's interesting that the stock market's love affair with these businesses pertains to the monopolistic properties of their core activities rather than applying a huge valuation to some of the speculative stuff they're up to.

***The Economist* has been around for 176 years and has seen the political pendulum swing multiple times. How far do you think it has swung or is going to swing this time around?**

Patrick: I think if you look back in history, there are moments of change—the collapse of the Bretton Woods system in the late 1960s and early 1970s; the emergence of monetarism as a way of running the economy in the early 1980s; then inflation targeting becoming fashionable.

We think of the existing economic policymaking framework as a fixed thing, but if you look back in history, there've been enormous changes, and I expect we have really quite big changes coming regarding policymaking. We've had a stable low-growth period, but at the same time, the possible parameters of economic policy have been blown apart with things like modern monetary theory (MMT) and the New Green Deal, which seems to be a recipe for massive state intervention in the economy.

If the pendulum is swinging, some things that were thought impossible years ago now seem possible. That has many investment implications, correct?

Patrick: We're in one of those phases now, and fiscal policy is a good illustration. It's worth looking at the extremes because they tell you where the center bends. The extreme position, like MMT, is throwing out the textbook on economics.

Nearer the center there's been a clear shift among the U.S. economic establishment that fiscal deficits are okay. I think this will kick off if we see another recession. Suddenly the idea of a big fiscal expansion as an alternative to QE will become mainstream.

How do you achieve the diversity of thought and experience that is relevant to your entire addressable market, but at the same time stay true to the founding principles of *The Economist*?

Patrick: To ensure that we're covering the world properly, and not being driven by an internal agenda, we need relatively independent-minded people from many different backgrounds. The ideal journalistic hire is someone who's an intellectual rebel, and wants to challenge consensus. You also need a self-critical mindset, which is, by and large, a matter of culture.

The Economist's anonymity is also very helpful because everyone has a collective sense of responsibility, which in turn means that the people feel it's okay to speak up if they think something is rubbish. There is a sense of being broadly accountable to each other, both for getting things right, and if we're making mistakes being told so.

How do you say, "Well, maybe we got that wrong"?

Patrick: One of the most common complaints you'll hear about *The Economist* is that when the housing crisis is just bottoming out, that's when we'll run a cover on housing, or when India's boom is peaking, that's when we'll run a cover on India's boom. But we're not there to anticipate asset prices like an asset manager is. We're there to cover, intelligently, the things people are interested in and need to know. We get things wrong, but I think ultimately our purpose is to inform and engage our readers.

If we're boring or simply tedious in our analyses, that's a really big failure. Being interesting, rigorous, and wrong is not a problem for us. It would be clearly better to be interesting, rigorous, and right, but we should be taking some risks intellectually. That's our job.

Is it true that the most important meeting of the week at *The Economist* is when you all sit down and compare your headlines, captions, and puns?

Patrick: You can always tell born journalists because they find the punning headlines or photo captions the most enjoyable part of their job. At our weekly meetings, the good puns are raised and widely admired. When Christine Lagarde moved from the International Monetary Fund to the European Central Bank, the pun of the week was our story, "Changing of Lagarde."

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