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Dambisa Moyo: the trouble with democracy

By: Merryn Somerset Webb09/07/2015

Merryn Somerset Webb interviews economist and author Dambisa Moyo about how Western democracy isn't set up to deal with the long-term economic problems we're facing.

Transcript

Merryn: Hi, I'm Merryn Somerset Webb, editor-in-chief of MoneyWeek, and I'm here today with Dambisa Moyo, who is – well, she's everything. She's a global macroeconomist, she's an author; she's written three very good books, one about aid,*Dead Aid*; one about the West in general, about our economic folly, *How the West Was Lost;* and another about the great race for resources in China and what that means for all of us. She also sits on a number of very impressive boards and is an adviser to all sorts of also impressive organisations, so how she has time to sit here with us today I have no idea, but thank you very much for taking the time.

Dambisa: Thank you for having me. I'm glad to be here. Thank you.

Merryn: I want to just start just by asking you a little bit about the global economy. You know, in your second book you wrote about 50 years of economic folly, so I just wonder if we could start by saying, what's happened over the last

50 years that's taken us to this not particularly good place we're in at the moment?

Dambisa: So, a fantastic question. I think the way I tend to think about the global economy is in two parts. You've got the tactical, short term, factors, and we'll come about, at some point, I'm sure, to talk about what's happening in the world now, and what in the short term we should be expecting. And then there are more substantive, structural factors, longer term factors that I think are also quite important.

So, if you look back over the past 50 years, the lens that I think is really important, not just in terms of where we are today, but more importantly, where we will be in the future, is the structural lens, and there are three factors that drive structural decisions, structural growth paths, shall we say.

One of them is capital, so how much money you have.

The second one is labour, both the quality and quantity of labour that you have, of course.

And the third one is productivity, which, as you know, we tend to really undervalue, but in reality it explains 60% of why one country grows and another one doesn't.

The reason I wrote the second book, and the subtitle is *50 Years of Folly*, as you touched on, is really because we have designed policies over the last 50 years that have eroded capital, labour and actually, ultimately, products, and hurt our productivity, and so as we project out into the next 50 years, which, as you know, economists are very good at doing… there are a lot of policies that are reactionary to the financial crisis, of course, but really a follow on from what we've done in the past 50 years, I think, will continue to contribute to downward pressure and quite a negative trajectory for global growth.

Merryn: Okay, so give us an example of these policies. What do they add up to?

Dambisa: Yes, so, for example, I think that the one that people talk a lot about is labour, the issues around both quality and quantity of labour, as I've mentioned.

So, on the one hand, if you take quantity, 90% of the world's population lives in the emerging markets and 70% of that population's under the age of 25, so in many ways you could argue that that's a very constructive thing. We've got young people who are coming on board who actually will continue to drive economic growth.

On the other hand we know the very negative demographic story of ageing and the larger pressures on public purse that are occurring in the developed markets, so the question is what kind of policies can we have, from a global perspective that actually might be able to address some of these things?

I would argue that we've had many years of globalisation that have encouraged the movement of trade, the movement of capital, but labour is one of these areas where we've had significant issues around immigration that ultimately, I think, have put pressure and will continue to put pressure on the long term prospects of economic growth.

We've under-invested in education. We know that people are under-skilled. We look at the under-employment – not just unemployment numbers but under-employment numbers – in the United States and many of the developed economies. Those numbers are still very negative.

We have a political system in place that does not match the structural problems the world is facing

Merryn: And do you think a lot of that is about people being under-educated or under-skilled?

Dambisa: Absolutely. It's under investment in education. I think McKinsey put out a report, which was basically arguing that the under-investment in education in the United States is tantamount to a permanent recession in the United States; it's shaved off a number of GDP percentage points and the implications of that longer term are things that you can't just turn around very quickly, because this is intergenerational.

So, I mean, I think the fundamental thing I'm getting at here, whether its capital, labour or productivity, is that we have a political system in place, particularly in the developed markets, that does not match the structural problems that the world is facing.

So if you think about it, if somebody goes and does a call outside now and says, what are the big issues that the world faces, most of us will acknowledge it's around education, it's around infrastructure and investment, it's around the cost of healthcare – long-term problems, but we have a political system in place, which is largely liberal democracy, that has cyclicality that's much more short-term and myopic, and therefore doesn't address some of the problems that we're addressing right now.

So we can go into more detail, obviously, in these three factors, but I think, if you look at it from that lens, we've ended up with debt and deficits in the United States and across Europe, we've got a significant issue of under-investment in education and infrastructure; I mean, obviously, infrastructure including education, and that's affecting our labour, and productivity; I was just looking at some numbers and since 2003 productivity globally has been on the decline, and if you sit here and think about what are the big risks to the world, I think one of the things is what technology might do to continue to put downward pressure, on productivity. The implications for global growth would therefore be negative.

Merryn: Wouldn't we hope that technology might have positive influences for productivity in the same circumstances?

Dambisa: You're right, because I think the reality is that there's not really one answer for what technology is going to do. On the one hand, there are many, many things and disruptions that technology's brought about that are unabashedly positive. Things like the ability to deliver education on a mobile phone. Healthcare: people, particularly in emerging markets, are now able to receive text messages saying, by the way, your doctor's going to be in the neighbourhood in a couple of weeks – prepare to come and meet them.

We know that people are able to trade their produce; so you could be sitting in a rural village in India, you get a text saying, if you take your cow to City A you get $50; you take it to City B you get $70. That's market information that people didn't have prior to over a decade ago, and the implications of technology are incredibly positive, but it's also safe to say that it could be incredibly disruptive for the models of economics that we've become used to.

Employment: there's a paper that came out from Oxford Martin School, about a year ago, saying that 47% of jobs in the United States will be disrupted over the next 20 years. I don't want to sound like a Luddite – obviously we've had the digital revolution; we've had the wobblies, and other people come before me who have been quite negative on the implications of technology. I think it's really important to understand that just because it's being disrupted doesn't mean it's negative, but if we don't come up with alternatives it can be quite detrimental.

Rather than having elections every two years, have one term of eight or nine years

Merryn: So, it seems to me that what you're saying is that one of the main problems here is government. It's the fact that we have governments that are elected every four years, every three years, every five years, whatever it is in different countries, who are incapable of making long term policy?

Dambisa: Yes, in the sense that government and politicians are incredibly rational. So I don't want to cast them as not being smart. I mean, they are incredibly smart and they are incredibly rational. Their utility function is built in a way that encourages them, or makes winners of people who focus on the short term issues. All I'm saying is that we happen to be in a world and at a time where some of the seemingly most intractable problems that the world faces today are long-term problems. They're intergenerational problems, and therefore we need to have public policy debate that can see through the short term and actually have public policy that has much longer term focus.

Merryn: How on earth do we do that without undermining democracy?

Dambisa: Well, that's a fantastic question, and I think that there are lessons to be learned from other places, for example, the emerging markets. So places like Mexico and Brazil, for example, they have longer terms. So for example, rather than having elections every two years, which is what they do in the United States now, you end up with the situation where you have one term as a president or as a senator, for example, and it's longer periods of eight or nine years, as an example, and I think that just puts a lot of pressure off…

Now, of course, there are downside risks, because people would say, well, if I elect the wrong person, the person is in there for eight or nine years, but I do think that there's something to be said about matching or marrying the public policy problems that we are facing with the public policy, the solutions, which should be coming from government.

Merryn: Yes, and of course, if you elect someone for eight or nine years they're unlikely to want another term, so they can make decisions that would be unpopular.

Dambisa: One would hope.

Merryn: One would hope. One would hope. There's a risk, right?

Dambisa: Exactly. So I do think that there's a lot of scope for improvement, and it's ironic for someone like myself, who comes from the emerging world, who comes to the United States and to Europe with high expectations about the origins of liberal democracy, which is something that we all love and we want to see around the world, but at the same time I think that we, as society, have been quite reluctant to really put in place the improvements that are necessary to continue to actually see significant change, for the better, in the political system. So we're happy to change the financial system. We're happy to change, possibly even our healthcare and education systems somewhat, but we so doggedly believe in our ideologies of how our system should work in the political frame that we're not really willing to take them to task.

Merryn: And you could argue that our failure to grasp this is undermining democracy anyway, in that an awful lot of the power, economically and financially, is passed from our elected authorities to our central banks, since the financial crisis, so, you know, there is an argument that already, as a result of bad economic policy, which you can then argue has caused our great financial crisis, that has them pushed a lot of power away from democratically elected politicians, anyway.

Dambisa: I've heard that argument before.

Merryn: I know.

Dambisa: You know, I don't want to say that… there's a kernel of truth in there, and I think that those are the aspects of the system that need to be challenged.

Now, you know, on the one hand, as an economist, my frustration emanates from the fact that I'm often not able to do my job because of the political interests and political involvement, but, the central bank point that you raise, it's absolutely right to think of it in that way, but I think also it's much more complicated, as you will be aware that these things are… You know, why did we end up with central banks acting in the way that they did? We were in a crisis. And so therefore I think that, having been in a number of institutions when there is, essentially, a crisis, you try to do the best that you can in those circumstances, and so perhaps you don't think about every single aspect and what the implications are.

I mean, obviously the context of quantitative easing and a loose monetary policy, we are yet to see how we're going to get out of this, but, you know, nevertheless, I think to sit here and say, well, actually, it was a bad decision, you know, I think we would both agree that that was…

Merryn: Well, we don't know that yet.

Dambisa: We don't, exactly, we don't know that.

Merryn: OK, well, let's say that there are no politicians; let's say there are no political constraints; let's say that you get to run the economic world…

Dambisa: Oh, great.

Merryn: No, this is exciting, right? So what… how would you change policy now? If we had the political, or the lack of politicians, what could we do to make the next 50 years economically successful, rather than a 50-year, you know, period of stagnation?

Dambisa: I don't want to sound, Pollyanna-ish, or highly theoretical. I think that we actually have the counterfactual alive and well in our time, which, to me, would be China.

So here is an economy, and I think one of my, sort of, reference points I think is very interesting; you have China and the United States, the number one and two largest economies in the world today. One economy has no democracy, has deprioritised democracy and it's used state capitalism as its engine for growth. The other economy has absolutely got liberal democracy as its ideological frame for politics, and it believes in free markets. But these two economies have the exact same income and equality Gini coefficient, and therefore, if you're sitting anywhere else in the world, where income and equality matters, growth matters, China has a pretty compelling story over the last several years. We have not seen the decline in real wages over the period; of course now, there is a lot of pressure, given their population, on wages. We've seen very significant, even double digit growth numbers, which are very important in very impoverished economies. We've seen them actually roll out infrastructure. We've seen them move hundreds of millions of people out of poverty in a very short period of time.

There are lots of things to admire and like about that. Of course, it's not without its challenges, but, you know, if you look at their political system, and I've been very lucky; I've had the opportunity, as part of a group, to spend an hour with the Chinese President about a year ago, and I think the way that he expressed concern for the currency of the global economy was, in a way, much more sophisticated than what I'd heard elsewhere.

What do I mean? It was untainted by political strictures. So let me explain. The income inequality point, there was an acknowledgement that on the one hand trickledown economics has not worked, the idea of keeping taxes low because richer people… or the owners of capital were going to invest and hire people. He said, that's a great idea, but it didn't work. Neither, though, did the tax and spend redistribution model; that has also not worked. So it was quite refreshing to have a public policy, you know, head, someone who's responsible in the political class in China, to say, you know what; we've tried these two models and neither of them has worked, and so rather than be hamstrung by one or the other because that's going to win me votes, I'm actually looking for a third way. His view was, sort of, in that sense, less, sort of, hung up by ideology in pretty much every key area of economic growth.

Merryn: So, much more pragmatic?

Dambisa: In education, in infrastructure, all the key aspects that are challenging the world today, he just had a much more nuanced view, and I think that that is what is missing in public discourse, and so, when you say, if there were no politicians how might it work, I think it is about pragmatism. It is about saying, well, you know, we shouldn't at one end or the other. There's probably some mix, is the truth, and probably a lot of it depends on where you are in terms of your per capita income. You know, all countries are not the same, and, you know, there are clearly dynamics that need to be factored in. I just thought there was much more nuanced and much more thoughtful, the way this is going.

Merryn: Interesting. So you don't have any… very big worries that some people have about the Chinese economy?

Dambisa: No. Well, let me put it this way. Am I worried about the housing sector, non-performing loans? Yes, I am. I mean, I think we don't really know what that number is and therefore it causes a bit of lack of clarity.

People over-egg the fact that China is a market economy. It's not

Am I worried about pollution in the environment? Absolutely. Slow growth in, you know, as you know, you need to grow by at least 7% per year in order to double per capita incomes in one generation. They're about 7%. Is there a risk of a middle income trap? Absolutely.

But I will say one of the things that I think the market discounts, and I think that's why the stock markets rallied, by the way, in China, over the past year, save the last few days, I think it's because there are a number of people who are sophisticated enough to say, you know, the Chinese infrastructure, political infrastructure, that is, they're aware of all these issues. It's not news to them, and I think what we discount is their ability to actually solve some of these problems.

You know, I think people over-egg the fact that China is a market economy. It's not. And I'm not saying that there aren't distortionary effects and dead weight losses in the economy. There absolutely are, but I think that we tend to assume that the manner in which government thinks about addressing these problems is the way we are familiar with our politicians, and I think that therefore we're underestimating what the Chinese political infrastructure would do.

Merryn: Yes, because the statistic on China that always interests me is that government spending as a percent of GDP in China is significantly lower than it is in most developed countries.

Dambisa: Yes.

Merryn: So we talk about the dead hand of the state in China, or the dead hand of the state anyway; that hand is actually rather smaller in China than it is in, say, the US and the UK.

Dambisa: I guess it depends on how you're calculating it, right, because I mean, they do have state-owned enterprises, which I suspect would probably not be included in that number.

Merryn: Would not be counted in that.

Dambisa: Some people are probably looking at just simply G, government spending, but there are so many other channels that they use.

Merryn: There's so much more in that.

Dambisa: And, by the way, I mean, I'm quite… As somebody who's been born and raised in the emerging markets I'm quite sympathetic to the view that many of the challenges, at that level of economic growth and development, do require a, sort of, larger presence, larger role of the state, and by the way, you know, Angela Merkel – I love one of her quotes; she made a statement at, I think it was Davos, about a year and a half ago, about Europe being 7% of the world's population, 25% of GDP and 50% of world welfare payments.

Merryn: Yes.

Dambisa: I mean, that does not sound to me like a market economy. If you add the United States we're talking about 13% of the world's population, and close to 90% of world welfare payments.

Merryn: 90%?

Dambisa: Yes, absolutely. And so, you know, we do have to think about what are we really striving for? What are we claiming is our ideology, in a world where the government role is not only large today, but is going to be increasing, given all the challenges that the world faces?

Merryn: Shall we just go back, briefly, to the Chinese stock market? You said that you felt that there was good reason for it to have rallied over the last year. Obviously there's been a fall-off in the last couple of weeks.

Dambisa: Yes, of course.

Merryn: That's caused a minor panic.

Dambisa: Absolutely.

Merryn: You think this isn't a proper crash; you think there's a long term bullish argument to be made for the Chinese market?

Dambisa: Well, you know, I mean, I've heard it all. As you know, last week the Chinese government went in… I mean, I said government, but, you know, the political institutions there, they cut rates quite aggressively, as part of a path of rate cutting that they've been involved in for the past few several months. You know, I… The reason I think it's still a buying opportunity is that I do believe that there is a much more sophisticated understanding of what the issues are and there's a much more innovative approach to solving those problems, and so I would bet on that rather than thinking, oh gosh, you know, these guys are out of their depths, over their skis, and don't really know what they're doing. I was very impressed by the political infrastructure there; it was something I hadn't seen, and so I'm a buyer of China, so…

Merryn: Interesting. I'm guessing you're not that impressed with the political infrastructure in Europe at the moment?

Dambisa: Well, what can I say? I mean, I guess the one thing, one lens that I think has probably been underplayed vis-à-vis Greece in particular, is I think what we're seeing here is not a transition but more of a new equilibrium. What do I mean? I mean that the Greek situation, to me, has all the hallmarks of the aid system. You have a donor, you have a recipient; promises are made by the recipient to address certain things – everything from pensions to taxes, etc. The recipient does not do anything, really, and…

Merryn: Yes, because they don't really need to, because they can assume there will be more coming.

Dambisa: Absolutely, and they assume correctly, until now, but I will, I'll come to that in a second.

There is a symbiotic relationship because the donor needs the recipient to continue to be where they are, in a sense, because, obviously, can win votes. It's certainly important for the political structure that this thing hangs together, but at the same time the recipient needs the donor because they need their livelihood to continue. So I think that the market probably really hasn't caught on to that. This is just a new [unclear 00:20:20] them as far as I'm concerned.

Just coming back to the point about the possible risks, even if Greece… I mean, it defaulted, technically, on the IMF. As you know, the only other two countries to do it are Cuba and Zimbabwe, but even if they really do fall out of bed, I mean, what we've traditionally seen in the aid regime is that the donor starts to pay you money to pay them back, so on the books it looks like it's getting paid back, but there's a more fundamental, in the context of Europe, political… beyond the economic and financial aspects there's a more fundamental political argument for holding this thing together that I think that the markets will continue to discount and I think that we understand.

Merryn: What is that?

Dambisa: Well, I think it's because of… It's a post war construct, and I think that a lot of people like myself, who tend to be economists, who work in the City in finance, look at this and say, wait a second, you know, these guys have done… made all these mistakes and therefore this doesn't hang together as an economic or a financial betting construct, but actually, if you take a step back and say, well, wait a minute, the bigger agenda here, the bigger utility function, is making sure that there's a common region, common environment, and therefore the economics is only secondary. I think that case is quite compelling and hasn't run away.

Merryn: Yes, so in the end you reckon that Germany will give in and stump up the cash?

Dambisa: You know, I do. I mean, I know that Angela Merkel's been very vehemently against it. I mean, Christine Lagarde from the IMF has been absolutely adamant. She says, I'm going to pick up the phone and call my board and tell them these guys haven't paid. But I think at some point there is an understanding… they just can't let it go, and I see it, as I said, with the aid system.

Merryn: This seems geopolitically wise as well, given that Greece is a physical outpost for us in that area of the world.

Dambisa: Of course. It's a gateway.

Merryn: Letting Greece go seems foolish at this point.

European markets are a bit choppy for my tastes, but I do think very soon there will be an opportunity to buy

Dambisa: Absolutely, and we've heard this from the geopolitical argument, and you're increasingly hearing, if Greece goes away does this become a gateway for ISIS and terrorist actors? I think that that is an aspect that perhaps the market, again, has tended to discount.

Merryn: Okay, so let's talk about our European stock market then. I know you're an Economist not an investment strategist, but under the circumstances would you invest in Europe at the moment, or is it just a little bit too scary?

Dambisa: It's a bit choppy for me, for my tastes, but you know, I do think very soon there will be an opportunity to buy, so I'm watching very carefully. I think that the traditional stocks that have gotten beaten up quite a bit, banking stocks, for example, I mean, are absolutely essential for the long term running of any capitalist based society, so I do think that there's a lot of scope for uptake there. You know, many of the financial institutions, insurance companies as well, I think are doing much better. I mean, in terms of capital requirements, and the regulatory environment's become much tougher, but I think that they've done a lot of the clean up and so therefore will be in an opportunity to really invest and be a really important engine for whatever prospects are, in terms of growth, and so I'm pretty optimistic there.

The consumers I still worry about a little bit. I think that for larger term projects like infrastructure, which governments have to finance, you can see why financial institutions might have a, sort of, a bullish story.

I think the consumer is still out, as far as I'm concerned. I mean, I do see the statistics saying, oh, you know, the sentiment is improving, particularly in places like Spain and Italy, but I do worry a little bit, still, that perhaps we're not... we haven't yet got the momentum that we need for longer term success.

One of the statistics somebody pointed out, which I'm sure I'm going to get wrong, is that the longest time the UK has been out, not had a recession, is eight years, so every eight years they have a recession, and if I'm not mistaken we're about six in.

Merryn: We're about due, yes.

Dambisa: Yes, so we're about due, and so the question is, you know, what happens in that sort of context? Does it...? Are we going to rely on quantitative easing, as many countries are?

Merryn: Yes, well, this brings us back to the BIS report that was out the other day, saying that, you know, monetary policy has been so loose for so long and interest rates are still so low that we have no ammunition left to deal with another crisis.

Dambisa: Absolutely. Absolutely. Listen, that is the issue that this is the consequence of what happened in the aftermath of the financial crisis. We do know that the central bank balance sheets are enormous, and the question is what else could happen, and I don't think anybody really knows, to be quite honest, not even the policymakers themselves.

You know, even if you look at the United States and the path of rates there; I mean, the implications, not just for the United States but globally, if they start to raise rates or pick up quite significant, and...

Merryn: Yes, and do you think that will happen inside this year?

Dambisa: Personally, I think it's not going to happen before December. I know that there are still Fed people coming out saying they think September is still on the cards. I just think it's a little bit still too precarious for my liking, but, you know, I don't have to pull the trigger, so I'm perhaps, I'm not in that situation.

Merryn: So let's say that we do move into another recessionary environment, perhaps in the UK, perhaps in Europe, perhaps in the US, what options are there for central bankers? You say that we don't know and they don't know, but someone must have an idea.

Dambisa: Well, you know what? I mean, for the reserve currency countries I think they have no problem. I say currencies... countries with, you know, plural, but really, it's, I would say, largely US, they could print...

Merryn: They can just print and print.

Dambisa: Keep printing, and print and print and I think that, you know, we know what the consequences of that could be. I mean, there are issues around inflation, etc. I think the other countries this is a very serious problem and, you know, people who are… whose job it is and get paid lots of money to sit around the table scratching their heads on these issues, I'm sure are not at Wimbledon, but instead at their desks trying to figure it out.

Merryn: Well, let's hope. Let's hope.

Dambisa: Yes, exactly, let's hope.

Merryn: I mean, let's go back to markets briefly.

Dambisa: Yes.

Merryn: There is a view, shared by many of my colleagues, and often myself, that most markets around the world are generally overpriced.

Dambisa: Yes.

Merryn: And that that is gearing us up for, in the not too distant future, another proper stock market crash.

Dambisa: Yes.

Merryn: Would you accept that view?

Dambisa: At the risk of sounding schizophrenic, I just said to you a moment ago that I think that there will be a, sort of, a correction in the European markets, an opportunity to buy, as I mentioned, I gave the example of banks.

Merryn: Those were the Greece specific…

Dambisa: That's a Greece specific thing. I do think that the markets are generally, I would say fully priced, but that is really, perhaps unsurprisingly, a large artefact of the loose monetary policy environment we've been in. Do I think that there's a correction on the cards? Yes, I do, actually. When is it going to come? If I knew I'd be in Tahiti and not here.

Merryn: Me too.

Dambisa: But I do think it's on the cards, and if you look at most metrics, I think that it's pretty clear that that is something that is going to have to happen, and I think that's probably why the policymakers are quite worried, because, you know, the proportion of people directly involved in the stock market remains pretty small, and of course, through pension funds and insurance companies it's much more exposure.

But, you know, as you know, the stock market is not just about returns. It's also about signalling and so the risk of knock on effects to the consumer and the rest of the economy that things are, you know, not just not good, but actually awful, are if you see a massive sell off or, you know, a crash, I think it would be too costly.

Merryn: So you think policymakers will be doing everything they can to avoid it at the moment?

Dambisa: Absolutely, which I think is print, print, print, and listen, we know that countries have gone to negative rates, so there's some down yet to go, so I think…

Merryn: OK, very well. Thank you so much for taking the time to talk to us.