


# Q&A: Economic growth — magic or model?


An interview with economist Dambisa Moyo on the state of inequality and the solutions in our midst.

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Dambisa Moyo is a global economist and author of “*Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*,” “*How the West Was Lost: Fifty Years of Economic Folly and the Stark Choices Ahead*,” and “*Winner Take All: China’s Race for Resources and What it Means for the World*.”

Moyo spoke with OpenCanada about the challenges of fighting global income inequality, and how both spurring economic growth and investing in infrastructure are crucial to the solution.

## Questions

- ▼ What are the challenges when it comes to tackling inequality?
- ▼ Do governments need to take more of an initiative or should this fall to international institutions?
- ▼ Are we on the right track to reduce income inequality or do we need a fundamental shift in how we look at this issue?
- ▼ The goals of narrowing the inequality gap and eliminating poverty are often mentioned in the same breath – how important is it to distinguish between the two?
- ▼ How should policymakers take the movements over the last few years — Occupy, the Arab Spring, the London riots — into account when figuring out how to address income inequality?
- ▼ Justin Trudeau is now the prime minister of Canada. He campaigned on running a deficit and taking advantage of historically low interest rates to invest in infrastructure. Do you think governments need to — and can — take risks like that, given today’s economic climate?
- ▼ What are some of the higher hanging fruit?

## What are the challenges when it comes to tackling inequality?

The reality is that most economists and policymakers are struggling with how to address income inequality, and by that I mean more within-country income inequality as opposed to between-country income inequality. Income inequality on a global scale has improved. The fact that we’ve been able to move hundreds of millions of people out of poverty over the last 30 to 50 years has really improved our ability to reduce income inequality. But at the same time there are real concerns about the widening of income inequality in places like the West. What has become clear after many different attempts over multiple decades to address income inequality [is that] we don’t have a sort of ‘failed state’ way of framing inequality.

One way of framing this, just to illustrate the point, is that you have the United States, which is the largest economy in the world in GDP terms; it has democracy as its political stance, and market capitalism as its economic stance. Then you have China on the other hand, the second-largest economy, probably around 10 or 12 trillion dollars of GDP; it has de-prioritized democracy and it has state capitalism as its economic approach. Yet these two countries have roughly the same income inequality, [based on the] Gini coefficient. Worse than that, China’s income inequality has actually improved over the last decade, whereas income inequality in the U.S. has worsened.

If you're looking around the emerging world, where 90 percent of the world's population lives, you're looking at what tools politically and economically can help reduce income inequality, which is a very important task for public policy. It's not the case that we have a good record, when you look at liberal democracy and market capitalism. So I think in as much as economists and public policymakers are trying to look at this question of reducing income inequality, this is a very central point, that we've tried trickle down economics, and also tried tax and spend policies, and I would argue that neither of them have actually worked very efficiently to address the issue of income inequality. That's really where the debate is right now.

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### **Do governments need to take more of an initiative or should this fall to international institutions?**

I think that these supranational institutions have their own agendas. Ultimately, governments have tools and they also have aspirations. The United States is a good example of a country that has in the past not prioritized income inequality as a target public policy metric in and of itself. The American dream is not about reducing income inequality; the American dream is about creating opportunity so people can better themselves. But that's very different from the Chinese approach, where reducing inequality is one of their stated goals.

People live in different societies, so the notion that we can have a supranational body that decides different metrics, whether environment, trade, immigration or financial policy or a host of other things, has been shown to be very difficult, and ultimately some countries have no problem with income inequality. I think in many Western countries it's clear that that's the case. They believe in a society that's very capitalist, utilitarian and individualist, and there are other societies that don't like that, that are more communal, more communist, at the extreme, but with broader societal wellbeing. The notion that we can have international agencies that dictate how we should think about income equality I think is an interesting theoretical discussion but I think as a practical matter we've seen time and time again that national boundaries tend to serve international agendas.

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### **Are we on the right track to reduce income inequality or do we need a fundamental shift in how we look at this issue?**

Obviously in the past 50 years we've had significant improvements in terms of reducing poverty and creating economic growth in a sustained way, particularly in the emerging markets, and that means on a global basis income inequality has shrunk. So we could argue that things are much better. As many of the emerging countries have converged to higher levels of income, they've reduced the spread between rich and poor. But if you look at data within countries – I gave the U.S. as an example – it's clearly quite worrying.

We're in a situation where there is a widening of income inequality. Capital in particular is accruing to a smaller proportion of the population. If you're talking about global inequality then clearly there have been strides, important things that have happened, but [looking at] within-country income inequality the picture can be viewed very differently depending on where you are. I honed in on the U.S. because it is the largest, wealthiest country in GDP terms, and yet it's got income inequality in numbers that are worse than many other poorer countries around the world.

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### **The goals of narrowing the inequality gap and eliminating poverty are often mentioned in the same breath – how important is it to distinguish between the two?**

I think they're two separate things. In the case of poverty, I think what we're talking about here is the question of absolute versus relative. There's a certain standard of living I think the world should aspire to. Whether it's access to health care, education, decent public goods, the ability to sustain yourself – I think that that's something we should all aspire to and clearly there are large proportions of the world today in both developed and developing countries where people are living below those standards. I think the number now is something like one in seven Americans goes hungry, so it's not a developing country question. The issue of poverty is pervasive, and yes, we may feel like we've got these wins on a very high macro level, but on a very micro level we continue to see deterioration in living standards for a very large proportion of the world's population. I would argue that that's not acceptable.

Income inequality is a very different thing. There is a compelling argument to say that we should reward and encourage investment and incentivize people to help to solve some of the most intractable problems in the world, whether that's health or environmental concerns or building technology, to help improve living standards. I think many people, myself included, subscribe to the view that we should reward, encourage and incentivize people to seek those solutions – to me this is really the essence of human progress. And that's a completely different proposition from having equal pay for everybody because I think we clearly have different abilities.

That being said I don't think that that should be an end in and of itself, I think that at the same time we should be trying to improve minimum standards for everybody. They are two different issues and they do get conflated and I think that's perhaps by people who don't really understand the differences.

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## **How should policymakers take the movements over the last few years — Occupy, the Arab Spring, the London riots — into account when figuring out how to address income inequality?**

Personally, I think focusing on things like income inequality are absolutely important, don't get me wrong. But for me, the defining challenge of our time is economic growth. How are we going to create economic growth in developed countries that are now burdened with debt, that have aging populations and declining productivity? But also how are we going to create economic growth across the emerging world, where we have seen really solid growth, double-digit growth, for a long period of time, but that clearly is now in a very negative spiral? We have large economies like Brazil that are in recession. You have countries like South Africa and Russia growing at around one to two percent, far below the seven percent minimum required to double per capita income in a generation.

We can split hairs here and say oh, let's focus on income inequality, but I think the more fundamental issue, which could really help address or redress the issue of income inequality, is where are we going to get economic growth.

I don't have the ability to comment further about individual campaigns, approaches or objections to society, all I know is that in my world, people are focused on these questions. We were focused on them before the financial crisis and we're perhaps more focused on them now, given the precarious place the global economy finds itself in now.

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## **Justin Trudeau is now the prime minister of Canada. He campaigned on running a deficit and taking advantage of historically low interest rates to invest in infrastructure. Do you think governments need to — and can — take risks like that, given today's economic climate?**

I think the world is in a very dangerous place. If you look at what the International Monetary Fund has said, [the organization] has been very clear that it does not think the world will ever see the rates of growth that we saw before 2007, ever again. And those types of statements are very nerve-wracking. In the emerging world, we are seeing a lot of volatility, it's not just about the Middle East and North Africa, there is lots of volatility in places like Brazil, South Africa, Russia, in some cases in South East Asia...I know a lot of people want to think of it as being purely ideological, whether it's religious ideology or some other motivation. For me it very much rests on the lack of or the risk that we don't provide opportunities for young people, particularly in the emerging world where 60 to 70 percent of the population is under the age of 25.

So I do believe in economic growth and I do think as a global society we should think about what we should be doing to create opportunities and growth in the long term. And the reason in my [Globe and Mail interview](http://www.theglobeandmail.com/globe-debate/munk-debates/dambisa-moyo-this-government-has-many-tools-at-their-disposal-to-simulate-the-economy/article26143510/) (http://www.theglobeandmail.com/globe-debate/munk-debates/dambisa-moyo-this-government-has-many-tools-at-their-disposal-to-simulate-the-economy/article26143510/) I referred to infrastructure is I think that's one of the lower hanging fruit options that many governments, particularly those in the West, have not adopted.

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## **What are some of the higher hanging fruit?**

Well there's education, we have to invest in education. The problem with that is it [affects] multiple generations and people are very prone to short-termism, particularly in democratic societies where cycles are much shorter. Obviously under-investment in education is a big issue, we've [also] got large problems around healthcare and how that's shifting, big issues around how in developed countries we have aging populations and the costs associated with that. In emerging markets, healthcare issues are different; they tend to be more around primary healthcare, around mortality in the first five years of life.

I think that there are a lot of public issues that are on the table — pensions etc. — that are recognized as being burdensome and challenging and at the top of public policy agenda, but as I've said infrastructure to me is not just an opportunity to create jobs — no economy can expect to be competitive in global economy without having decent infrastructure. It boggles the mind that Western governments in particular have not seemed to jump on this, not just as an opportunity to create employment but also to just build their economies.

*This interview has been edited for length and clarity.*

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