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THE ARCHITECTS OF TIME: DAMBISA MOYO

In an age where time seems scarcer than ever, how should our society and economy best plan for the future? Here, as part of Vanity Fair and UNLIMITED’s Architects of Time series, Zambian economist and *Dead Aid* author Dambisa Moyo talks the perils of short-term thinking in economic planning and political affairs



**THE ECONOMIST**

Dambisa Moyo photographed by Henry Bourne on Friday 5 May 2017 at Rosewood London

When former Chinese Premier Zhou Enlai was asked in the early 1970s about the impact of the French revolution, he reportedly replied: “Too early to say.” This answer has become synonymous with China’s famed patient long-term approach to public policy and problem solving – even though it has since transpired that Zhou was in fact referring not to the 1789 revolution, but the 1968 student uprising. In seemingly stark contrast, the Western approach to business, economics and democratic politics has become decidedly short-term, with significant, and deleterious consequences for economic growth and living standards in the longer term.

Consider, first, how short-term horizons have seeped into business.  The tenure of Fortune 500 CEOs is becoming ever shorter, from an average of 10 years in 1990 to 6.6 years in 2011 to around 4.4 years today, thereby creating significant volatility in management and a company's corporate strategy. Meanwhile the average time that a company exists has also contracted considerably, according to researcher Dick Foster at Yale University. The average lifespan of a S&P 500 company in 1935, was 90 years; in 2011, it was 18 years, no doubt in part reflecting the rapid creative destruction of companies in the technology sector that go from start-up to acquired at what often seems like warp speed.

And whereas the average length of time a New York Stock Exchange stock is held in a portfolio was seven years in 1970, it was just seven months by 2011. With the advent of technological innovations such as high frequency trading, which enables traders to take advantage of even the smallest of stock moves using computer algorithms, some estimates suggest portfolio managers today hold stocks in their portfolios for as little as just 11 seconds! Of course, such trading volatility can make it challenging for companies to make reliable longer-term assumptions about how and when to finance their business activities.

*Watch Dambisa Moyo explain short-termism below:*

Increasingly, companies are abandoning or avoiding vagaries of the public stock markets by choosing to remain or become private companies instead. According to the Wilshire 5000 Total Market Index, the number of publicly listed U.S. stocks peaked at a record 7,562 in 1998. As of the end of 2016, there are just over 3,600, having fallen around 50 percent. From a broader societal perspective, fewer public stocks means there are fewer opportunities for state pension funds to invest and generate returns and incomes for retirees.

IN FIVE OF THE SIX QUARTERS UP TO JUNE 2016, MONEY LEAVING WAS MORE THAN THAT RETAINED FOR REINVESTMENT

Furthermore, driven by companies’ need to file quarterly reports of their performance, the dominance of short-term thinking in business creates real economic problems. Companies make capital allocation decisions that can hurt corporate investment and the broader economic growth prospects of a country over the longer term. Research by WPP, a global communications firm, shows that in five of the six quarters up to June 2016, money leaving companies was more than the companies retained for reinvestment. Specifically, the share buybacks and dividend payments of companies listed on the S&P 500 exceeded retained earnings (in layman’s terms, these are profits withheld by companies and earmarked for investment) by as much as 130 percent—up from around 60 percent in 2009.  What this means in practice is that companies are myopic; they choose to pay profits back to shareholders—and keep them happy today—at the expense of company investment for tomorrow. Essentially, companies are scaling back their investments and rejecting the opportunity to make significant capital investments, such as building new factories, to lay foundations for future growth.

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Perhaps most significantly, the shift toward planning over shorter time frames among public companies has permeated economic policy, with notable costs to society. According to Stanford University research, company “pressure to meet quarterly earnings targets may be reducing research and development spending and cutting U.S. growth by 0.1 percentage points a year”. In contrast, private companies that are not subject to aggressive short-term quarterly reporting cycles are found to invest at nearly 2.5 times the rate of public companies in the same industry. This persistently lower investment rate among America’s biggest 350 listed companies may be reducing US growth by an additional 0.2 percentage points a year.



**CORRIDORS OF POWER**

Dambisa Moyo talks to *Vanity Fair* at the Rosewood London, May 5, 2017. Photograph by Henry Bourne

Democratic politics too is notably characterized by the mismatch between short-term political imperatives (getting elected) and the numerous longer-term economic problems facing economies—notably, underinvestment in education, health care, pensions, and infrastructure. Each of these challenges spans decades, if not generations, and thus redress requires longer-term vision by politicians, beyond the length of their terms of office. Often these economic tradeoffs between consumption today and investment (or vice versa) pits generations—the young versus the old—against each other.

Regular democratic electoral cycles, by their very construct, mean politicians—not unreasonably—focus on pandering and catering to the needs of today’s voter, in the hope of garnering votes to win and/or retain political office. The regularity of elections—every two years in the US, plus Presidential elections every four, and Britain with three major polls in the past three years—lends itself to increased political volatility. It leaves policy makers focused on prioritizing and fighting the next election battle, leaving larger-scale economic challenges “kicked down the road” for future generations to deal with.

No doubt, this increased political myopia and uncertainty is exacerbated by the advent of the 24-hour media cycle, and intensified by social media. All day, any day, media cycles invariably force politicians to prioritize political point-scoring, regular commentary, rapid response and political engagement today, over focusing on the major structural challenges that will severely hamper the economy tomorrow.

AS UNCERTAINTY AROUND POLICY INCREASES, BUSINESSES ARE LESS LIKELY TO INVEST IN AN ECONOMY

With the regularity of elections, perhaps it should come as no surprise that the average tenure of a G20 political leader is at a record low, declining from a post-war era of six years in 1946 to just 3.7 years today. Of course, a consequence of enormous political shot-termism and the concomitant political volatility it can bring to bear, is policy inconsistency. This is the idea that government policy and regulation that governs the business environment is constantly changing as new political leaders are elected and policies change, and it creates an ever more uncertain policy frame within which investment and company capital allocation decisions must be made. As uncertainty around what policies may be introduced increases, businesses are less likely to invest in an economy, ultimately to a country’s detriment. Moreover, political schisms born of constantly changing and short-term political horizons create political gridlock that itself hurts investment. US infrastructure, to offer but one example, has been graded D+ by a survey of American Civil Engineers, a clear artefact of how short-term political imperatives have trumped the longer-term economic needs of the country.

[**Are modern economies failing the marshmallow test?**](https://www.unlimited.world/ubs/are-modern-economies-failing-the-marshmallow-test)

One path to redress the plague of political myopia within the confines of a democratic process is to lengthen and limit the terms in which a politician can hold public office. In Mexico, for example, the President is elected for one term of six years. And in Brazil, senators are elected to nine-year terms. The beauty with capping terms is that politicians are not drawn into competitive politics or desire to fight the next election; instead, they need only focus on the task of delivering economic-enhancing policies and addressing social woes. Meanwhile, embedding longer political time horizons for an incumbent means political horizons better match economic business cycles, which tend to be at least five years.

Of course, longer-term political horizons are not without risk. Once elected, a country could be stuck with a bad or ineffective leader for longer. At a time of slow and slowing global economic growth and mounting economic challenges—from automation and the risk of an emerging jobless underclass, a burgeoning global population, soaring debt, worsening income inequality, natural resource depletion and ever more pressing climate change and environmental concerns, to name a few—the need to get politicians to focus on these long-term economic issues and away from short-term political imperatives is not only important, but urgent.

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