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Transcript

Unintended Consequences – Good Policy Intentions that Yield Bad Outcomes, and why these are Detrimental for the World

Dambisa Moyo

Author of *How the West Was Lost*

Chair: Dr DeAnne Julius

Chairman, Chatham House

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Dr DeAnne Julius;

Welcome everyone. We may have a few more coming in, but I think we are mostly here and a few minutes past the time that we said we would get started. For those of you I haven't met, I'm DeAnne Julius, chairman of Chatham House and it's my great pleasure to be here tonight to introduce our speaker and take your questions in discussion. Could I first ask any of you who have a telephone or BlackBerry to just turn it off – not just silent, but actually off. It does affect the recording devices and hearing aides that people might have. Also just to say that this meeting is on the record, not under the Chatham House rule.

Dambisa Moyo:

I won't be saying very much then tonight.

Dr DeAnne Julius:

Dambisa has said everything in published form, I think, so that's natural. I'll say a few words about our speaker, but I notice that she's been reported and recorded on television and in the papers heavily over the weekend and in recent times since the book has come out. So you probably know a lot about her, probably as much as I do, although I've had the pleasure of knowing Dambisa for a couple of years now and I was delighted to read this book. She has a PhD in economics from Oxford University, a Masters from Harvard and did her first degree not in economics, but in chemistry so I'm glad she saw the light before too long and switched to something eminently more suitable at least for Chatham House than chemistry.

Dambisa worked for a number of years at Goldman Sachs, knows the financial world very well and is eminently qualified to think about and write about the political economy of what's happened in the financial crisis, but more importantly what that might mean, what that might signal, what that might trigger for some of the longer-term issues that face this country, the United States and indeed the world at large. She has also been nominated as one of the World Economic Forum's young global leaders and I imagine will be in Davos in a couple of weeks' time. I don't know whether I should even mention this because these surveys are so ropey, but *Time Magazine* at least claims that you are one of the 100 most influential people in the world.

Dambisa Moyo:

I got nothing for that. It's not like they said, 'We're going to pay your rent until you die.' It wasn't like that. So I'm not too sure that ropey is the right word.

Dr DeAnne Julius:

I know what you mean. Anyway, she has written a very interesting book called *How The West Was Lost* and we are delighted to welcome Dambisa back to Chatham House. Some of you may have seen her when she introduced her first book about *Dead Aid*. But tonight, it's about the west rather than developing countries. So Damisa, welcome to Chatham House.

Dambisa Moyo:

Thank you. Thank you very much and thank you everyone for being here. I really appreciate Chatham House being a forum for me to offer my ideas so thank you very much for facilitating and everybody's help to make it possible. Just in the introduction, it occurred to me how much of a hypocrite I am because I did run away from chemistry and yet one of the things I'm going to be talking about is how there is really quite a desperate need to invest quite significantly in the sciences. We can talk a little bit about incentives later. What I thought I would do this evening is spend about 20 minutes talking to you about some of the key themes in this new book, obviously leaving a lot of the stuff out so you can actually enthusiastically purchase the book at the end of the talk. But I'd love to spend more time actually in discussion and debate because I'm not claiming to be an oracle, but these are really just my views about where the world is at the moment.

And perhaps the place to start is to give a bit of context for where we are currently. It seems to me that the world is still very heavily characterized by uncertainty. There's a lot of uncertainty around the tax regime, a lot of uncertainty around fiscal policies. So for example in the UK, we are all talking about austerity, in the US, a completely different proposition with QE2 and so on. We are still getting a lot of uncertainty around bank and capital requirements, things like industrial policy. So it still seems to be a world of a lot of uncertainty, but within that, I feel that there is one thing that we broadly all agree – well, certainly increasingly subscribe to – and this is the idea that China, if I may use China as a euphemism for many countries in the emerging world, is broadly getting it right and I would say that many of the western countries are broadly getting things wrong.

What I want to do is really set up a framework to analyse how it is I've come to this sort of quite sweeping debate or point of debate. The framework that I am going to use is basically the framework that economists use when they are evaluating the prospects of an economy which is essentially the growth – how do you determine the growth? There are essentially three key areas. The first one being capital, which is essentially money. The second one being labour and then the final element being productivity. Economists in the room will know that the productivity element we think accounts for about 60 percent of why it is a country grows and why others do not and so that's quite an important piece of the puzzle. In thinking about these three things – capital, labour and productivity – I think we need to bear in mind that its not just the quantity of capital, labour and productivity that you have but also the quality. So for example, if you look at places like China and India which were the largest economies of the world in the 1500s and 1600s, they clearly made policy errors that left them significantly a lower proportional of global GDP. So it's not just to say oh gosh, they have 1.3 billion people it must be great, but it's also the quality of those people and we'll come back to that in a moment.

Just going back to capital, labour and productivity. I'm going to start by talking a little bit about capital. We're all very familiar with the broad concerns about the deficits and the large amounts of debt that are sitting on the balance sheets; not just government balance sheets but also personal and corporate balance sheets around the world. In particular in western countries, we are living through the sovereign debt crisis in Europe and there still remain a lot of issues in the United States about their debt. We're talking now, US and UK roughly about 70 percent of GDP is debt. But the issue about debt is not necessarily where we are today, but where we are forecasted and projected to be in the years to come. So if you look at some of the IMF reports, they make pretty scary reading. The sense is that by the time we get to around 2020, maybe even sooner, we are talking about the US and the UK having close to 90 percent debt to GDP ratios if nothing else is done.

And the reason – and again we will come back to some of these issues and themes - why this is particularly worrying is there are still huge liabilities that we all know about, but we're not really tackling. Pensions is a good example; health care. These are enormous costs that we know are coming – looming costs – but we still haven't really got our heads around them in terms of how much we really owe and what that might mean for debt to GDP ratios. But in addition, there's a wonderful paper that came out by two economists called Carmen Reinhart and Ken Rogoff. They had written a book called *This Time*

It's Different and if you are interested in issues of debt, it's worth a read. They look at eight centuries, going back 800 years, at debt crises and financial crises and they look at what happens to economies after a debt crisis and financial crisis and so on. Their key take away is that countries that have debt to GDP ratios of 90 percent plus, approaching 100 percent, you are talking about removing 2 percent of your growth rate every year. This is very important because economists look at trend GDP and for many developed countries like the US and the UK the expectations of the trend GDP are around 3 to 4 percent at best given some of the things we're going to be talking about in a minute.

But I don't want to bore you with big macro statistics. The fundamental point is you've got the US and the UK and, of course, many European countries, large debts, massive deficits – we're talking 11 percent deficits in this country and also in the US. And you've got China which has got a surplus about minus 0.4 deficit which is kind of weird because most emerging markets run these massive fiscal deficits – but also its got virtually no debt. Some estimates are around 9 percent debt to GDP ratio. So that's capital. I will also remind you, just in terms of this discussion about capital and again in the context of the political cycles I will come back to this point, but in places like China, the capital is centralized. It's at the government level. It's in the sovereign wealth funds and that gives government much more flexibility when it comes to dealing with big scale issues such as resources or fighting a financial crisis. Think about how things are in the US and Europe where there obviously is a lot of capital, but it's quite diffused from everyone from pension funds, individual housing and savings, hedge funds, banks and so on. So it's rather diffused and makes it more difficult for governments to act.

So that's the capital story very briefly and, again, throughout the course of this conversation, you'll see that there is no clear delineation between these issues. Obviously, these things do mesh around. But let's just spend a few minutes talking about labour. In the labour markets, I think there are a few key themes that have become problematic. One of them I have already alluded to which is the pension and healthcare concern. There are estimates that in the next five years, we are going to see a 250 percent increase in the number of people over the age of 65 in the West. Huge. I've talked a lot in the book about the costs of Alzheimer's and other diseases including things like Type 2 diabetes which is heavily linked to obesity. But if you look at how poorly prepared we are right now, it's quite scary. Already in the UK, about 75 percent of NHS costs is spent on long term health ailments which are closely related to older, aging populations. Again, it's not that we don't know that these things are on their way coming towards us. It's that we are not really doing enough about these issues.

So the demographic problem – as I mentioned, the pension funds – we know that in the context of the United States, for example, whole industries have been decimated because of the pension problem. We've got the airlines as an example. We've got examples coming from the steel industry, the auto industry, but what are we as a society doing to make sure that we don't unravel around these issues? In the book, I call it the next 'big Ponzi scheme' and I think the thing that we need to remember throughout, the common theme – and it is the title of my talk today – it is about unintended consequences because we all have good intentions, but actually what is happening in terms of policies is that it is yielding bad economic outcomes.

But if you look at pensions and healthcare, that's not the only problem we are facing in the labour market. The other big issue is falling education standards. Again, we all know this has been going on, but we are not doing much about it. One of the things that I found incredibly shocking recently was a survey that 23 percent of school leavers in this country cannot add 50 plus 2 in their head and this is Britain, a developed economy. It's absolutely shocking. But the statistics are plentiful. Look at the OECD survey that comes out every three years. The last one came out in 2008. It's called the PISA survey or look at the TIMSS survey which is the Trends in Mathematic and Sciences. It's very disturbing reading. Both the United States and the UK and many developed countries have slid from being in the top three to five in maths, reading and science and they are now 25, 28. It's completely been taken over. This has happened in about a decade. So we've got serious problems there. Some of you might be aware that in the United States, there are fewer people graduating than in the previous generation. There are a lot of issues around standards of education that are quite intractable given the political system there. Again, these are things that we're actually not addressing. We know that it is brewing, but we are actually not addressing it.

I want to spend a bit more time on productivity and I'm going to throw out a particular thesis here because, as I said to you, it's quite a big chunk of why countries grow and really does influence growth models. You might be saying to yourself, OK, I get the unintended consequences. The capital, part of the reason we've got this big problem with capital and big debts and deficits is really because of the subprime crisis. But the subprime crisis actually is an artefact of government policy which was good intentions: they wanted to make sure every American has a roof over their head but the manner in which it was delivered through the Housing for All policy, which was a government policy, has actually yielded, and of course other issues have yielded –a financial crisis that we are just emerging from now.

I've talked about pensions, I've talked about poor quality education. When it comes to productivity, the following has emerged. Whereas most countries in the West have posted some gains in productivity, I should say for most sectors, it's actually been flat or plummeting. In the UK for example, in the healthcare sector, it's fallen quite significantly. And even though we've seen a lot of innovation in technology and computers, on the whole in the past 30 years, we've seen it be quite flat. At the same time, China has posted the largest gains in productivity in the history of the world – in the history of us collecting productivity data. Now, you might argue that they were starting from a low base or they are stealing our technology, but the fact of the matter is this is such a big part of the growth story that it actually matters that there is such significant strides being made in productivity.

I also want to point out that the unintended consequences around productivity really stem from globalization. In the 1980s, as we all know, whether it was Margaret Thatcher or Reagan, it didn't really matter where you were on the planet – at the time, I was in Africa – there was definitely a big push for the need of globalization, greater interconnectivity. We all subscribed to that. And by the way, I'll just give you my disclaimer, I actually believe in the free movement of capital and labour. I think it's actually very helpful, certainly the manner which is described in theory. But let's look for a moment at the data and see what has actually happened. There is a wonderful paper that came out of the University of Chicago comparing 1950 to 1980; when the world was pretty isolated and the US and Europe were pretty closed, to 1980 to 2007 when the world was pretty open. The findings are very illuminating. They find in almost all European countries, UK included and the United States, there's been no increase in wages during the open period. We know this because real wages have been flat in the much of Europe and the US, but in addition, if you compare growth in the United States between 1950 and 1980 versus 1980 and 2007 – so closed versus open – it's been identical at 2.1 percent in these two periods. If you look at income inequality, it's widened. If you look at people's per capita income as I mentioned earlier, you've seen that real wages have been flat and part of the way in which people have actually gained from globalization in the US and Europe has been by having greater access to debt.

So let me just take you back for a minute. Why is this an unintended consequence? Well, the way in which globalization was pitched to all of us was that it was going to float all boats which it has because, globally, the Gini coefficient, which is the measure of income inequality, has closed. Because the emerging markets are rising, we are closing down on this income inequality. But we were also promised that people who live in western and developed economies were going to see their income rise specifically because there would be greater demand for them to produce more goods to sell to these emerging economies.

So the question then becomes, what has happened? Why is it the case that the UK, Europe and the US have not seen as many gains as they would like in terms of globalization? This is where the issue of productivity has come up. It's partly to do with productivity because clearly in terms of productivity in places like China and India, they are able to produce and have been able to produce goods at a much lower cost and in many ways much more efficiently.

But also, let's not forget that through deliberate policies – and this goes back to the unintended consequences – the US government in particular made it so attractive for American citizens to invest domestically into the mortgage market, most of them missed out on the big global trade. What do I mean by that? If you look at the average portfolio of an American household, at least 30 percent of their wealth is tied up – at least, for many of them it is more like 70 percent - into their home. That [inaudible] worked quite well for a while because you had low interest rates which meant that it was cheaper to borrow. You had the baby boomers so there was actually more demand for people interested in buying their own home. You also had subsidy programmes which were basically backstopped or encouraged by the government through Fannie Mae and Freddie Mac. The confluence of these three factors made the housing market look incredibly attractive and Americans very sensibly and very rationally invested in the domestic economy, but it was at the expense of them investing in this emerging markets trade with anathema.

Well, they've had more debt as we know. The debt actually fuelled a massive consumption boom. The consumption to GDP ratio in the US is around 70 percent. It's about 65 percent in Europe. In China, it's about 30 percent. So they've consumed a lot. They've got massive houses. We all know the story with the houses. But in addition, real wages have been flat. If you take a snapshot of the United States – and this goes back to the point about within country income inequality widening – part of the problem is there have been gains to globalization but those gains have accrued to people who have capital. So the people who are wealthy and investing in innovation and technology, the Googles of this world, have done very well. The people who took the money and actually got more debt, did not see their wages rise, have essentially been left, in a sense, short.

So, where are we now today? I'm picking on the US. A lot of these things also apply to the UK. As we know, both of them have close to 10 percent unemployment, a little bit lower in the UK. In the US in particular, you have a situation where around 30 million people in the manufacturing sector are out of work. Many people, certainly in economic chatter, say that those jobs will not come back because they are simply uncompetitive in a global space.

OK, I've painted this really dismal picture. What are the options? Where are we right now given that this is the situation? I would say there are basically two options. By options, I am using quite a strong term, but let me just go with it for a minute. Two options, one is that the US and European countries choose to remain open and by that I mean they continue to allow global flows in capital and trade. The other option is that they become more protectionist and much more aggressive. Let me go through both of these options in order.

If the United States chooses to stay open which in my perspective, as I said earlier, I'm a big supporter of free movement of capital and so on. I should also mention, they have already decided they are going to try and do this. They have to try and solve a lot of their structural problems and not the tactical problems within the framework of being open. What do I mean by structural problems? I mean those types of problems that governments love to push forward and let the next guy deal with. It's everything from the education standards, issues around infrastructure, issues around energy efficiency for example and there are quite a lot of other ones. The US has clearly decided they are going to try and solve those problems within the context of being open. President Obama has earmarked 3 percent of the country's GDP towards science and technology. They have at least 45 billion dollars earmarked towards infrastructure investment across the country. If you read Obama's speech last year from Carnegie Mellon around energy efficiency, the US consumes 25 percent of the 85 million barrels of oil that we consume everyday on this planet. They have to solve that problem. Unfortunately – and again this is something I'm sure we will talk about when we talk about politics – they are beholden in many ways to countries like Saudi Arabia, Russia, Iran and that's part of the problem. They are almost hamstrung in terms of what they can do policy wise. But clearly they have been trying to address these issues – education, energy efficiency, infrastructure – in the context of being open.

The problem by staying open, I would argue, is two fold. First of all, given where the US is, particularly these three items, it's going to have to be incredibly aggressive in terms of making these things much bigger and much more bold. Specifically, 3 percent of GDP being earmarked towards education is simply not enough. Forty-five billion - the estimates are they are going to need multiple more of that per year to actually solve some of the infrastructure problems that they have in the US; similarly in energy. So they've got to be much bigger and part of the thing they are going to have to do is probably scale back from underwriting global public goods, so policing the ceilings and all of that good stuff which we do like, it's simply incompatible with where they are in terms of economic structural decline.

The other problem with the US and European countries is that, by virtue of where they are right now, they are crucially dependent on other countries playing fair. So the United States might say, you know what you really need is to invest in more education and you need to be more globally competitive, competitive in manufacturing - but the fact of the matter is, if China is going to distort it's exchange rate, the US cannot expect that it's going to be able to sort out this 50 million - 30 million people who are out of work in the manufacturing sector. So a lot rides on how they determine what sort of public goods they can give up and really turn the tide on investing in the US economy. In the past 10 years in Iraq and Afghanistan, the estimates I've seen is that they've spent close to 100 billion dollars on the war which if you compare that to what they need to do domestically, they've got a lot of work to do.

But let's take the other side for a moment, which is what if they tomorrow decide to become more closed? This is a nuclear option in some sense because of what I said to you earlier – I do believe there are significant gains to be had for all 9 billion of us (that will be in 2050) if we remain open and we continue to trade with each other. But the fact of the matter is protectionism - which was very much a fringe issue in the United States, people kind of thought oh it's that crazy guy who is talking about protectionism - it's really now moving to becoming a central issue in the United States. We are hearing that some of the surveys that are coming out, you see that 30 percent of college-educated Americans are saying we need to bring back a certain form of protectionism, particularly in the manufacturing sector. The thing also about protectionism is we can't be too snobby about it. The fact of the matter is western countries engage in it already and, as an African, I take some personal umbrage to the notion that China keeps getting it's finger wagged at, because we know that in agricultural subsidies African countries are locked out of the US and European markets. So I don't think it's such a leap to start to think about manufacturing protectionism in the US, particularly given where they are. Now obviously, they could choose to offer part-time work. Many people in here will remember here in the UK the three-day week and that kind of thing, but it just seems to me there would be such a big backlash, especially with respect to living standards declining in the United States. So the question is what do they do in that case?

The question I want to sum up now – the questions out there are what do we know as fact? I would say it's pretty clear to me that China is going to keep on growing. It's also clear to me that China is going to grow faster than Europe and the US and, yet, she has many problems and I'm sure in the course of Q&A, we will come to some of the problems that they are facing.

But the question - where the jury is still out - is how quickly and is it going to be possible given the resource constraints that we face around arable land, water, minerals and energy for China to converge on our level of per capital income? So could Chinese live like us? Right now, they are number two in terms of GDP in the world, but they are number 9 in terms of per capita income so they have a long way to go on that. I spent a couple of weeks in China in November and they are absolutely obsessed with what they are calling 'The Race from the Revolution' because we know what the demographics look like there. There are about 300 million Chinese who live like us, if you will, and about one billion who don't, and unfortunately the planet is running out of resources. Now, things like innovation could step in and be quite transformational, but at this point, there hasn't been that much innovation in some of the sectors – as quick innovation as we would like to see in many of the sectors that I think desperately need that type of impetus.

Anyway, I've painted a rather dismal picture because when it comes down to this, everything I've said sounds like economics, but the reality is it is all driven by policy. Our policy-makers in the West are unfortunately driven and rewarded by us for focusing on tactical issues – the deficit, the here and now, the things that will get them re-elected – and they spend, unfortunately, almost no time dealing with the longer term strategic issues like pensions, like income, like healthcare for which they will not be immediately rewarded - the so-called intractable problems.

So we need to figure out a way of rewarding policy-makers or encouraging them or punishing them for not relying on or dealing with these more structural problems. Obviously, places like China and Singapore have been able to circumvent the issues of personal freedoms and individuals in the interest of the broader society and, by circumventing, they've been able to deal with a lot of these issues that we are talking about here, the structural issues.

I'm not proposing that we get rid of democracy but there are many things in the democratic system which I think we should be debating in terms of how we can actually alter things within a democratic framework. It could be anything from looking much more like the democratic system in Brazil which has a longer term for president – it's seven years – but it just gives government a bit more of a purview instead of these multiple cycles every two years which is essentially what it is in the US.

Or the other thing which has nothing to do with politics – it does and it doesn't, in a way – is to think about incentivizing people to do the right thing. And here I'm talking about things which are very common now in Mexico, in Brazil and Mayor Bloomberg in New York is trying out as well. They are called conditional transfers. So here, the government pays people to do the right thing. Your child goes to school – 98 percent attendance rate, you get 100 dollars. Your child gets immunized for tuberculosis or this particular disease, you get 100 dollars. So you incentivize people to do the right thing. Obviously, it's quite a tragic world when you have to think about that, but perhaps we're going to have to start paying people to do maths and science. It may not be cash. It may be in credits, but given where things are right now, it seems to me that nothing is off the table. So I am going to leave it there and I look forward to hearing people's comments and questions. Thank you very much.

Dr DeAnne Julius:

Well, I think we've heard quite a comprehensive and broadly based analysis of what's wrong with our societies and indeed how we could put it right. If anything, it's quite a stern wake up call to all of us sitting in the UK. We have some roving microphones around so if you would like to ask a question, perhaps you could just wait until the mic comes to you so everybody can hear it and then if you could give your name and affiliation, that would help as well.

Question 1:

Particularly about your point about incentivizing people to do the right thing – how can we incentivize China to stop bribing African leaders to allow mineral concessions to be granted against bribes? At Transparency International, we study the countries that are most apt to bribe to get things done and China has headed up that list for 10 years. Africa has also sadly – sub-Saharan Africa particularly – been at the bottom of the league in terms of countries that want to be bribed to get things done. That's my question please.

Dambisa Moyo:

So very, very good question. First of all, I think it's slightly unfair to say 'China' because there are many global companies across the African continent – they are not just in Africa, around the world – that are engaged in much of the minerals and mining businesses and a number of businesses in which they behave in a not so honourable way. But the question that you asked, I would argue goes back to structural factors. I think the more appropriate question is how are we going to get Africans on the ground – it's their countries – to actually be able to hold their governments accountable. Because when you talk about, and I think you are alluding to the international CPI - the International Corruptions Perceptions index which I think is fantastic - you are absolutely right. African governments, African countries are perceived as being amongst the most corrupt, but that's a structural problem that we are not going to solve in a band-aid solution which is what we have been attempting to solve the Africa condition by.

So what do I mean? We need to be able to develop a critical mass, middle class of Africans who can hold their governments accountable. In much the same way that in Britain or in the United States you have a democratic process which is essentially an implicit contract between individuals and their government that operates as follows: a government says, I'm going to tax you and we agree, fine, you are going to tax us. In return, the government promises to give us public goods and the economist will know public goods are education, healthcare, infrastructure, national security for example. But we know that if the government does not buy that suite for public goods, when the time comes to go for elections, we are going to vote them out because they've simply not done their job.

The problem, and unsurprisingly given my previous book *Dead Aid*, the problem is that in the context of Africa, we are giving aid to African governments for a whole host of reasons, partly because we think we can help, partly because of political considerations. Whatever the case being, we are giving hundreds of billions of dollars to African governments every year and what that does is it severs the link between the Africans on the ground and their ability to hold their governments accountable. And the governments in Africa, very rationally, spend their time quoting and catering to the donors who for their own political reasons to win votes in Britain or wherever continue to get this aid and, therefore more poignantly, more importantly in this point, is that African governments are therefore not incentivized to create a transparent business community which they can then tax. In fact, if you look at the World Bank's *Doing Business around the World* survey which comes out every year, it's not surprising that virtually all African countries are at the bottom of the list, ie it's very difficult to do business in Africa. Why? Because African governments do not rely on those taxes in order to fund themselves.

This all boils down to accountability and you are not going to get accountability. You know, my father actually ran Transparency International in Zambia so I support what you do. But the fact of the matter is there are a billion people in Africa. There's no way that sitting in Europe or the United States we are really going to be able to influence corruption on the ground until we support Africans on the ground, a large critical mass of middle class who would be able to hold a government accountable. The problem is we're simply not generating economic growth today in Africa that can meaningfully put a dent in poverty and create that middle class. So I know it's a long winded answer. The short answer would say buy *Dead Aid*.

Question 2:

Western industrial and manufacturing outputs have fallen drastically while China's manufacturing output has consistently risen. When we look at our policy outcomes and their successes or failures, is it not wiser to accept that the world is an extremely complex, dynamical system? That global events, trends and black swans are hard to predict and that we need to focus on fundamental conditions, particularly that we need as a society to redefine our notion of productivity which means moving away from a focus on profit and growth and moving towards a focus on industrial output, manufacturing, energy independence and scientific and technological innovation?

Dambisa Moyo:

Ok. That's quite a mouthful, but yes. A short yes. I think especially the last two which I think we touched on – innovation and technology. Absolutely. I mean, frankly, as I alluded to earlier, we are talking about nine billion people on the planet in just a few decades. I don't think, given the resources that we have, even if you consider the amount of waste and even if look at misallocation and we bring all of that on board, I simply do not believe that we have enough resources to support nine billion people. So something has to give. Many people would say that fundamental root cause of underdevelopment, wherever you are on the planet, has to do with population growth. But even if you say well that's just too bad, it's still on the path of economic growth, the other solution is going to have to be supply-driven which suggests to me that it's going to have to be about innovation and technology.

So I think the yeses that I heard in chorus here are actually fundamentally right. The problem has been, I think, that a lot of the policies are quite distortionary, not just in western countries but in the countries that you have to bring on board. I'll give you an example. Africa has got a billion people. It represents two percent of global GDP, global trade. Two percent. It's lower than Spain. There's a fundamental problem here when you have 60 percent of the African population under the age of 24. This is a serious problem because how are you going to ignore such a large population. It's not trading with the rest of the world as much as we hear negative stuff about African trade with China and so on, we see a clear delinking from the rest of the world. Paul Collier calls Africa shearing off from the rest of the world, and yet we are choosing to ignore those fundamental problems.

I'll give you another quick statistic. There are a billion people who go hungry everyday on this planet. The vast majority of them are in Africa of which there are 500 million, so half that number. Hunger elsewhere is quite distributed. However, Africa is also the one continent that has the highest untilled arable land left on the planet. So how is it that you have a high proportion of people who are hungry, starving everyday and yet you've got that amount of arable land that people are willing to die for, could kill for, if I may say so? China's got 1.3 billion people, 7 percent arable land. That's why there's a rush into Africa. These are structural problems. There are issues around property rights. There are issues around investment. We need the roads. We need the water. We need those types of things. But I'm arguing in this book that we are simply not having enough dialogue around resources, water, land and so on and I do think that the solution to this problem is going to be around innovation, but as I said to you in my remarks a moment ago, innovation requires education. It requires people in countries like Britain and the United

States who, by far, are the leaders in technology – they need to invest in people doing those jobs and, unfortunately, they clearly are not. I mean, look at the maths and sciences, but I'll leave it there.

Question 3:

I entirely agree with you about the free movement of capital and labour, but the scale of effort required under your option A – do you mean totally free movement of capital and labour? What I'm getting at is are we reaching the scale and complexity of the problem that we need some form of sort of smart, 21st century mobilization? This is not lots of people getting into uniform. This is directing people and funding for the education, research and the science, trying to ensure that we get the right brains into the right jobs. Your comments please.

Dambisa Moyo:

If I understood you correctly, I think this boils down to the incentives point that I was touching on earlier. First of all, for the first time in 2010, that was the first time that Europe saw a decline in population in the first time in history. This is net population. Clearly, there are going to be issues around immigration and so on. But I think that the fundamental point around education, the one that I made in my closing remarks, is that I do think we need to come up with a clear proposal to incentivize people to do, not to rush out and want to be footballers, but actually to do things that have societal benefits. I do talk in the book about, I give an example of Coase Theorem. I won't get into the boring details here, let me just give you a quick example.

There are a lot of people today who, whether in Britain or the United States or western society, feel that their children have a better chance of being a footballer or a rock star than actually going through 16 years of education. Now that may be true, but the problem is that there are so many of them that we all know maybe one in 100,000 actually become a David Beckham. Maybe worse odds. But when those people come out of being 18 or 21 or 25 and finally realize they are not going to be David Beckham, they have no education skills. So they have to actually end up becoming part of a society where they find it difficult to find a job. So some of the things – and these are some of the ideas that I have thrown out – you could very well see a government saying well, hang on a second, I actually think FIFA or the FA is partly to blame for this because people look at these salaries and think, wow, that's really amazing. I can earn that much.

But maybe what we need to do is sort of a Coase Theorem. Because there is a societal cost when they don't make it – and of course a large proportion of people who try out don't make it – maybe we do need to put a tax on FIFA's earnings or some agency body so that we can actually use that money to underwrite the people who come out of schools without basic reading and writing. Obviously, taxes is one side. That's sort of the stick. But the carrot is you could incentivize people and say, listen, I know you want to be a footballer, but at the same time, we are going to reward you with conditional transfers which have worked very well, by the way I should say in places like Mexico and Brazil. We will reward you for actually staying in school and participating in these programs. I think there is a wide body of things that can be done. I just think that we really aren't in the sort of in the course of the discourse right now and what specifically those policies might look like. I don't even think we are anywhere near discussing some of the problems that I outlined earlier.

Question 4:

You talked about the unintended consequences of policy in America and the Western world. Given China's concentration on economic growth and political stability, what are the unintended consequences of some of their policies that they might be facing in the next couple of decades?

Dambisa Moyo:

Very good question. Frankly, the very nature of the countries politically means that I would say that they probably don't have 'unintended consequences'. I think that because it boils down to a centrist government that makes decisions, it's very hard for them to say. They might sit here and say, well, actually let's deal with a contemporaneous issue – the property bubble. They might say listen, we've got all these people. We need to urbanize. We need to urbanize quickly. I put estimates in here of how much urbanization they are expecting to have. I mean, they are talking about tens of hundreds of cities, a least a million each, being built right now. Nobody really focuses on what the costs are environmentally, what it means for the rest of the country if everybody is being moved in to a particular region. I mean there are so many different aspects of it and, obviously, we've ended up with concerns now of their being a property bubble in China. So I mean, there are many different tactical things that they could be doing.

Another example would be in October 2010, the Chinese government announced that they were going to very deliberately through their five year plan – some of you may be aware that every five years, the Chinese government stands up and says here's our programme and here's what we are planning to do in the next five years. Well, in their last plan, which came out in 2010, they said they were very keen to focus on education and healthcare in particular, the social aspects. You might remember I said earlier that the US has 70 percent consumption to GDP. Europe has about 65 percent consumption to GDP. China's is around 30 percent. Well, one of the big debates and global imbalances – people said that the Chinese are not consuming enough. The Chinese government went and did their due diligence and found out that people were not spending enough on their white goods, things like washing machines and dry cleaners and so on. They weren't spending enough money on those things because they were spending whatever disposable income they had on education and healthcare.

So what they've done is, in the 2010 plan, is to say, we are going to increase the amount of effort or underwriting of education and healthcare and, again, not to plug my book, but I do talk a lot about some of the programs they are getting involved in – pensions and so on. But what they are trying to do is take away that responsibility of public goods from individual households and encourage people to increase their consumption. We don't know what those pension schemes will look like. If you compare China and India, India has much better demographics in the medium-term than China does. The implications of the demographic profile, if they put the wrong pension plan in place, could basically end up with the pension problem that we have here. So there are quite a number of things. I hope those will be good examples for now hopefully.

Question 5:

There is a strong public sentiment in the UK that one response to the government's fiscal crisis should be a reduction in tax avoidance by large businesses. You're on the board of SAB Miller whose large scale tax avoidance through tax havens has been uncovered in the media recently. Do you think that companies have a responsibility to reconsider their approach to tax planning?

Dambisa Moyo:

I've spoken publicly now, maybe a couple of times now and I think Action Aid has got a campaign to plant every audience. My answer is the same. I responded to you personally. I wrote a letter to Action Aid. Our CEO did as well. When you say the media, it's actually your report, I believe, is what you are referring to. I believe fundamentally that corporations have a responsibility and, you know, being a board member I have responsibility to shareholders, but the fact of the matter is CSR is critically important for our business and it's not just lip service. I will give you a very specific example. In the United States right now, there are more women in the workforce than there are men. If you were a company that didn't have women coming into your organization, you are going to feel it now. If you were a company that didn't bother to really focus on women as potential clients, you are going to be feeling it now.

In the same way, for us, CSR is critical to our business. We've had no concerns from any government, whether it's an African government or any other government or from the World Bank. So I'm not sure whether you are an accountant specifically or how it is that you've come up with these estimates, but I can assure you that SAB Miller is not doing anything illegal. So I'm not too sure what the context is and I know for a fact and I wrote to you specifically. I don't want to spend too much time on these specifics, not because I'm running away or something. We create a lot of jobs for people on the ground, not just in Africa, but in Asia and Latin America and Eastern Europe and so on. And we pay taxes, we give people payroll and lots of opportunity. I should point out – I am also the chairperson of the corporate accountability committee of SAB Miller. You have an open door to come and see me whenever you like, but I don't want to spend too much time here because I think we have broader questions and I'm not trying to fob you off, but I did write you a letter. So I'll leave it there.

Question 6:

I was just wondering if you could reconcile the last statement with the first question on Transparency International. On the one hand, you are saying that African countries need to be more accountable yet the Chinese government benefits from not being accountable to its people. If I could ask a second question, I'd be interested to hear your thoughts on more of the global macroeconomic leakages, for example, balance of payment issues, the large trade deficit in the United States bringing in, sort of fuelling the financial crisis as well.

Dambisa Moyo:

Do you mind just explaining specifically your question again because I think I heard part of it?

Questioner:

On the one hand you are saying that China basically benefits from not having to be accountable to its population, so they are able to buy Fiats . . .

Dambisa Moyo:

OK, I think I got it. Fair enough. I think accountability is important regardless. I'm not saying that that's a good thing. What I am saying is that in the context – and by the way, I should point out, having spent a lot of time in China recently, I would urge you to read a piece that was in *Foreign Affairs* called 'Democracy: A Long Time Coming in China' because I do think that we have a tendency, living away from China to sort of absorb a particular view of what's going on in China. Many people on the ground that I met with, some of them quite radical journalists, have taken the view that it's far least undemocratic. It's certainly centralized, but there's much more democracy right at the bottom, the grass roots, than we are led to believe. So that's my first point.

Now, I don't live in China, but I have spent a lot of time there. That may be the case. In addition to that, there is something to be said as I said earlier that democracy is not a prerequisite for economic development. We all are aspiring to live in free, fair, clean air, nice, access to clean water so we are all aspiring to those lives. But the fact of the matter is that China, Chile, Singapore, many other countries around the world have proven to us that there is an alternative model. I'm not anti-democracy. I'm simply, as an economist, arguing that we can get too carried away with something that is not necessarily a prerequisite. It's what the Chinese are doing right now. They are investing in Britain. You know, the vice premier was here last week. I didn't hear anybody complain about human rights or that we shouldn't take Chinese money. Hu Jintao, president of China, is in the United States right now. The headlines for the *Financial Times* - I have it in here if anybody wants to see is that the amount of money that China is lending is much more. I don't hear anybody outraged at that. So I think that we do give a free pass – and it's not to say, again I'm reiterating, I'm not saying that unaccountability is not necessary. It's absolutely necessary, but it's going to have to come from the African people. You can't superimpose accountability and democracy. You have to help create the economic growth. From the economic growth, you get your middle class. That is the group that is going to put pressure on these governments. It's simply not something you can shoehorn into these economies. So that would be my answer. Thank you.

Dr DeAnne Julius:

I'm afraid my accountability is to complete this meeting on time. I know there are many other hands that were up. I guess what I would say is you should read Dambisa's book. It's not only a very comprehensive book in terms of analyzing the problems that our society has, but it's also a greater primer in economics for those of you who want a painless way to catch up on what has been happening in some of the economic literature in the last 10 or 20 years. It's full of interesting statistics and interesting anecdotes so it's a painless read as well as a very enlightening read. I guess if I were to take away one message from the book and from your presentation tonight, it's really that rather than blaming China or the immigration problems or globalization for our woes – they may be partially responsible – we really should focus on doing the things that we have to do ourselves to worry about our own structural problems which I think Dambisa has highlighted very effectively. So thank you very much.