



The Quest for a Pragmatic Economic Management Framework in Malawi

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Take-aways

1. Incentive structures shape what peoples become

Get them wrong; you are doomed!

2. In Malawi (& similar countries) the “success” of neoliberalism is in its “failure”

Its incentive structure is designed to weaken the weak and strengthen the strong

3. Economic independence is a necessary high-order condition for pragmatic economic management and resilient development

Economic management is too pivotal to be delegated in a very competitive world

4. Attaining economic independence is challenged by three factors: leadership, status quo, and human resources

But importantly, “development is always and everywhere a leadership-driven process”



Preamble: Our Story is the Story of Africa, yet Unique

Albert Luthuli's Prophecy ...

“Africa is a vital subject matter in the world today, a focal point of world interest and concern. Could it not be that history has delayed her rebirth for a purpose? The situation confronts her with inescapable challenges, but more importantly with opportunities for service to herself and mankind. **She evades the challenges and neglects the opportunities to her shame, if not her doom**”

Luthuli, 1961



Preamble: Economic Reforms for Resilience?

- **The 2020 ECAMA Annual Economic Conference Theme**

“Going beyond macroeconomic stabilization: the need for building resilience to external shocks”

- **Economics: scarcity raises value**

- Experience with the Lenten Pastoral Letters
 - The 1991 “treason” letter is a treasure; subsequent ones draw little attention
- “Reforms” have been debased by SAPs etc

- **The economic management challenge needs much more than “reforms”**

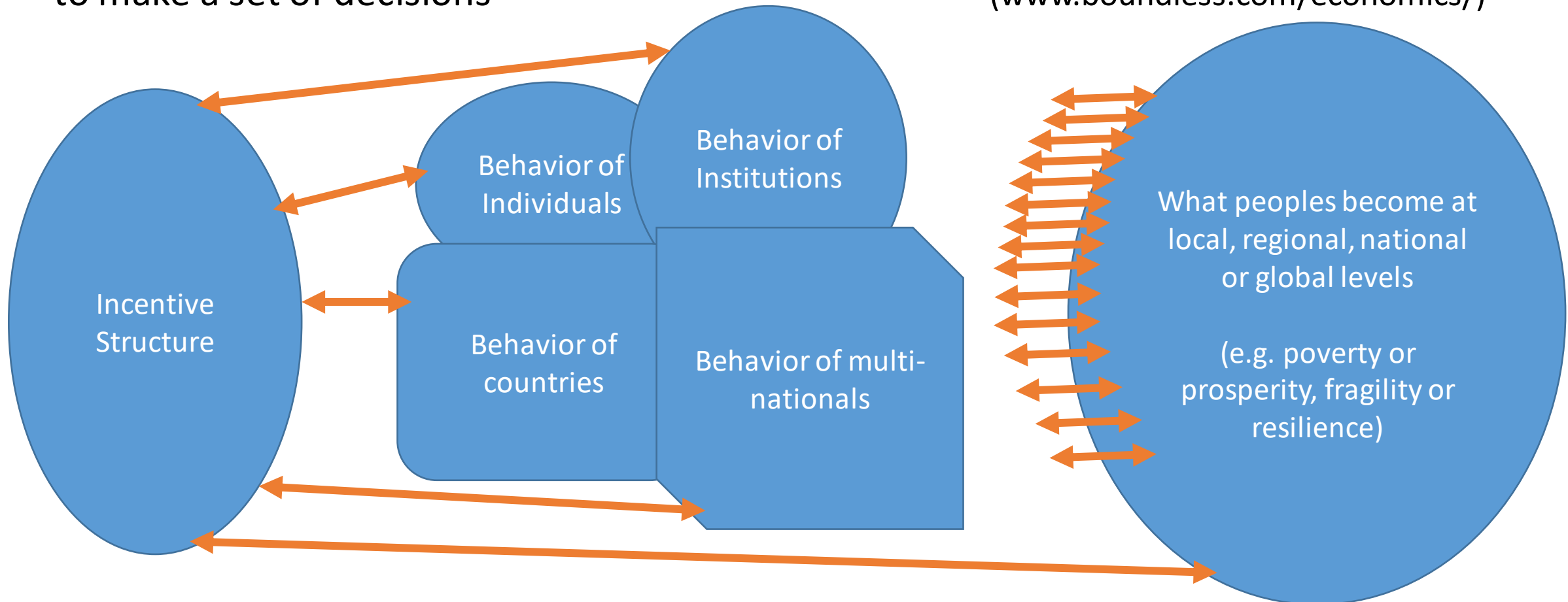
- The country needs a “critical juncture”
- Say “Economic Restructuring”?
- Say “Economic Transformation”?



The Incentive Structure

The Incentive Structure

“The cumulative set of promised rewards and/or punishments that encourage actors to make a set of decisions”
(www.boundless.com/economics/)



Complex interactions, competition, posturing: who gets what, when & how



The Incentive Structure

How does a country incentivize prosperity?

It exacts commensurate reward for good performance, and commensurate punishment for wrong-doing

- Facilitates proper risk-return trading (Markowitz, 1952) in all conduct
- Get this wrong, and you have all sorts of problems: institutional failures

“an incorrect risk premium is the architect of doom”

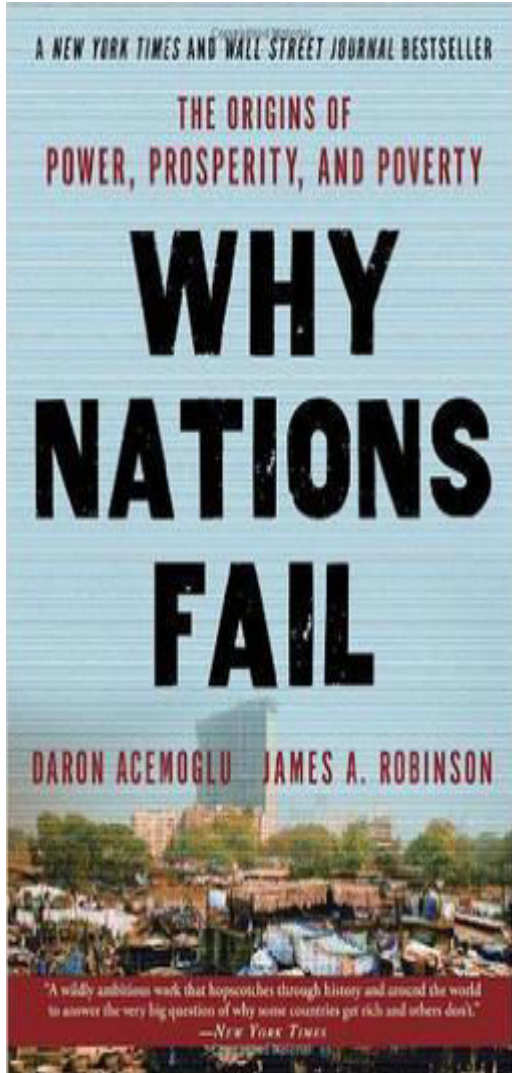
The Incentive Structure

How does a country incentivize prosperity?

Only through a functional state!

“ Secure property rights, the law, public services, and the freedom to contract and exchange all rely on the state, **the institution with the coercive capacity** to impose order, prevent theft and fraud, and enforce contracts between private parties”

Acemoglu & Robinson, 2012, *Why Nations Fail*, p. 75



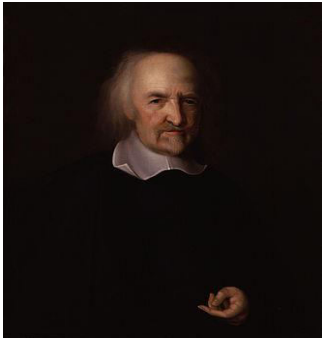
The Incentive Structure

How does a country incentivize prosperity?

Only through a functional state!



If the state does not have or loses the “**monopoly of legitimate violence**” and the degree of centralization that such a monopoly entails, the state cannot play its role as enforcer of law and order, effective provider of public services and regulator of economic activity



Max Weber, 1919, *Politics as a Vocation*

Thomas Hobbes, 1651, *Leviathan*

Jean Bodin, 1576, *Les Six livres de la République*



The Success of Neoliberalism is in its Failure



Tragic Neoliberalism

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”

Adam Smith, 1776, *Wealth of Nations*





Tragic Neoliberalism

Justification

To address structural economic weaknesses and **create resilience to shocks from the economic crisis of the late 1970s!**

How?

Through comprehensive policy reforms dangled in return for Western aid since 1981

But what caused the crisis?

- Increased cost of sea access due to the Mozambican war – external to the domestic economy
- Rise in domestic oil prices due to the 1979 global oil crisis – external to the domestic economy
- Decline in world tobacco prices – external to the domestic economy
- Episodes of agricultural failure – persistent due to rain-dependence, etc

Mangani, 2020; Chirwa, 2000



Tragic Neoliberalism

The Programmes

Period (approx.)	Programme	Objectives
1981 - 1994	- Structural Adjustment Programmes (SAPs)	Address BoP & fiscal deficit challenges
1995 - 2000	- Fiscal Restructuring & Deregulation Programmes (FRDPs) - Enhanced SAPs	Address BoP & fiscal deficit challenges
2000 -	- Poverty Reduction Strategy Programmes	Reduce poverty through macro stability

Financing

- Exogenous Shock Facilities
- Extended Credit Facilities
- Rapid Credit Facility (2020)

Key issue: unlock western aid ⇔ deepen aid dependence



Tragic Neoliberalism

Malawi traded economic sovereignty for Western aid; undertook major reforms, *inter alia*:

- **Massive privatization & divestitures: breaking the triad of MDC, ADMARC, Press**
 - “The Government has no role in production. It should only be referee”
 - Competition will enhance efficiencies
- **Fiscal restructuring**
 - “The economy is messed up in the treasury and corrected at the central bank”
 - “Expansionary fiscal policy is inflationary (Woodford, 2001; 1995), contrary to Keynes (1936)”
- **Financial sector reforms**
 - “Financial liberalization will unlock resources for private investment & growth”, McKinnon; Shaw (1973)
 - “Flexible exchange rate will improve the trade balance & reserves”, Marshall (1923); Lerner (1944)
 - “Growth is a long-term (not short-term) objective; macro stability should be short-term focus”
- **Trade opening**
 - “Removing trade barriers will increase welfare, broaden markets, improve the trade balance”

A mixed bag of
the good(?), the
bad and the
ugly!

Malawi: an obedient patient that can't recover

Tragic Neoliberalism

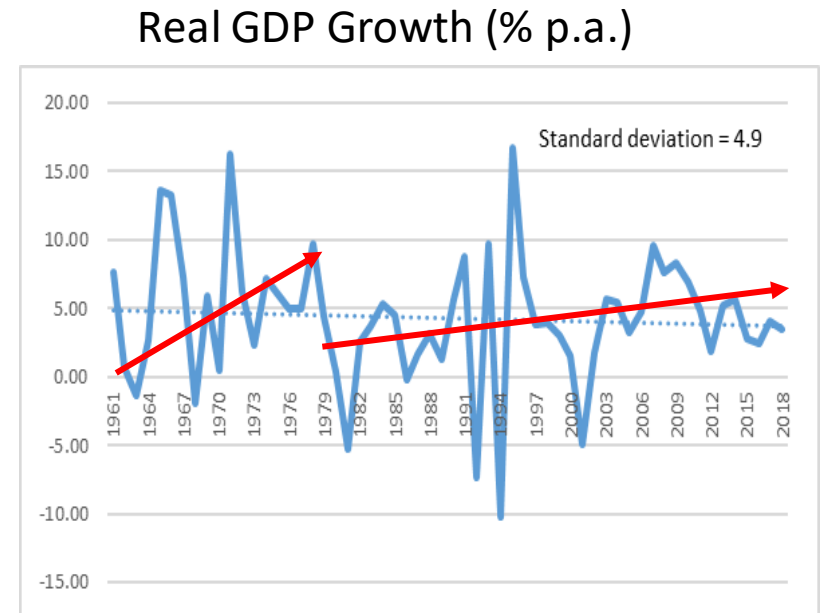
Malawi is getting poorer, by design!

	1964 - 1980	1981 - 2018
GDP growth (average % p.a.)	6.1	3.6
Per capita GDP growth (average % p.a.)	3.3	0.8

Source: WDI

Neoliberalism is anti-growth by design!

- Else if it ain't broken, don't fix it!
- Deployed nuclear weapons to kill mosquitos
- Ironically, 6% growth p.a. is what we crave for now!
 - Over 15 years, it could halve poverty! (NPC, 2020)





Tragic Neoliberalism

Malawi is getting poorer, by design!

The World's Poorest Countries (By GDP/Capita, PPP)

Rank	2019*	2015**	2010***
10	Chad	Comoros	Afghanistan
9	Eritrea	Madagascar	CAR
8	Liberia	Eritrea	Sierra Leone
7	South Sudan	Mozambique	Eritrea
6	Mozambique	Malawi	Niger
5	Niger	Niger	Somalia
4	Malawi	Liberia	Burundi
3	D.R. Congo	DRC	Liberia
2	CAR	Burundi	DRC
1	Burundi	CAR	Zimbabwe

* <https://www.worldatlas.com/articles/the-poorest-countries-in-the-world>

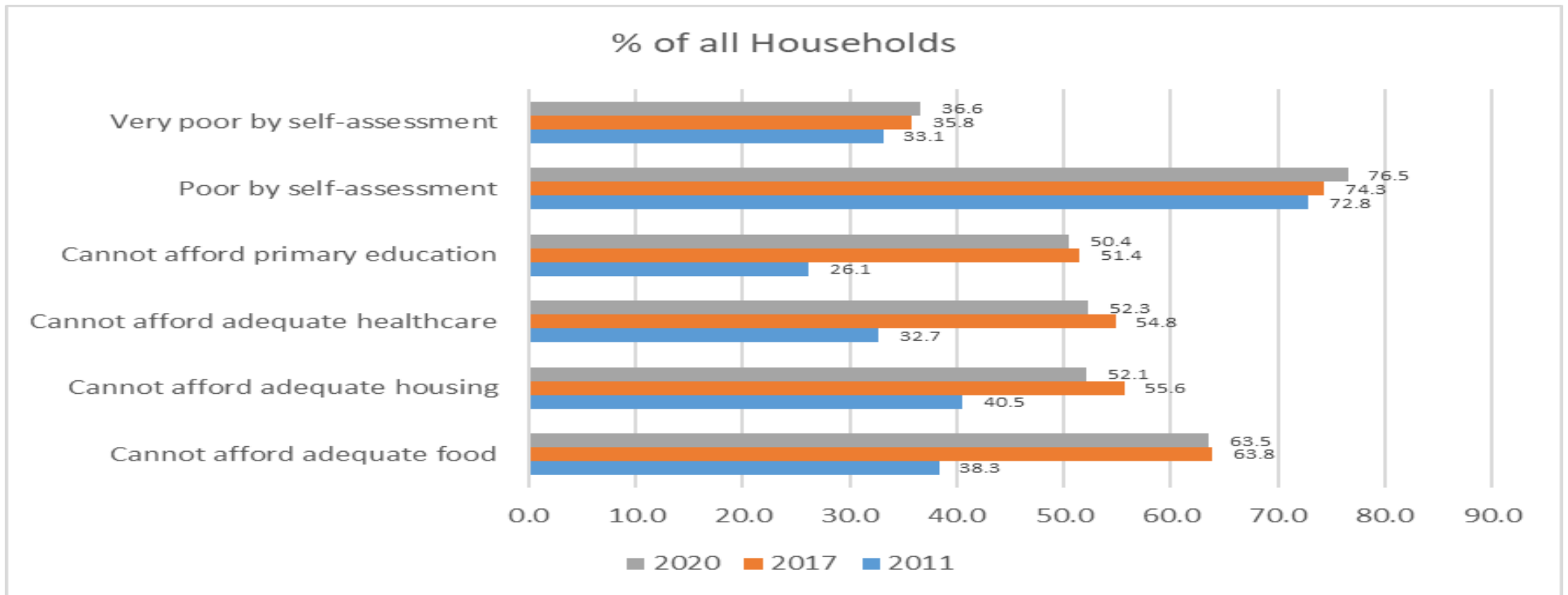
** <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>

***<http://www.financialjesus.com/interesting-economics/top-10-poorest-countries-in-the-world-2010/#>

Tragic Neoliberalism

Malawi is getting poorer, by design!

Deteriorating Poverty Between IHS3 (2011) & HIS 5 (2020)





Tragic Neoliberalism

Malawi is getting poorer, by design!

INTERESTING DEBATE:

input subsidies or social cash transfers?

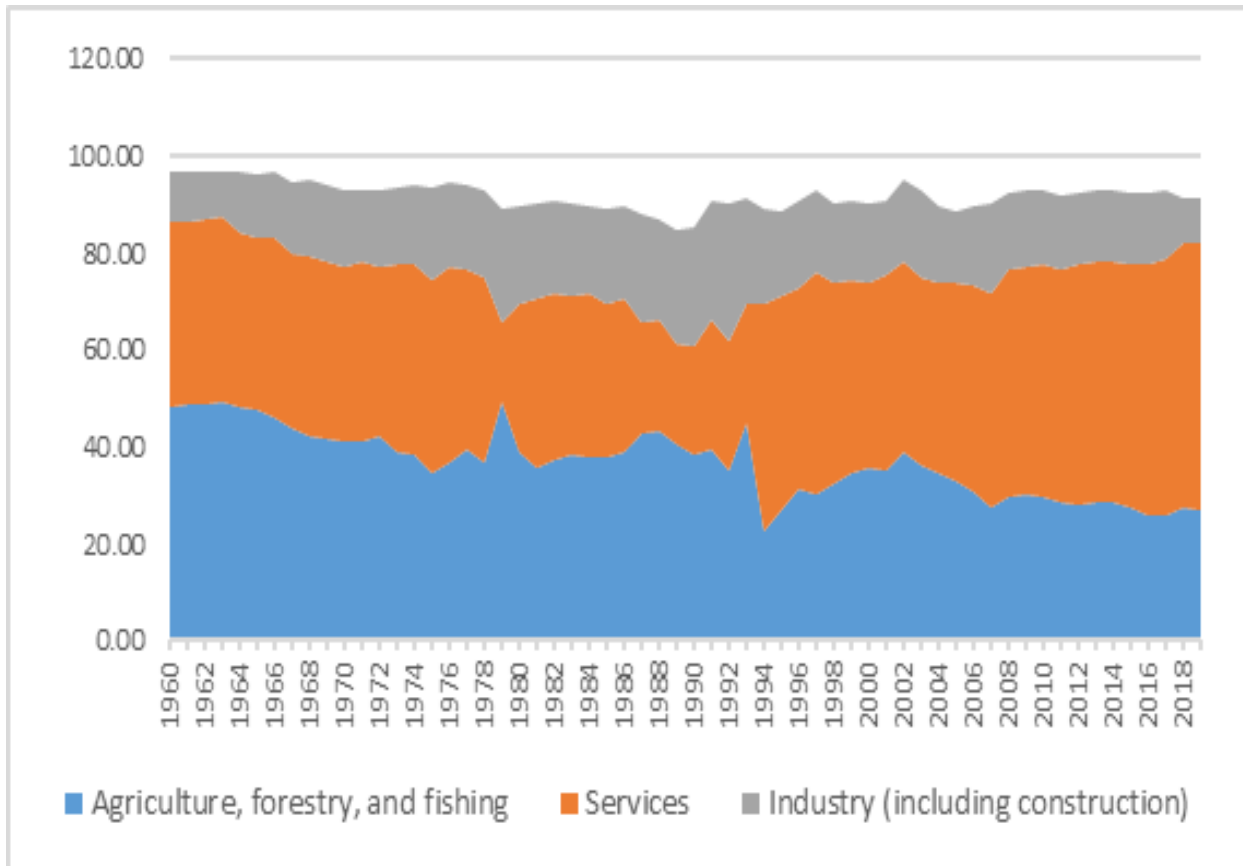
BUT NO DEBATE:

**Both = admission that policies are not
working for the poor!**

Tragic Neoliberalism

Agriculture and industry are collapsing as we specialize in vending, by design!

Shares of GDP (% p.a.)



Wholesaling and retailing of foreign goods is the key income earner in Malawi (makes up about 16% of GDP), overwhelming the external sector

Trade opening has resulted in:

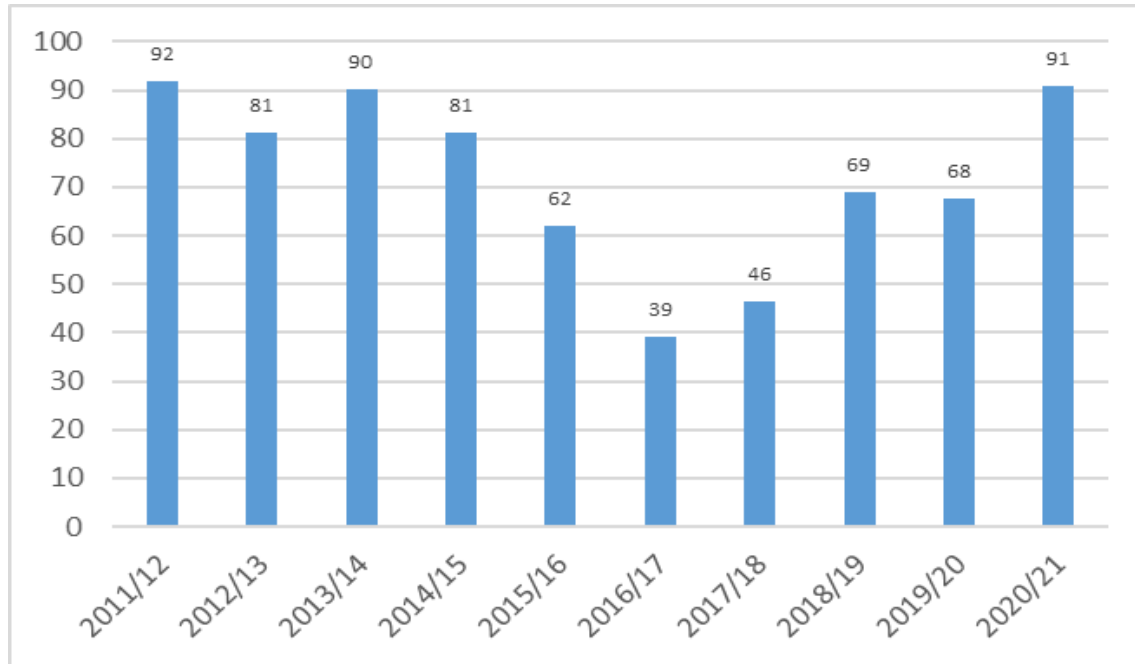
- Dumping
- Deepening trade imbalances
- Perpetual BoP support (hence aid)
- “Unconventional” defense for kwacha

But the exchange rate is main economic destabilizer (Mangani, 2012 & 2016; Ngalawa & Vieg, 2011)

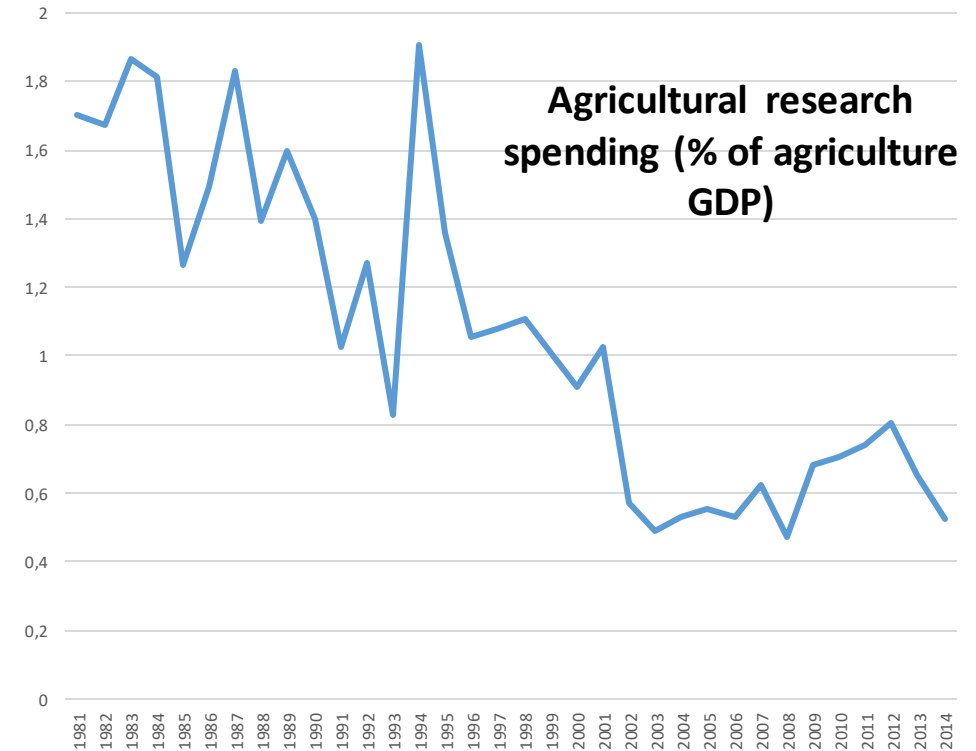
Tragic Neoliberalism

Malawi is an agricultural country that can't do agriculture, by design!

An agricultural country that prioritizes input subsidisation over agricultural research



FISP expenditure (% of Agriculture ORT)



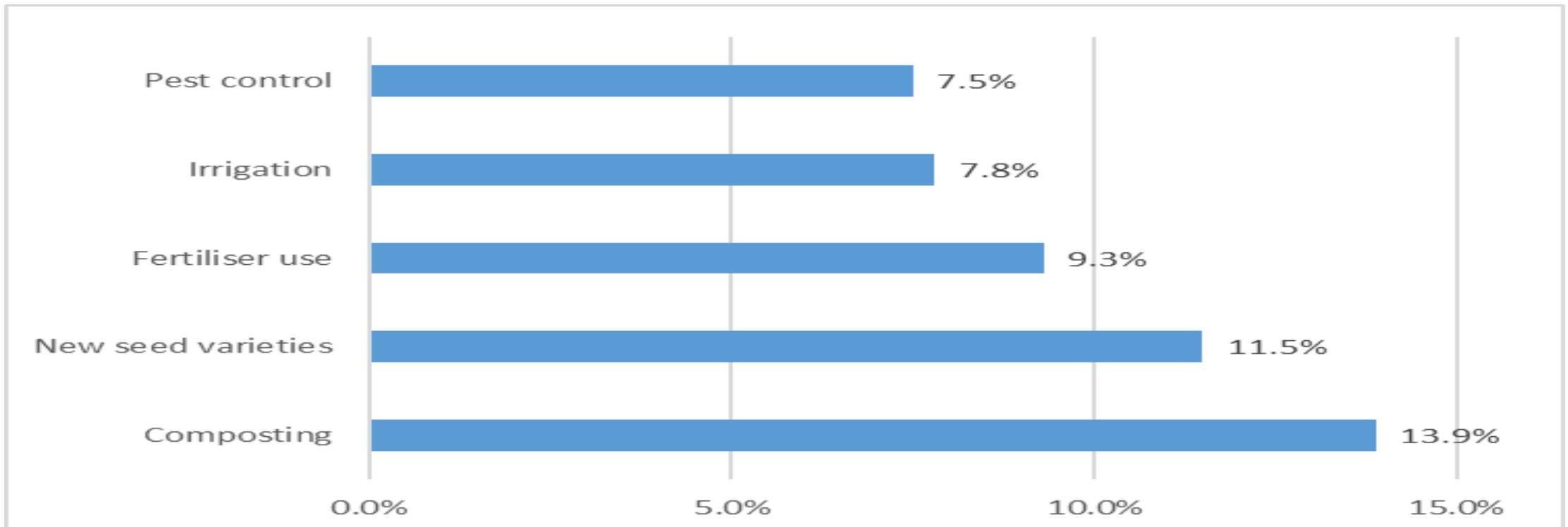


Tragic Neoliberalism

Malawi is an agricultural country that can't do agriculture, by design!

An agricultural country that hardly tells the farmer how to farm

Farmers accessing extension service (NSO, 2020, IHS5)

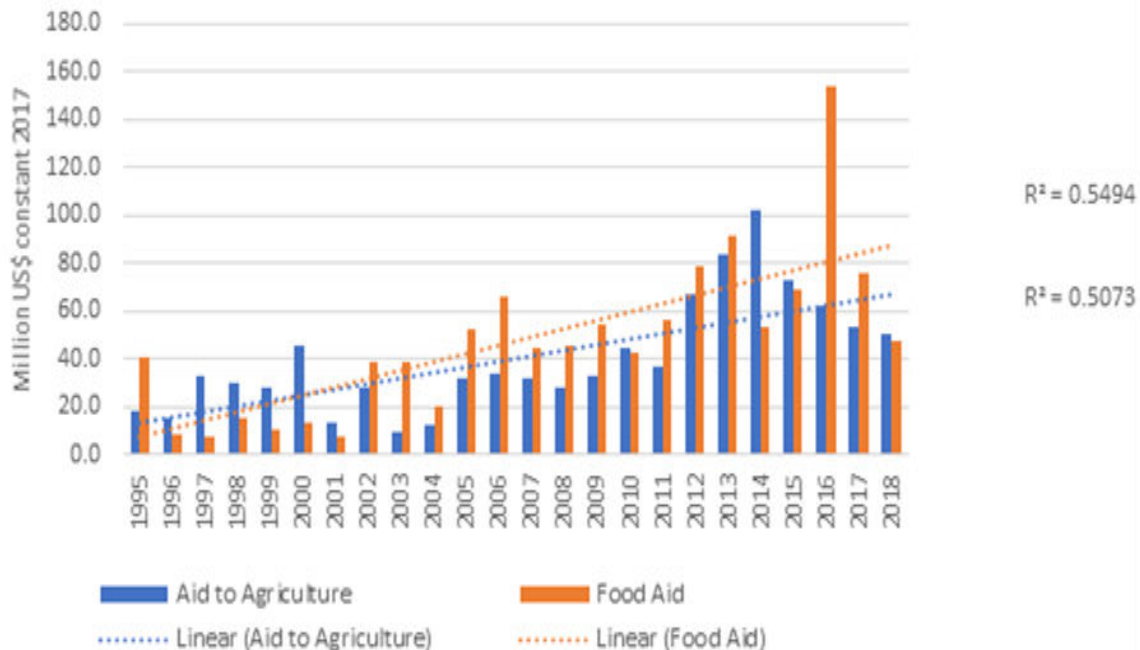


Tragic Neoliberalism

Malawi is an agricultural country that can't do agriculture, by design!

Hence, an agricultural country that can't feed itself, even with good rains!

Total ODA aid to agriculture versus food aid
(Malawi, 1995-2018)



“Overall, 62.6 percent of the households reported that they experienced very low food security a week prior to the survey, ... and 9.9 percent experienced low food security”.

NSO, 2020, IHS5 p. 191

Malawi Vulnerability Assessment Committee (MVAC) projects that **2.6 million people require humanitarian food assistance**

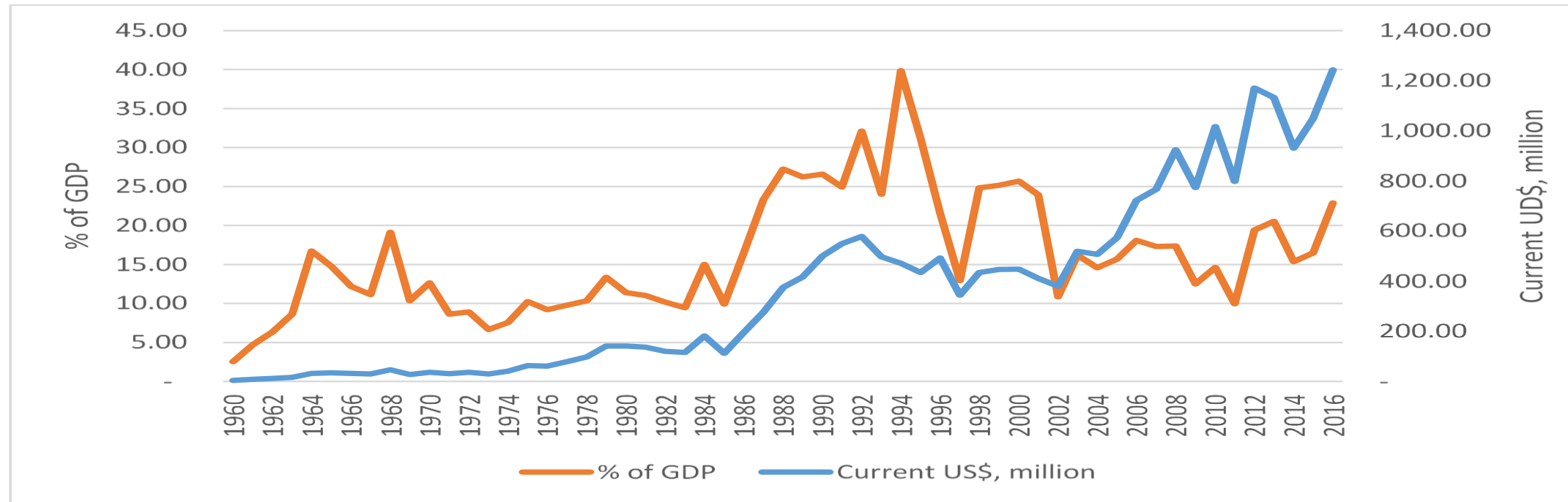
MANA, 27 October 2020



Tragic Neoliberalism

Aid dependency is deepening, by design!

Figure 3: Net aid to Malawi, 1960-2016

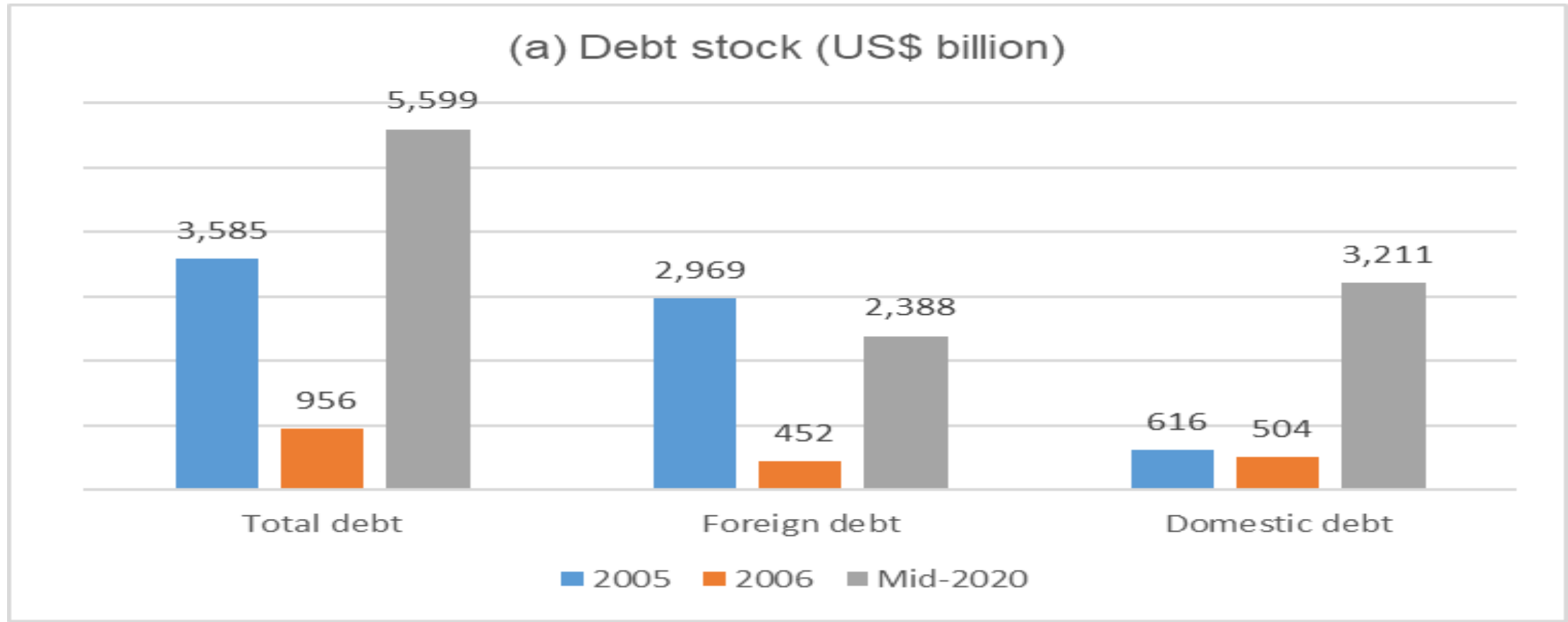


	Annual Averages				
	1960-1963	1964-1979	1980-1999	2000-2016	1964-2016
Current US\$, million	10.1	51.3	341.0	786.5	396.4
% of GDP	5.6	11.4	21.2	17.1	16.9

Data source: World Bank

Tragic Neoliberalism

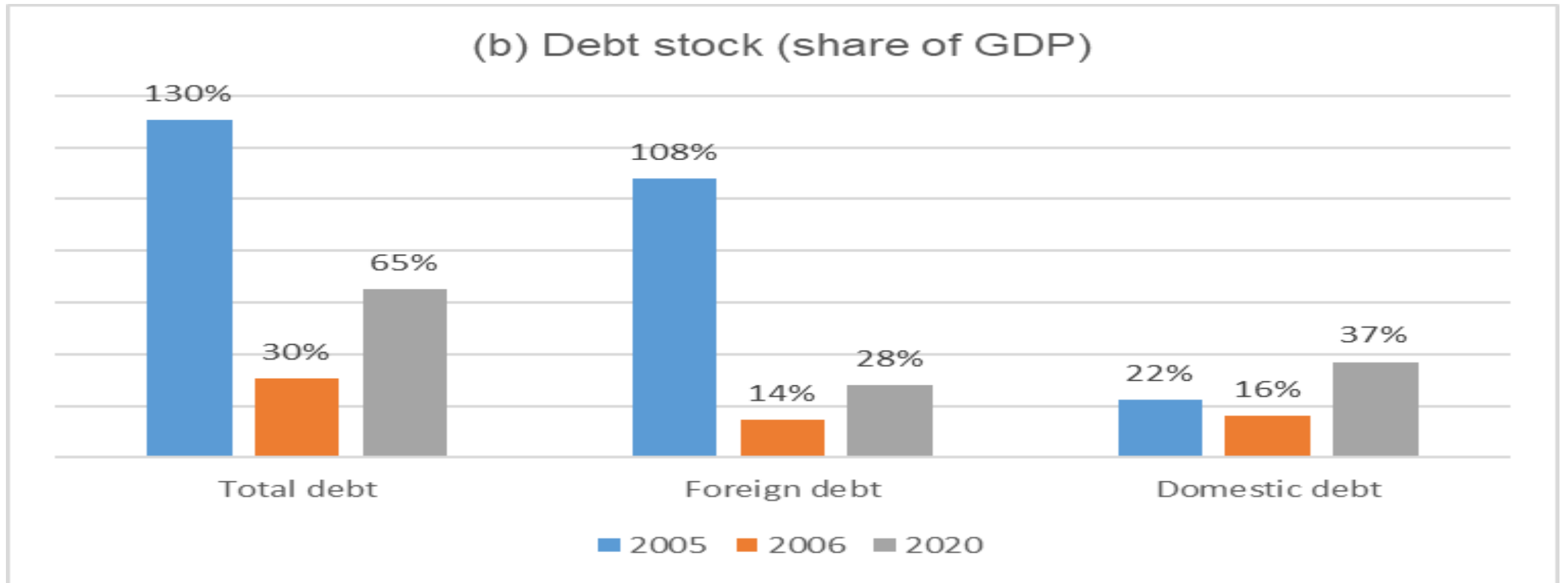
The debt burden is depressing ... and humiliating, by design!



Data sources: World Bank, RBM

Tragic Neoliberalism

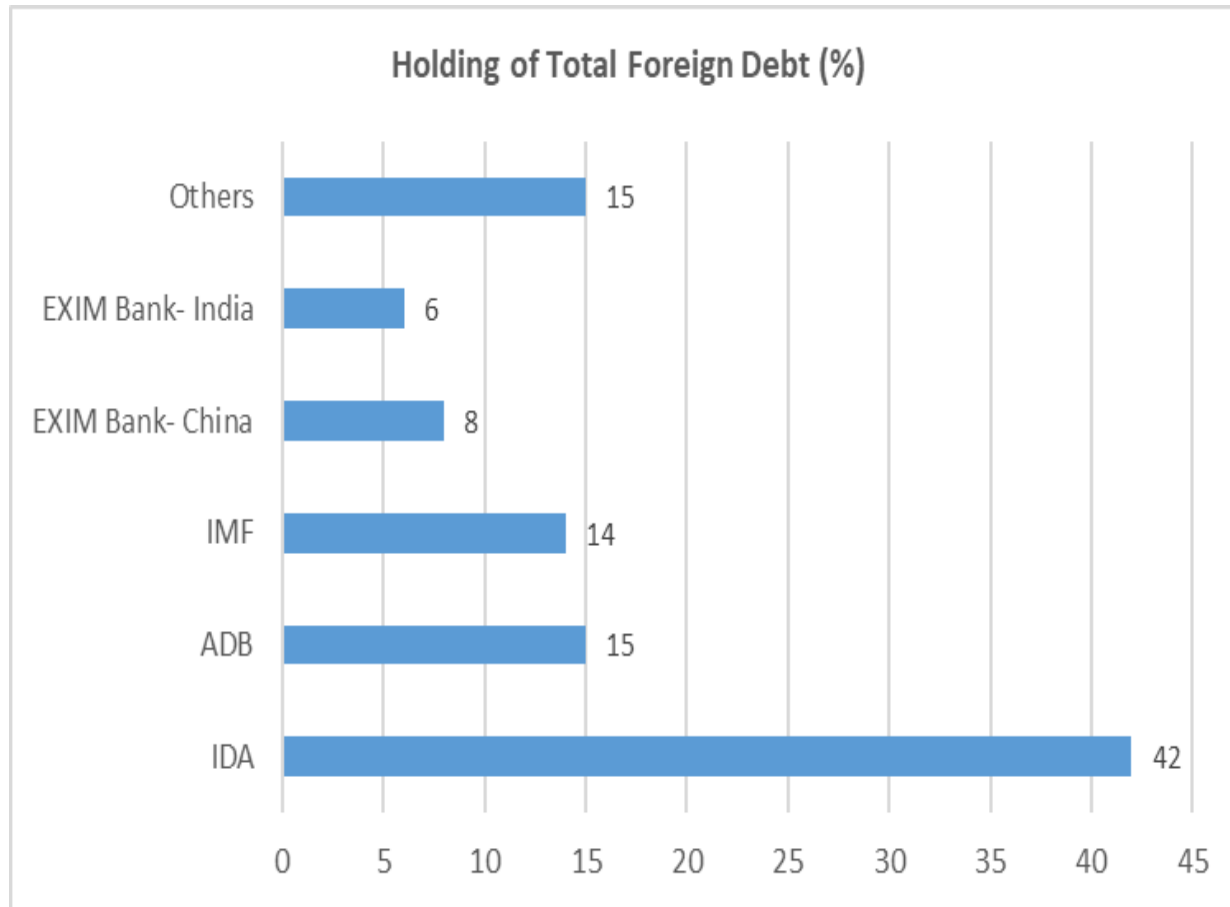
The debt burden is depressing ... and humiliating, by design!



Data sources: World Bank, RBM

Tragic Neoliberalism

The debt burden is depressing ... and humiliating, by design!



- World Bank Group holds most foreign debt ... yet accuses us of over-borrowing, **by design!**

- Aid leads to more aid, **by design**: the unpleasant monetarist arithmetic

Sargent & Wallace, 1981;
Moyo, 2009,

- Debt relief cannot be cause for celebration. Failure to pay is a humiliation, **by design!**



Tragic Neoliberalism

The fiscal (hence public) sector is not functional, by design!

The are huge and costly public sector wage disparities: neoliberalism has favorites

- Raises the marginal utility of corruption
- Facilitates conformity with the “rules of the game” by supported SOEs
- Erodes human resource & output quality in civil service
- Yet there is no evidence of fiscal dominance in Malawi (Mangani, 2020)

Austerity comes with increasing public sector responsibilities

- Ever-growing public sector and fiscal pressures
 - Resources too thinly spread
- Punitive effective tax rates, unnaturalness & attitude to taxation
- From producing to regulating and governance SOE
 - Overwhelming Treasury recourse
 - Much easier to extract from regulatory SOEs than from producing SOEs
- Declining service quality – education, health, security
 - Public finance injustice: the heavily taxed middle class no longer accesses most public services



Tragic Neoliberalism

The Financial Sector: the only one profiting ... by design!

Emblem of capitalism: most/only lucrative sector

Poverty-deepening intermediation under central bank watch/protection

- Financial institutions downplay the distinction between systemic & idiosyncratic risk (Ref: 2012)

Yet McKinnon (1973); Shaw (1973) got it wrong!

- Financial liberalization has not increased private lending; created “non-banks”

Commercial Bank Balance Sheets				
	June 2020	June 2018	1990	
Assets/Liabilities (% of GDP)	30.4	29.4	20.5	ok
Private sector deposits (% of GDP)	13.9	17.5	12.9	not ok
Private sector loans (% of GDP)	8.4	8.3	10.1	not ok
Private sector loans (% of assets)	27.8	28.3	49.0	too bad
Official sector loans (% of assets)	37.5	19.5	12.0	crowding-out?

Data source: RBM, various



Tragic Neoliberalism

Criticism against deficit-budgeting by orthodox economists is dangerous and damaging

- Capital account deficit is a necessary stimulant with idle resources (Keynes, 1936; Lerner, 1943)
- Poses a worrisome limitation on the government's ability to pursue public purpose (Armstrong, 2019)

Resurgence of interest in Keynes' work among policy-makers since the financial crisis, 2007-08

- Should have catalysed an end to the neoclassical domination, but for power play; incentive structure (Skidelsy, 2010; Dymski, 2013)

COVID-19 creates new wave of interest in the economic role of the state

- Active fiscal policy pivotal in resolving the crisis (Obeng-Odoom, 2020)



Tragic Neoliberalism

There is no scientific evidence of fiscal dominance in Malawi

“... fiscal deficits and domestic financing are generally not inflationary in Malawi, contrary to the established neoliberal theory”
Mangani, 2020)

We can avoid excessive aversion to public debt to borrow for investment (not consumption)

There is nothing characteristically bad about government borrowing; macroeconomic policies must reflect pragmatism rather than consistency with some traditional doctrine; and that excessive aversion to public debt may lead to bad policies
Armstrong, 2019

We all know the primary objective of neoliberalism

Neoliberalism was designed to serve the economic and geopolitical interests of Western governments
Chipeta, 2009

Neoliberalism has not delivered Pareto-optimal outcomes in Malawi

“Liberalisation of the economy is the institutionalization of greed”
Asaria, 1994



Tragic Neoliberalism

How is Such Economic Immorality Sustained?

Brainwashing: mental programming & enslavement

Divide & rule: differential public sector incentives
(e.g. central bank independence)

Distractions from things that matter most
(e.g. from the mismatch between population & economic growth to homosexuality)

Sheer collective gullibility

“They may indeed see but not perceive, and may indeed hear but not understand, lest they should turn and be forgiven (i.e., and prosper)”

The Bible, Mark 4:12



The Necessity for Economic Independence

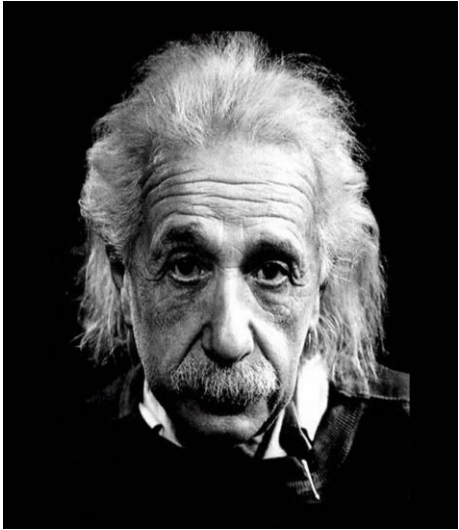
The Necessity of Economic Independence

“Insanity: doing the same thing over and over again and expecting different results.”
Albert Einstein

“If you always do what you always did, you’ll always get what you always got”
Unknown

The neoliberal experiment has been running for too long

- Stuck in the short-run for 40 years!
- It makes mockery of political independence
- It will not halt itself; it is “delivering”!
- “Mfundo zachumazi zabwera udyo” (Mlaka Maliro)





The Necessity of Economic Independence

Economic independence is much easier said than done; high order; suicidal

- Lumumba, Sankara, Gadaffi's, Mugabe
- Will require very concerted effort and focus

Malawi needs disentanglement from the shackles of economic dependence

- Malawi needs pragmatic economic management
- Malawi must develop home-grown solutions (Ref: Singapore, Tanzania, etc)
- Malawi needs a developmental state: don't throw away Keynes & Lerner
- Malawi must rationalize aid (and financing in general) to work for country

Actualize presidential hints on economic independence; aid graduation

"I am fully aware that while our founding fathers and mothers accomplished their goal of national liberation and their sons and daughters accomplished their goal of political liberation, it is your generation that must accomplish the goal of economic liberation"

L. Chakwera, 6 July 2020

"Economic management is too pivotal to delegate"



Economic Independence: The Enormous Challenge of Attainment



Challenge to Economic Independence #1: Leadership

“Development is always and everywhere a leadership-driven process”

Malawi has been running costly, non-converging experiments with leadership

- We have tried the old and not-so-old; male and female; prepared and accidental, diasporic and home-grown; fine minds and dunderheads, educated and educationally deprived; outright thieves and ...

Have we paid in full for the August 1964 Cabinet Crisis?

Malawi has a rare opportunity to reset the leadership button

- Changing political leadership creates an opportunity for implementing comprehensive economic policy reforms to achieve development outcomes Williamson, 1994
- Did we really have a government in waiting post-February 2020?
- Is it another “stab in the dark”?

Is it “the more things change, the more they remain the same”?



Challenge to Economic Independence #1: Leadership

“Development is always and everywhere a leadership-driven process”

Leadership = the political will to drive change, not joining the masses in lamentation

- No common problems \Leftrightarrow no need for leadership

“Bad law = law that thwarts good leadership from doing the right thing”

Dilemma: democracy versus political stability; patriotism, benevolence

- (Africa’s) model economies are not necessarily model democracies

“There is no debate that visionary and transformational leadership characterized by positive values such as unity, patriotism, selflessness, integrity and responsibility is central to the ongoing transformation in Rwanda”

<https://www.newtimes.co.rw>



Challenge to Economic Independence #1: Leadership

“Development is always and everywhere a leadership-driven process”

“.. the remedy for Malawi’s endemic poverty and development stagnation lies in the emergence of a leadership that will be inspired by a sense of honour, duty and country.... a larger-than-life leadership that could preside over the creation of inclusive economic and political institutions, and adamantly promote their functionality as a foundation for durable macroeconomic and social ... driven and owned by the country’s citizens themselves, rather than one moulded by self-aggrandising external influences. It is only through the emergence of such a leadership and institutions that the shackles of neo-colonialism will be broken; that independence will cease to be a sham; and that a worrisome trend towards the prophesised (by Luthuli) doom of a failed state will be reversed.”

Mangani, 2020



Challenge to Economic Independence #2: Proponents

“Change is always resisted by those who profit from status quo”

The vested interests are grave, the opportunity costs are high

- Recall: incentive structures

Is graduation from neoliberalism even feasible/conceivable?

- Will its proponents & vested interests leg go?

If so, how should this be done?

- Shock-treatment vs planned transition?



Challenge to Economic Independence #3: Human Resource

“How do we deal with deep Indoctrination, brainwashing & sheer gullibility?”

The struggle for economic independence is a different ball-game

- Fought more intellectually than with guns and bombs, save for the fate of early martyrs

So much education; very little learning

Dogmatic, inflexible academics got us here

- We should burry our heads in the sand; apologize
- “Emancipate yourself from mental slavery” – Robert Nest Marley

There will be need to develop a critical mass of though leaders to hatch local solutions

- And a critical mass of thought followers to interpret and implement them!
- Debased education system offers little hope

Finally, as we usually pray for good rains ...



Submission: A Better Prayer

Don't pray for rain as if the "shadoof" is yet to be invented;
Pray for the intelligence/wisdom to "see and perceive"; to
"hear and understand"



**"God Does Not Change The Condition Of A People
Unless They Change It Themselves"**

Qur'an 13:11

TX
zikomo