The Quest for a Pragmatic Economic Management Framework in Malawi

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Department of Economics Research Seminar
5 January 2021
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”
“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”

What peoples become at local, regional, national or global levels (e.g. poverty or prosperity, fragility or resilience)

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
“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

<table>
<thead>
<tr>
<th>Period (approx.)</th>
<th>Programme</th>
<th>Objectives</th>
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<tbody>
<tr>
<td>1981 - 1994</td>
<td>- Structural Adjustment Programmes (SAPs)</td>
<td>Address BoP &amp; fiscal deficit challenges</td>
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<tr>
<td>1995 - 2000</td>
<td>- Fiscal Restructuring &amp; Deregulation Programmes (FRDPs)</td>
<td>Address BoP &amp; fiscal deficit challenges</td>
</tr>
<tr>
<td></td>
<td>- Enhanced SAPs</td>
<td></td>
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<tr>
<td>2000 -</td>
<td>- Poverty Reduction Strategy Programmes</td>
<td>Reduce poverty through macro stability</td>
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Financing

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

Key issue: unlock western aid ↔ deepen aid dependence
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”

Malawi: an obedient patient that can’t recover.

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

Malawi is getting poorer, by design!

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)

<table>
<thead>
<tr>
<th></th>
<th>1964 - 1980</th>
<th>1981 - 2018</th>
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</thead>
<tbody>
<tr>
<td>GDP growth (average % p.a.)</td>
<td>6.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Per capita GDP growth (average % p.a.)</td>
<td>3.3</td>
<td>0.8</td>
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</tbody>
</table>

Source: WDI

Real GDP Growth (% p.a.)
Tragic Neoliberalism

Malawi is getting poorer, by design!

<table>
<thead>
<tr>
<th>Rank</th>
<th>2019</th>
<th>2015</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Chad</td>
<td>Comoros</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>9</td>
<td>Eritrea</td>
<td>Madagascar</td>
<td>CAR</td>
</tr>
<tr>
<td>8</td>
<td>Liberia</td>
<td>Eritrea</td>
<td>Sierra Leone</td>
</tr>
<tr>
<td>7</td>
<td>South Sudan</td>
<td>Mozambique</td>
<td>Eritrea</td>
</tr>
<tr>
<td>6</td>
<td>Mozambique</td>
<td>Malawi</td>
<td>Niger</td>
</tr>
<tr>
<td>5</td>
<td>Niger</td>
<td>Niger</td>
<td>Somalia</td>
</tr>
<tr>
<td>4</td>
<td>Malawi</td>
<td>Liberia</td>
<td>Burundi</td>
</tr>
<tr>
<td>3</td>
<td>D.R. Congo</td>
<td>DRC</td>
<td>Liberia</td>
</tr>
<tr>
<td>2</td>
<td>CAR</td>
<td>Burundi</td>
<td>DRC</td>
</tr>
<tr>
<td>1</td>
<td>Burundi</td>
<td>CAR</td>
<td>Zimbabwe</td>
</tr>
</tbody>
</table>

* https://www.worldatlas.com/articles/the-poorest-countries-in-the-world
** https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD
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!

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 & Viegi, 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)

Agricultural research spending (% of agriculture GDP)
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)
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!

“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

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Current US$, million</td>
<td>10.1</td>
<td>51.3</td>
<td>341.0</td>
<td>786.5</td>
<td>396.4</td>
</tr>
<tr>
<td>% of GDP</td>
<td>5.6</td>
<td>11.4</td>
<td>21.2</td>
<td>17.1</td>
<td>16.9</td>
</tr>
</tbody>
</table>

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, unnaturality & 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”

<table>
<thead>
<tr>
<th>Commercial Bank Balance Sheets</th>
<th>June 2020</th>
<th>June 2018</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets/Liabilities (% of GDP)</td>
<td>30.4</td>
<td>29.4</td>
<td>20.5</td>
</tr>
<tr>
<td>Private sector deposits (% of GDP)</td>
<td>13.9</td>
<td>17.5</td>
<td>12.9</td>
</tr>
<tr>
<td>Private sector loans (% of GDP)</td>
<td>8.4</td>
<td>8.3</td>
<td>10.1</td>
</tr>
<tr>
<td>Private sector loans (% of assets)</td>
<td>27.8</td>
<td>28.3</td>
<td>49.0</td>
</tr>
<tr>
<td>Official sector loans (% of assets)</td>
<td>37.5</td>
<td>19.5</td>
<td>12.0</td>
</tr>
</tbody>
</table>
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, Gaddafi’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 ⇔ 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 bury 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