

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

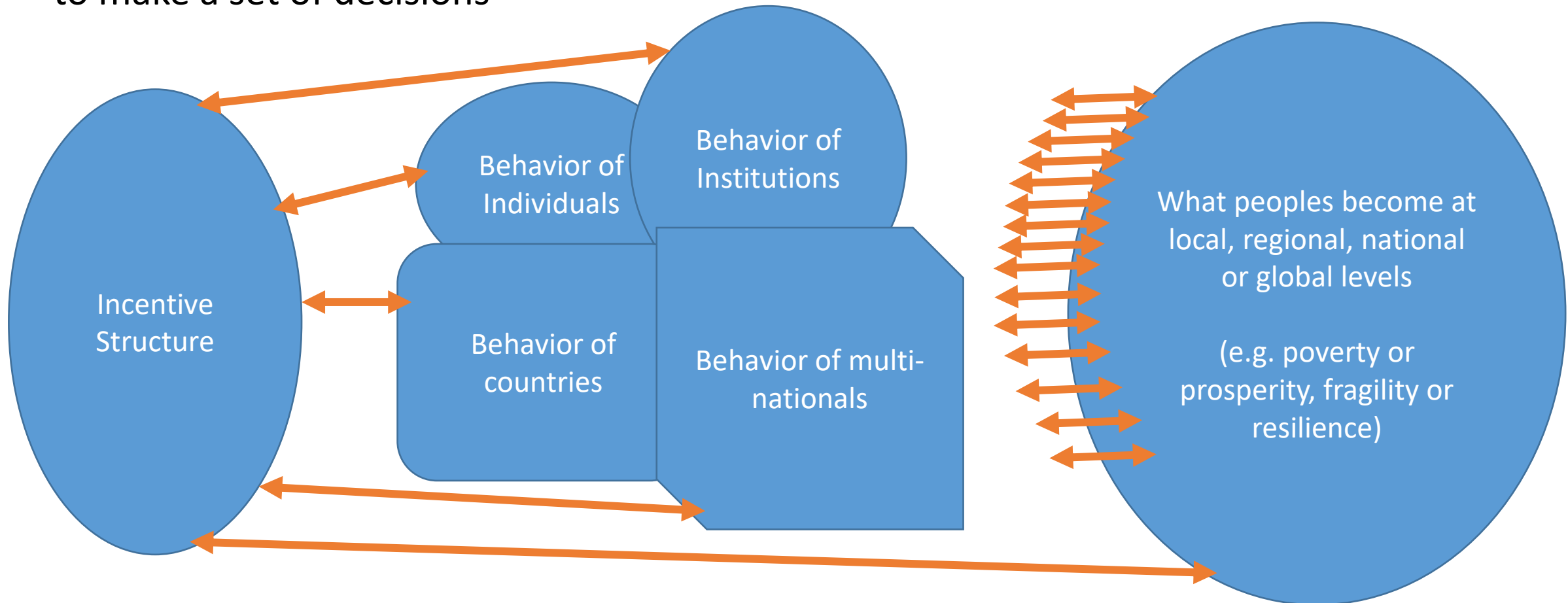
Preamble: Economic Reforms for Resilience?

- Economics: scarcity raises value
 - Experience with the Lenten Pastoral Letters
 - Reforms debased by SAPs etc
- The economic management challenge needs much more than “reforms”
 - Critical juncture
 - Economic restructuring?
 - 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”



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 p. 75

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 public services and regulator of economic activity

Max Weber

The Success of Neoliberalism is in its Failure

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 – Mozambican war
- Rise in domestic oil prices – 1979 global oil crisis
- Decline in world tobacco prices
- Episodes of agricultural failure

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 Programme	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: an obedient patient that can't recover (ECAMA, 1999)

- 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 ineffective, 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 consumer welfare, broaden markets, improve the trade balance

A mixed bag
of the good,
the bad and
the ugly!

Tragic Neoliberalism

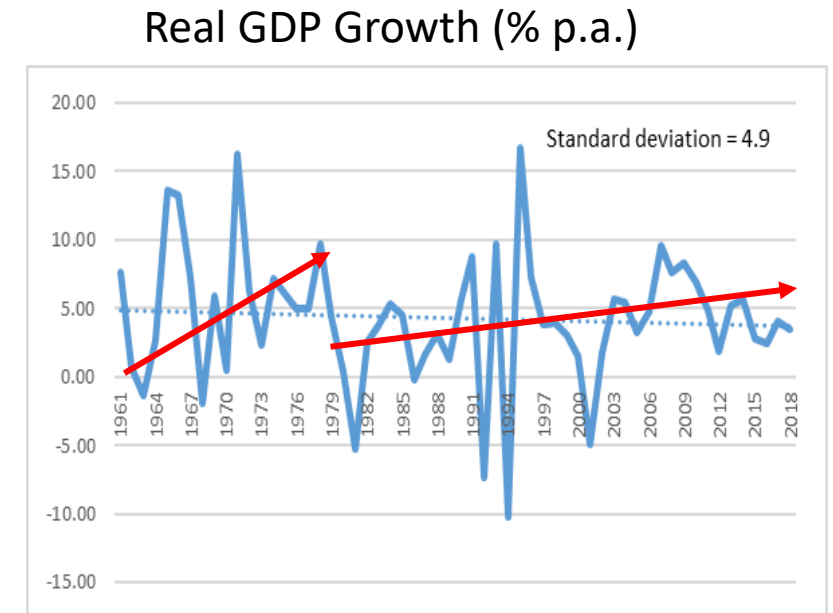
Malawi is getting poorer, by design!

	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)



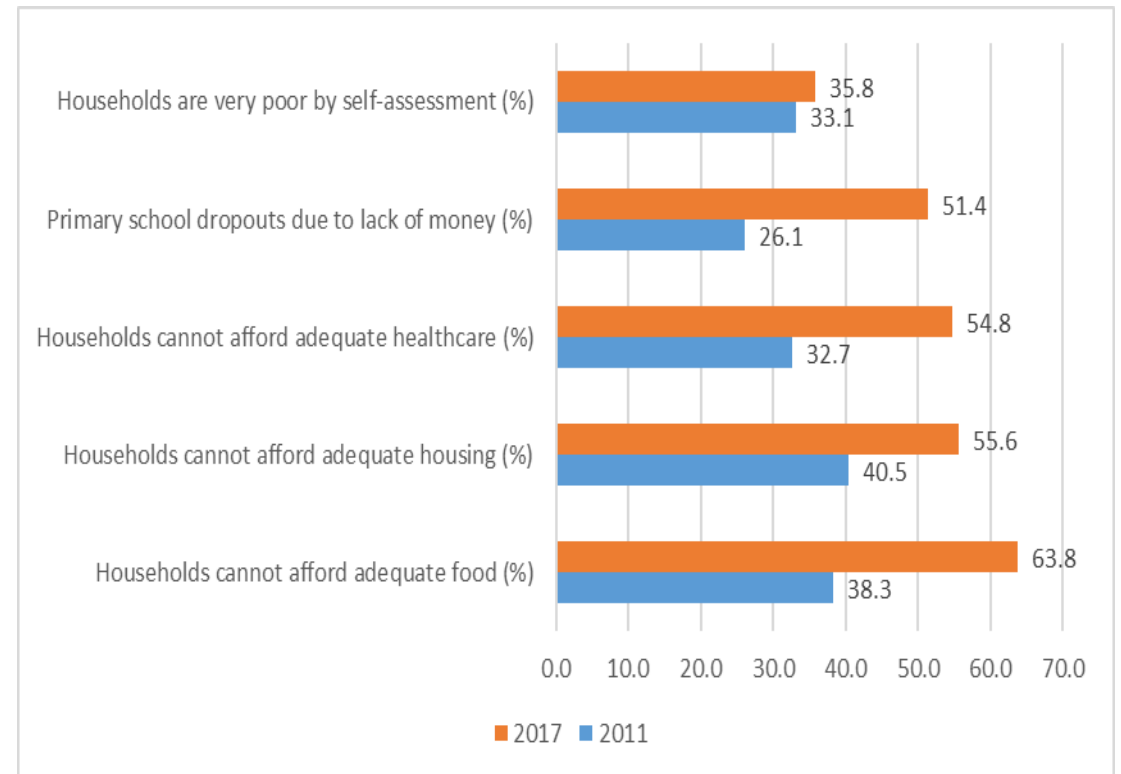
Tragic Neoliberalism

Malawi is getting poorer, by design!

Table 3: The World's Poorest Countries

Rank	By GDP/Capita	By GNI/Capita
10	Madagascar	Togo
9	Comoros	Sierra Leone
8	South Sudan	Madagascar
7	Liberia	Mozambique
6	Mozambique	Malawi
5	Niger	Liberia
4	Malawi	Niger
3	D.R. Congo	D.R. Congo
2	Central African Republic	Central African Republic
1	Burundi	Burundi

Deterioration Poverty Between IHS3 (2011) & HIS 4 (2017)



Tragic Neoliberalism

Malawi is getting poorer, by design!

INTERESTING DEBATE:

input subsidies or social cash transfers?

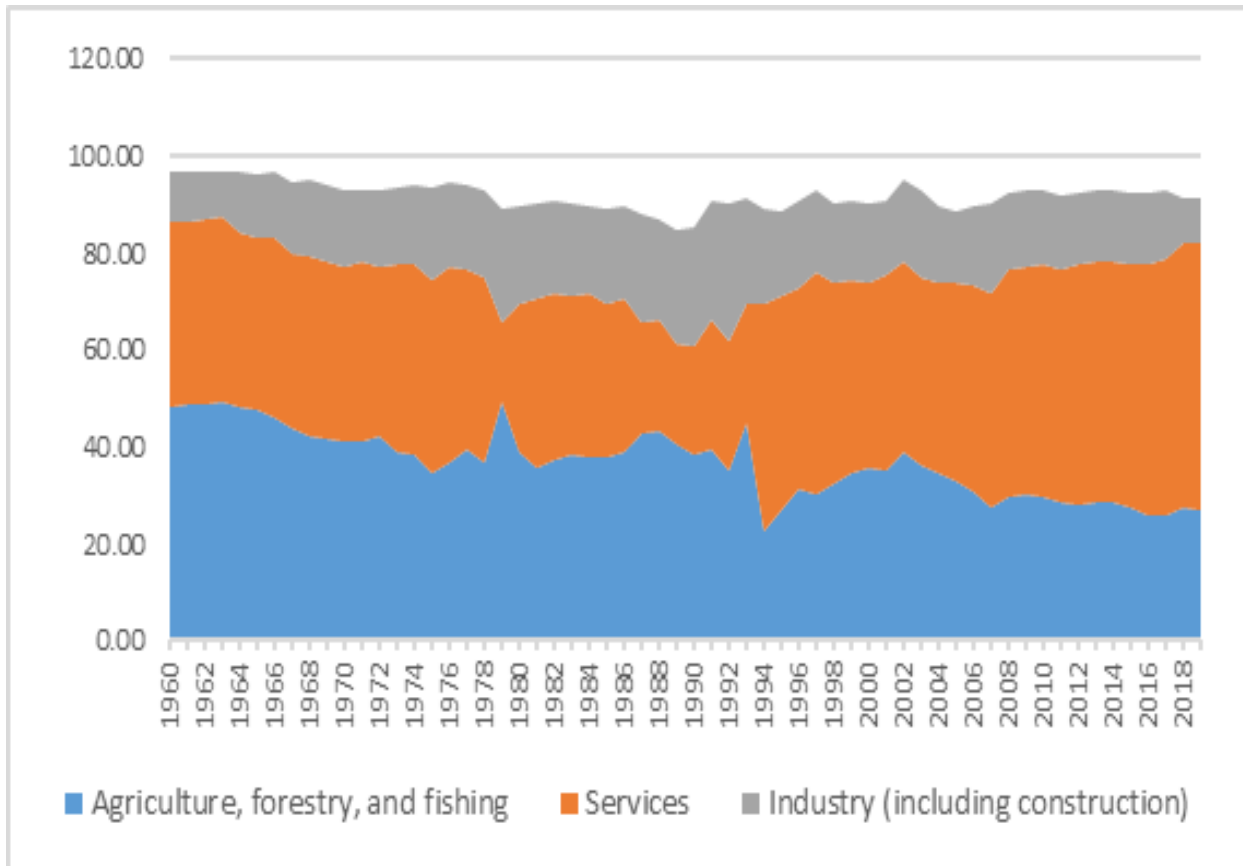
BUT NO DEBATE:

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.)



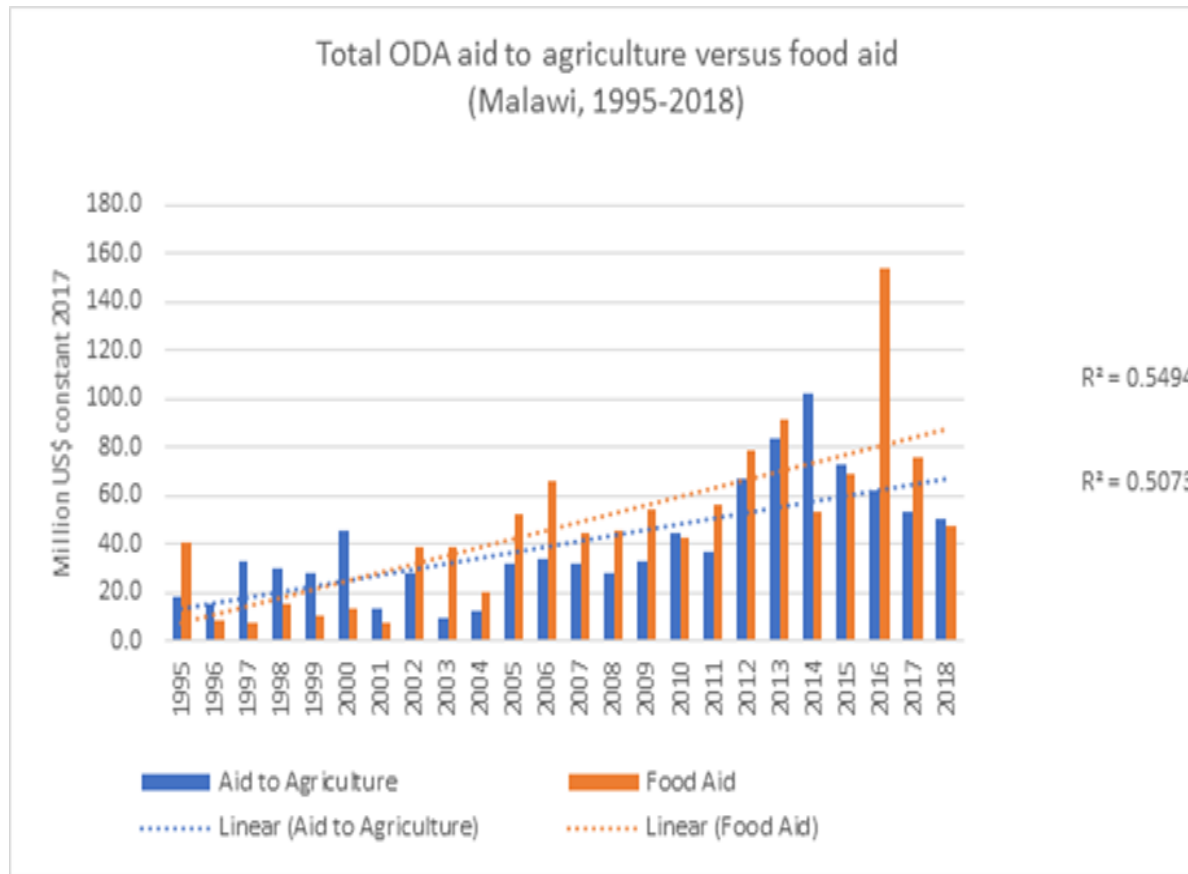
Wholesaling and retailing of foreign goods is the key income earner in Malawi (about 16% of GDP), overwhelming the external sector

- Dumping
- Deepening trade imbalances
- Perpetual BoP support
- “unconventional” defense for kwacha
- Exchange rate = main destabilizer (Mangani, 2012; Ngalawa & Vieg, 2011)

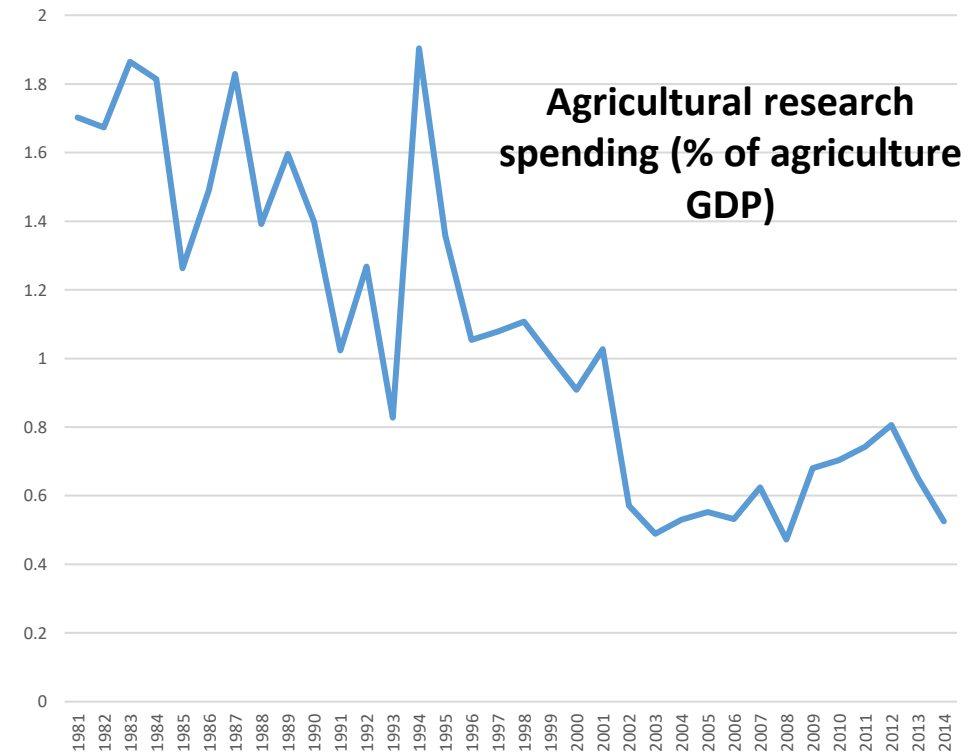
Tragic Neoliberalism

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

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



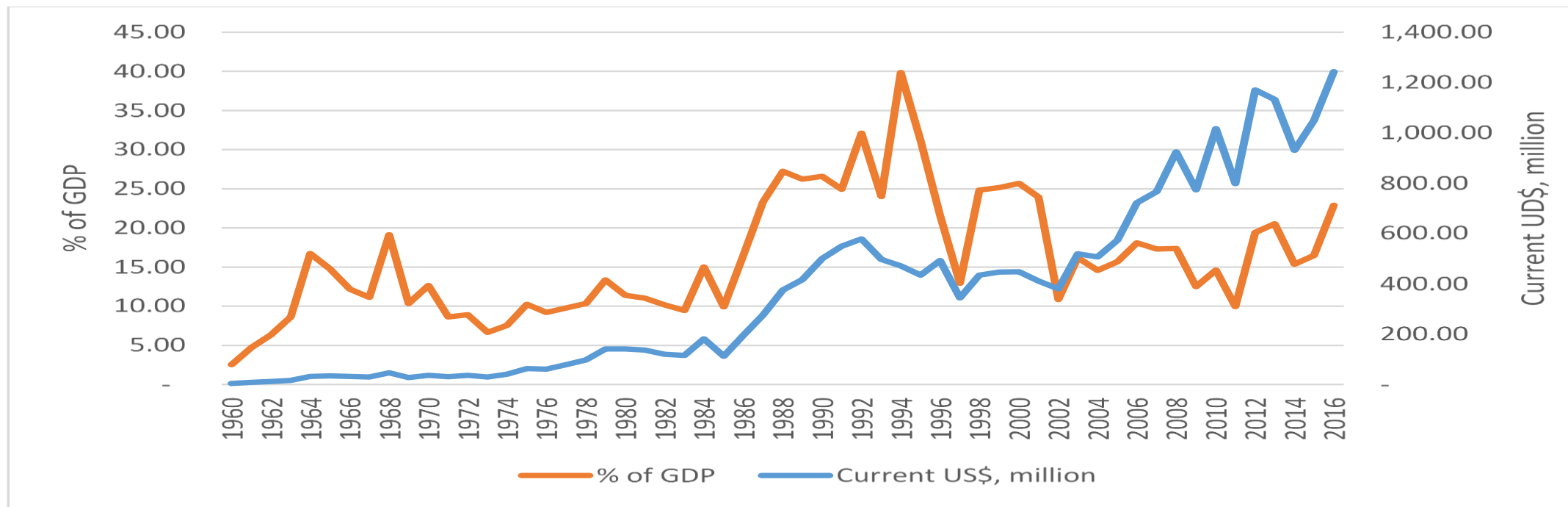
An agricultural country that prioritizes input subsidies over research spending



Tragic Neoliberalism

Aid dependency is deepening, by design!

Figure 3: Net aid to Malawi, 1960-2016

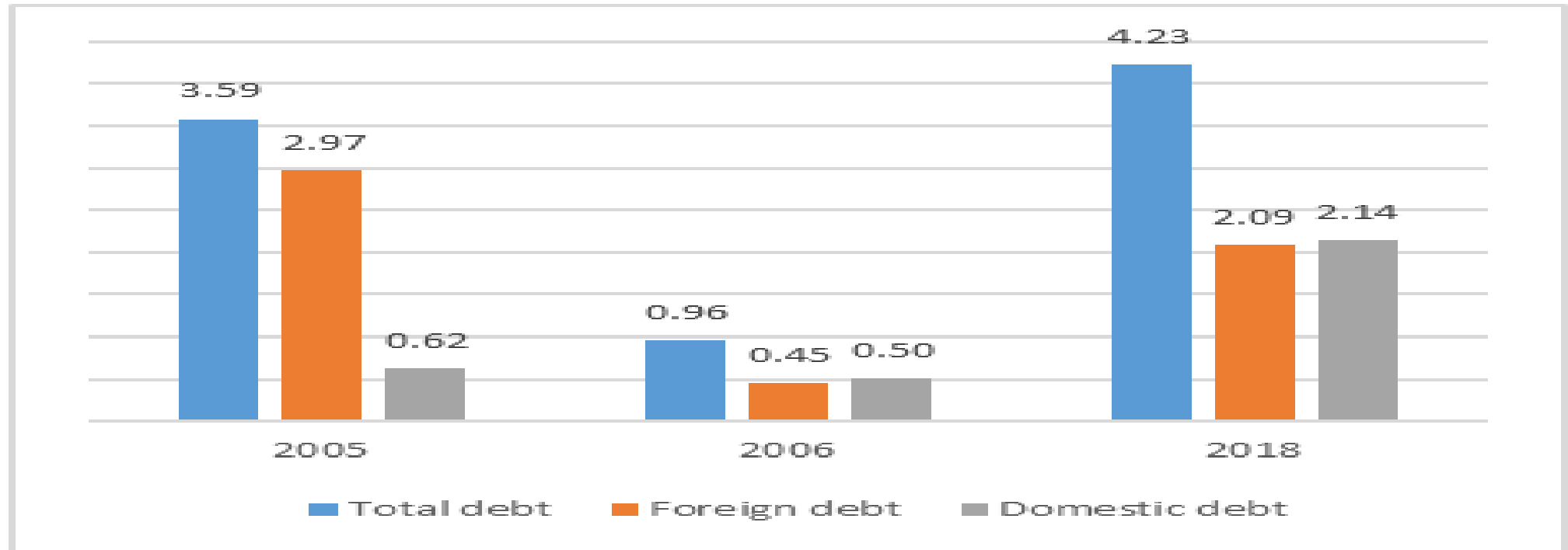


	Annual Averages				
	1960-1963	1964-1979	1980-1999	2000-2016	1964-2016
Current US\$, million	10.1	51.3	341.0	786.5	396.4
% of GDP	5.6	11.4	21.2	17.1	16.9

Data source: World Bank

Tragic Neoliberalism

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



- Debt relief cannot be cause for celebration. Failure to pay is a humiliation, by design!
- World Bank Group holds most foreign debt ... yet accuses us of over borrowing, by design!
- Aid leads to more aid: the unpleasant monetarist arithmetic (Sargent & Wallace, 1981)

Tragic Neoliberalism

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

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

- Overwhelmed: ever-growing public sector
- Resources too thinly spread
- Punitive effective tax rates, unnaturalness & attitude to taxation
- From producing to regulating SOE, Treasury recourse, extraction
- Declining service quality – education, health, security
 - The taxed no longer access most public services

Tragic Neoliberalism

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

Emblem of capitalism: Most lucrative sector

Poverty-deepening intermediation under central bank watch/protection

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

	1990	June 2018	Verdict
Assets/liabilities (% of GDP)	20.5	29.4	Ok
Loans to private sector (% of GDP)	12.5	14.1	Not ok
Private sector deposits (% of total liabilities)	62.9	59.6	Not ok
Lending to private sector (% of total assets)	49.0	28.3	Not ok
Lending to official sector	12.0	19.5	Mild crowding-out

Tragic Neoliberalism

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

- 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 global financial crisis

- 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

Tragic Neoliberalism

How is Such Economic Immorality Sustained?

Brainwashing

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

Distractions from things that matter most

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)” Mark 4:12

The Necessity for Economic Independence

The Necessity of Economic Independence

The neoliberal experiment has been running for too long

- 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

Much easier said than done; high order; suicidal

- Lumumba
- Sankara
- Gaddafi's USA
- Mugabe

Disentanglement from the shackles of economic dependence

- Need pragmatic economic management
- Develop home-grown solutions: Singapore, Tanzania, etc
- Create developmental state; don't throw away Keynes
- rationalize aid (financing in general)

Actualize presidential hints on economic independence; aid graduation

- Inaugural speech
- Commentary on Dambisa Moyo's Dead Aid

“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”

Running costly, non-converging experiments with leadership

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

Have we paid in full for the 1964 Cabinet Crisis?

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 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,

“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 #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

- An a critical mass of though followers!
- Debased education system offers little hope

Finally, as we are set to pray for rain ...

Submission: A Better Prayer

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

TX
zikomo