The Economy of Tomorrow

How to Produce Socially Just, Sustainable and Green Dynamic Growth for a Good Society

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and

New Way of Capitalism

Bill Gates

Introduction

- Facing with economic, ecological and social challenges, thinkers in Asia and Europe think we need new model to put economy onto the path of resilient economic growth.
- The 1) socially just, 2) resilient and 3) green dynamic growth is necessary to produce conditions for a good society. They are driven by 1) fair incomes/inclusion of all talent 2) stability in financial sector ,natural environment, balanced trade and budgets 3) greening of old economy and green innovation.
- One of the main obstacle is the structure of current political economy which those powerful tries to remain their status quo.

Crisis of Current Capitalism

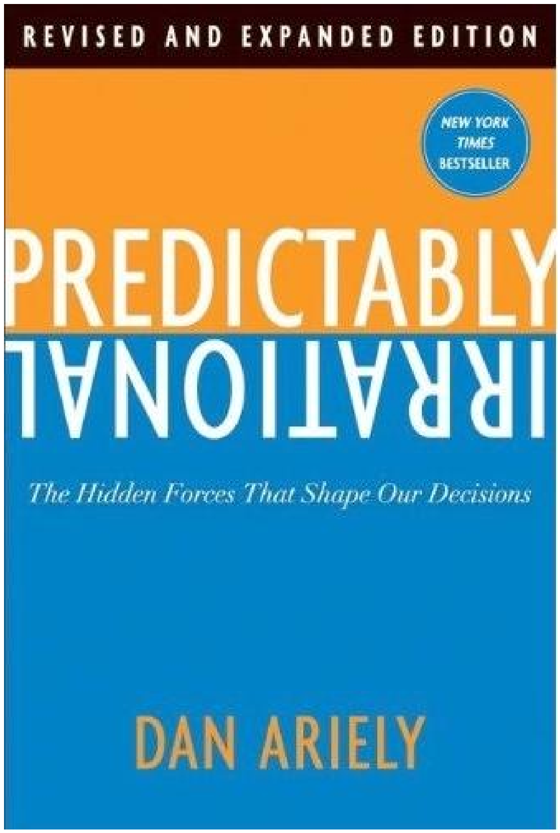
- The structural problem is that Germany and other countries do not have political will to deepen economic and fiscal integration.
- The unregulated market and systemic failure together with the cheap and unlimited credit offered during good time has undermined incentive to do a structural reform to strengthen productivity.
- Once the debt (mostly sovereign debt) exploded, austerity was a way they chose to deal with crisis as they could not devalue the currency.
- Mainstream public believed the crisis occurred out of immoral individual and excessive welfare state, therefore, the contractive policy (washington consensus) was believed a cure, but that was wrong.

Crisis of Current Capitalism

- After the U.S. crisis, G20 agreed to regulate financial market, but fail to address instability from speculation in real economy, this made those hedge funds, agency ratings even more too big to fail.
- Together with permanent low interest rate, new bubble is driven, the next crisis will leave no room for bailout.
- Financial crisis is a consequence of casino capitalism (governance and incentive structure create moral hazard)
- The shareholder capitalism makes economy unsustainable as it sets rule of game in business to focus on profit interest to investors and also fail to account for social cost.
- The neoliberal revolution offers us 2 choices either to go for debt to continue spending (vulnerable to interest rate) or to depend on export demand (vulnerable to global demand). Boom and bust cycle continues.

Crisis of Current Capitalism

- Neoliberalism produced devastating outcome to society as the market works freely, elites benefit from this shareholder economy and speculation, while public goods, wages and environment protection are seen as cost (competitive disadvantage)
- The flaw of neoliberalism lies in assumption that said human is rational and market works efficiently in allocating resources, human is irrational and there is no ideal information. Therefore, psychology and political science are needed in order to really understand economy.



Predictably Irrational
Dan Ariely

When it comes to making decisions in our lives, we think we're making smart, rational choices. But are we?

Standard Economics

- Standard Economics assumes **all human decisions are *rational* and informed**, motivated by accurate concept of the worth of all goods and services and the amount of happiness (utility) all decisions are likely to produce.

But are we really rational?

- Let’s think quickly!

- Suppose there are 2 choices:
  - a FREE! $10 iTunes card
  - a $20 iTunes card for only $7

- What will you choose?

And, what about this?

- Whom do you think perform the best?
- Students are required to write 3 papers and there are 3 groups of the students facing different types of deadline.
  1. Choosing the deadline on their own → what will you do if you're in this case?
  2. All the 3 papers are due on the last day of the class
  3. Turning the paper on 4th, 8th and 12th weeks

Our Irrational Behaviour

- Relativity
- Expectation
- Self-control and Procrastination
- Emotions
- Ownership
- Placebo effect
- Social Norm

Behavioural Economics

- On the other hand, Behavioural Economics believe that people **are susceptible to *irrelevant influence*** from their intermediate environment (or ‘context effects’), irrelevant emotions, shortsightedness and other forms of irrationality.
- Our irrational behaviour is not random and senseless but it is systematic and predictable. Then, why don’t we base economics on how people actually behave?

Crisis of Current Capitalism

- The extractive growth (withdrawal of resources) is unsustainable and will face many limits;

1) Economic limit – the growth fuelled by exploitation of cheap resources, focus on short-term gain (shareholder capitalism)
2) Fiscal limit – borrowing future money create debt crisis, forced to adopt policy in inflationary path >>decrease middle class's wealth >> social and political crisis
3) Ecological limit – exploitation of natural resources , decrease in supply, higher price
4) Social limit – inequality (low wage, low aggregated demand), social divide (lower living standard, lack of social justice)
5) Political limit – when people feel powerless, political instability increases, crisis of national state and democracy

Crisis of Current Capitalism

- The crisis of national state follows since people look for state protection, populist policy emerges
- The representative democracy is threatened by small interest groups, decision-making goes to technocrats instead of government. Protests follow.
- Therefore, this shows the failure to adapt institutional setup of democracy to the need of a post-industrial society, where individual is more important than mass production.
- The heart of this is that people need to have the idea of utopia ,the hope for better future, in order to for new community.
- Audacity to hope leads to change!

New challenges for an emerging ASIA

- Asia is considered as state-centered countries (different model from Washington Consensus). It tends to use so-called “ Beijing Consensus”, e.g. state coordinated industrial policy, mercantilist export protection and cheap labor.
- Many Asian countries ,e.g. Thailand ,adopted capital control after 1998 Asian Financial crisis, thus not affected greatly from hamburger crisis. Yet, it started to feel the limit of extract growth path where cheap labor becomes finite resources, public money spent too much on attracting FDI instead of investing R&D and infrastructure.
- The price of industrialization is high too: environment and social divide, also the worry on real estate bubble in China.
- The new model called ‘ social democracy’ is adopted: china focused more on social security provision.

Political economy of shifting to new development path

- Though growing realization of flaws in our economic system, we continue to stick to the same medicine, e.g. bailout in U.S, and EU
- While people started to question ability of representatives to protect pubic interests against interest groups.
- The problem is that elites try to preserve their status quo to continue benefit from the continuing predominance of Neoliberalism discourse (ideological influence), they resist structural changes. Other factors that obstruct changes include the asymmetry in power, mainstream denial in openness to new idea.

The Economy of Tomorrow?

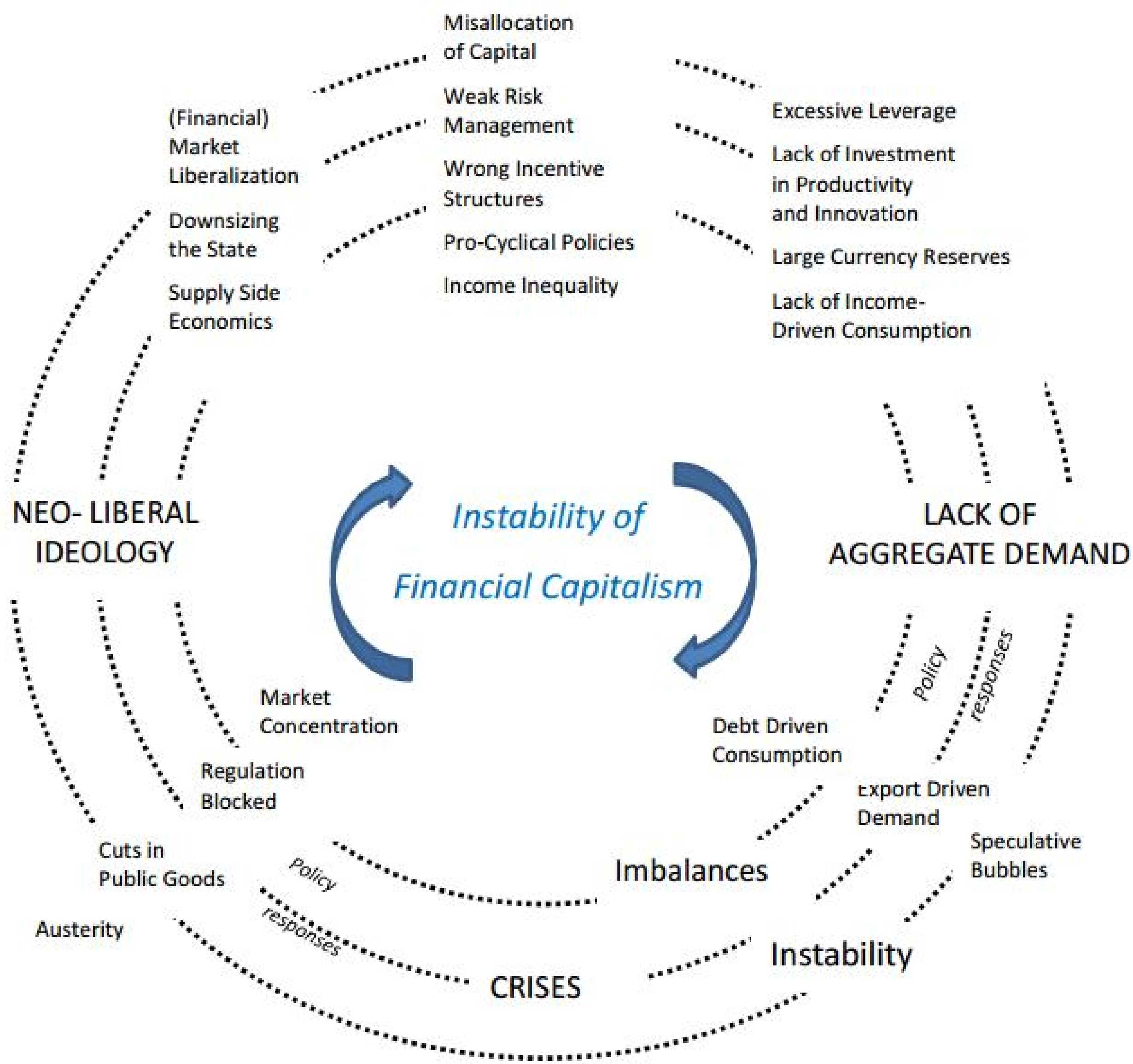
- All society need to build its own model that specific to local conditions, yet we found many convergences in challenges facing by different group of countries; social divide (solved by inclusion of all people) and boom&bust cycle (need financial reform)
- “ The economy is not an end in itself, but serves purposes of producing the conditions for a good society with full capability for all, by promoting D&S equilibrium and focusing on inclusiveness and sustainability which drives qualitative growth.

The Economy of Tomorrow?

- Focus more on human rather than growth which is subject to the end of growth. Yet, growth is still a mean to attain ways to tackle challenges and produce better society.
- Rejects the idea of Neoliberalism on the magic of market, but believes in the rebalance of relationship between market and democratic state, in short, we need a smart state instead of debating on the size of state. However, economic globalization outpaced the ability of nation state to manage, so state needs to stay open and rule-based with global governance strengthened.

The Economy of Tomorrow?

- Short-termism is prevailing in business strategy for speculation or short-term gains >> income inequality >>slow economic growth>> we try to create AD trough create export surplus, encourage debt, create domestic and international imbalance>> emerging countries' lack of trust in Washington Consensus and flaw of global reserve system led to the build-up of massive reserve which further weaken global AD.
- We need to create 'income-driven demand' to create more equal income distribution, stable society, consumption. This will unleash supply-side economy.
- However, supply-side economy has produced only moderate productivity gains, EoT model suggests INCLUSIVENESS by providing full capability to all so society can benefit from innovation and productivity of talents and encourage all to participate in economic, social and political life.


Misallocation
of Capital
Weak Risk
Management
Wrong Incentive
Structures
Pro-Cyclical Policies
Income Inequality
(Financial)
Market
Liberalization
Downsizing
the State
Supply Side
Economics
Excessive Leverage
Lack of Investment
in Productivity
and Innovation
Large Currency Reserves
Lack of Income-
Driven Consumption
NEO- LIBERAL
IDEOLOGY
Instability of
Financial Capitalism
LACK OF
AGGREGATE DEMAND
Policy
responses
Market
Concentration
Debt Driven
Consumption
Regulation
Blocked
Export Driven
Demand
Speculative
Bubbles
Cuts in
Public Goods
Policy
responses
Imbalances
Austerity
CRISES
Instability

Growth driver in EoT are

- 1) income-driven demand
- 2) human capital
- 3) effective capital allocation
- 4) productivity and innovation
- 5) resource efficiency

Challenges to focus

Socially just growth

1) Equal income distribution
2) Inclusive economic institution
3) Smart public goods provision

Resilient growth

4) Macro-prudential regulatory framework
5) Global governance need to be reformed
6) Balanced current account, fiscal sustainability

Green dynamic growth

7) Decoupling of production from energy, resource usage
8) Public investment infrastructure

Bill Gates’ New way of capitalism

- He believed technological innovation will solve the world problem and change the world, but also structural innovation is needed.
- Though now our society is very progressive, people’s quality of life is improved through scientific progress and technology, yet this improvement is not fast enough and not for all.
- So we need to make capitalism benefit the poor too since capitalism basically benefit only people who has ability to pay.
- Creative capitalism is when government, private sector, NGO work together to expand market power to all to reduce inequality through market mechanism (profit incentive) and “good reputation” as a better incentive (sustainable, in the way that the company’s good reputation will attract good employees and customer also likes good company.
- For example, Microsoft has ‘interface technology’ that allow illiterate people to access the use of technology.

- Gates made 5 points
- 1) Market should study the demand and limit of market in developing world in order to expand the business to the people at the bottom of pyramid, e.g. cheap vaccine for the poor in Africa
- 2) Government needs to design policy to help the poor directly, e.g. public school , health service provision and provide incentive to business e.g. give benefit special license to business who invent vaccine and be able to sell it cheap
- 3) Make business in poor world access to rich world in order to expand the market and lift them out of poverty
- 4) Business gives out 1% of sales profit to change the world by connecting their business to good activity, making customers willing to pay more
- 5) Company spares 1% of the best innovator in the company to study things that will help the poor. This way is more effective than giving money away or doing CSR. Once leading company does this, there will be following companies.