21st Sir Arthur Lewis Memorial Lecture

"*The Gig Economy, Secular Stagnation and Sir Arthur Lewis*"

By

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Your Excellency, Governor, Deputy Governor, senior officials, distinguished guests, ladies and gentlemen, Good evening.

At the age of just 33, Sir Arthur Lewis became the first black man to hold a Professorial Chair in a British University. He went on to become the first development economist to win the Nobel. He was the first black man to win the Prize in the sciences. He was the first West Indian. Nothing more needs be said to explain the honour and pride I have in giving a lecture in his name; and doing so in one of the great institutions of Caribbean integration, an effort dear to his heart. But I will say more. My intention tonight is to show how the ideas of this great West Indian, help us understand the 21st century, global development and the new Gig economy; and how his ideas can help us improve the lot of humanity, his central passion.

We are living in the age of Trumpism. Borders are returning. Brexit beckons. Nationalists triumph at the polls and rattle their sabres. Next year in the land of liberte, egalite and fraternite, Marine Le Pen's National Front will win the first round of the French Presidential elections. To dismiss Trumpism, as merely the last gasp of misogyny and racism at the departure of America's most successful President, is to miss the wider picture and to be dangerously complacent over what comes next. Though these events are current, our malaise is not a modern one only to be understood in terms of millennials and social media. It was foretold, in Sir Arthur Lewis' tale of growth under unlimited supplies of labour, written in Manchester in 1954, long before the internet was imagined.

There is no better way to mark the brilliance of a social scientist than to use current data to illustrate a theory he expounded sixty years previously. Only a small fraction of economists wins the Nobel. Only a small group of those would past such a test. It is a measure of the man that would please Sir Arthur. He was a strong believer in the idea of the scientific method and he witnessed firsthand the development of those ideas when he was teaching alongside Sir Karl Popper at the London School of Economics in the 1940s.

The data I would like to use today was recently unpacked by Banko Milanovic of the Luxembourg Income Centre. It tells the story of the most important development in global society and explains our predicament.

Are you of an age, when you can remember the death of Chairman Mao, Nadia Commaneci's seven perfect 10.0's, at the Montreal Olympics, or the landing of Viking 1, on Mars? I should point out to those whose memories do not stretch back that far, who often think their seniors are as clueless as they are uncool, that humanity did already know there was no one on Mars to befriend, otherwise we obviously wouldn't have called the first landing party, "The Vikings". If you can remember the downing of Cubana Flight 455, Anguilla being granted its own constitution and the announcement of the Caribbean's first Nobel, then according to Milanovic's data, within your lifetime, just thirty years, you have been witness to the largest reordering of incomes around the world in the history of humanity.

Back in 1986, an unskilled worker in the United States earned on average six times what a skilled worker in China received. For most people, where you were born, determined what life you would lead. Economists call this Citizenship Rent: the amount earned by simply being born in one place over another. Mr. Trump, calls it when America was Great. Thirty years later that wage gap between the unskilled of America and the skilled of the developing world has not shrunk; it has disappeared. Citizenship rent is being corroded.

This happened as a result of one more example of being careful of what you wish for. When the cold war ended in 1989 with the collapse of the Berlin Wall everyone rushed to declare "je suis un capitaliste" and open for business. The triumph of capitalism led to the return of internationally mobile capital and goods. The effect was to enable owners of firms to operate as if there was an unlimited supply of labour. Investment and production chased lower wages around the world, leaving secular stagnation elsewhere. What was once made by steel workers in Gary, Indiana, for a premium, could now be made better, faster and cheaper in Guangdong, China. What transpired was a giant reshuffling of global production and incomes.

Over the past 18 months, Donald Trump, Bernie Sanders have introduced us to the losers of this Detroit shuffle. Blue collar workers from last night's battleground states, experienced no increase in real incomes across the last 30 years. The world passed them by. Their dream departed. But this isn't just the familiar story of the rust belt and China. Once mobile capital had deconstructed companies, from places where local production took place, to places from where the international assembly of production was organised, it was a logical extension for technology to further deconstruct the employment contract. It has been estimated that in a few years' time, half of the US workforce and many elsewhere will operate in the so called "gig" economy. In the gig economy, workers are individual contractors on websites that make no commitment to future work or pay and certainly don't offer medical benefits and training. If these are employment contracts, they are zero hour contracts, making a mockery of unemployment statistics.

Before, the firm was the economic unit, the unit of production and decision making. Today, the economic unit is the individual. Those who assemble stuff together or just individual consumers are able to see and buy the cheapest private contractor of that service or skill locally or globally. This is good if you have rare skills. The internet connects you to new customers. It is bad for those with common skills, where the mass of competition drives down hourly wages.

Governments of all hues told these less well qualified, that it was their fault. The State increasingly pushed these losers off welfare, reduced their medical benefits and put their kids in sinking schools. The blow was initially cushioned by cheap imports, cheap credit to buy them and distracting wars. There was for a while a youthful excitement around the privilege of working from home in your pajamas; for longer hours, less pay and with no pension or health plan. The global financial crisis of 2007 to 2009 revealed how these temporary indulgences were papering over fundamental fault lines.

Donald Trump and the Brexiters told these losers, it wasn't their fault. It was Mexico's; or China's or the fault of all past, current and future trade deals. Like a bad Hollywood sequel, he told them that if only they took back what was theirs from shady looking foreigners, America would be great again. No wonder the unswayables stuck to their man. He is unlikely to stick with them. Getting elected is not the same as governing. But whether he does or doesn't, the genuine despair and anger of his supporters will be there.

As long as companies could pull new workers from Brazilian, Chinese and Indian villages or people in advanced economies could hire out their cars, homes or themselves by the hour, over "Uber", "airbnb" and such like, the economy could grow with profits rising but real wages flat lining. This is what Sir Arthur predicted back in 1954. He further argued that the countries whose firms chased returns and production abroad would suffer from the stagnation of local investment.

In these circumstances he argued that there was a case for protectionism of local industry through limits to the imports of foreign goods and the export of local capital. Indeed, this became the development ideology of many newly independent countries that he and his acolytes advised in the 1960s and 1970s. The benefits of cheap imports would be lost, profitability and maybe investment would fall, but the decline in Citizenship Rent might be slowed. I doubt such solutions would bring sustainable benefit. There best chance of success is in large states that have since abandoned this route. In the case of small states who live off trade, these solutions only distract us from the only long term surety of economic progress, which is meaningful and global competitiveness: producing stuff that foreigners want to buy at a premium.

But we must also consider something that was not foretold. The reshuffling of global production directly led to the Great Uplifting. In these 30 years, 1 billion people were pulled out of the misery, inhumanity and nastiness of poverty. One billion. Never before have so many lives been transformed. Most of these billion people were in Asia, in China yes, but also across many other countries where there were large number of workers migrating from the countryside, where mass education, good transport and legal certainties were available.

There is a third and final part of the story according to the income data. The people who enabled this great reshuffling of production and incomes were the professional classes in the advanced economies: lawyers, accountants and bankers. In unguarded moments they will say they were doing "God's work". Remember the one billion. But they charged more than a few bits of silver. The commission paid to this professional class for every $1 of extra income that went to the billions of poor workers, was an embarrassingly cavenous 44 cents. Twelve percent of all Americans and in other advanced economies fall into this group of professionals. They earn $150,000 a year plus. We know them. This small, self-satisfied group, multiplied by their fat wallets, have driven the market for luxury brands skywards and made blue collar workers angrier still.

It is important to see the story in the round. A small elite managed the global reshuffling of production, away from the advanced economies to developing countries. The elite made off like bandits. Blue collar workers in the advanced economies stood still. One billion people were lifted from poverty. The local politics is bad but the international economics less so. And not just the economics. From a global development perspective, from a utilitarian perspective of the greatest good for the greatest number, from a moral perspective, If the way to lift one billion people out of poverty was to pay a few bankers a lot to get it done, and for a few hundred million people, who were in global terms overpaid for their skills and comfortably well off, to stand still while the 1 billion caught up with them, then that would have been the right thing to do...every time. Lifting one billion from poverty is priceless. The Great Uplifting might have been bettered but it was not to be resisted.

It is striking therefore that many of the intelligentsia in advanced economies did try to stop the Great Uplifting by pushing for efforts to force China's exchange rate higher. Brandishing economic models that did not predict China would grow faster for longer than any country in the history of humanity, nor helped them to lift sustainable growth at home, liberal economists argued, that China could grow faster still of only they raised their exchange rate in a manner that had shoved the Japanese economy into a vicious deflationary cycle a decade before. The Chinese smelled a trap. They resisted the pressure for about as long as they could.

The Great Uplifting poses two big questions. First, was it just a small step adjustment? Sir Arthur Lewis argued that as more people were pulled in to the formal sector in developing countries there would be a step up in their real wages reflecting the transference of new skills and normalities. He thought of it as a small cliff, not an everlasting escalator. Unlimited supplies of low skilled labour would stop wages catching up. Will the favourable trends peter out and developing countries get tangled up in a middle income trap? Many emerging countries seem to have lost their previous momentum. The second question is whether the Great Uplifting could have taken place without the stagnation of the incomes of unskilled workers in the advanced economies. Was the Trumpist backlash inevitable or avoidable?

I think the answer to both questions can be found in an analysis of how the global elite managed to do so well for themselves. This group championed the removal of all barriers to the easy movement of goods and capital. Unshackle the global economy and move government aside they yelled. They claimed to be self-made men. They chastised protectionism as corruption at worse and at best subsidies to the wasteful and inefficient. Yet, on closer examination their cosseted status hinged on a sophisticated form of protectionism based around services not steel.

At the same time as the great reshuffling was going on, the costs to going to college in order to become a lawyer, accountant or banker, sky rocketed. These fees acted like a large tariff against the spread of the benefits of a professional education to a wider group.

The returns to this professional education were then enhanced by the international spread of legal, accounting and banking standards into global codes and standards. There is today a kind of imperial preference of codes and standards. Although the stated intention is to raise standards everywhere the manner of doing so has been discriminatory and protective of this Northern elite. These anti money laundering and de-risking rules, for instance, instead of leading to a diversification of activities away from the well-known centres of money laundering like London, Zurich and New York, have led to increased concentration of financial activity there. A recent EU study estimated that the underground economy represented 35% of EU GDP, much of it is banked locally, yet we also know that there have not been and will not be any severing of correspondent banking relationships of major EU banks. Having raised the global demand for legal, accounting and banking professionals and then limited their supply at home, the global professional class then influenced policies that allowed them to maximize their spoils.

They pushed for easy monetary policies that supported financial and housing assets, which they were own disproportionately. They pushed for reductions in the top rate of taxes least it demotivated them. New analysis suggests that as much as half of the widening of the income distribution in the US and UK followed the steep reductions in marginal tax under Reagan and Thatcher and came before increased international trade. President-elect Trump was a major beneficiary of these policies. The argument that he was the champion of blue collar workers against the global elites only makes sense in Alice's Wonderland. The education of America has just begun.

My main point is that the developments in education, monetary and fiscal policy aggravated the reshuffling of global incomes, but they were not essential in the reshuffling of global production that brought about the Great Uplifting. They could be reversed without jeopardizing it. Higher property taxes could have been used to fund reductions in the taxes of the less well off, not those on the highest incomes, or could have more profitably funded widening access to professional education beyond the top 12%.

Let me end by drawing some broader conclusions from these observations. In the past, our governments thought that development was about attracting new foreign investment and giving incentives for firms to invest. But the mobility of firms and capital, and the resulting deconstruction of the economic unit from firm to individual, changes all of that. We can only develop, if we develop the assets and skills of our individuals. And because unlimited supplies of unskilled workers cap real wages, we can only develop, if we develop the assets of our least skilled people. This is a challenging idea but it is also a liberating one.

In this region the challenge is not an underestimation of the importance of education. We know Sir Arthur's dictum that the fundamental cure for poverty is not money but knowledge. The problem is that in the Caribbean and in many developing countries we have been pouring money into an old British-sourced educational system that they have long since abandoned because it was designed to educate the elite and disarm the rest. For too long we have concentrated our efforts and resources on the top 12% who do well at common entrance, end up in our better schools and colleges before migrating abroad when it is the quality of the discouraged 88% that will determine our sustainable development.

Moreover, education is still thought of as something that people do at the beginning of their lives. The lessons of the gig economy are that the acquisition of skills is not an activity of the young but something that has to be continuous if you do not want to end up on the down escalator. A 21 year-old with skills is in 10 years a 31 year-old with out-of-date skills. This is not just about money, which is good because we don't have any more. It is about rethinking what we mean by public education, what its objectives are and how it is organised. Today, public education is supply-driven. The Ministry, the supplier, determines what education is, who gets it and where. Education is more than about jobs but about community, but a better match between skills and jobs probably requires a more demand driven approach to education than we have.

Here is a thought experiment. Imagine if you took the entire education budget and divided it by the number of students and gave this money to parents to spend on accredited teachers and schools. In this region you would be giving parents additional spending power of up to $4,000 per child per year. Don't you think that without spending an additional cent, the 88% that our institutions of public education currently condemn with low expectations, demotivated teachers, rigid curricula, unaccredited certificates and poor online facilities, would be far better off if students and parents could choose how they spent the $4,000?

Ladies and Gentlemen, I wish to end on a personal note. I was inspired to become an economist by my father, Professor the Honourable Bishnodat Persaud. He passed away on July 25th of this year, leaving those who knew him bereft. My father worked a little with Sir Arthur Lewis when he helped run the Institute for Social and Economic Research for the Eastern Caribbean in the early part of his career. A decade or so after Sir Arthur moved to Princeton, my father became head of economic affairs at the Commonwealth Secretariat in London. There he became one of the principal sponsors of economists from the West Indies and the developing world, appointing many to international panels, committees and consultancies.

One of the way's Sir Arthur Lewis inspired a generation of West Indian economists is that he was not intellectually shy and did not shy away from applying technical economic prowess to good political causes. My father helped to design the economic sanctions against South Africa and the development of the UN's Vulnerability Index which was an attempt to divert more resources to small states that might appear otherwise too well-off to deserve them.

He was Economic Secretary or advisor to the great international economic commissions in the 1980s and 1990s such as the Brandt Report, the South and Brundtland Commissions. From that position he became one of the leading developing country voices on international economic affairs such as trade, the spread of technology and climate change. He persuaded Prime Minister Singh to launch the reforms in India that helped to make that country now the fastest growing economy and the second biggest contributor to the Great Uplifting.

While his ideas have proved poignant and lasting, those who knew him will tell you of a softly spoken man of grace and kindness. I can't tell you how many people have touched my life with kindness, because they say he did so to theirs, gave them their first job or when times were tough, came to visit or lend a hand. The inspiration I draw from his life is that one can be both unyielding in adhering to rationality in observation, judgment and advice while being compassionate and generous in the way you live your life. I dedicate this lecture and my career to him.

Thank you.