What legacy for the future of Mauritius?

"At this stage of the development of our country, the best contribution that the Central Bank can make is to keep inflation low, stable, and predictable as the foundation for a fairer and more equal society."

Address by Mr Rundheersing Bheenick, Governor, Bank of Mauritius, at the Annual Dinner in honour of Economic Operators, Pailles, 17 November 2014

In the heat of the election

1. The Annual Dinner in honour of Economic Operators has become a linchpin in the Bank's calendar of events as it gives me the occasion to share with you my current thoughts and concerns as well as my vision for a better Mauritius from my vantage point as Governor. In the heat of election fever now gripping the country, I thought it timely to reflect on times ahead and the legacy of the economic operators for the future of this small island state of Mauritius. They say that a country gets the leaders it deserves. Happily for us, we have had some of the best in both business and politics. Although not all now running for office may prove to be so. Time will tell.

2. I am here reminded of that quip in Bernard Shaw's *Major Barbara*[1], assessing a young man's employment prospects:

> *He knows nothing and thinks he knows everything. That points clearly to a political career.*

3. But in this small island developing state of ours, as we all know, we are economically and environmentally vulnerable, and that demands continual decisive leadership. Perhaps, not so decisive as that of the Duke of Wellington. He was famed for his brilliant military record against Napoleon. Less well-known is that he actually was Prime Minister of Britain, twice. Thirteen years after defeating Napoleon, the bold Iron Duke conducted his first cabinet meeting. The experience must have jolted him as he confided to a friend afterwards:

> *An extraordinary affair. I gave them their orders, (and damn it) they wanted to stay and discuss them.*[2]

4. I know the feeling after meetings of the Monetary Policy Committee here. And, I dare say, so do many of you heroes and veterans of boardroom battles where unwary captains of industry and corporate honchos meet their Waterloos.

The future

5. Tonight, I want us to look into the future and ask how we are facing up to the prospects ahead. Do we have the resilience to survive as a nation, or indeed as a civilisation? Resilience is the capacity for bouncing back after shocks. Despite our small size and our isolation, resilience or anti-fragility has become our badge of honour. But is that enough?

6. We survived the 1960's prediction of inevitable catastrophe of a future Economics Nobel prize-winner. We exorcised the ghost of Malthus, just as we have seen off the plague

of malaria, that used to kill 2,000 of us a year up to the late 1940's. We have developed remarkable defences against cyclones that are a regular occurrence in this part of the world. We have fought off dengue fever and chikungunya. And, now we are busy preparing our defences against the dreaded Ebola. We escaped the geopolitical risks of war. But more than this, we have come through in pretty good shape from the global financial and economic crises of recent years. Hardly a month goes by without the country garnering some new accolades from the likes of the World Economic Forum, the Heritage Foundation, the Mo Ibrahim Foundation and so on. Well done Mauritius! Well done our policy-makers! Well done you economic operators! To say nothing of you bankers: well done bankers, indeed! We are sitting pretty, aren't we?

7. But, as we give ourselves a collective pat on the back, can we spare a thought to the risks to the future fortunes of this land? What steps are we taking to move towards a more inclusive society that leaves no-one behind? How far will our current plans and policies mitigate the worst economic and environmental ravages to come? How will they promote the job-rich and inclusive growth that the head of the IMF, Christine Lagarde, has recently been calling for?

8. So let me try my hand at prophesy. Did I hear a sharp intake of breath? I know that, sometimes, it is said, I have a slight streak of arrogance, though I trust not as much as the notorious Alfonso the Wise, King of Castile. Surveying the state of the world in 1252, he observed:

> *Had I been present at the Creation, I would have given some useful hints for the better ordering of the universe.*[3]

9. Let me polish up my crystal ball and look forward to 2035, as I once did to 2020, in the sadly defunct Ministry of Economic Planning and Development, our long-term think tank of times past. What do I see, twenty or so years ahead?

I see three major interrelated strands ahead:

- First, there will be an inescapable and massive transformation of all aspects of society, underpinned by inexorable globalisation.
- Second, this will be driven by transformational technologies, policy changes and international agreements. These will lead to greater availability and rapidly declining cost of communication, transport, health care, education and food.
- Third, I see a complete make-over of banking, business, industry and social life.

In short, in the next two decades to 2035, I see a substantial transformation of the world as we know it.

10. Think on it. How many of you here tonight, how many businesses that you run, will continue exactly as they are, or indeed survive twenty years? Not all: not many, I guess. So we must give a thought to our legacy. What will we leave behind? Prosperity? Or the decline and fall of the wannabe tiger of the Indian Ocean?

11. Global warming and sea level rise - that's firmly on the cards: but that's nothing compared to what else may be out there. For I see the driving forces of cheaper, faster and

more reliable transport and communication running rough-shod over our present amiable tranquillity, unless we act now.

Banking will be transformed:

- Mobile may become the main delivery channel for banking and payment services.
- We shall have bankless banking, no counters, no backrooms, no paper, no sky- high buildings.
- There will be more common currencies and digital currencies, with corresponding declines in fewer exchange transactions.
- In short banking will be cash-lite, with fewer staff, and still fewer bankers.

12. This is not a scenario of a distant future. Some of it is present reality. It is already happening. Just a couple of weeks ago, Lloyds Banking Group, a British bank announced plans to axe 9,000 jobs and close 200 branches as it "digitises" its business. Technology is already reaping barren harvest on jobs.

Beyond banking, business will be transformed:

- Not capital- or labour-intensive but knowledge-intensive.
- Big offices going: big companies gone.
- Weightless companies with minimal capital and staff.
- Malls will re-invent themselves, becoming more a gathering place for socialising than shopping.
- Shops going, internet sales with drop-off delivery.
- Private on-line matching of buyers and sellers of goods and services.
- More niche markets: applications markets, e-entrepreneurs.
- Computer-controlled, driverless, electric transport: the internal combustion engine is history.
- Pilotless drone airplanes, railways, shipping.
- New businesses become small, agile, short life-span, not butterflies but impalas with many predators.

Our life will be transformed:

- Towns and Cities turn into integrated regions. Beau Bassin runs into Rose Hill and runs into Quatre Bornes. The Port Louis/Curepipe corridor, energised by the Light Rail Transit Systems, spills over neighbouring agglomerations. The likes of Flacq in the east, Rose Belle in the south and Goodlands and Triolet in the north will blur the rural/urban divide. The country will be well on its way to become a city-state.
- Nation-states fading away with free movement of labour and capital.
- Laws harmonised, lawyers going.

Education transformed:

- Massive Open Online Courses: teachers redundant.
- Life-long learning becomes the norm.

But, despite this rosy scenario, there are also some ominous clouds on the horizon.

Without concerted action, the worse-case scenario is bleak:

- Massive unemployment and underemployment.
- Rising inequality: super-rich amidst a sea of poverty, and the collapse of the middle- and lower-middle class.
- Gated luxury estates: sprawling slums.
- Social unrest, strikes, crime increasing.
- Decline and fall of urban civilised life: extremist terrorist barbarians at the gates.

13. In case your worry levels are rising, let me hasten to add that this dystopian nightmare is not a fatality. It is certainly not beyond human ingenuity to envisage pre-emptive measures to temper the worst excesses that can push us in that direction. Tonight, I shall focus my remarks on inequality, not because I have a ready-made solution – nobody has – but to stimulate debate on what is often seen as a taboo subject in polite society.

Rising inequality is a time bomb ticking away across the world and indeed here in Mauritius

14. Growing inequality is rapidly developing into a fault line that we ignore at our peril. Last month, addressing a conference on *The Challenges of Job-Rich and Inclusive Growth* on the eve of the IMF-World Bank Annual Meetings, Christine Lagarde, the IMF Managing Director, echoed recent OXFAM research findings:[4]

> *…the world's richest 85 individuals control as much wealth as the world's poorest 3.5 billion people.*[5]

15. Thomas Piketty, in his massive tome, *Capital in the Twenty-First Century*[6], the 21st century sequel to Karl Marx's great work, adds to the large body of evidence on rising concentration of income and wealth. Piketty argues that generally wealth grows faster than economic output. Slower economic growth has increased the weight of wealth in society, leading to higher inequality, which could pose risks to economic and political stability. We are living in an increasingly divided world where many Africans risk their lives on shaky boats to escape poverty and conflict while the super-rich chase their next billion to improve their ranking in the *Forbes* list[7]. Even here in Mauritius, some of our top income-earners are being paid over two hundred times the wage of their office cleaners, and ten times more than the surgeons in our hospitals. Is that the society we want to perpetuate? Is that a society that is just and sustainable? The time bomb of growing inequality is ticking away.

16. We are a country trying hard to escape from the middle income trap. But we have no chance of doing that if we do not focus on the risks inherent in jobless growth, persistent high unemployment, and the widening divide between the haves and the have-nots.

17. Over the last decade, the Gini coefficient points to growing inequality, worsening from 0.371 in 2001/02 to 0.413 in 2012. Just over the last five years, households in relative poverty, defined as half the median household income per adult equivalent, increased from just below 8% of the total in 2006/07 to 9.4% in 2012. The distribution of income by quintile paints an even starker picture: the bottom 20% of households witnessed a fall in their share of total income of a full percentage point, from 6.4% in 2001/2 to 5.4% in 2012; this went hand-in-hand with a rise of more than three percentage points (3.4%) in the share of the topmost 20%, bringing it to 47.4%, not far from half the total income. Put differently, in still starker

terms, between 2001/2 and 2012, the richest 20% of Mauritian households enjoyed an eight per cent increase in their incomes while the poorest 20% suffered a steep decline of twice as much. And, again, the same question arises: is this our idea of a just society?

18. There is much talk of faster economic growth paving the way to a higher-income status for the country. There has been learned, if often uninformed, debate about giving a monetary stimulus to push growth from its current 3.5% to the 5% of pre-crisis years. There has been much less concern over the *quality* of growth. This is dangerous. In a small country, with a heritage of skewed asset ownership, such myopia can turn out to be very costly. A headlong rush for growth can be the royal road to social instability and economic breakdown. What we need above all is growth that provides for all, a decent house, quality education, health, transport, food, leisure and respite from debt.

19. Growth is good; sustainable growth is better; sustainable and inclusive growth is best of all – absolute nirvana. Is it attainable? Here in Mauritius, with our population of only 1.3 million, and a policy environment never trailing too far behind best practice, we could have a stab at it. This is not a goal too far – not for us who have made a habit of punching above our weight. But we must work for it and encourage our policy-makers to press ahead with the reform agenda. And, while they are fixing the policy environment, we must accelerate our corporate social responsibility (CSR) drive. Since January 2012, profitable companies have been required to pay 2% of their book profit into a CSR Fund to finance social and environmental activities. This is no doubt a good basis to build on. But isn't there a better way for corporates to carry and demonstrate their social responsibility?

20. Let us draw some inspiration from James Wolfensohn, former World Bank President. Ten years ago, at a function of the World Savings Bank Institute, he remarked:

> *…I want to salute these banks [WSBI's members] and encourage them to continue in their theme of a double bottom line: to think not just of profit, but to think also of social responsibility which savings banks carry so well.*[8]

21. Double bottom line reporting seeks to extend the conventional bottom line, measuring financial profit or loss, with which we are all familiar, by adding a *second* bottom line to measure their performance in terms of positive social impact. Indeed, to address our sustainability concerns, so well encapsulated in the overarching *Maurice Ile Durable*[9] concept, we can go one better and embrace triple bottom line reporting. This will include the valuation and protection of the rich resources of our beautiful natural environment.

22. Laying down more concrete, like guzzling fuel in traffic jams, increases our GDP; protecting our social and physical environment is better captured by the double and triple bottom lines in quality accounting. Rising inequality worldwide, and here in Mauritius, raises key issues on the role of monetary policy and its redistributive role. We need bold policies to reverse inequality.

Planning ahead

23. So what are we to do? We certainly can't ignore these threats which are already upon us. How best to wage war against poverty and inequality? As I cast about for possible answers, I am reminded of US President Eisenhower, who was a much-decorated US General and who knew a thing or two about wars. He declared:

In preparing for battle I have always found that plans are useless, but planning indispensable.[10]

24. I agree with Ike that we must have a battle plan. We must put our minds to the task of planning for both resilience and inclusive and sustainable growth, and audit the results on the triple bottom line. I can only reiterate my forlorn call for a strong and well-resourced strategic planning capacity at the heart of the policy-making establishment. For me there are seven essentials.

First, become a learning country, not just adapting to change, but anticipating it, and thriving on it;
Second, harness knowledge transfer, learning, and investment whether foreign or domestic, to increase our productive potential;
Third, ensure life cycle education for all, as we adapt and re-adapt to a rapidly-changing environment;
Fourth, transform our universities into centres for R&D and innovation, and put undergraduate teaching online;
Fifth, attract and retain our best talents offering international rates for the job, for them and for our migrant diaspora;
Sixth, build a strong targeted social safety net, with business incubators, incentives for start-ups and skills development;
Seventh, shift the employer of last resort from the public to the private sector, and harness technology for your business and for national welfare.

25. Christine Lagarde at the IMF has called for more targeted subsidies and welfare schemes, with the savings put into education, training and improved infrastructure. There is one thing that we definitely must *not* do: and that is to increase the fiscal burden. We must obviously redouble efforts to extract greater efficiency from all public expenditure, whether recurrent or capital.

26. At this stage of the development of our country, the best contribution that the Central Bank can make is to keep inflation low, stable, and predictable as the foundation for a fairer and more equal society. Inflation is the worst form of taxation. It is regressive and enemy of the poor. Price stability promotes inclusive as well as sustainable growth. Exchange rate stability operates through the import channel to support price stability. Regular calls for what is euphemistically called "a competitive rupee" are an invitation to depreciate the currency. It is difficult to see how an unequal society, with an import-dependent economy, can depreciate its way to development.

27. The Central Bank is rightly concerned with the distributional effects of monetary policy. Borrowers have been subsidized for too long by savers. Savers have responded to persistent low interest rates by halving the savings effort over the last two decades. In parallel, low interest rates have boosted the wealth of asset holders and increased inequality. As the US ends Quantitative Easing and normalises interest rates, we must prepare for greater currency volatility and changing market sentiment. The Central Bank will have its hands full in combating these pressures to ensure continued stability. We must always bear in mind that price stability and exchange rate stability engender social stability – and that is the public good we should all be working for.

The end

28. Without foresight, and concerted action now, we will leave a poor legacy for our children to live in a socially and environmentally degraded and deeply divided society. Change we must. For as the political philosopher Edmond Burke once declared:

> *A state without the means of change is without the means of its conservation.*[11]

We should all be in the business of change. Change for the better is the order of the day.

29. After these weighty ponderings, let us turn to lighter things for a change. As we prepare to tuck into the delightful fare awaiting us, may I invite your attention to the **First Law of Dietetics**, as proclaimed by best-selling science-fiction writer and noted biochemist, Isaac Asimov[12]. When I tell you what this law says, you will understand why it must be taken with a pinch of salt, preferably a large one:

> *If it tastes good, it's bad for you.*

Salt or no salt, this **First Law of Dietetics** is suspended tonight. Dinner will be served and I prophesy it will be good, and taste good too.

Thank you!

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[1] George Bernard Shaw (1907), *Major Barbara*, Act 3: See: http://glopad.org//pi/en/record/prodiction/738
[2] Reported in National Archives of number 10 Downing Street.
[3] Alfonso the wise (1221-1284), On studying the Ptolemaic system of the Universe, Gingerich, Owen (1990), "Alfonso the Tenth as a Patron of Astronomy", in Marquez-Villanueva, Francisco; Vega, Carlos Alberto, *Alfonso X of Castile: The Learned King (1221-1284): An International Symposium, Harvard University*, pp.30-45.
[4] Oxfam (2014), *Still the lucky country? The growing gap between rich and poor is a gaping hole in the G20 agenda:* https://www.oxfam.org.au/wp-content/uploads/2014/06/2014-66-g20-report_fa_web-2.pdf.
[5] Christine Lagarde (2014), *Challenges of Job-rich inclusive growth*, http://www.imf.org/external/np/speeches/2014/100814.htm
[6] Thomas Piketty (2014), *Capital in the Twenty-first Century*, translated by Arthur Goldhammer, Harvard University Press, http://piketty.pse.ens.fr/en/
[7] The Forbes list: http://www.forbes.com/site/luisakroll/2014/03/03/inside-the-2014-forbes-billionaires-list-facts-and-figures/
[8] http://www.savings-banks.com//SiteCollectionDocuments/Perspectives%2052.pdf, downloaded on 31 October 2014.
[9] http://sustainabledevelopment.un.org/content/documents/4074durable.pdf
[10] Dwight D Eisenhower, US General and US President, 1953-1961.
[11] Edmund Burke, Reflections on the Revolution in France.
[12] Isaac Asimov (1994), *A memoir*, published posthumously by New York, Doubleday.