



Free Market Roadshow

The intellectual revolution

May 2017

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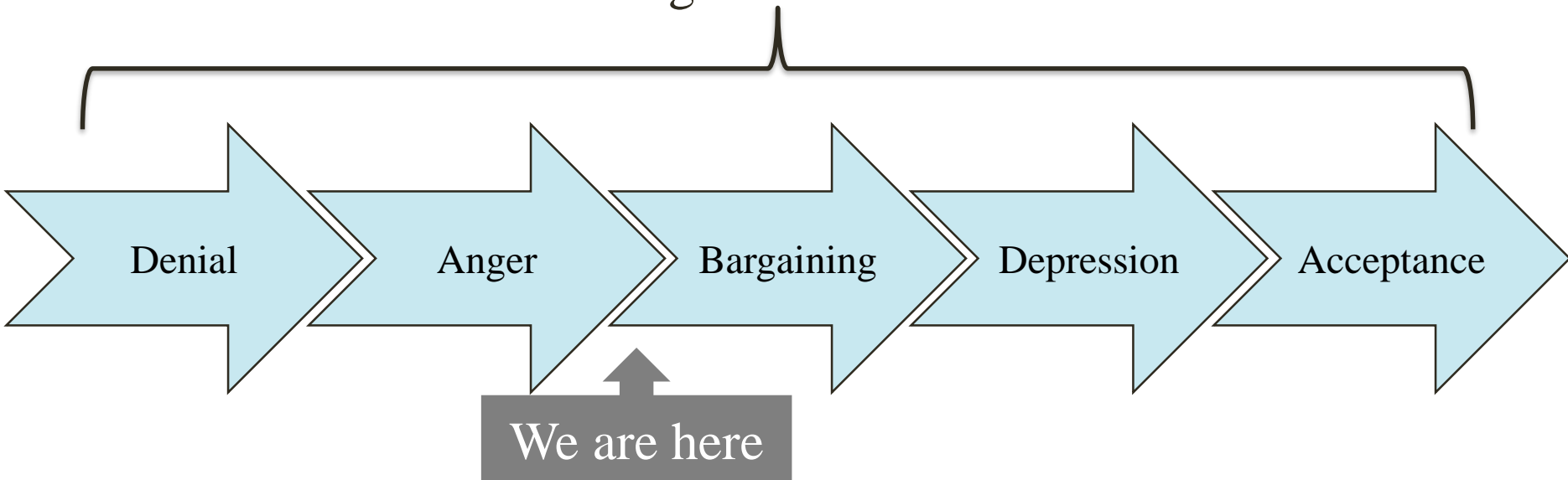
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Brexit: a quick word on progress

- Brexit remains a central electoral issue (“hard” or “soft”)
- Psychological reaction of leaders and populaces similar to Swiss psychiatrist Elizabeth Kübler-Ross’s model explaining stages of grief
- Two key factors:
 - People take time to come to terms with significant change
 - Those most effected (e.g. British) will come to terms with the change first

How long? Months? Years?



Whither Globalisation?

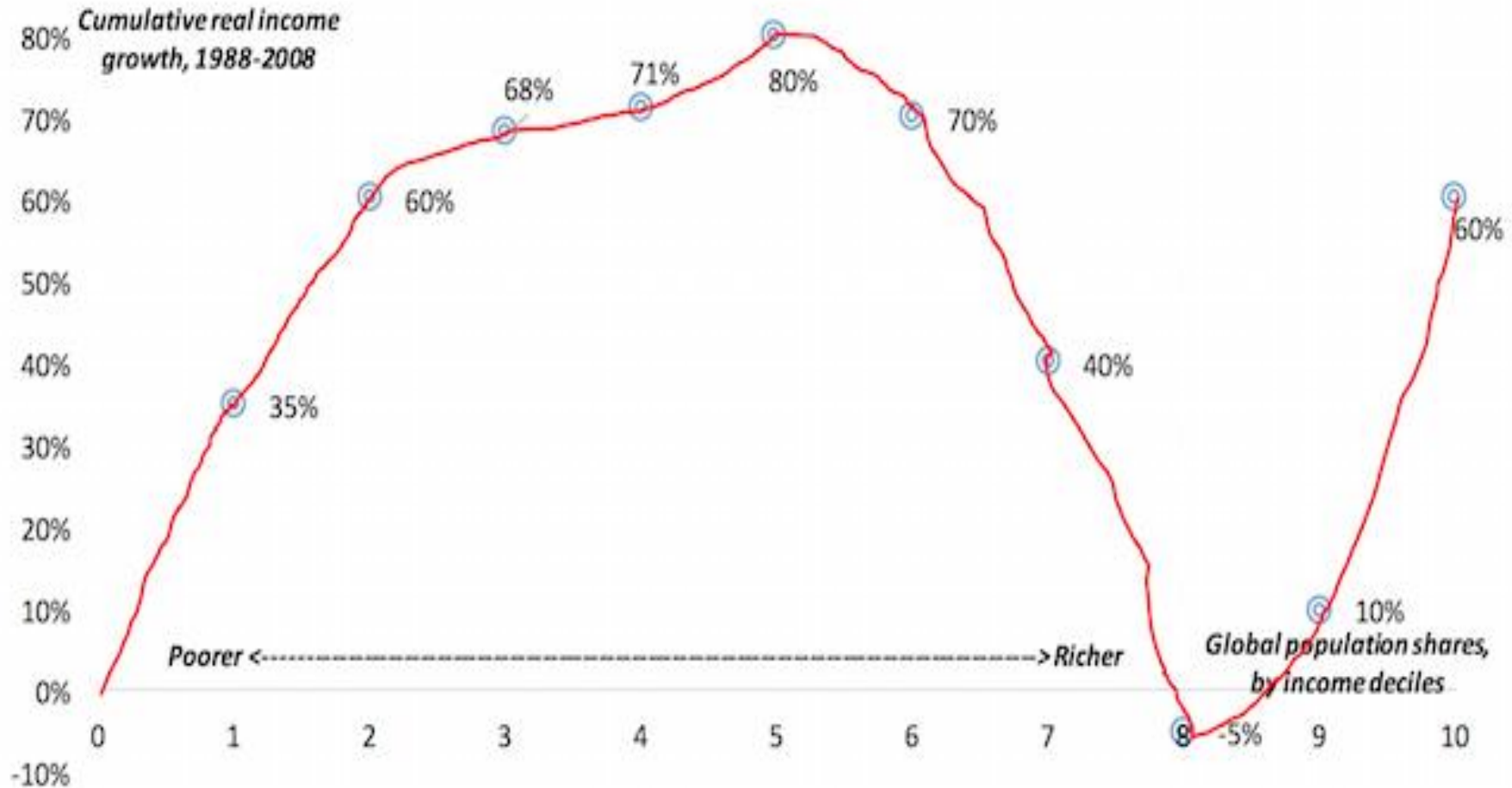
Factors that suggest that globalisation will continue:

- More countries are attaining middle-income status and increased productivity
- The internet makes it easier to trade across borders and also more people are learning the global language, English
- Social and commercial networks are increasingly global rather than local or national
- Trade in natural resources is rising given the materials-intensive nature of most emerging economies

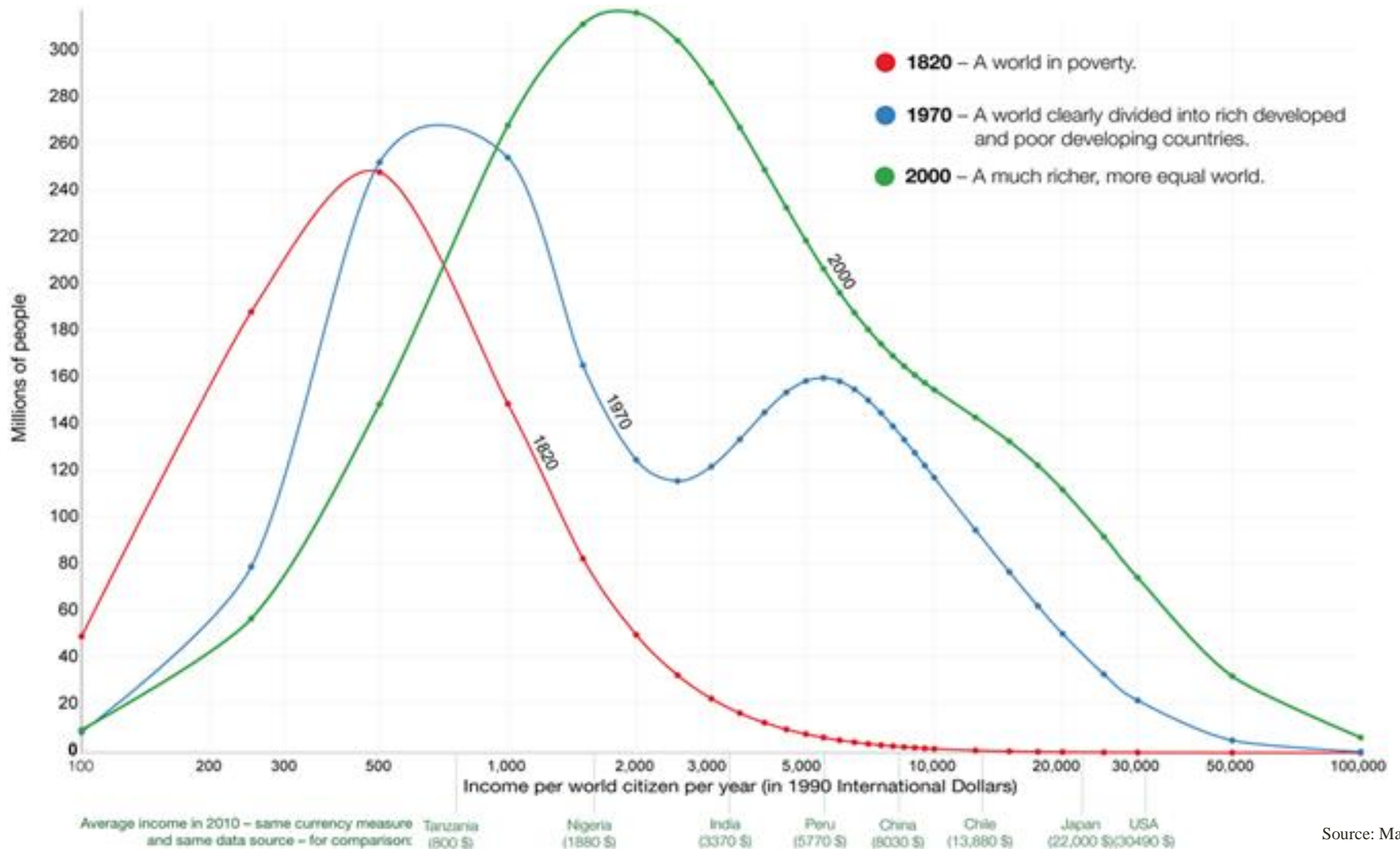
Factors suggesting that globalisation has peaked :

- Services drive GDP, but they are harder to trade
- China's economy will become less resource-intensive. More generally, the rise of China will not continue at its previous pace
- There has been a lot of wage equalization across borders, and that limits future gains from additional cross-border trade
- Robots and smart software lower the returns of investing in and trading with lower-wage nations
- The next 20 years may not be as peaceful as the past 20 years.

Global income growth



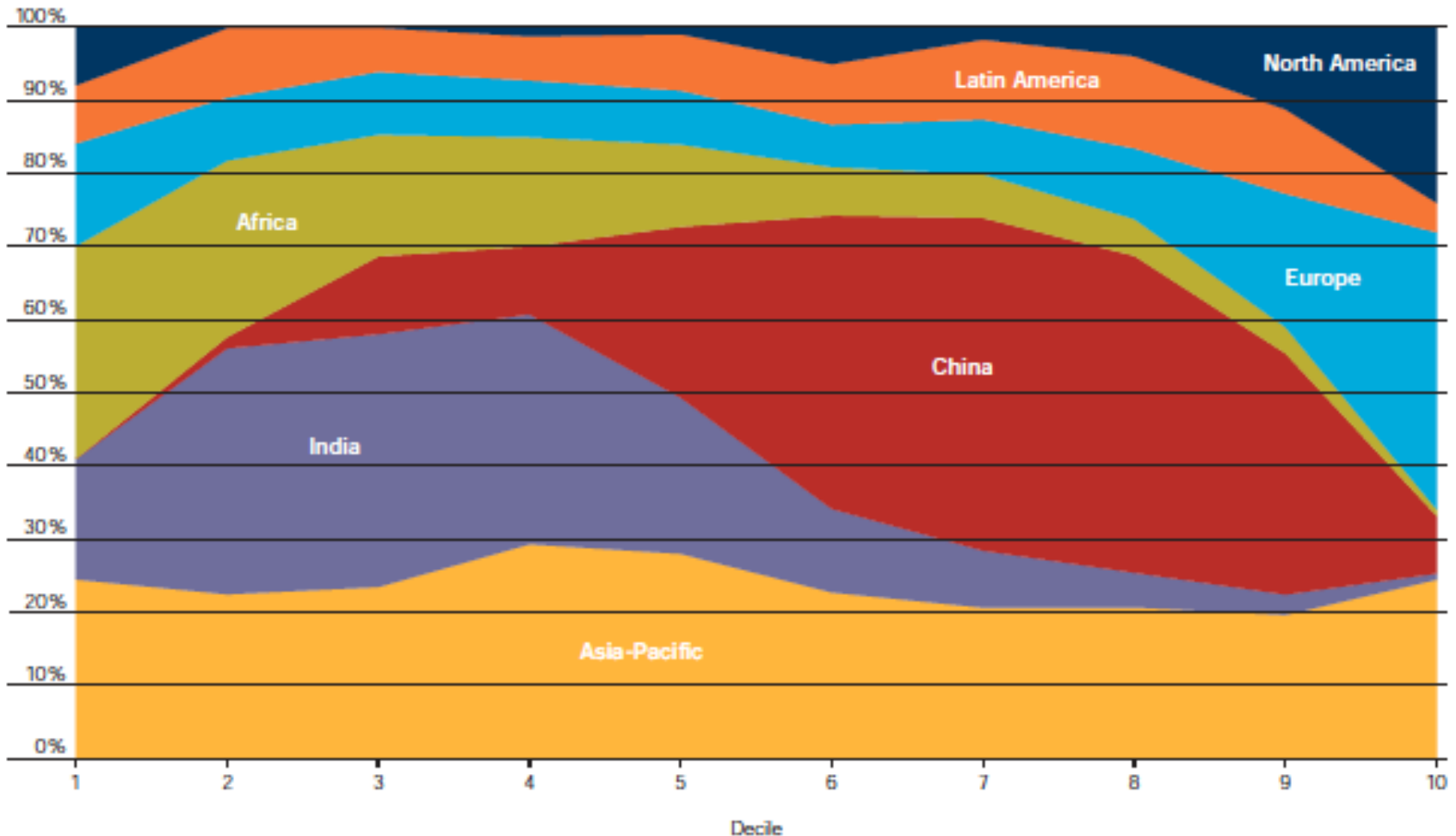
Global Income Distribution



Global wealth distribution

Regional composition of global wealth distribution 2013

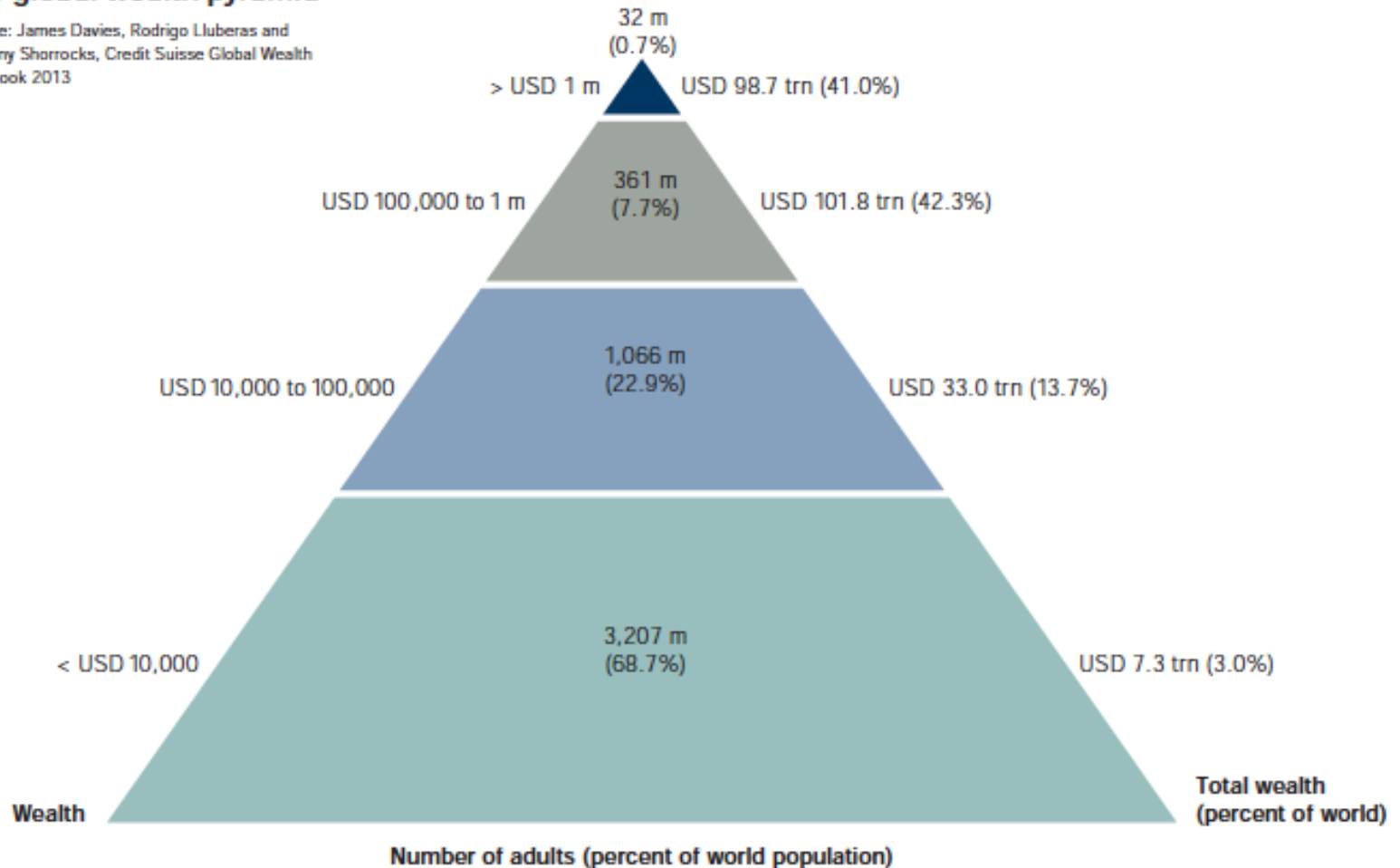
Source: James Davies, Rodrigo Liuberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2013



Global population and wealth distribution

The global wealth pyramid

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2013



Pressures on development

Macro Economic Pressure

- Recovery progressing, but dangerous disruptions still loom
- Tax yields have peaked
- Monetary policy remains emasculated

Political Pressure

- Tactical populism tempts
- Change and a re-ordering of priorities will be resisted
- Politicians face trust issues

Consumer Pressure

- Consumers show little or no loyalty
- More product for less money is the expected normal
- Many businesses face consumer trust issue

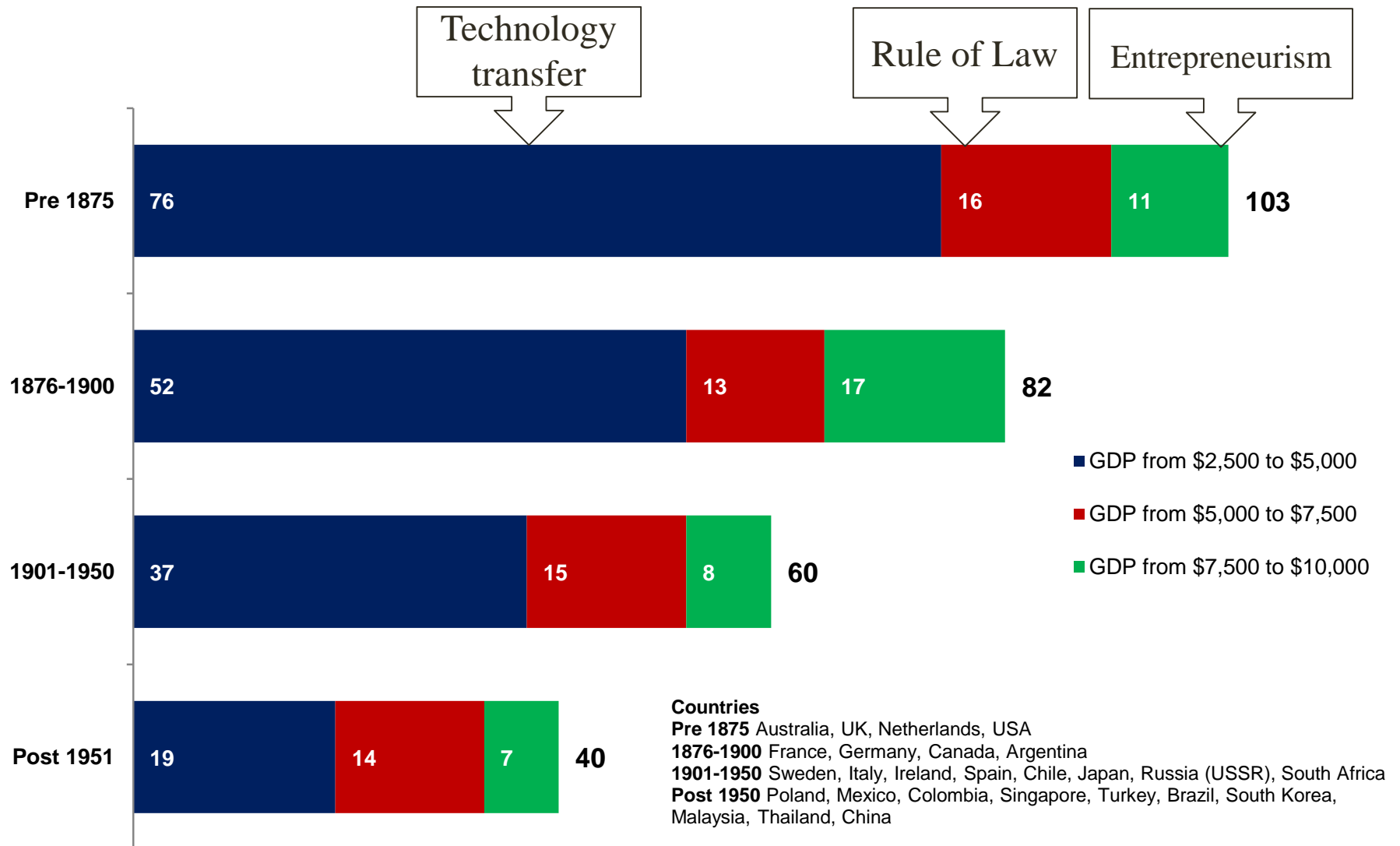
New Technology Pressure

- New tech allow for lower cost production and distribution
- Analytics necessary to remain relevant
- Commoditising market clash with need to invest to compete

Future Trends

- Premium on Agility
- Business will lead politics
- Technology needs fertile ground to flourish

Development dynamics: *Time to Increase GDP*



Stages of Economic Development

GDP/Head of ~\$7500

Intellectual Development

- Local value added goods and services are brought to market
- Tech development in domestic market
- Fading dependence on FDI, domestic demand is increasingly sophisticated

GDP/Head of ~\$2500

Secure Property Rights

- Politicians are brought fully under the law
- Secure property rights allow for development of domestic business base
- Basic components & services supplied locally

Low Cost Labour

- Business friendly government encourages Multi National Corp (MNC) investment
- MNC's seeks to lower costs of commoditised products and services
- Intellectual capital transfer is low
- MNC's can cope with uncertainty/SME can not

Economic Building Blocks

Evidence suggests that economic growth depends upon the following factors:

Independent legal system and secure property rights

- Arbitrary/insecure property rights are an effective disincentive to foreign and domestic investment
- Effective property rights diffuse power to broad range of populace and constrain arbitrary government

Scientific Rationalism

- Ideas must be freely debated and development depends upon commercialisation of ideas

Efficient Capital Markets

- Efficient allocation of money allows mature business to scale operations or entrepreneurs to establish new companies
- Effective banking encourages accumulation savings; gives necessary assurance to attract portfolio capital and confidence to attract Foreign Direct Investment

Fast Communications and Transportation

- Products must be rapidly and cheaply transported to consumers
- Communications – now becoming an assumed under any scenario
 - allows for the marriage of leading edge processes with low cost work forces
 - makes uneconomic controls more difficult to enforce

Development: Differing Paths

Patchy Development

- India – simultaneous development and stagnation (permit raj dominates old economy, while new economy surges ahead)
- New industries are key to development, reaching the areas bureaucracy has not reached

Pimpernel Development

- Japan – see it here, see it there, now its gone!
- Widespread development is hindered by macro economic failure

Phantom Development

- China - confusing cost competitive with development
- Economies which have reach the second stage GDP) where growth depends upon more than cost competitiveness

Piranesi Development

- Italy – wide scale development long gone, but what remains is comfortable
- Vested interests in a society become too powerful to overcome, with the result that development becomes intermittent and reduced to minor industries

New path to development: *The Intellectual Revolution*

More Informed

Number of books published
has risen from 100k p.a. in
1945 to 700k p.a. in 2000

More Educated

Number of Europeans with
tertiary education doubled
from 18% to 38% between
1995 and 2012.

More data

Capacity to store information
has grown by over 10X since
1986 and ability to
communicate it has grown by
over 250X

Historic economic development

Agrarian

- Small elite – aristocratic or quasi-aristocratic
- Economic advancement for great majority was slow or non-existent
- Periodic famine
- Key: land

From
1830's

Industrial

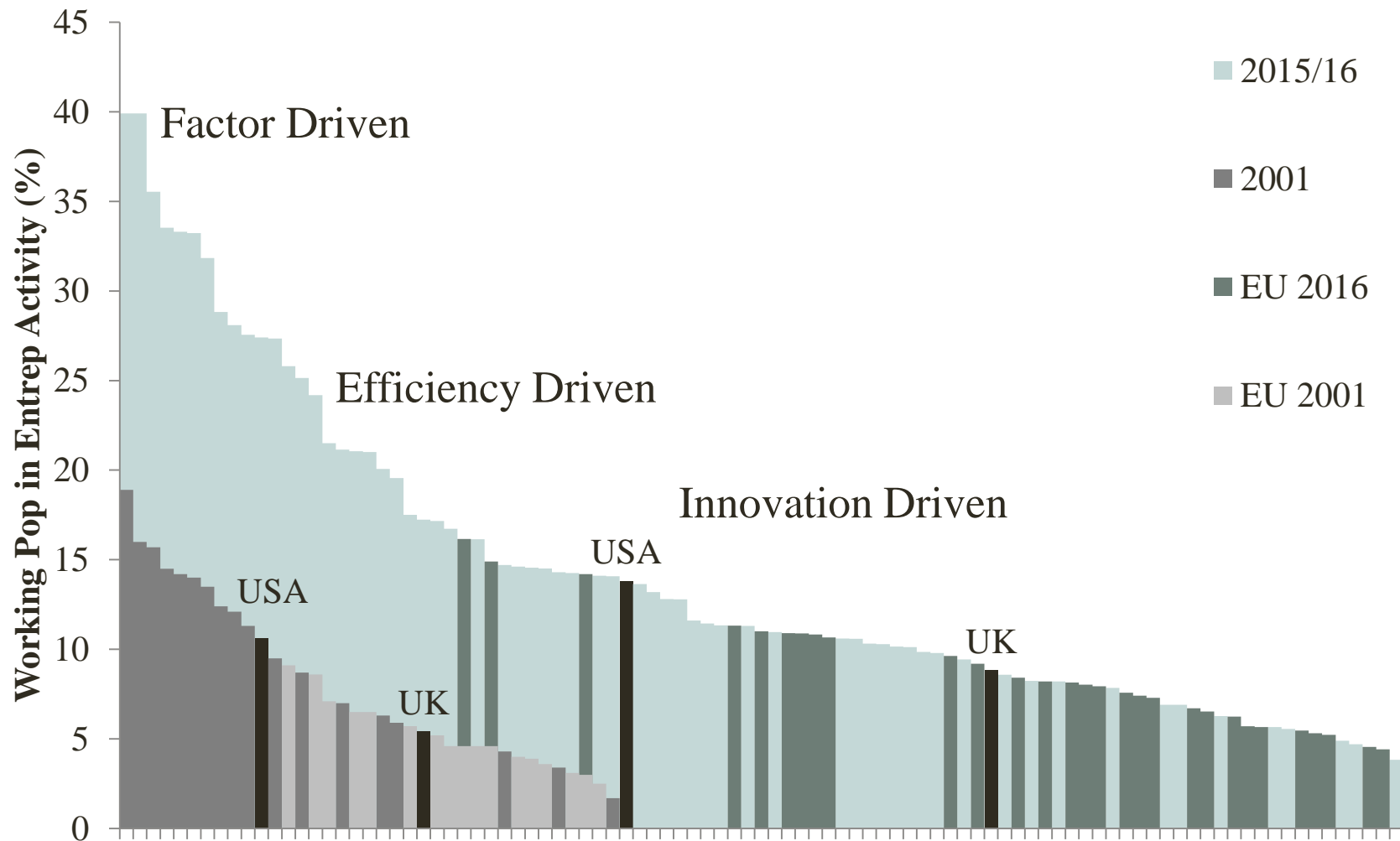
- Expanding elite, rapidly growing middle class
- Time to double GDP fell from 76 years (UK) to 52 years (Germany)
- Energy is critical to economic advancement
- Key: capital

From
1980's

Intellectual

- Open but self selecting elite
- Economic advancement can be rapid, but not guaranteed
- Technology allows rapid diffusion of info
- Key: intellectual ability

Explosion of Entrepreneurship

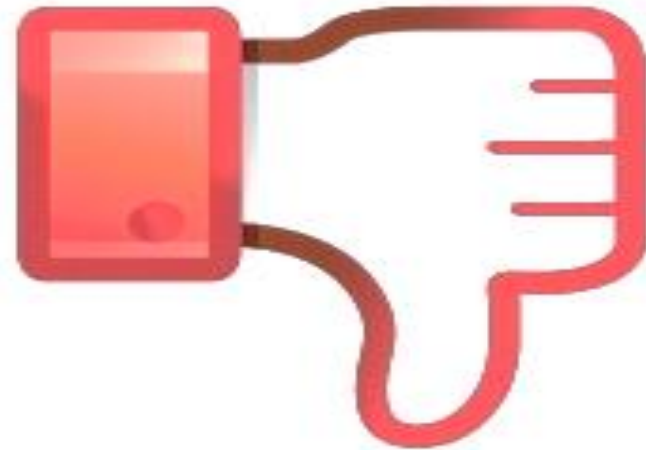


Intellectual Revolution: Do's and Don'ts



DO:

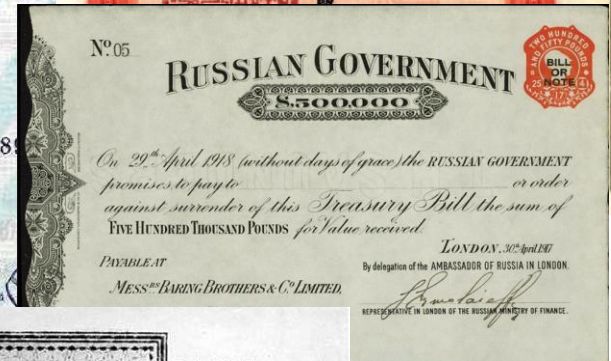
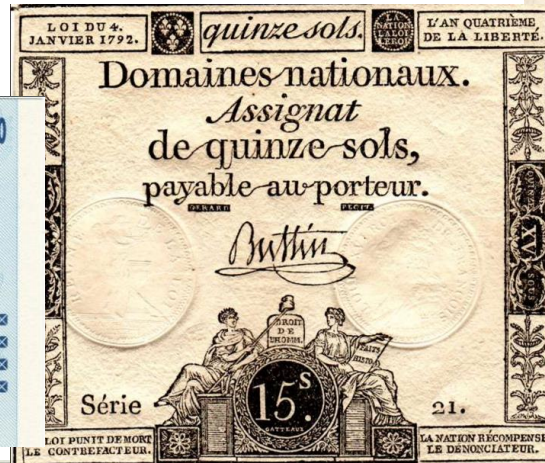
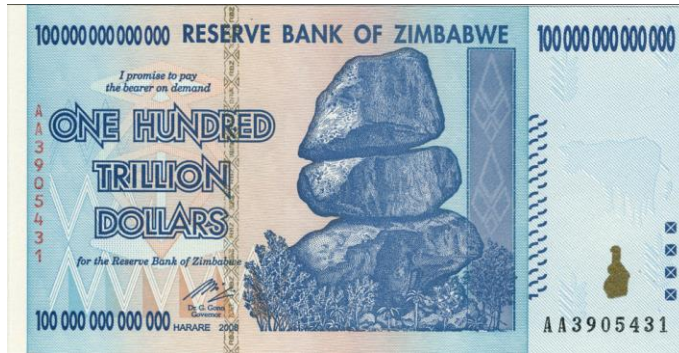
- Have a clear rule of law
- Encourage sympathetic ecosystem of services
- Provide core infrastructure
- Make it easy to fail and try again



DON'T:

- Drive away entrepreneurs
- Make it impossible to move between firms
- Tax away investment capital
- Have a vision of how the future must look
- Stoke envy

In government we trust?



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Milliarden

Questions

