



ALPHACHATTERBOX: CHARLES KENNY

[Cardiff Garcia] First of all, thanks for talking to us.

[Charles Kenny] Thank you very much for having me.

[Cardiff Garcia] I have to say when I read *The Upside of Down*, I felt a lot better, yes. The book seems calibrated to try to get people to look beyond all the current anxieties, and there are a lot of them: the rise of nativist and isolationist political parties in Europe, the surprising success of some presidential candidates in the US.

The book seems intended to get people to see the possibilities that are presented by further, deeper integration with the rest of the world rather than closing ourselves off. My first question is about motivation: how did you arrive at this as a topic of study, and how did you arrive at your thesis for the book?

[Charles Kenny] I'm a development economist by training, and I spend most of my time thinking about the developing world and how it's doing, and I am, broadly, very optimistic about the developing world. There's still a lot of misery, don't get me wrong - there are 7 million kids, about, every year dying below the age of five, mostly from easily preventable conditions, for example - but there's a huge amount of progress.

There are 7 million fewer kids dying under the age of five now than there were in 1990, 7 million sets of parents not going through the misery of losing their child every year. And that's just one of a lot of signs. There's a growing income, growing education, growing civil rights and so on and so forth.

Yes, I live in the West; I was born and bred in Britain and now I live in the United States, and in both countries there's a fair amount of misery about the future. Indeed, a recent poll came out saying that 3% of British people think that the world is getting better; it's about 5% in America; that's 95%, 97% saying things are either the same or getting worse worldwide. I think that reflects a real pessimism about future at home, it reflects a lot of people in the States and in Britain saying, our kids are going to be poorer than we are, it's all going to hell.

And there are reasons for concern, but I actually think there are a lot of reasons to be optimistic about the future. And so I wanted to take what I'd learnt from what's going on in

the developing world and say, one of the reasons to have hope here at home, one of the reasons to be not so miserable about the future is the rest of the world getting richer.

[Cardiff Garcia] At the beginning of the book you list four assumptions that too often go unquestioned and that you think are responsible for some of that pessimism.

One is that the West is to blame for its relative decline, because it's not in absolute decline, but for its relative decline, relative being to the rest of the world and the developing world, in particular, emerging market.

The second assumption is that being bigger, so the biggest economy, the biggest military, etc, etc, is always better.

The third assumption is that the rise of the rest, the rise of all these emerging economies is bad for us in the developed world.

And then the final assumption is that Fortress America, as you called it, or, I guess, the less colloquial term would be isolationist policies, is our best hope to prevent this continued decline. I want to just ask you to take us through those. Also, what do you think accounts for the fear that each of these assumptions represents?

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[Charles Kenny] To start with whose fault is this, is it America doing something wrong, or is it the rest of the world doing something wrong, America surely is doing some things wrong. It's not investing enough in infrastructure, which is crumbling. It's doing all right in education, but could do a lot better. Its social safety net is a mess. Spending is going to the wrong things; personally, I think we're spending far too much on defence, for example.

That said, the reason that China is probably the largest economy, in purchasing power parity terms, these days is not because United States has been growing 0.5% slower than it was ten years ago. It's because China's been growing at 8%, 9%, recently a bit less than that, but still a heck of a lot faster than the United States.

It's that the rest of the world is doing something right; they're growing, they're getting more educated, they're getting more healthy. And so we should stop blaming ourselves for the fact that China and India and Africa are growing economies and therefore we are a smaller percentage of the world economy. It's not our fault.

I think what's behind that fear is simple narcissism: of course, it's our fault; everything's about us, so if something's going wrong, it must be about us. I don't think we need to explore that one too deeply. It's just a more convenient thing to believe, in many ways, especially if you're a politician trying to get elected, blaming whoever's in power at the moment is a useful thing to do.

So the idea that biggest is best, in some ways of course biggest is best – we all like more of stuff, so more must be better - there's something to that. That said, Luxembourg is

considerably smaller than the United States; I think it's about the size of Delaware in terms of economy. It's a lot richer than the United States, it has longer life expectancy than the United States, it has far fewer people living below any particular poverty line you want to choose.

It's just, in many ways, quality of life is better there than the United States. It's the size of Delaware, it's teeny! So being the biggest economy doesn't mean you're the best. And we know that from Britain's history, for example. Britain used to rule a worldwide empire, used to be the largest economy. Now it's not.

If you look at any measure of the quality of life in Britain now that it's not the largest economy, it's way better than it was when it was the largest economy, again, life expectancy, education, civil and political rights, beer consumption. Name your measure of the quality of life – it's better in Britain now.

Now, it's nice in some ways to be top dog, especially being President Obama, when you walk into a room of global leaders, they all want to talk to him, because he's the head of the biggest.

So I get there's a pleasure to that, and especially if you happen to be president of the United States, it's probably a quite nice thing. Most of us aren't president of the United States. For most of us, it shouldn't matter nearly as much as it does. What's behind the idea? Pride, I guess, but it's a silly kind of pride.

[Cardiff Garcia] It's an easy scapegoat that if we have some domestic problems, it's a more useful political slogan to say it's somebody else's fault, not our fault.

[Charles Kenny] Make America Great Again seems to be an idea that has some currency, so maybe it's that. Now, blanking on Number Three...

[Cardiff Garcia] Number Three was that the rise of the rest is necessarily bad for those of us in the developing world. That was actually a bad opening question on my part.

[Laughing] It's my fault.

[Charles Kenny] [Laughing] I should remember what I wrote! The idea that the rise of the rest is bad for the West, now, there are some finite resources in the world and, in particular, a finite amount of carbon dioxide we can put into the atmosphere without there being troubles.

It's not that there is nothing bad about the economic growth in the rest of the world for United States and Europe. We do have to take collective action on climate change, for example.

That said, in almost every way it's fantastic that the rest is getting richer. Most US exports nowadays go to developing countries. That wouldn't be true if developing countries had the same size economy they had 20, 30 years ago. They just wouldn't be buying that much from us.

A richer rest-of-the-world is a more peaceful rest-of-the-world; it is a rest-of-the-world which we can invest in and trade with; it is a rest-of-the-world that we can go and visit and have more comfortable holidays in or retire, if we wanted to go and live somewhere with nice, warm beaches. It's a fantastic opportunity for the US and Europe that the rest of the world is getting richer.

I think behind that fear is a zero sum idea that if they're getting richer, we must be getting poorer. This is obviously silly, because in 1820 the whole world economy was smaller than the economy of South Korea today.

Clearly, there isn't a maximum size of the economy, a cake with a set size that we need to apportion out. The cake can grow, the cake grows very dramatically.

It's not to say there haven't been trade-offs, and I think it is important to recognise that China's manufacturing explosion, for example, which is behind the fastest-ever decline in poverty we've seen anywhere in the world ever before. That explosion in manufacturing did wonders for China; it did do real harm, I think, to millions of Americans who lost their jobs. That wasn't necessary.

That's the way it played out because of a faulty system in the US of dealing with economic change of that kind. It was a benefit to the vast majority of Americans who got cheaper goods, and cheaper goods mean more employment elsewhere in the economy. So it was a net plus to the United States in huge terms. It was a big negative to a small minority; as I say, unnecessarily so, but it was a big loss to them.

On the basis of these real and sad people who have suffered from globalisation, I think we built a story of zero sum globalisation, but it's just so far from zero sum. It's such an overall positive thing that it is really sad that we've taken these few cases and rather than trying to fix the problem and give these people opportunities to get jobs in other places and so on, we've said, no, no, it's about the fact there's a zero sum going on here and the only thing to do is Fortress America, the fourth element of the story, which is the response, the only decent response, is to cut off trade ties, cut off investment, close the borders to migration.

That is no surety of anything. United States is already so knit into the global economy and Europe even more so, that the idea that retreating behind trade barriers would do anything than be even worse than what we saw in the 1920s and 30s, when we retreated behind trade barriers, is ludicrous. We'd lose millions of jobs, many millions of jobs.

If we stop the migrants coming across the border – sadly, they've pretty much stopped on their own; we're now seeing net migration to Mexico, for example, out of United States – if we close the borders, agriculture in this country would grind to a screaming halt, we'd see a whole load of parents of two-earner families, their costs of childcare would shoot up and they would face painful choices left or right: does one parent give up their job to look after the kids because they can't afford the childcare, but then they're going to lose that income? What do they do?

Do they put their kids in really substandard that's cheaper because it's all that they can afford? It would have a hideous impact. Going to the restaurant would become a lot more expensive. The number of different ways this would be really bad for the quality of life of Americans and Europeans is immense.

Fortress America is just a terrible response to the problems we face, which should be much more about embracing globalisation and dealing better with the changes which are not going to be positive for everybody, but dealing better with those changes as they emerge.

[Cardiff Garcia] I think that's a great, broad and sweeping overview of the book's main thesis, so let's take in a few details now. I want to review one quote from the book and then just ask you to take us through what this means.

Here's the quote; you write: the world is returning to an era when economic dominance is largely a function of population, the default state for humanity for most of history, barring the industrial revolution. So in one sense, at least, we are going back to an economic dynamic that existed before the industrial revolution.

Can you explain what you meant by that?

[Charles Kenny] Before the industrial revolution, everywhere was poor, and so, basically, as everybody was about equally poor, the number of people you had determined the size of your economy.

China had the biggest world economy because it had the most people in it. Then we had the industrial revolution, and some places, suddenly lots of people became a lot richer. At that point, those places, even if they didn't have as many people, because each person was producing a lot more and the output was much bigger, they became the largest economy.

The United States, for most of the period since the industrial revolution, has been the world's largest economy, not because it had the most people but because each person was producing enough that even though there were a lot more people in China, the United States produced a lot more.

Now, happily, thankfully, we're seeing the poor places, the places that, in many cases, were as poor as they were before the industrial revolution or, indeed, at the time that Caesar was invading Gaul, we're seeing those places finally start to catch up. We're seeing Africa start to catch up; we've seen China catch up for the last 30 years. So incomes between rich and poor are becoming more similar again.

We've gone from a world where everybody's poor; we're heading towards a world, I hope, where everybody's rich. At that point, when everybody's the same again - rather than everybody being poor, everybody rich - once again, the thing that will determine the size of your economy is the number of people that you have.

[Cardiff Garcia] On immigration, let's dive into that a little bit more, so in the US at least the contentious part of the debate is all about low-skilled immigration. Most people would

grant that high-skilled immigration is a wonderful and useful thing, and it's easy to point to famous names in Silicon Valley or elsewhere, famous immigrants who started companies and came up with new innovations. With respect to low-skilled immigration, the fear is that these immigrants are depressing wages of Americans and of immigrants that came before the latest wave.

That, I think, has been a harder fear to dismiss, to alleviate. So you brought up the idea of childcare; there is this great fact in your book that says foreign-born nurses are now 20% of the US licenser exam to become a nurse here in the US, so there was the issue of healthcare.

Can you talk a little bit more about the benefits of low-skilled immigration, in particular, and also how we can reform the immigration system to accommodate them and to sort of reap the gains while also doing something about the possibility, if it's true, that native-born Americans and other recent immigrants end up having their wages depressed and maybe they lose jobs in some cases as well?

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[Charles Kenny] I do think the strongest case for a negative effect of immigration is, as you suggest, on immigrants who came just before. I will say if you poll immigrants and ask them, do you think we should close the border just behind you, they'll say, no, no, we'd rather have more immigrants. So the people who there's the strongest case for suffering economic hardship, they say, no, no, keep the gates open.

The case for low-skilled native workers, I think is much weaker, and it's partially much because low-skilled native workers are simply not taking the jobs that low-skilled migrants tend to fill.

My colleague, Michael Clemens, has done a lovely piece of work looking at agriculture, in particular, and looking at attempts to get low-skilled US workers to take jobs in agriculture, in picking fruit. Despite best efforts, low-skilled native American workers don't want those jobs. They're very, very hard jobs. I wouldn't want those jobs either.

[Cardiff Garcia] The sceptics, though, might respond that, well, then those employers can raise wages and then they'll find people willing to take the work.

[Charles Kenny] They can't, because, of course, food is a global commodity and if they raised their pay levels too much, their fruit becomes too expensive and nobody would buy it, so that isn't really a response. They have been, increasingly, turning to robots as the answer. That doesn't help workers here or abroad directly.

I'm not being a Luddite here, but it's not a way that's creating jobs for natives. If you will, the order seems to go: rather have a low-wage immigrant; if you can't have a low-wage immigrant, I'll take a robot; if I can't have a robot, then maybe I'll desperately try and find a native worker.

[Cardiff Garcia] Or I'll grow the food somewhere else, in another country.

[Charles Kenny] Correct, and that seems to be the decision that they take. So bringing in low-skilled migrants, as a rule, is not competing with the low-skilled native population. Now, obviously there's a limit to which that can be true. At some point, if you let in enough migrants, surely they will start competing with low-skilled local workers. It could well be true.

We are so far from that being the level of migration we're seeing that empirically, as a matter of practice, we just don't know if it's true. Come back to me when we start allowing a whole load more low-skilled workers, and then maybe then we can talk about whether there really is this effect, more broadly, at some point.

But it's hard to see in countries in the Middle East that are taking in millions of Syrian refugees, it's hard to see an impact on local labour wage rates there. And that's in much smaller countries who are taking in millions of immigrants, so if it's not happening terribly clearly there, we are so far away from that problem in the United States that it really is a theoretical problem rather than a practical problem, I'd say.

[Cardiff Garcia] Yes, there was another intriguing passage in your book where you say that there's a big fear that the US would be swamped with migrants if it were to open the doors a little bit more widely, partly because the US is usually listed as the most attractive place for potential immigrants to move to in all these surveys.

But you actually make the case that not everybody who says they'd love to move here would necessarily make the trip, even if it were a legitimate option. I really like this. Can you tell us how we know that?

[Charles Kenny] There are surveys around the world asking people, if you could migrate, would you migrate, and where would you migrate to? I think it is a sign of the smarts of potential migrants, a lot of them choose the United States; it is the common answer. I think it's about 160 million people worldwide, is the rough estimate of how many would move, so they say, if they could move.

A small fraction of that number actually bothers to do anything about it. So one thing they could do is... there is a US visa lottery that randomly selects a fixed number of people each year to come to the United States. Now, admittedly, it's a pain to apply; you have to turn up to the embassy, not least, and your chances of winning are fairly small. Enough people want to move to this country, and the limits on the numbers are so small, that your chance of winning is a percentage point, maybe more, maybe less than that, but in that neck of the woods.

It's not a completely fair measure, but the fact of the matter is that of all these people who say they would move, lots don't seem to be making any effort to do so. So the idea that we'd be swamped is going too far.

Now, I suppose that depends a bit on your definition of swamped. There are various leaders in Europe at the moment saying they are swamped by the number of refugees coming from

the Syrian conflict. I would argue, in economic terms, that they are swamped. In political terms, they may well feel swamped, that it's becoming an urgent political issue, but I don't think that's because the economy can't respond; I think that's because of people being very up in arms about this issue for non-economic reasons.

[Cardiff Garcia] I was also just interested by your point that for a lot of these jobs, if an immigrant isn't available to take it, the company would have outsourced it anyway, that the company would have just set up shop in another country instead. I thought that was one of the more convincing parts of that particular part of your book.

I also want to ask you a last question on immigration: you endorse an idea that was originally proposed by Gary Becker, a famous University of Chicago economist, of an entry fee, and that this would be a way both of letting in more immigrants and also of alleviating the fear that if more immigrants come there'll be a huge tax on our fiscal ability to accommodate them.

Take us through the benefits of this kind of a system.

[Charles Kenny] First of all, it's important to recognise that letting in more immigrants is not, as far as we can tell, much of a fiscal tax at all. They pay taxes, they tend to come when they're older, which means we don't have to pay for their education. So I should say that the evidence isn't clear at all that there's a fiscal problem here.

But if there were, you could deal with that problem by charging people, as it might be, \$50,000 to enter the country. We actually already do something a bit like that. If you are willing to spend – I can't remember how much it is - on buying a house or starting a business, you can actually get a visa through that technique.

We have put a price on US green cards, not citizenship, but on US green cards already. So I'm just, in a way, suggesting lowering the price and making it more general. And I came up with the number \$50,000; I am happy to be told that number is completely wrong.

I don't think it should be the only way you let people into the country. I think reuniting families is a really nice and decent thing to do, and so we ought to let migrants in. But if there is a concern that this is going to be an economic drain or a fiscal drain, here's an easy way to deal with the problem: charge people to come in.

[Cardiff Garcia] Let's turn to trade and investment, then. You hinted at this earlier, but there's been a very influential paper that just came out, I think about a month ago. The authors were David Autor, David Dorn and Gordon Hanson.

Their point was that the ability to trade with China, essentially, in the last couple of decades has led to a situation where US labour markets did not adjust as quickly as traditional trade models would have anticipated. In other words, economists have been surprised by the fact that people who lost their jobs because of outsourcing and offshoring in China did not get new jobs, in some cases; in other cases, their wages were held down, they didn't grow as quickly as you would have otherwise thought. This has been, I think, something of a

surprise to a lot of us, really, especially people who are generally who endorse globalisation and recognise the efficiency gained as a good thing. Can you just talk about how we should think about this new reality that things were a little bit worse than we thought for some parts of the US domestic labour market, and then talk about maybe ways to adjust for that, ways to still get the gains from trade without harming a big section of the US working class?

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[Charles Kenny] I think Autor's paper is really important. Luckily, he'd started work on this earlier, and some of it's reflected in the book. It's created this odd situation which is we actually have better evidence of there being some losers from trade than we do for being some losers from migration. In some ways, the more politically contentious topic this time around ought to be trade rather than migration. We are not seeing that play out, I admit.

So Autor's work, I think, has displayed a really important problem and a problem with the nature of our response to it. Basically, he points out with his colleagues that some manufacturing industries lost jobs because of the Chinese imports, and those jobs weren't replaced elsewhere in manufacturing.

I think there's evidence from elsewhere that Chinese imports helped create jobs outside the manufacturing sector, not least by reducing prices and, in particular, reducing prices on goods purchased more by poor people. So I think there has been an effect on both consumption but also job creation outside of manufacturing, but not in the manufacturing sector. And lots of people in concentrated parts of the country lost their jobs as a response to growing Chinese imports.

The really sad part of the story is what happened next. What happened next was the Federal Government started spending some more money in those parts of the country. On what? On disability payments, on taking people out of the labour force. This was where most of US Federal money went in response to this challenge.

Not on retraining, not on helping people move to where the jobs were, not on creating new innovation, not on any of that, not on building the pie again, but on taking them out of the labour force through disability payments. That's just chronic. I think it shows a real lack of political leadership. I admit that we economists, if I can talk in those terms, take some of the responsibility for pounding on the Trade is Good message to the exclusion of saying, but there will be some losers and we need to figure out what to do about them.

And I think one of the reasons Autor's work is so valuable is it's really hard to argue with, and it makes it very clear: here are some losers – what are we doing for them? The answer is: not nearly enough.

[Cardiff Garcia] The example of Germany: what can we learn from it?

[Charles Kenny] Germany's kept a reasonably strong manufacturing base. People argue about how good paying conditions are in the new manufacturing jobs that Germany has helped create through fairly active State engagement. Nonetheless, it's kept a much larger

manufacturing sector. I will say since writing the book I've become a little more sceptical of the idea of trying to keep jobs in the manufacturing sector, simply because they seem to be going away everywhere, including in China, including in India...

[Cardiff Garcia] Because of technological change.

[Charles Kenny] Because of technological change, yes. And so it may be that in the long-term the strategy of trying to replace the manufacturing jobs you've lost with higher productivity manufacturing jobs that are still high-skilled enough that it makes sense to keep them in Germany or the United States, in the end that maybe a losing strategy. We really have to accept we're moving into a services economy, and do better at creating the kinds of jobs that people want in services, so high-paid, reasonably stable jobs in services, than we have been to date.

[Cardiff Garcia] I want to ask you for your thoughts on the trans-Pacific partnership. One of the issues that comes up with I guess what you might call modern trade deals is that it's no longer really about lowering tariffs. That game has been played and essentially won. There are some exceptions, but for the most part, that's not where the low-hanging fruit is any more.

And that modern trade deals now have a lot to do with intellectual property rights and with making sure that other countries, and there's a phrase that we always hear, play by the same rules, essentially, and that we end up importing some competitive pressures which are good for productivity at home, that kind of thing.

But there are also a lot complaints about these deals because they're heavily influenced by input from certain parts of the economy, certain companies, that essentially are trying to get good deals for themselves, and that may not necessarily lead to what we would associate with the traditional gains from trade. Both sides of this thing were argued with the TPP, and I guess I want to know where you came down on that.

[Charles Kenny] Thinking about developing countries, there's pretty much nothing in there of much interest to me, partially because most of the countries involved are richer, and the poorest developing economies were excluded. From the point of view of rich countries, I think it's probably a bit of a wash. I'm not in favour of tighter intellectual property rules. I think the rules we have are too tight already. And the effect of TPP will be to tighten them a bit more, although not as much as everybody was scared about. So I'm left thinking, I guess it's a trade deal almost, I think I have to be somewhat in support, because if it went down...

[Cardiff Garcia] That's not necessarily the case; there can be bad trade deals!

[Charles Kenny] There can be bad trade deals, but my concern is that it goes down as part of a spiral towards giving up on globalisation. Now, you're right, there are definitely bad trade deals, and so I feel almost silly saying it: I'm worried that we're at a moment where we are actually seeing countries chip away at their WTO obligations; we're not seeing countries embrace the final steps in places like agriculture and textiles, where we should be getting rid of the barriers that remain. If we take the trade deal there is and say, it's rubbish, we're

going to be left with no trade deals at all. In a way, I feel a bit like Paris, the climate deal, it's not actually that it was a great climate deal – come on, nobody actually legally signed up to do anything much – but at least it was a climate deal and keeps some hope...

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[Cardiff Garcia] Keeps the momentum going.

[Charles Kenny] ...keeps the momentum going.

[Cardiff Garcia] Yes, because part of that sounded pessimistic to me, part of what you just said. Is it impossible to get a big, global, multilateral trade deal now given the failure of the Doha round, or do you think that something like that can spring back to life?

[Charles Kenny] Clearly, it has recently been impossible to get a big... I think something like that can spring back to life. Part of what the book is about is trying to be a small part of the norm shift in America that will make that possible. We are moving into a world where more and more countries, effectively, have veto power over a global agreement.

The United States keeps on using its veto power more and more aggressively, almost in reaction to the fact that other people have it too, I guess. And I think we need to move towards a place where the United States accepts sometimes it's not going to get what it wants and yet still, because globally it's a good deal, the knock-on effect to the United States will be good.

The irony about it is, back in the 50s when the United States was completely economically dominant globally and, really, actually, free trade wasn't necessarily in its interests because it could play off its monopoly power, close to. Then it was actually being quite generous about tying itself down as part of international agreements that in the short-term at least you could argue maybe weren't completely in its interests.

Now that, actually, the global economy's way more important to it, it's lost that completely central role, it's doing more of the vetoing. You would have expected that to happen earlier, not later. And, again, I think it's the politics of the situation; people are looking at this as a zero sum game now in a way that they weren't in the 50s perhaps as much, or at least US leadership is. And so we're making completely the wrong call.

[Cardiff Garcia] I want to come back to something you just said a little while ago about manufacturing and, in particular, as it relates to development policy.

The East Asian development model, the one that's thought to work, that was used by Korea, Taiwan, Japan before it, usually involves some combination of protectionism, especially for the manufacturing sector, and then some market forces, because those companies are expected to compete with each other if you're in the same country, and also in the global marketplace, through exports.

And there is a worry now that some countries are undergoing premature deindustrialisation and that without the manufacturing sector, they'll have a tougher time going from being low-income to middle-income to rich countries.

You're, I think, sceptical that manufacturing is a necessary component to a country's development and growth. I guess I was wondering if you could talk through why you have that point of view and where your disagreement would be with those who think that manufacturing is an essential part of development policy.

[Charles Kenny] I think Dani Rodrik's done some fascinating work showing how manufacturing has played a really important role in the past, although there's evidence on how it's a sector which just seems to unconditionally converge; you muck everything up and it still seems to converge, in terms of productivity, I think it's fascinating. So I certainly don't want to deny the history, if you will.

I would say manufacturing as a sector is not really as unique as it looks, for a bunch of reasons. One, more and more of what goes on in manufacturing and what in the GDP statistics appears as manufacturing is, in fact, services. It's aftercare, it's sales and marketing, all that kind of stuff, and yet still manufacturing.

And the reverse also applies, to some extent, that a whole load of things that aren't in the manufacturing sector that seem to share a whole bunch of similarities with things that are in the manufacturing sector. To take one example, the mobile phone: if you look at how productive mobile phone companies are in the developing world, they're remarkably productive. In some ways, in some parts of it, they hire a lot more people.

For example, because scratch-cards are a way larger part of the sales part of mobile phone provision in developing countries, there are a lot of people selling scratch-cards; it's a big employment boost. But if you look at the core of business, the making phones work bit, they're very productive and they've been hugely successful, and they are... every time developing countries rebase their GDP to account for changes in the shape of the economy over the last few years, we've seen 30% rises in GDP levels, and a lot of that has been to do with the mobile phone industry taking off from being a teeny part of these economies to being a really sizeable chunk.

Here's a services industry that looks, in many ways, even better than large chunks of manufacturing. I think if you start adding up these bits of agriculture that work like this, these bits of services, you get to a story which is: no, it doesn't have to be manufacturing, which is not to say there aren't challenges.

I don't want to sound naive. I do think it's a problem that there are fewer manufacturing jobs out there. It means we will have to come up with a different way of getting Kenya to look like Malaysia than Malaysia took to look like Malaysia today.

But it looks like there are other ways out there.

[Cardiff Garcia] That's a fascinating response. Have you written about that?

[Charles Kenny] Possibly a little.

[Cardiff Garcia] [Chuckling] I would encourage you to pursue that. That's very interesting.

Speaking of Dani Rodrik, you mentioned a second ago, a political economist at Harvard, I'm going to ask you a quick, spontaneous question, because it seems at least tangentially related to what you write about.

He has a concept of the trilemma that essentially says that a developed country can have two of the following three things but not all three things at once, and those three things are: deeper integration with other countries, national sovereignty, or democracy; you can have two of those three things, but not all three things at once. Do you agree or disagree with that?

[Charles Kenny] I haven't thought about it enough, to be honest.

[Cardiff Garcia] Okay, fair enough.

[Charles Kenny] He's very smart, though, so there's probably something to it.

[Cardiff Garcia] So he's possibly right, okay. I want to talk about Africa for a second because you've written about that recently also, not just in your book. Here's a stat from one of your recent articles: the sub-Saharan African economy has doubled in size in the last 15 years.

And then here's one more: 49 African economies still have a combined economy smaller than Texas at market exchange rates, which you use to signify that there's still a tonne of potential in Africa. This seems to be like still and forever an underexplored story.

Can you tell us what that means for the West, essentially, because that's the theme of your book: why the rise of the rest is good for the West? Tell us about why Africa, in particular, has a promising story and why it's a good opportunity for the rest of the world, and a missed opportunity, I should say.

00:37:21

[Charles Kenny] Africa is still overall poor. It is growing in lots of different ways; one is, it's one of the few parts of the world that's still seeing quite significant population growth and will until 2060, if forecasts are correct; but, also, is seeing very rapid economic growth, or at least has over the last 15 years.

It is not just a story of commodities, which is good news given what's happened to commodity prices recently, otherwise the African growth miracle would be over, although that is going to be a problem and is a problem today for economies, including Nigeria.

It's a hugely growing economy. It is complicated because it's not one economy; it is all of these teeny economies. My colleague, Todd Moss, used to compare a number of African countries to the Montgomery County in the State of Maryland, that actually they're about the same size. So we really are talking about small economies.

That makes it harder to trade with them, because you have to get used to all the local rules, which vary across countries. That may be one reason why the United States does so little trade with Africa, even allowing for its size. Pretty much the only thing the US imports from Africa is raw materials. I do think that's a lost opportunity.

Especially for the United States, there is the diaspora element of a story, there are a lot of people in the United States who feel their African roots, if you will, and I think that's something that we ought to grasp.

Yet when you look at the number of US students, for example, who are spending a semester abroad in great schools like the University of Cape Town, a world-leading university, it's teeny, and I think that's a missed opportunity.

I think there are missed opportunities around investment. If you look at Nairobi, it's a really exciting hub for information and communications technology, inventing new stuff that's useful and used, the US is a bit of a bit player.

If you look at energy, for all President Obama's initiative around energy in Africa, which is great, electrify Africa, it's fairly small beer; we're not doing too much of serious investment in infrastructure compared, as it might be, China. And so in all sorts of different ways, I think the opportunity that the United States has to engage in Africa is just not being grasped.

It's not just Africa, though, let's be honest. The United States is pretty bad at sending students abroad anywhere. It's pretty bad at tourism anywhere apart from the United States. Good reasons for that: lots of lovely places to visit in the United States.

But still all the rest of the world is also very pretty. Overseas investment levels aren't as high as you would expect. So it's a problem everywhere, but I think it's particularly acute in Africa, and it's particularly sad in Africa because Africa could really benefit from more US engagement.

[Cardiff Garcia] One of the most exciting parts of your book has to do with the opportunities that better growth in the rest of the world represent for students and for old people in the US, essentially, I found it almost therapeutic, partly because there's such a concern that we're going to have an old age problem in the US and in other parts of the developed world – it's actually a little better in the US than it is, say, in Germany or Japan – but that other countries represent a really great opportunity for us to find a higher quality of life for much cheaper, in other words, these problems of affordability that so concern us now could be alleviated if we just expose ourselves to those opportunities.

Could you tell us what some of those are?

[Charles Kenny] Sure. Starting with the older folks and the sicker folks, one way that we deal with the problem of elder care is to hire migrants who will work for not very much to look after our elders.

Another way is to move the elders to the people, if you will. If you're living in Minnesota and you're old and you don't want to be on an icy pavement, you might want to move to Mexico, where you could get hospitals accredited to US standards at a fraction of the price, and you can get elder care at a fraction of the price, and the weather's better, and the connections back to Minnesota aren't so bad.

This is an opportunity that we are seeing people take in various parts of the world. There are already a fair number of US retirees living in Mexico. We're seeing it in Germany too: a lot of German old people moving to Hungary and further south in order to take advantage of cheaper labour, in effect.

But I wish we saw more of it, because I really think it is a way to deal with this chronic problem of the massive expense of living a long time and not being able to look after yourself, so I'd love to see more of that.

Again, the more that we see around the world hospitals getting accredited to US standards and so on, other services getting better, the more this is a plausible thing to believe that people might do it.

And for students, I think US universities are some of the very best in the world, and if you look at any ranking, the top universities in the US are the top worldwide: there is no other Harvard, there is no other Stanford, there is no other MIT. I say that as somebody who went to Cambridge, Britain, so I feel that pain.

[Cardiff Garcia] This is a little bit painful every time you look at it, right!

[Charles Kenny] That said, if you're not going to Harvard and you're not going to Yale, you're not going to MIT, and you look at the rank just below that, foreign universities start appearing, and they're not just in Britain; they are the world over. They're in Singapore, they're in Shanghai, they're in Cape Town, they're in Latin America.

And how wonderful it is to go to those places, get an education that is at least as good as a lot of very well-known US universities at a fraction of the cost and you get language instruction for free, if you will, just thrown in, and you get a hugely valuable experience for the rest of your life.

If you spent four years in Brazil, in university, you're going to come back, and a lot of people who want to export to Brazil or invest in Brazil are going to be very interested in you. The opportunities there for parents to save money educating their kids, and the kids to get more out of the education, I just think is massive. And we are completely not taking advantage of it.

[Cardiff Garcia] One of your more recent articles was this intriguing comparison between television and the internet as a tool for learning, essentially, but as so much more than that.

And I think a lot of people now see the internet as this amazing opportunity for online instruction. And you say, well, hang on a minute – actually, there are lessons to be learnt from television, which you refer to as the idiot box. This is what a lot of the lesson referred to, because when we watch TV it's thought to be a waste of time, at least when it's not one of the new thoughtful shows, because we are in the golden age of amazing TV series.

But for the most part, most of us associate watching TV with vegging on the couch, that kind of thing, whereas the internet is this interactive platform. Your point is that for development, so far at least, TV's been way more useful. I love this argument. Tell us why. Take us through it.

[Charles Kenny] If you look at the impact of the internet on learning outcomes in California, in Peru, in Nepal, in Bangladesh, in a bunch of different places where there've been really careful studies of what's been the impact of the internet in the classroom or getting access to the internet at home, what's it done to test scores, the answer is not just zero; it's really accurately zero. We can get a fairly small confidence interval around our zero.

In a way, that's not a surprise, because, yes, the TV's the idiot box, but what do we all spend most of our time doing on the internet? It's not necessarily terribly educational. Indeed, a study in Portugal that found that the overall impact of adding broadband into schools had been zero did find slightly more positive results if you banned most of the major sites that you would expect, YouTube being first on the list. Yes, okay, I get that.

I don't think that means the internet is useless, I don't think this means is the end of the internet in education, and it is partly because of the experience of TV. If you look at studies of how the TV has had an impact, it's fascinating.

Sesame Street, which is educational TV, actually does seem to have had an impact, but the bigger impacts, as a rule, seem to be people watching soap operas. There are a couple of beautiful studies, one in India, one in Brazil; basically, what they do is they track the rollout of, in one case, free-to-air TV in Brazil; in the other case, cable access and satellite access in India.

As the signal rolls out and people are watching soap operas, largely, you see, first of all, people start naming their kids after the soap opera stars, but pretty soon after that you start seeing women having a bigger role in decision-making in the household, attitudes towards violence change, the amount of time that girls are spending in school goes up by dramatic amounts, the number of kids people are having drops; and it's because they are watching soap operas about upper middle-class Brazilians or Indians, as it might be, who are living a life where the average woman character in the soap opera has no kids or one kid rather than the five or six that Brazilians were having at the time that the rollout happened.

They're going, huh, look at that character on TV; why can't I be more like that? It's edutainment, which is a hideous word, but I think gets the idea across: being educated while you're being entertained, not even noticing the education.

Another great example from India is same-language subtitling, just putting the words of the songs that were being sung by Bollywood stars along the bottom of the screen as the Bollywood stars were singing. Everybody sings along, natural thing to do. It turns out that as you're singing along and looking at the words at the bottom of the screen, if you can't read very well, you start reading better.

A whole bunch of kids who go through Indian schools, about a third leave not being functionally literate at all, even according to the lowest standard. TV halved, I think, the number who finished school... if you were watching this same-language subtitling, halved the number who finished the school functionally illiterate. It's a huge impact, costs cents to do, and effectively free to do, massive, massive impact, much more than reducing class sizes or something like that.

But, again, it was about not people watching the PBS show about Henry the Eighth; it was about entertaining people and shoving in underneath a bit of education. I think the internet could be, and probably is already being fantastic at that.

I watch my daughter play Civilisation, not very much because we control screen-time of all sorts, and I'm not saying she gets an unbiased view of history from playing Civilisation, but she certainly asks me questions about Egyptian mythology that I wouldn't have expected if it wasn't for the fact that she was playing this game.

So I think it is already having that effect, but it's where we ought to be concentrating rather than thinking that, actually, you could take the entire educational experience, shove it online and everybody will learn.

[Cardiff Garcia] Yes, the part of that, though, that's fascinating to me was that it wasn't just a learning tool; it was essentially a way to model certain norms...

[Charles Kenny] Yes.

[Cardiff Garcia] ...in some cases, moral and ethical, but in other cases, just about how to live a good life; instead of having six kids, you have a couple and you can afford to send them to school, that kind of thing. To see that that was the impact and also to recognise that that also means that the internet could still replicate this, that it's another opportunity, doesn't mean that the internet will forever be consigned to uselessness, as you said earlier.

It doesn't mean that at all. It just means that there's a lesson to be learnt here, and that, hopefully, it will be.

Let's talk about unconditional cash transfers. Why is it a good idea to just give people cash? Why not tie it to better behaviour and expect something in return?

[Charles Kenny] Because the reason poor people are poor is because they don't have money, and so a really easy way to deal with that problem is give them money. It comes down to that.

It turns out if you give very poor people money, they spend it on sensible things; they spend it on better nutrition for their children, they spend it on slightly better quality of life for their family in a bunch of different ways that lead to returns.

They invest, if you will, this money in better nutrition, in schoolbooks, in clothes for the kids so that they're not embarrassed to go to school, all sorts of things that make a difference. So we don't really need to condition it.

Now, I don't want to go as far as saying conditional cash transfers are silly and we should just give everybody cash, for two reasons. One is: who's we? We, if it's aid agencies, don't have nearly enough cash to do this for the 700 million people who still live in poverty; there's not enough aid money to go around, to give everybody a decent unconditional cash transfer.

If it's we governments, the same problem certainly applies in poorer countries, that it would be hard to roll out massive unconditional cash transfers. But the other reason is that conditional cash transfers do have a bigger impact on whatever you condition around. So if you just give people money, they do spend some of it on making sure that their kids go to school, but if you condition them getting the money on their kids being in school, you can darn well bet the kids will be in school.

So there is a bigger impact from conditional cash transfers from unconditional cash transfers. And so I'm not against them; and especially if the choice is between a conditional cash transfer and no cash transfer at all, I will take the conditional cash transfer. I think it's really important, partially for psychological reasons amongst donors, to accept that: actually give poor people money and it will stop them being poor. We have this idea that poor people are poor because they're morally enfeebled or of a lesser stock in some way and so we need to help them, but we can't trust them to help themselves; we need to help them and guide them.

Look, there is something about norm change and behaviour change which is an important part of getting out of poverty, but the fact of the matter is most poor people, given their druthers and given a bit more money, wouldn't be poor, and we should stop lording it over them, if you will.

[Cardiff Garcia] There's a certain element of condescension involved...

[Charles Kenny] Huge condescension, and it's something that's rife in the aid industry, I have to say, and not just at the level of individuals. If you look at some of the countries that donors give money to, they have been growing faster than the UK ever did or the US ever did, and they've been doing it for a long time.

And the rate that they've got child mortality down has been faster than the UK ever managed or the US ever managed. So despite the fact they are delivering these massively impressive

development outcomes, we treat them like three-year-olds. I think there's a problem there, that it's an attitude of superiority that we probably should be a bit careful about.

[Cardiff Garcia] Sure. I want to ask a vague question about political institutions. There's an interesting passage in your book where you talk about the Democratic Republic of Congo, and essentially things are terrible there, and you acknowledge that and you're not trying to sugar-coat anything, but you also write that within that awful context some things have been getting better.

So I just want to ask for your general take on the importance of political institutions, when they're bad, as a barrier to progress, and also maybe comment on the extent to which the developed world should or should not be trying to influence political regimes that they disagree with or, in objective terms, that are terrible.

[Charles Kenny] Yes, there are some that are terrible, and I think an important part of a good quality of life is having a police force that is not primarily there in order to take your money and beat you up. An important part of a decent quality of life is having an army whose primary job is defence rather than raping people.

There are regimes out there that are so terrible that I think they are the biggest barrier to the quality of life in certain countries. But to take the example of the DRC, there is an economy that is still desperately poor and the human rights abuses are terrible. It still manages to vaccinate nearly all of its kids in a way that means that Government is providing that service, a fairly simple service, but that service to a reach of population that no service in Britain in 1900, when it was far richer, no service was being provided to that percentage of the population. The same is true of the United States.

So in some ways, even these miserable, dysfunctional governments are better than the miserable, dysfunctional governments we had at a point in our history when we were as poor as they are today. That matters. It means that we can work with pretty miserable governments to provide these services to people. I don't think that means we should step away from calling out human rights abuses, certainly. I think outsiders do have a role in that, and, actually, I think global norms have a huge role in that.

I think it's hard to explain why it is that actually the majority of the world's population now lives in a democracy if you don't talk about global norms. The international community as a whole is had a really important part in spreading what I think is a very, very valuable norm.

So it's not that I think we shouldn't try and improve human rights. I think absolutely it is a vital part of the quality of life. I don't think we should walk away from countries where those human rights are not decently respected, because then we are walking away from institutions that, for all their hideous faults, still can provide vaccines to kids that save their lives. I think that's a valuable thing in and of itself too, and we shouldn't walk away from that.

[Cardiff Garcia] We're just about of time, so I've got one last question. It's also a bit general and vague, but I'd be curious to get your thoughts on it. It's about political intractability and optimism versus pessimism.

You're careful to say in your book and also in some of your recent work that the kinds of opportunities that are presented are not necessarily ones that we'll take advantage of, that the developed world will take advantage of. It seems like despite all the near-term anxiety, there is still some momentum for deeper integration of the world's economies.

But I guess I just want to get maybe your own self-assessment of how optimistic you are that the kinds of opportunities that you write about in *The Upside of Down* are opportunities that the developed world will successfully capitalise on. And if you're not fully optimistic about it, tell us what you think are maybe some of the biggest barriers to getting from a world where we're governed by all these kinds of fears and anxieties, ones that you think are really quite illusory and counterproductive, to a world where we are more deeply embracing the rise of the rest.

[Charles Kenny] I'm optimistic partly because the opportunities are so large that it is in so many people's self-interest to take them that they're not going to get government get in the way and be really miserable about it. The more that this process continues of seeing health and education and economic gain in the development world, the more those opportunities grow, the more difficult it will be to stop citizens of rich countries benefiting from that, currently the rich countries benefiting from that. So long-term, I'm optimistic.

I admit, you look at the current political climate in Europe and the United States, and it's pretty grim for people with my world view, at least in the short-term. Even though I think the forces are pushing in the right direction, I admit they could be overwhelmed by negativity, as we saw in the 1930s.

But part of the reason for writing and speaking about these issues is this is about norms and leadership, to a large degree, that if people heard the other side of the story a bit more, if they heard why this is actually an opportunity, I think it would help them push more today for that opportunity to arise tomorrow.

So I think it is actually really important for those of us who believe that globalisation is basically a force with good, with all the problems it brings, and believe that the rise of developing countries is a positive thing. And we should be talking about it, we should be persuading the 97% of Brits who apparently think the world's getting worse that they're wrong, because I think the facts, frankly, are on our side.

[Cardiff Garcia] Charles Kenny, Senior Fellow at the Global Centre for Development. His book is *The Upside of Down*, and if you've been watching too much politics in the US and Europe, it's a great way to lower your blood pressure. Thanks so much for talking to us. This was great.

[Charles Kenny] Thanks very much.