

On Debt Conundrum, Bottom Up Economics and our tomorrows

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1. Debts at personal level

- Debt is part of life and death
 - In funerals, we asked who was owed any debt by the deceased
 - Proverbs 22:7 “The rich rules over the poor, and the borrower is the slave of the lender.”
 - Think of Kenya teachers in rural areas & their cooperatives – they keep borrowing and investing.
 - Think of big corporations and their debts
 - But at national level...debt is a problem. Why ?
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2. Why debt matters in the economy

- Removal of debt will kill academic field like finance. It is like removing **zero** from mathematics-add vocabulary and jobs losses
 - Leveraging
 - Derivatives
 - Hedge funds
 - Banking & Intermediation
 - CBK and debt department
 - Credit managers
 - Debt collectors...



3. Nobel Laureates

- Merton Miller and Franco Modigliani argue it does not matter how we finance a firm; debt equity ratio does not affect the value of the firm (stock price).
- At the national level the tax we pay is our equity. The wealth or GDP of the nation does not depend on how its financed (debt or equity(tax)).
- Politicians seem to know that !
- Franco Modigliani won an economics Nobel Prize in 1985. Merton Miller won his in 1990.



4. National debts : Comparisons

- Debt/GDP Ratio

$$= \frac{\text{Debt}}{\text{GDP}} \times 100$$

GDP

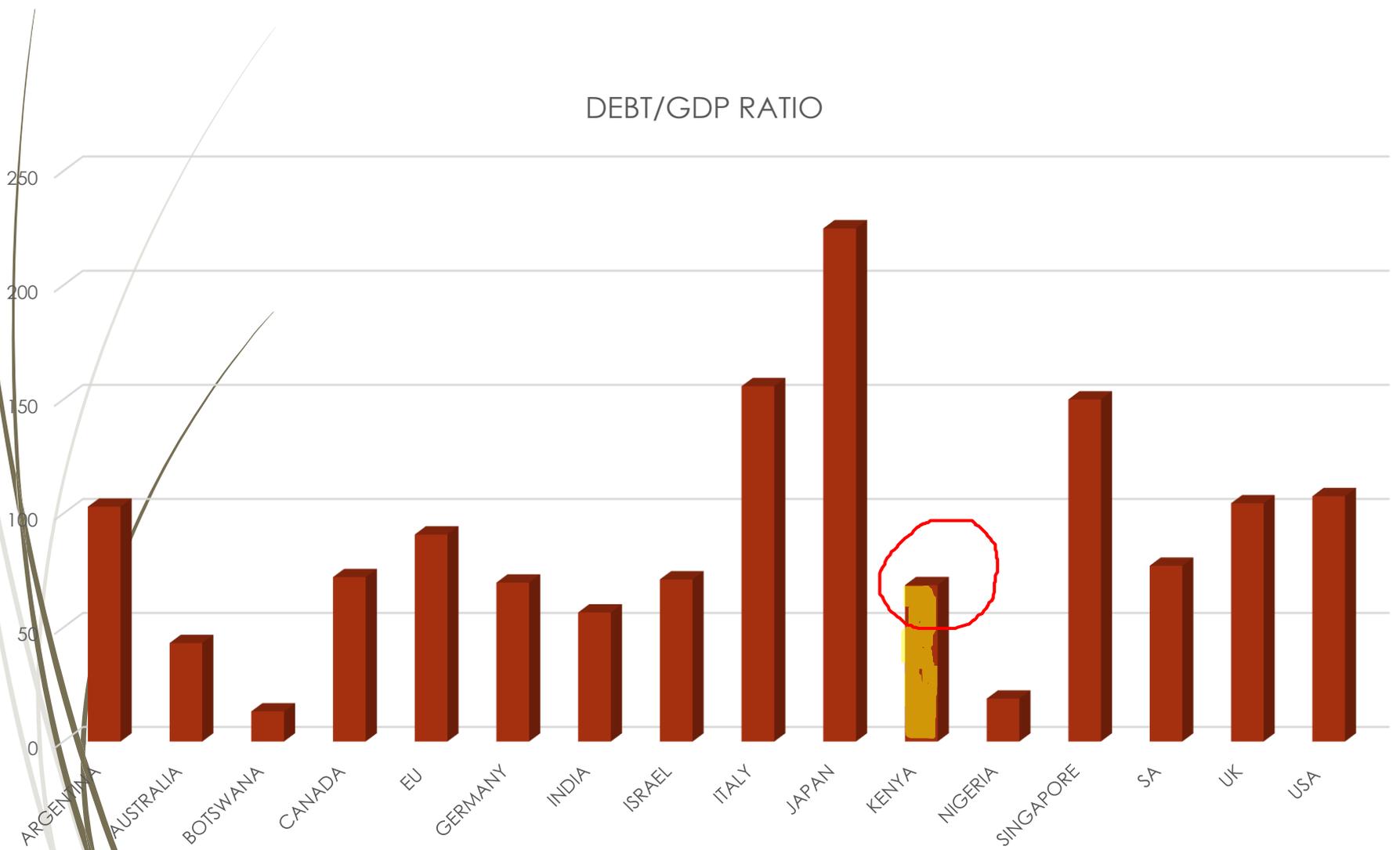
- You can get your personal debt ratio too (men remember to include unpaid dowry)
- How can we reduce this ratio?

Reduce debt or make GDP Grow faster

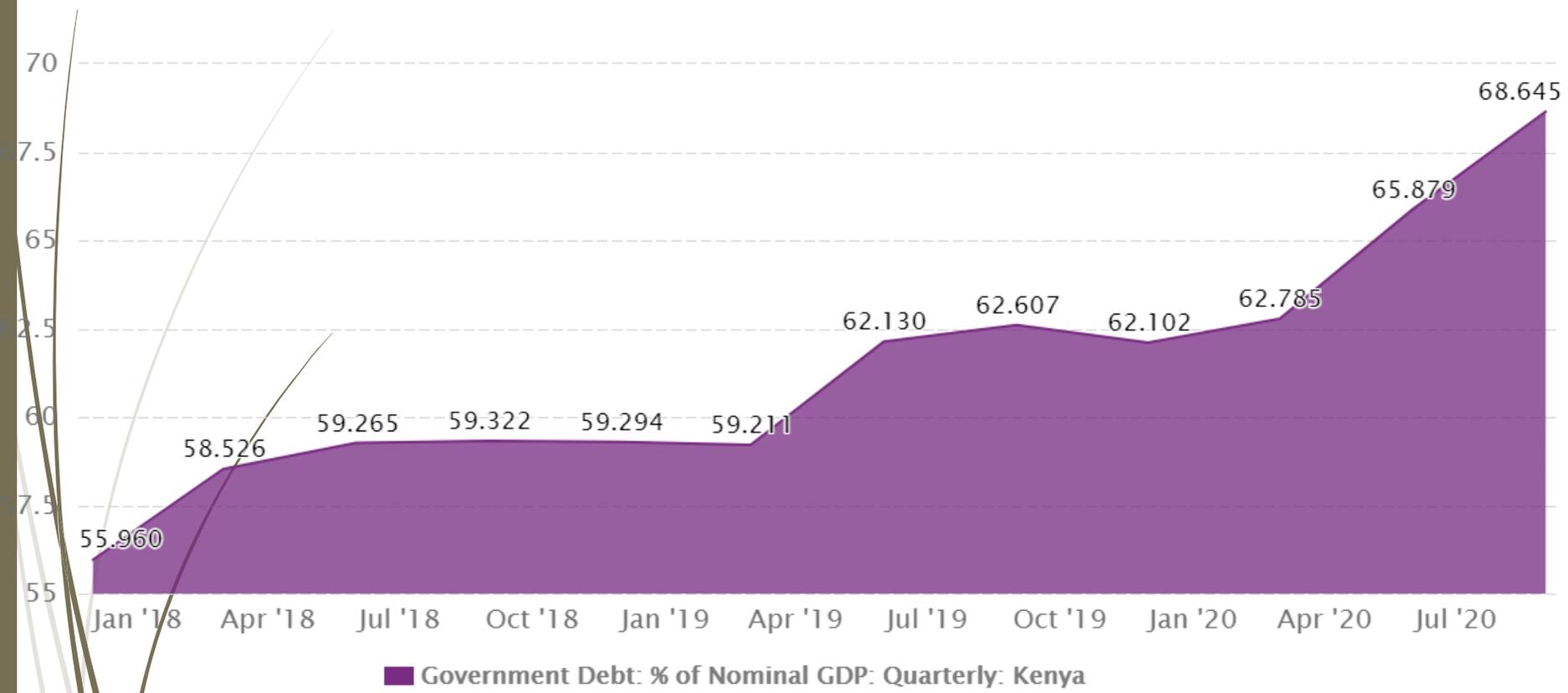
Cross country comparison...

COUNTRY	DEBT/GDP RATIO
ARGENTINA	103
AUSTRALIA	43.2
BOTSWANA	13.2
CANADA	72.1
EU	90.8
GERMANY	69.7
INDIA	56.6
ISRAEL	71.1
ITALY	155.8
JAPAN	224.9
KENYA	68.6
NIGERIA	18.8
SINGAPORE	150
SA	77.1
UK	104.5
USA	107.6

5. Kenya vs. the rest



Debt GDP ratio GROWTH



■ Government Debt: % of Nominal GDP: Quarterly: Kenya

SOURCE: WWW.CEICDATA.COM | CEIC Data



Debt vs. economic growth



- GDP =MV(money in circulation X its velocity) ! Non payment breaks this cycle. Pending bills and NPL
- PLEASE PAY DEBTS!
- What is the debt for ?
 - Increase productive capacity of the economy eg Thika Superhighway
 - Or pay salaries/recurrent expenditure
 - My memories of debt –AS A CHILD. Borrowers used money to buy household items or marry second wives.



Alternative to debt ...

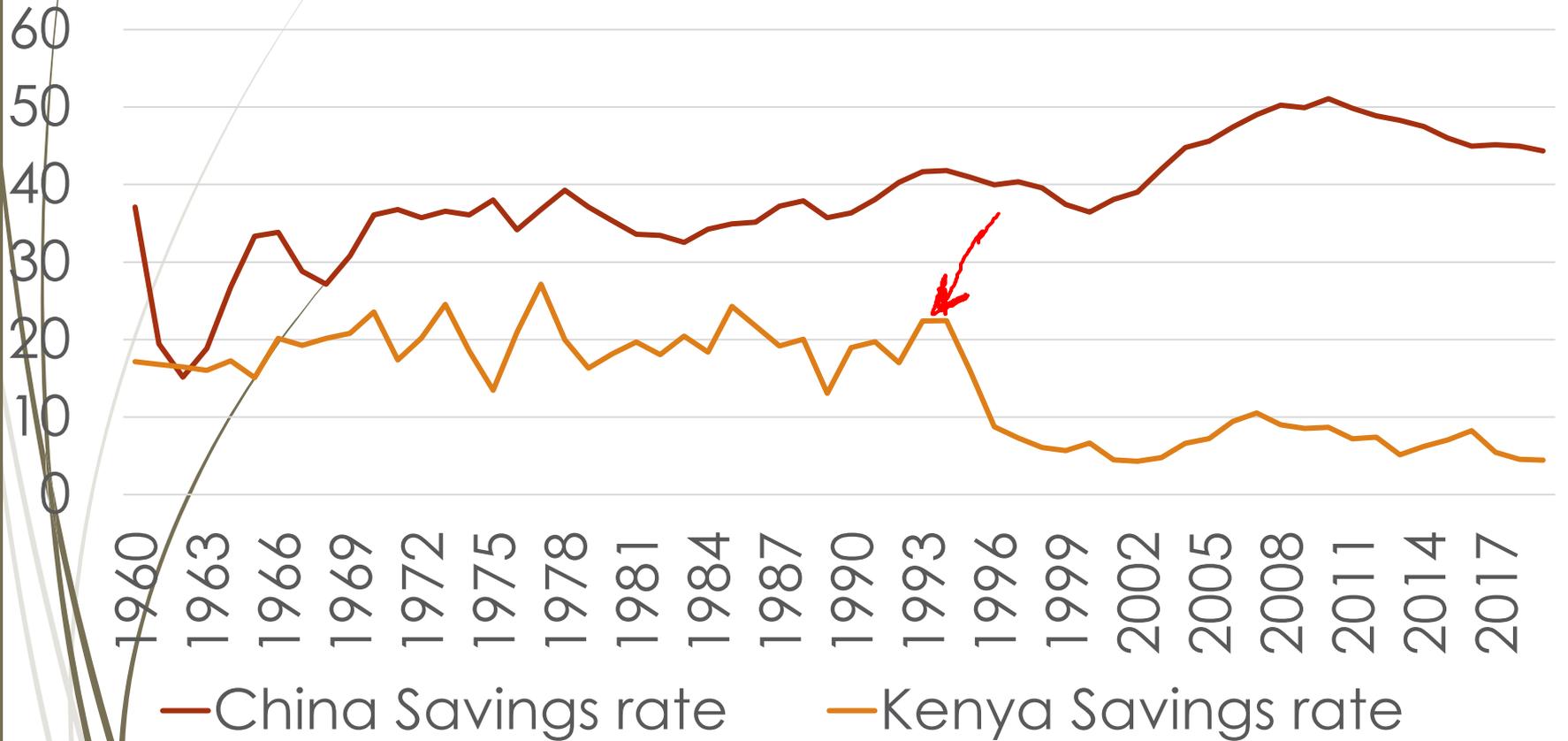


6. Tax vs. debt , what is better

- You do not want government to borrow ?
- Then raise taxes
- Politically, debt is more palatable, it can repaid by future generation, tax is now !
- High Tax depress the economic growth too

7: Can we Save more, to lower the cost of debt ?

Save: Kenya vs. China Savings Rate



8. We are missing the point;



- ▶ Why can't we lend and make the profits ourselves?
 - ▶ Think of all the money made by lenders...from bankers to shylocks
- 



MAJOR FOREIGN HOLDERS OF US TREASURY SECURITIES (in billions USD)

Apr 2019 Mar2020

China, Mainland	1113.0	1100.4	DOWN
Japan	1064.0	1240.3	UP
Brazil	306.7	255.5	Down
United Kingdom	300.8	444.3	UP
Ireland	269.7	309.8	UP
Switzerland	226.9	254.8	UP





BONUS

- DIGITAL LENDING PLATFORMS(Tala, Branch etc)-kept families going during corona
- TBILLS IN SMALLER DENOMINATIONS -50K -is debt becoming mainstream ?



10. National chorus: We love them.

- Debt is bad
- Handshake is great...
- What nexthustling is good
- We must become **more objective** and avoid national choirs
- That is why EAA is a great place to be ...



Conclusion



- Debt is an excuse for East Africa's lack of growth. There are bigger issues
 - Corruption
 - Afropessimism
 - Hatred of work –PWE/ Higher Education
 - Control from outside
 - Waiting for help
 - Let us stop using debt as dustbin and confront the real issues

BOTTOM UP ECONOMICS



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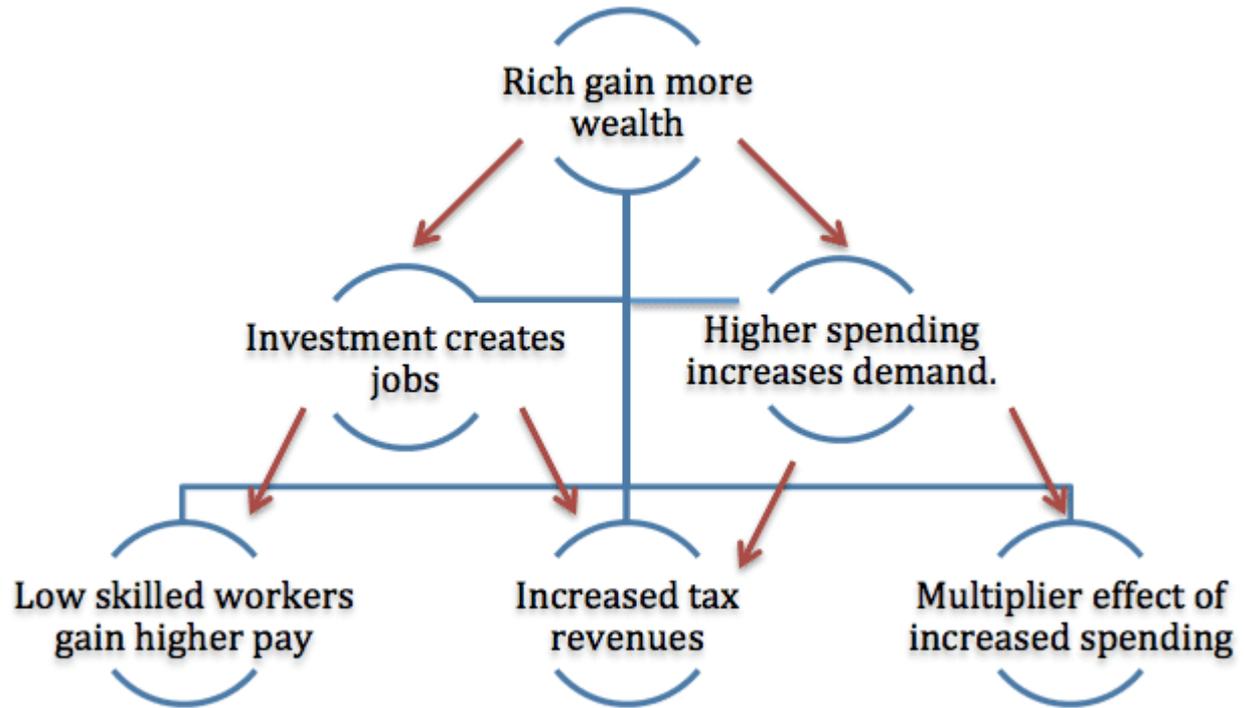
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Before bottom up

Trickle down effect



Trickle down reality



What trickle-down economics promises.

What trickle-down economics delivers.



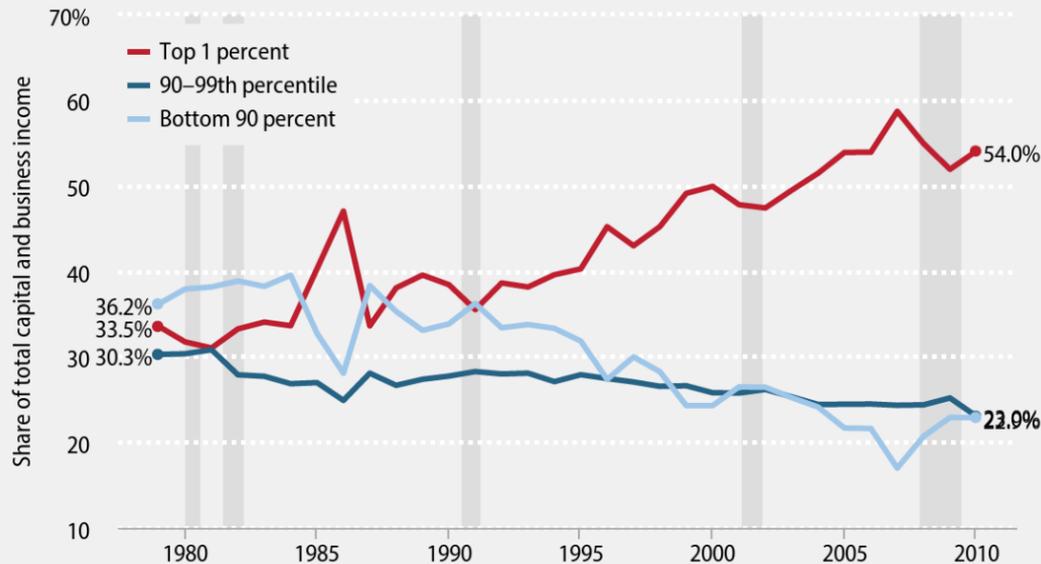
Trickle down has not worked even in developed countries

- Regulations-public participation missing
 - Laws
 - Traditions eg UK
 - Taxation-devolution in Kenya
 - Politics
 - Nepotism
 - Enter bottom up / trickle up better
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Trickle down economics has led to inequality in USA

Increasing share of income from wealth claimed by top 1 percent

Concentration of capital incomes, by income group, 1979–2010



Share



BOTTOM UP economics -why its popular

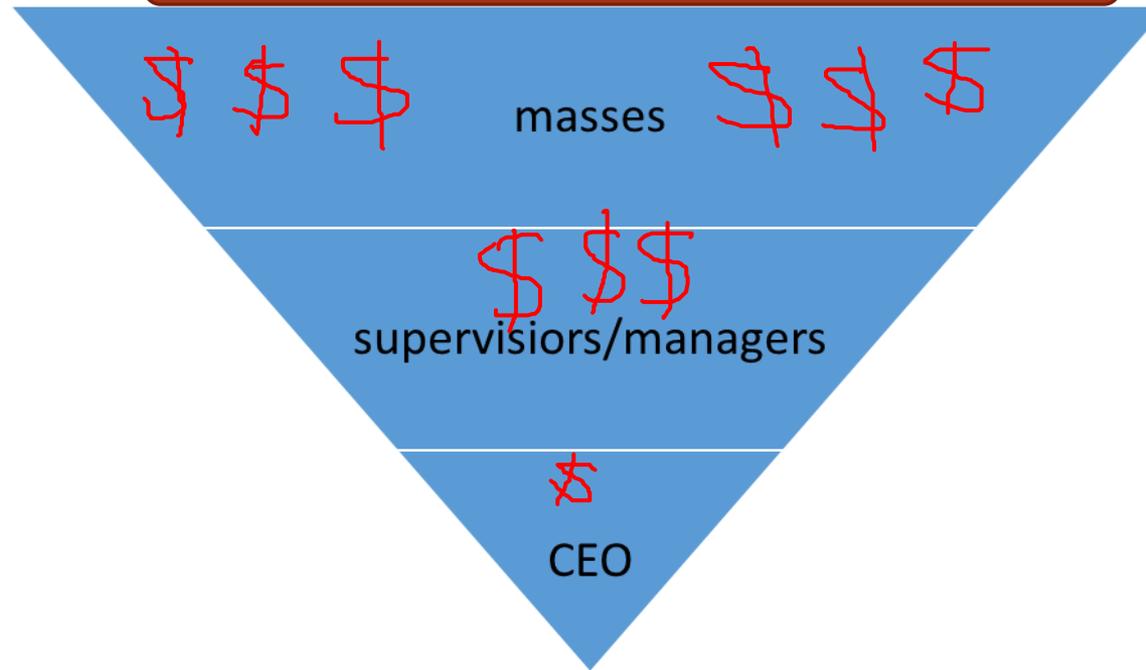
- Empower the poor , they will increase their purchasing power
- Create demand for goods and services for the corporations/affluent (**trickle up?**)
- How do you empower them?
 - Cheap loans , new skills , market for their goods and services
 - Other incentives
- Where has it worked ? China?(State Trickle down?)

Fear : flip the pyramid?

Traditional Employment



Under bottom up economics





But bottom up economics has issues...

- Echoes of communism-nothing to lose but your chains-
COMMUNISM DIED after 70 years
- Messianic
- Replace the rich with poor at the top(shows
misunderstanding on how wealth created)
- Strikes fear among the affluent BUT RELAX
- Bottom up makes lots political sense but doubtful
economic sense.
- It's a route to political power; and its proponents will
change tune one at the helm...



Our tomorrow is about **reality**-that is what entrepreneurs and business leaders at EAA are known for- they face that reality and make their **honest contribution to economic growth**

Thank you, Asante Sana

Let us talk ... Tuongee

