



M O Y

BARONESS DAMBISA

BESIDES ADAM SMITH, MOYO TALKS HERE ABOUT her hopes for a British economic renaissance, whether AI will justify all the capital being sunk into it—or does a correction lie ahead? She also asks whether long-term investors are paying adequate attention to enormous population shifts that are developing in emerging versus established markets. • A native of Zambia, Moyo holds a Ph.D. in economics from Oxford, and a Master of Public Administration degree from Harvard. A former Goldman Sachs economist, she sits on the boards of Chevron and Starbucks, and has published five books covering geopolitics, global economics and corporate management. As a tribute to her accomplishments, Baroness Moyo in 2022 was named a Life Peer in Britain's House of Lords.

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The London-based global economist says it's no accident that America is turning 250 the same year as Adam Smith's *The Wealth of Nations*.
By **KEVIN HELLIKER**



Having given speeches recently on the 250th anniversary of Adam Smith's *The Wealth of Nations*, do you regard free markets as still the best hope for global prosperity?

Free markets have delivered, but there is work to be done. There are two goals, I would argue, that we ought to be pursuing. One is continued human progress that includes not only raising living standards but also, in terms of democracy, and greater individual liberties, and spurring innovation. The second goal would be to leave no one behind.

Over those 250 years, we have built up support systems, such as public education and socialized healthcare. But that may not be enough. Hence the reason there is increasing debate around the need for greater welfare, such as universal basic income support, as we face the possibility of widespread AI-related job diminution. There is still meaningful inequity between countries and within countries. That must remain top of mind. However, the effort to address the inequity problem can lead to policies that inhibit the growth of the pie, thereby working against the prosperity needed to promote equity.

Also, given that there is always debate among Adam Smith devotees about the role of the state, I find it important to say that free markets do not mean no government. I'm a free market proponent, and I absolutely believe there is an argument for public goods like national security, infrastructure, education. Also there is a compelling need for the state to step in when markets fail to clear and to regulate. All as long as the state doesn't subordinate free markets—a mistake that creates less growth, less prosperity and more inequity—government must be able and ready to step forward.

This year also being the 250th anniversary of America's independence from Britain, how do the growth rates of the two economies compare? Does that differential reflect differing degrees of adherence to the principles of Adam Smith?

In order to double per capita incomes in a generation and really put a dent in poverty, an economy needs to grow by 3% per year. This is just the Rule of 72. Right now the US forecasts for this year, some of the more credible ones, put growth at 2.8%. In the last couple of days, meanwhile, the Chancellor of the Exchequer has cut the forecast for growth in the UK down from 1.4% to 1.1%. For several years now, Britain and Europe have generally struggled to get over 1.5% growth. In the third quarter of '25, growth in the US exceeded 4%.

That reflects a real differential. Adam Smith was a

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key member of the Scottish Enlightenment, and 250 years later, the United States is really an artifact of the Scottish Enlightenment thinking. It's no accident that *The Wealth of Nations* and the United States are turning 250 the same year. David Hume and Adam Smith were very good friends of Benjamin Franklin, and they were all very much behind the idea of free markets and free peoples. The American experiment is very much an embodiment of that.

Any hope of the UK/Europe closing that gap?

If you look at the two super-cycles that are going to drive economic growth, one being artificial intelligence and the other the climate and energy transition, the United States is extremely well-poised to take advantage of this in a way that Britain and Europe lag behind. Just take AI. The US is expecting about \$600 billion per year of investment in AI through to 2030. By some estimates this could add somewhere between 1–2% of GDP through massive productivity gains.

And those numbers are just the capital investment of the Magnificent 7. This is not beyond that. There's billions more of investment expected in other sectors: healthcare, energy, et cetera.

On energy, the trick is to transition toward clean energy without strangling the economy. The cost per kilowatt-hour for electricity in China is about 8 cents. In the United States, depending on which state you're in, it's somewhere between 12 and 16 cents. The United States is counting on investment and innovation to address societal ills like inequality and climate change. In Britain, though, it's roughly 40 cents a kilowatt-hour. That in part reflects policies addressing climate change, with the result being a massive drag on businesses, on households, on the socialized healthcare system, on growth generally.

In 2008, the United States and Europe were roughly the same size. Today the United States, in GDP terms, is 40% larger.

As a member of the House of Lords, you speak with great pride of your adopted country, particularly in regard to its past economic breakthroughs and triumphs. Could the UK reclaim that glory?

After 1776, Britain became this enormous powerhouse economically, and that hasn't really changed. Britain remains one of the world's top five or top six wealthiest economies.

From an economic growth perspective, I would argue that the prevailing policies are not constructive. On a GDP per capita basis, the UK and some

other European countries now stand below that of Mississippi, America's poorest state. Another worrisome trend: In the 1990s, British institutional investors like pension funds and insurance companies invested close to 30% in domestic assets. That number now is about 2%. It's telling how Britain's endowments, pension funds, insurance companies—the real pillars of investment—are not investing in their own backyard.

The problem is that Britain's approach to challenges is to mitigate risk, which often has the effect of mitigating growth. They think of AI, they immediately think of how we can constrain it, how we can ban it, how we can tax it as opposed to thinking about how we can use this to drive more economic growth. It's risk mitigation versus an investment mindset. Our capital markets are far too weak, not just in terms of IPOs but also the makeup of the companies listed on the British bourses, which tend to be skewed to older industries such as banking.

Finally, I would say that a government can be either high-tax or high-regulation, but you really can't be both if you're trying to drive growth. And unfortunately, currently Britain's policies have both. If you're trying to be competitive on a global basis, you've got to pick one and stick with it.

If you're high tax but low regulation, you get more businesses, more FDI, more investment that could drive more future growth, a sort of increase in the pie. You can then tax. People are OK with that. Think about Scandinavian countries. By contrast, a regulatory environment that's quite strict in a nation with low taxes, that's an environment that investors can live with.

On the broader market, is there an AI bubble? Or is it possible that the emergence of AI is so historic—akin to women joining the workforce or the fall of the Berlin Wall—as to render some previous rules of investing irrelevant?

Let's start with the numbers. The historic average of a price-earnings ratio for the S&P 500 is around 16 times. Currently that ratio is far higher, around 28. Some tech companies, meanwhile, stand above 30, some far higher than that. It's a serious departure from the historic norm, and some people would say it means there'll be some kind of a meaningful tech-related correction.

On the other hand, something fundamental is happening around productivity gains, which in some sense can justify the 28 to 29 times earnings that we're seeing. It's not an inflation of price-earnings ratios just because large sums of capital in the

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HER BOOKS:

- *How Boards Work*
- *Edge of Chaos*
- *Winner Take All*
- *How the West Was Lost*
- *Dead Aid*

form of AI spend, for example, have come flooding in. I think there's a compelling argument that we're going into a different world order, where productivity gains will reflect, explain and justify the price-earning ratios at a higher level.

Traditional bubbles tend to be debt-fueled financings of assets that were not cash-producing. A current example would be borrowing money to buy crypto. By contrast, a lot of the investment into AI is being funded by equity and it's being invested in data centers and other types of investments that actually are net productive. So they may not end up being data centers, but they could be buildings that could be repurposed for something else. Compare that to crypto, which doesn't produce a stream of cash flows. I think we're far off from a 2008-style bubble risk.

Finally, you've said that long-term investors should be paying attention to global demographic changes. Why is that?

Because of geopolitical, global economic and financial markets uncertainty, boardrooms and investors today are spending less time thinking about the long term and are much more focused on the immediacy. As a consequence of that, longer-term demographic shifts are not top of mind. We know that rich countries are aging and poor countries are the place where we're still seeing some population growth.

A lot of rich countries are below the 2.1 replacement ratio, and a lot of poor countries are still reaching that number. On a granular level, China today has about 1.4 billion people. By 2100 forecasts expect there to be around 700–750 million. Japan, which has about 120 million people today, is expected to be at around 53 million people at the close of this century. Italy is a similar example.

By contrast, Nigeria, which has about 240 million people today, is expected to have around 790 million people by the close of this century, making it second only to India, which already has surpassed China as the world's largest population.

The young, meanwhile, skew very much toward emerging markets. Today, 90% of the world's population lives in the emerging markets. In many countries in the Middle East, across Africa, and across South America, 60–70% of the population is under the age of 25. These demographic shifts are going to influence foodstuffs, consumption of energy, consumption of pretty much everything.

Are these demographic shifts fully embedded in the thinking of investors and allocators of capital? In a world of rampant short-termism, I am not sure they are. ♦