

FROM AMERICAN DOMINANCE TO THE RISE OF THE REST: DAMBISA MOYO'S HOW THE WEST WAS LOST

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Since the 2007-2008 global financial crisis began, sparked by the real estate bubble bursting in the United States, there have been profound shifts in the world economy. The shocking bankruptcies of prominent American investment banks and financial institutions (such as Bear Stearns, Lehman Brothers and AIG), coupled with the government taking over quasi-governmental companies such as Fannie Mae and Freddie Mac, led the world to begin questioning whether the policies and ideologies that the so-called West had been promulgating were in fact the best ways for an economy to be run. This has led some experts to believe that the developed world is in the midst of a decline and that global power will begin tilting back to the developing world, particularly to China.

In the *New York Times* bestselling book *How the West Was Lost*, Dambisa Moyo¹ provides an extremely thorough, well-written account of not only the recent global financial crisis, but also the flawed economic policies and choices that have resulted in the foundations being set for a shift in global power from “West” to “East.” She delves into enough detail that readers with a basic knowl-

1 Dambisa Moyo was born and raised in Zambia. She received a master’s degree from Harvard University’s John F. Kennedy School of Government and a PhD. in economics from Oxford University. She also has an MBA. in finance and a B.S. in chemistry. She was formerly a consultant for the World Bank and also worked as an investment banker at Goldman Sachs. Before publishing *How the West Was Lost*, in 2010 Moyo wrote *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa* (also a *New York Times* bestseller). And just recently in 2012 she released *Winner Take All: China’s Race For Resources and What It Means for the World*. In 2009 TIME Magazine named her one of the world’s 100 most influential people, and she is currently a contributor to financial journals such as *the Financial Times* and *the Wall Street Journal*.

edge of business can understand everything, while managing to avoid making explanations so shallow that those with stronger financial backgrounds will feel disinterested. However, the book attempts to cover a large variety of topics (ranging from a historical overview of economics, to the mortgage industry in the US, to political ideologies) and thus falls short of fully developing arguments at times. She also frequently makes sweeping generalizations throughout her diagnosis of the crisis, particularly regarding the loosely defined “West” and “East.” Additionally, her conclusion is quite short yet dramatic, attempting to provide a panacea for too many loosely related problems in the world today. Thus some of her arguments become too broad and run the risk of losing focus and clarity.

Erosion of the West’s Advantages: A Focus on Flawed Economic Policies

The book is separated into two main parts: “The Way It Was” and “Back to the Future: From East to West and Back Again.” Moyo believes that the West’s advantages have substantially been eroded, and that there are three main reasons for this: 1) the West has alienated most emerging market countries through its political and military policies; 2) the “flatness of the world” (per Thomas Friedman) has resulted in the lowering of transaction costs, which has made the transfer of technology easier; and 3) flawed economic policies implemented over the past fifty years have directly resulted in the downfall of the world’s most advanced nations.² The third reason is the focus of this book. Moyo argues that had these flawed policies been detected and dealt with properly in advance, the financial crisis of 2008 may have never occurred, or at least may have been much less prominent.

The strongest points of the book can be found in the first few chapters, which explore her main argument: “What is clear, and what this book will demonstrate, is that deliberate (American) public policies are making things worse, exacerbating [America’s] economic step down by weakening” the three pillars of growth: capital, labor and total factor productivity (pp. 10-11). In the second chapter, Moyo gives a phenomenal explanation of how the US government, through a strategy of broad homeownership strengthened by subsidy,³ has en-

2 Thomas Friedman, *The World Is Flat 3.0: A Brief History of the Twenty-First Century* (New York: Farrar, 2007).

3 A subsidized loan is a loan where the interest is paid by a third party. The US government offers citizens a number of incentives to purchase a home, including securing a loan with a very low (or in some cases zero) down payment, allowing for deferred payments and even by paying all of the interest on the loan. Mortgage rates are subsidized through Fannie Mae and Freddie Mac (government-sponsored enterprises). Borrowers interested in these loans must meet certain requirements, though they were not

couraged the majority of American citizens to pour their financial resources into one form of investment asset class (real estate), even when there may have been much better options available. This “has been assiduously accomplished by a dual-pronged strategy of 1) providing incentives for individuals to borrow, through subsidized debt mortgages and tax relief on mortgage interest payments, and 2) the wholly negative gift of providing guarantees to the mortgage-lending institutions” (p. 36).⁴

Moyo also gives a thought-provoking explanation of one of the fundamental flaws in the United States and some other developed countries: the misallocation of capital, caused by a breakdown between debt and equity holders. As a solution to these problems, she believes that “policy should be focused around weaning the financial system off guarantees for mortgage loans and removing tax benefits on mortgage debt, instead providing a subsidy for equity (cash) down payments” (p. 46). Furthermore, she draws an interesting parallel between the post-World War II United States and the recent rapid economic development of China: both countries made sure that the buyers of their products were also their debtors (i.e., the US and Europe, and China and the US). She uses ideas such as this to explain how China could become the next global superpower, in much the way that the balance of power shifted from Western Europe (particularly the United Kingdom) to the United States after WWII.

Another focal point is Moyo’s discussion on why a housing market bubble is the worst type of bubble to have (as opposed to, say, the technology boom from 1995 to 2000, which created some benefits for society despite the negative aspects). She believes that “the US government has presided over and continues to create and foment the worst kind of bubble: a bubble in an unproductive asset financed by bank debt” (p. 60). In this sense, the author feels that the US government’s policies deserve the majority of the blame for the global financial crisis. Other topics discussed include the US labor market losing its luster due to pension plans, which she humorously calls “government sponsored Ponzi schemes” (China does not have state-run pension plans).

Lack of Clarity, Dramatic Tones and Misquoting: Detrimental Factors

While many of Moyo’s well-founded points are useful in terms of understanding the recent crisis, there are some faults to be found in both her arguments and logic. She generalizes repeatedly, often referring to the “developing world”

stringent enough leading up to the financial crisis.

4 The US government offers homeowners large deductions on federal income taxes for mortgage interest payments and for state and local property taxes.

when it seems it would be better, and probably more accurate, for her to refer precisely to China. The same goes for referring to the “West” when she seems to be exclusively discussing the United States. At many points in the book I wondered, “Would this be true for developing countries in Africa or South America?” Or, “Would this be true for Scandinavian countries, which are developed but have quite different economic situations and policy prescriptions than the United States?” Harm de Blij, an expert in the field of geography and globalization, splits the world into two parts: the global core and the periphery. Moyo would have benefited from following in his path by using a more specific and relevant division of the world, rather than using the ambiguous geographic terms “East” and “West.”⁵ De Blij believes that the “core” consists of urbanized and wealthy nations, including Western Europe, the US, Canada, Japan and Australia. Meanwhile the “periphery” consists of, roughly, South and Central Asia, Africa, and Central and South America.

One example of the generalizations can be found on page 36, when Moyo states that: “Western nations, their governments and households alike, are buried under seemingly insurmountable amounts of debt,” which is not necessarily a true statement. Yes, the US and UK have high levels of personal and government debt, but what about other developed nations? In 2008 Australia had a gross public debt of 13.9 percent, while China’s in the same year was 16.2 percent.⁶ In order to avoid confusion, Moyo could have abstained from using the terms “East” and “West” as often, and focused more on specific countries to make her points, or opted for using terms such as those that de Blij coined in *The Power of Place*. It would also have been beneficial to include these definitions at the beginning of the book.

Meanwhile excessively dramatic tones are overused throughout the text, attempting to lead the reader to believe that if something is not done immediately, the US will collapse and China will rule the world. This gives the book a tabloid feel in some sections, such as when Moyo urges the reader to believe that time “is running out. Unless the West adopts radical solutions, many of them offered in this book, and adopts them quickly, it will be too late” (p. xiii). Opting for subtler, less biased wording would strengthen the quality of her arguments.

In some instances, it also appears that she takes quotes out of context in order to underscore her points. She quotes an anonymous mortgage advisor in the UK (sans source) as stating that his “best advice to someone hoping to buy

5 Harm de Blij, *The Power of Place: Geography, Destiny, and Globalization’s Rough Landscape* (Oxford: Oxford University Press, 2010).

6 “Public debt (% of GDP),” *IndexMundi*, <http://www.indexmundi.com/g/g.aspx?c=as&v=143>.

[real estate] with a small deposit is to live on a credit card. Buy your groceries on it, go out to dinner on it, spend on it what you'd normally spend on a debit card" (p. 37). While she is trying to prove that the UK government and businesses are encouraging people to live deeply in debt rather than spending within their means, it is in fact common knowledge that consumer loan approvals of all kinds are based on one's credit history. One way to develop a good credit score is to utilize a credit card, paying it off in full and on time every month. Therefore the quote does not necessarily prove anything regarding living within one's means, or her idea that developed countries have been encouraging reckless spending by their citizens.

Another issue that struck me was Moyo's discussion on race in the United States. The US, being a country of immigrants, is accustomed to having people of different races and backgrounds living within its borders. However, in the chapter entitled "Labor Lost," Moyo notes that when looking ahead, "for America in particular...the outlook for the labor market is bleak. By most census forecasts, America's minority (non-white) populations will be the majority before too long" (p. 90). While she proceeds to discuss that these groups are statistically the least educated, the matter of race alone is not a good index of the power of the United States. The US is a country built on immigration and multiculturalism, and claiming that having a non-white majority could be a negative aspect contradicts the ideals of the nation. Furthermore, delving more deeply into the topics presented in the first several chapters and saving more general topics such as the education system for another book would have further strengthened the focus of Moyo's argument.

In her conclusion, she offers four monochromatic scenarios for the future: 1) the status quo, 2) China faltering, 3) America fighting back, and (4) America defaulting on its debt. The last one was particularly fascinating, since I had never considered it a viable option for the United States to solve its debt predicament by defaulting. Moyo was able to take a seemingly unimaginable solution—the mighty US defaulting on the internationally renowned US dollar—and make it a surprisingly rational step in the process of solving America's seemingly insurmountable debt problems.

Conclusion: A Solid Resource for Understanding the West's Policy Faults

Moyo's *How the West Was Lost* is overall an excellent source of information on not only the recent global economic crisis, but even more so regarding America's problems with home mortgages and a general overview of the flawed economic policies that resulted in the crisis itself. Therefore, despite some overarching

generalizations and a lack of depth on the more crucial issues, and putting the excessively dramatic tones aside, *How the West Was Lost* is absolutely a worthwhile read for anyone interested in US/China relations, the current status of the global economy and causes of the recent global financial crisis. Moyo skillfully paints a picture of how, despite good intentions, flawed economic policies can ultimately lead to the downfall of even the strongest global superpowers. **Y**