# How Europe Can Return to Growth

Jon Moynihan joins Marian Tupy to discuss why economic growth matters and how European social democracies can escape stagnation.

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Thanks to decades of relatively slow economic growth, Europe is increasingly falling behind the United States.

In this episode of The Human Progress Podcast, Jon Moynihan, a businessman, author, and life peer, joins Marian Tupy to discuss this economic divergence and how the UK and other social democracies can escape stagnation.

Listen to the interview

Below is an edited and abridged transcript featuring some highlights from the interview.

## What does growth mean, and why is it important?

Great question. There are practical reasons why growth is crucial, but there are also moral reasons. The practical ones are that the world stagnates if you don't have growth. And there are a couple of billion people for whom a great deal of economic growth is needed to bring them out of poverty.

Now, the moral reasons are, for example, that if there's no growth, and you, for whatever reason, want to earn more money next year, then somebody else has got to earn less. So, the desire to better yourself, which is very natural, will always be at somebody else's expense in a no-growth world.

These numbers are rough, so I don't want anybody writing to me saying that I got the decimal place wrong or whatever. But 112 billion human beings have lived since the beginning of human existence. 104 billion have died. 80 billion or so died of infection. And those 80 billion had an average lifespan of about 30 years. Then Alexander Fleming discovered how to cultivate penicillin, and capitalism figured out how to manufacture it in bulk, leading to an enormous transformation of human existence. Now, you or I can expect to live till we're about 93.

That's economic growth. People think of economic growth as some dry set of numbers. Well, it's not. It's Alexander Fleming discovering how to cultivate penicillin and the capitalist process spreading that knowledge around the world. So I say to people, "Well, you say you don't want economic growth. Well, how would you like to only live to 30 instead of 93?"

# And in addition to having all those additional years of life, there's the fact that you no longer have to bury your child before the age of one.

Absolutely.

## Tell me more about the institutional underpinnings of growth.

Well, I've written this book in two volumes. The first volume talks about three big things that you've got to have for growth. The three big things are small government, a low level of taxes, and a low level of regulation. I went into this asking, "What creates growth?" I didn't have a particular point of view. Then I looked through all these academic studies, and they're absolutely dispositive. There's no doubt that's what you need.

The problem is that you've got a nasty little thing called Wagner's Law. This Wagner was Adolf Wagner, who in 1865 said, "In a democracy, the size of government inexorably increases." And what he meant was that in order to get elected, politicians promise the world to the electorate, and they sometimes even deliver it. And delivering it is expensive. Then they have to tax more, and that leads to big state, big tax, social democracy.

This is what the European Union is testing the limits of right now. In France, the government spends about 55 percent of GDP and taxes about 50 percent of GDP, which creates a significant deficit. Germany's the same. And they're not growing at all. They don't have any economic growth. 20 years ago, our government was about onethird of GDP, and now it's at 45 percent. So, you can come up with theoretical but very valid reasons as to why that will cut growth into ribbons. But in any event, real wages in our country are about 5 percent lower than they were 17 years ago.

#### That's shocking.

It's like that story about how you get poor slowly for a long time and then suddenly. The European Union is getting poor rather suddenly at the moment, but around the turn of the century, GDP per capita was about the same as the US. Now it's what, 25 percent lower? Because America has kept on growing, and the European Union has kept on not growing.

The battle in the UK has been whether we manage to become more like America, which would lead to more economic growth, or more like the EU, which would lead to much less economic growth. And so far, even though we've left the EU, we're still becoming more like them. This latest government has massively increased the size of government and is also attempting to increase the size of taxes.

My book says that won't happen. Arthur Laffer's been very nice about this book. I admire him tremendously, and in a rather cheeky way, I've gone beyond the Laffer curve to something I have egocentrically called the Moyni curve. I say that the amount of tax that a country can take from its people is invariant. However much it tries, it can't go up from a certain flat level. And that level in the UK is about 36 percent.

Labor has published an economic plan that says we're going to raise tax rates, and that will increase tax revenues to 38 percent of GDP. And I've been writing about this for the last dozen years, and every year, I say, "No, it's 36 percent. If GDP isn't growing, then tax revenues won't grow." And I said this last year when the Conservatives raised taxes, I said, "You can raise tax rates, but you won't raise more tax revenues; it'll stay at 36 percent." And it did. And of course, they spent more because of Wagner's law, but they didn't raise more. So, the deficit in the UK now is 4.5 percent.

Now let me explain why the Moyni Curve works, and of course, I owe all this to Arthur Laffer, who's a genius. I just lift off him. But you look at all the different countries. Interestingly, the Scandinavian countries have quite a high level. They can raise around 50 percent of GDP in taxes from their people. So can France. Singapore can only raise around 18 percent.

Why would they be different? Well, you may have heard about this psychologist called Hofstadter, who spent all his life trying to distinguish national characteristics. One thing he measures is how risk-loving nations are. And the French are very risk averse. Interestingly, the Brits are very risk loving. So, are the Irish, by the way, and very independent. They're not collectivists. Scandinavian countries are much more collectivist. The French are enormous collectivists. Anyway, if you take Hofstadter's measures of each country, you get a brilliant correlation with the level of their Moyni curve.

## I surmised from what you said that Wagner's law continues to demand that governments spend more, but they can only raise so much in taxes. So, the result is more borrowing.

Yes. The US has gone absolutely mad both under Trump and Biden in terms of the wasteful and squanderous way they are borrowing and spending. If you remember, the US was chided for having the "exorbitant privilege" of the world's reserve currency, which allows them to borrow as much as they like. But that won't last forever.

Sooner or later, your debt to GDP gets to such a level that investors are not very keen on buying any more of your debt or even holding it because they worry about you going bust. Let's take Argentina as an example. In 1910, it was the 10th richest nation in the world. It's an extraordinarily blessed country with wonderful beef and agriculture and so forth. And then they discovered Peronism, which is the Acme of Wagner's law. By the turn of this century, they were regularly defaulting on their debts and constantly having to go to the IMF for debt restructuring and the like. So, there are a couple of examples of rich, prosperous, well-run countries that went to hell, and Britain could easily go to hell. France could easily go to hell. At some point, you can't go on borrowing.



#### I want our listeners to walk away understanding how government spending impacts economic growth. Let's talk about this chart from your book.

Source: International Monetary Fund, moyniteam calculations  $5 \cdot See$  Chart 2.5

The vertical axis is the growth rate, and the bars are different categories of government. On the left, you've got governments that spend less than 25 percent of GDP. And over on the right, you've got governments that spend 50 and 60 percent of GDP. So, you can see on the right that those high-spending governments have very low growth. And it's absolutely dispositive. I first produced that chart in 2012. I stole it from somebody else. Nothing that I say in the book is original. And I've been redoing that calculation year after year with new data and all sorts of different data, and you always get the same result.

Why does this happen? I appeal to common sense. Let's say you've got three governments: one is spending 20 percent of GDP, another is spending 33 percent of GDP, and the third is spending 50 percent of GDP. Now, if the size of government is 20 percent of GDP, then for every one government worker or beneficiary, there are four private sector people paying for them. Now, increase the size of government to 33 percent. For every one government employee or beneficiary, there are two private sector people. Now go to the government that spends 50 percent of GDP. Every one employee or beneficiary now has to be carried on the back of just one private sector worker, and it becomes a crushing burden.

Let's go back to the Moyni curve. The UK can't raise more than 36 percent of GDP in taxes. Well, why not?

30 percent of all income tax in the UK is paid by the top 1 percent of taxpayers, and 60 percent of all income tax is paid by the top 10 percent. Those 10 percent are the entrepreneurial types. They're not necessarily rich people, but they're people who will bust a gut to build a business. They're young, high achievers. They are millionaires, billionaires, and rich people who want to have an environment where they can invest their money and not have it confiscated. And it's the risk-taking behavior of that top 10 percent that determines what the level of your Moyni curve is. It's not the risk-taking behavior of the entire population. And right now, we have an absolute flood of millionaires leaving the country. We have an absolute flood of young high achievers in their 20s and high earners leaving the country. And we are the only country in Europe with a net outflow of millionaires.

And it's not just a few of them. It is an awful lot of them. And it's the richer ones. I know plenty; I can tell you a couple of funny anecdotes. Well, one anecdote is from a friend who runs a very high-end club, and he's lost 700 members this year. Now, those members are all very rich; it's just a matter of going off and living in their house in Italy or Dubai or wherever else.

A lot of our millionaires and young high achievers are moving to America. I moved to America when I was 26 and lived there for 20 years because I was fed up with the British economy. But the point is that we are the only country in Europe that's losing millionaires. In every other one, they're going up each year. And that's how raising taxes, having a larger state that requires you to raise taxes, results in people leaving, which means you don't raise the tax anyway.

## Presumably, you left when Britain was doing very poorly in the 1970s. And now we are going back in that direction. What happened? Is it that people forgot about the 1970s?

It does look like you have to teach every generation the perils of socialism. We had a debate last night on a new law they're bringing in to have a regulator for football. Now, by football, I mean soccer, not American football. It is the most absurd thing. By the way, this regulator will require that all football clubs have an EDI strategy that's equality, diversity, and inclusion. And by equality, they mean equality of outcome.

I pointed out that soccer is a game. It's a competition. There's a thing in that game called a winner and another one called a loser. That is not equality of outcome. And I asked if this regulator would require that every game end in a draw. The whole idea is lunacy. We've got so many regulators. Now we're going to have a regulator for soccer.

Another example is when I was moving some money from one bank account to another a couple of weeks ago, and I was told, "Well, you can't transfer the money. You've got to write a check." "Okay, fine, here's a check." "No, no, you can't send it by mail. You've got to walk it down to the bank, prove who you are, and pay it in." That's only 45 minutes of my time. What could possibly be wrong about just taking a little 45 minutes of my time to walk a check down to the bank?

But consider that regulators are doing this sort of thing all over. They've been trying to build a new railroad in the UK, and there was a regulator who was worried about a colony of bats somewhere near this railroad. And they required that the builder build a roof over 10 kilometers of this railroad, known as the bat tunnel, to keep the bats out from flying in front of a speeding train. That cost 100 million pounds. Everybody in the House of Lords has been going, "This is dreadful, 100 million pounds to build this bat tunnel. How bat shit crazy is that?" And I said to them last night, "You've all been complaining about this bat tunnel, but you are putting in more and more regulators. Who do you think made you build that bat tunnel? It was a regulator you put in."

More and more of life is regulated and just congealing, and I believe the whole economy is just going to congeal into inactivity. I may be exaggerating slightly.

So, you talked about three things that underpin economic growth: one is the rule of law, another is low taxes, and the third is small government. But small government doesn't just mean that you spend less money. It also means that you regulate less.

Yes.

# Now, let's finish on this. I was struck by something that you said about how we are always one generation away from socialism. Do you conjecture that the default setting of a human being is more or less socialist?

Fortunately, I don't think that is the case. And I'll explain that assertion in this way.

Mother Nature or God or whoever you wish to believe ordered the way human beings are, so ordained it that half of human beings would be feelers and half would be thinkers. And it was Carl Gustav Jung who defined thinkers from feelers. Feelers act from the heart. It's how they feel about something that informs their principles and how they behave and judge. Thinkers use their heads and use logic to get to their answers.

Now, the feelers' primary thing is to be kind, and the thinkers' is to be logical. Now, here's the problem. Feeler-thinker is gender-differentiated. 40 percent of women are thinkers, and 60 percent are feelers. 60 percent of men are thinkers, and 40 percent are feelers.

The primary schools, which teach children up to the age of 11, are almost exclusively staffed with women right now. As a result, the "be-kind" philosophy is more inculcated into children than it was 30 years ago. Young people are told over and again that they must be kinder, that boys are toxic, and so forth. And so, everybody now believes that the default thing is to be kind, be nice, and that means be socialist. And I think that's why we've got the problem that you just enunciated.

And I think that a reaction is starting now. We might see a bit of the opposite in the next few generations. But it is a problem because right now, young people do not vote for capitalism. They think capitalism is a horrible thing. They enjoy the fruits of capitalism every second of their ever-loving lives, but they don't understand that, and, in general, they think that socialism is the way to go.