The Chazen Institute Report on World Business and the Economy

Special Issue on Business Professionals' Confidence in Government in Major Economies

October 2013

Prospects & Challenges for Major Economies 2014

The Chazen Index on Confidence in Government

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Highlights

- ### In Government We Don't Trust

  Disappointment in government was a constant theme among business professionals the world over. This lack of confidence is seen as a key obstacle to economic progress.

  Relative to other countries, Chinese and German business professionals have the most confidence in their own governments' ability to handle economic challenges.

- ### America Is Beautiful — at a Distance

  Despite a low confidence rating given by the Americans at home, Washington, DC, is the most-admired foreign government by respondents from other countries, especially emerging economies.

  Germany is the second most commonly admired country by foreign business professionals. China doesn't make the cut in spite of its consistently top-of-the-chart growth performance.

Executive Summary

A fiscal debacle in the United States was averted in the eleventh hour before the US government had to contemplate its first-ever default on its debt. To paraphrase Winston Churchill, you can always count on Americans to do the right thing — after they've tried everything else. In the new Chazen survey of business professionals, conducted in September 2013, we find that professionals in the United States are not confident that their government will make the right economic policy moves. However, business professionals in most other countries (with the exception of Germany) think the United States can conquer its challenges.

In this report, we provide business professionals' forecasts of economic growth for both the next year and the next 10 years in major economies. With a 4.3 percent median estimate of real GDP growth rates, emerging markets are expected to grow about three times faster than mature markets.

We also highlight major challenges for high-income countries and some major emerging market economies. Government-related issues are the most commonly cited concern for all countries, while emerging markets also worry about poor infrastructure. Most importantly, we summarize business professionals' confidence in their own government's ability to address the key challenges facing their country, as well as their rankings of foreign governments they find most likely to meet each country's key challenges. Overall, our respondents don't have much faith in their own government: on a scale of 1 to 6, with one being unconfident and six being very confident, the mean confidence level is 3.0 , signifying tepid unconfidence.. As mentioned above, the most promising foreign governments are the United States and Germany.

Why is business confidence in the government important? Because it affects investment decisions. Firms are less willing to make long-term investment in countries whose prospects seem unpromising. And investment, in turn, affects economic growth.

I. About the Survey

This is the first of a series of three reports that aim to identify opportunities for growth in 10 major economies and to diagnose challenges that each country needs to address to avoid underperformance. The data comes from a survey conducted September 4 – 24, 2013, of Columbia Business School alumni as well as additional business professionals who hold an advanced degree in a business-related field or whose job has strong exposure to international trade and investment. While generally not professional forecasters, the respondents have on-the-ground experience, and their opinions may indicate the sentiment of business professionals in the country for which they are surveyed.

Designed by researchers at the Jerome A. Chazen Institute of International Business at Columbia Business School, the survey asked respondents to project the growth prospects and critical constraints for the country in which they currently live. The sample size by country varied from 10 to 292 respondents.

Table 1: Economies Included in the Survey

Emerging Markets	Developed Markets
Brazil	France
China	Germany
India	Italy
	Japan
	Spain
	United Kingdom
	United States

II. Analysis

Top Challenges

As the world recovers from crises and recessions, the global economic environment remains challenging. To identify potential constraints of each country that may hinder its progress, we asked respondents, "What do you think the greatest challenges to economic growth are for your country?" Respondents could choose up to three challenges from a list of 22 options. We also allowed write-in responses. The responses differed greatly both between countries and often within a country, indicating the diverse challenges economies face.

For developed countries as a whole, government poses a major concern, as the top three most-mentioned challenges are all related to government. In particular, government debt stands out as the biggest obstacle to growth and is the primary concern for respondents from Italy, Japan, the United Kingdom, and the United States. Heavy tax burden, and government and bureaucratic inefficiencies, are also cited as key barriers to economic expansion. Compared to previous survey results, economic crises and recessions in other countries are less of a concern, indicating that the impact of the global financial crisis has abated and countries are now focusing more on home-grown problems. Lack of innovation and an aging population is also considered to be a critical growth constraint, especially for respondents in Japan and the United Kingdom.

On the other hand, for emerging economies, corruption, poor or inadequate infrastructure, and government and bureaucratic inefficiencies are the most commonly mentioned challenges that may derail growth prospects. While not frequently cited by respondents from developed countries, corruption is considered rampant in emerging markets and is among the most severe hindrances to investment and growth. More than 40 percent of respondents in India and China listed corruption as a top challenge. At the same time, emerging economies also report being plagued by government and bureaucratic inefficiencies. Poor infrastructure is a major concern for respondents from Brazil and India, but less so for those from China, which has successfully built up an extensive network of high-speed railways and highways. Inflation appears to be less important than previous surveys, but it remains a headache

for Chinese respondents, who presumably worry about the consequence of a large-scale credit expansion over the last few years.

It is noteworthy that American business professionals worry about government debt, bureaucratic inefficiency, and income inequality, but not so much about inflation. This perhaps suggests that the political resistance to the US Federal Reserve maintaining a super-easy monetary policy will be low, as least from business professionals.

Interestingly, Germans mention inflation as their top worry, more than their counterparts in other developed countries. This may be more than the usual German obsession with inflation. As the largest economy in the eurozone with a comparatively low unemployment rate, Germans could worry that the eventual escape from the eurozone fiscal crisis will involve a massive monetization of the government debt, leading to an larger increase in inflation in their country than in some other euro countries. A rise in inflation that may not bother the Greeks or the French could cause an acute stomachache for Germans, who are famously inflation-averse.

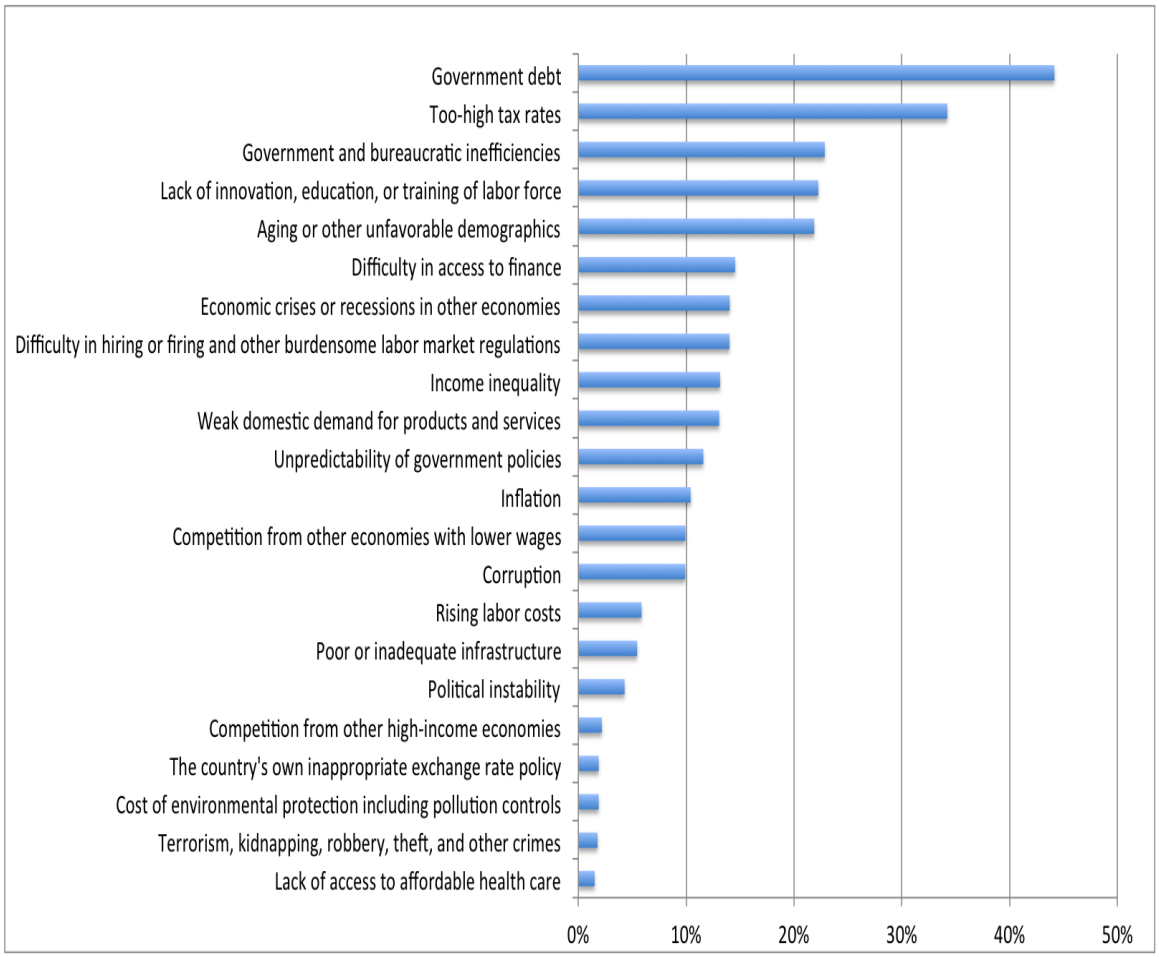
In terms of social problems, income inequality is a top concern for respondents from China, the United States, and Germany. Despite having the highest Gini coefficient (a measure of income inequality) among the countries we surveyed, Brazilians don't seem to be troubled by the disparity of wealth as the gap has been shrinking in recent years.[1] Maybe they just have enough other things to worry about.

Aging or other unfavorable demographics is thought to be a serious challenge for Japan, where the percentage of population age 65 and above is the highest and rising (24.4% in 2012).

Some most-cited challenges are more directly related to government oversight. Difficulty in hiring or firing and other burdensome labor market regulations is a commonly reported problem by business professionals in France. In Spain, access to finance is considered the most important barrier to economic expansion. Respondents from the United Kingdom are afraid that weak domestic demand for products and services will impede growth.

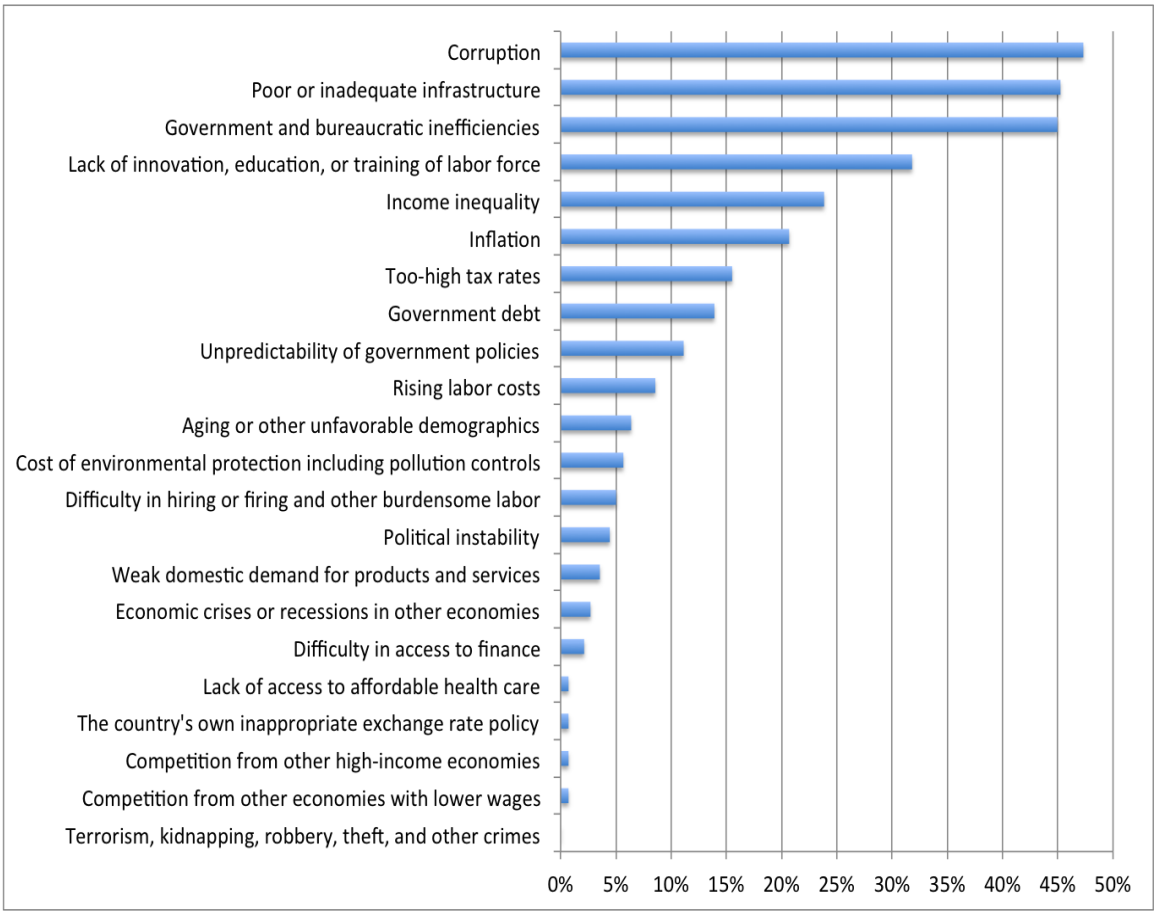
[1] World Bank, World Development Indicator.

Figure 1: Top Challenges for Developed Economies



Notes: We asked respondents to list up to three top challenges to growth over the next ten years. The percentages are calculated by weighting each country equally – that is, we average first across individuals in a country to get the percentages for each country, then average across the countries. Percentages do not add up to 100 because respondents could choose up to three challenges.

Figure 2: Top Challenges for Emerging Economies



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Confidence in Government

Faced with a wide variety of challenges that pose potential threats to economic growth, governments must make the right moves to ensure their country's future prosperity. To gauge the public's confidence in their government's future performance, we asked, "How confident are you in the ability of the government to adopt the right policies over the next decade to deal with these challenges?" Respondents were asked to rate their confidence on a scale of 1 to 6, with 1 being "very unconfident" and 6 being "very confident."

The mean score for all countries is 3.0, implying that, overall, people are somewhat skeptical of their government, which is not surprising since government inefficiency is considered a major challenge to growth for developed and emerging markets alike.

Respondents from China and Germany are the most optimistic about their respective governments. Of course, these two countries happen to be the best-performing economies among developing and developed countries, respectively.

Despite relatively high economic growth rates, Indian respondents gave their government the lowest score.

In addition to evaluating the ability of their own government, we asked respondents to pick a major foreign country, from a list of the G20 countries, whose government they think will most be able to meet the challenges in its economy over the next ten years. While American respondents, who gave their home country a low mean score of 2.7, don't seem to have much faith in their government, respondents from other countries, especially emerging markets, have more confidence in Washington's ability to eventually rise to its challenges. For example, the Chinese, Indians, Brazilians, and the Japanese all regard the US government as more likely than any other government to be able to rise to the challenges that will confront it.

Germany follows closely behind, as it won the most nominations from five out of the 10 countries we surveyed. The US government also received more votes from German respondents than did other governments, though more Germans choose "none of the G20 governments" as their answer.

Although respondents from China reported the highest level of confidence in their government, and China's extraordinary economic growth in recent decades has awed the world, confidence in the Chinese government is not widely expressed by respondents from other countries.

Table 2: Confidence in Home and Foreign Government

(1=Unconfident 6=Confident)

Country	Confidence in Own Government	Most-Admired Foreign Government
China	3.9	United States
Germany	3.9	None of the G20 (US 2nd)
United Kingdom	3.1	United States/Germany
Spain	3.0	Germany
Italy	2.9	Germany
Brazil	2.8	United States
Japan	2.7	United States
United States	2.7	Germany
France	2.6	Germany
India	2.4	United States

Growth Projections

Our respondents' overall uncertainty about their government's ability to handle challenges is indeed reflected in their prediction of their country's growth prospects. They were asked to give their best estimate of the annual real GDP growth rate of their country, as well as the average for the next decade. For many countries, 2014 growth rate predictions made by our respondents are lower than International Monetary Fund's (IMF) projections.

However, respondents feel more optimistic about the future beyond 2014. The average growth rate for the next ten years is expected to be higher or at least the same as that for 2014, with China being the sole exception, despite its people's confidence in the government's ability.

With a mean estimate of 4.3 for both 2014 and for the next ten years, emerging economies are predicted to grow much more rapidly than developed countries, which received a mean estimate of 1.3 and 1.7 respectively. China and India will likely remain the star performers. The French economy, on the other hand, is expected to continue to struggle, as both of its growth rate estimates are the lowest among the 10 countries.

Table 4: Growth Projections

	Survey*		IMF**	
Country	2014	2014-23 average	2013	2014
United States	2.1	2.5	1.9	3.0
Brazil	2.3	3.0	3.0	4.0
China	6.0	5.0	8.0	8.2
France	0.5	1.0	-0.1	0.9
Germany	2.0	2.0	0.6	1.5
India	4.5	5.0	5.7	6.2
Italy	1.0	1.5	-1.5	0.5
Japan	1.0	1.2	1.6	1.4
Spain	1.0	2.0	-1.6	0.7
United Kingdom	1.7	2.0	0.7	1.5

*Note: Values are median projections.

**Source: IMF World Economic Outlook, April 2013

Appendix

In this appendix, we provide more information about the distribution of respondents among the countries covered in the report and their age and industry characteristics.

Table A1: Number of Responses by Country

Country	Responses
United States	293
Brazil	26
China	47
France	26
Germany	32
India	11
Italy	50
Japan	11
Spain	26
United Kingdom	27
Total	549

Table A2: Age Distribution of Respondents

Age Range	Percentage
Under 30	2.9%
30-34	11.9%
35-39	14.8%
40-44	15.4%
45-49	10.8%
50-54	12.3%
55-59	7.9%
Over 60	24.0%

Table A3: Industry Distribution of Respondents

Industry	Percentage

Financial services	33.2%
Consulting	18.2%
Manufacturing	11.9%
Wholesale/retail	3.9%
Transportation	1.7%
Mining	0.6%
Government	1.1%
Education, academic research, or think tank	3.5%
Other	26.1%

Tables A4 – A6 are regression results of respondents' growth projections and confidence levels, based on their industry of work and their age. For all countries as a whole, older respondents tend to have a more pessimistic economic outlook. The differences between industries are not significant. While the majority of participants in this survey are Columbia Business School Alumni, we also included business professionals outside the school in China, Germany, Italy and Spain. These non-alumni respondents are in general more confident about their government.

Table A4: Regression of Responses on Industry and Age of Respondents (All Countries)

	2014 real GDP	2014-23 real GDP	Confidence
Financial services	0	0	0
	(.)	(.)	(.)
Consulting	-0.023	0.07	-0.169
	(0.166)	(0.169)	(0.156)
Manufacturing	0.246	0.462**	0.047
	(0.196)	(0.202)	(0.186)
Wholesale/retail	0.117	-0.146	0.043
	(0.299)	(0.311)	(0.285)
Transportation	-0.491	-0.414	0.877**
	(0.444)	(0.453)	(0.442)
Mining	-0.346	-0.407	-0.962
	(0.752)	(0.765)	(0.714)
Government	-0.767	0.059	0.664
	(0.530)	(0.540)	(0.549)
Education, academic research, or think tank	-0.17	-0.036	0.112
	(0.307)	(0.321)	(0.292)
Other	0.096	0.15	-0.136
	(0.148)	(0.152)	(0.140)
Under 30	0	0	0
	(.)	(.)	(.)
30-34	-0.682*	-0.735**	0.3
	(0.358)	(0.373)	(0.341)
35-39	-0.169	-0.45	0.299
	(0.350)	(0.368)	(0.333)
40-44	-0.529	-0.913**	0.127
	(0.348)	(0.365)	(0.331)
45-49	-0.503	-0.725*	-0.086
	(0.364)	(0.380)	(0.347)
50-54	-0.318	-0.752**	-0.003
	(0.356)	(0.371)	(0.338)
55-59	-0.495	-0.956**	0.111
	(0.376)	(0.391)	(0.358)
Over 60	-0.439	-0.815**	-0.083
	(0.343)	(0.358)	(0.327)
United States	0	0	0
	(.)	(.)	(.)
Brazil	-0.255	0.251	0.002
	(0.269)	(0.274)	(0.251)
China	2.695***	1.726***	1.055***
	(0.249)	(0.257)	(0.236)
France	-1.565***	-1.440***	-0.074
	(0.262)	(0.271)	(0.249)
Germany	-1.069***	-1.524***	0.911***
	(0.296)	(0.305)	(0.278)
India	1.660***	2.520***	-0.425
	(0.391)	(0.398)	(0.391)
Italy	-1.515***	-1.116***	0.032
	(0.235)	(0.240)	(0.220)
Japan	-0.767*	-1.205***	0.101
	(0.393)	(0.400)	(0.374)
Spain	-1.789***	-0.916***	0.113
	(0.305)	(0.315)	(0.290)
United Kingdom	-0.562**	-0.630**	0.329
	(0.263)	(0.268)	(0.250)
Outside Recruits	1.481***	1.296***	0.063
	(0.231)	(0.238)	(0.218)
R Square	0.526	0.415	0.140
N	536	528	538

Table A5: Regression of Responses on Industry and Age of Respondents (Developed)

	2014 real GDP	2014-23 real GDP	Confidence
Financial services	0	0	0
	(.)	(.)	(.)
Consulting	0.051	0.131	-0.188
	(0.151)	(0.170)	(0.167)
Manufacturing	0.482**	0.635***	0.124
	(0.188)	(0.212)	(0.211)
Wholesale/retail	0.005	-0.135	0.082
	(0.271)	(0.311)	(0.304)
Transportation	-0.365	-0.354	0.874*
	(0.380)	(0.429)	(0.448)
Mining	0.29	-0.314	-1.452
	(0.788)	(0.888)	(0.887)
Government	-0.052	0.707	0.637
	(0.494)	(0.558)	(0.556)
Education, academic research, or think tank	-0.085	-0.194	-0.044
	(0.293)	(0.340)	(0.330)
Other	0.21	0.172	-0.124
	(0.135)	(0.154)	(0.152)
Under 30	0	0	0
	(.)	(.)	(.)
30-34	-0.114	-0.392	0.2
	(0.367)	(0.429)	(0.412)
35-39	-0.051	-0.223	0.157
	(0.355)	(0.416)	(0.399)
40-44	-0.225	-0.64	0.021
	(0.355)	(0.417)	(0.399)
45-49	-0.243	-0.43	-0.184
	(0.365)	(0.427)	(0.412)
50-54	-0.014	-0.571	-0.06
	(0.360)	(0.420)	(0.405)
55-59	-0.242	-0.756*	-0.022
	(0.375)	(0.437)	(0.422)
Over 60	-0.171	-0.611	-0.159
	(0.349)	(0.407)	(0.392)
United States	0	0	0
	(.)	(.)	(.)
France	-1.624***	-1.509***	-0.062
	(0.225)	(0.257)	(0.252)
Germany	-1.436***	-1.511***	0.940***
	(0.270)	(0.307)	(0.300)
Italy	-1.827***	-1.105***	0.062
	(0.213)	(0.240)	(0.235)
Japan	-0.842**	-1.236***	0.143
	(0.338)	(0.381)	(0.381)
Spain	-2.090***	-0.841***	0.162
	(0.276)	(0.315)	(0.311)
United Kingdom	-0.576**	-0.671***	0.343
	(0.226)	(0.255)	(0.254)
Outside Recruits	1.938***	1.180***	0.005
	(0.239)	(0.273)	(0.267)
R Square	0.289	0.2	0.093
N	454	449	456

Table A6: Regression of Responses on Industry and Age of Respondents (Emerging)

	2014 real GDP	2014-23 real GDP	Confidence
Financial services	0	0	0
	(.)	(.)	(.)
Consulting	-0.45	-0.572	0.036
	(0.828)	(0.714)	(0.523)
Manufacturing	-0.938	-0.417	-0.216
	(0.760)	(0.678)	(0.462)
Wholesale/retail	0.836	-0.133	0.102
	(1.555)	(1.325)	(0.945)
Mining	-1.649	-0.9	-0.108
	(2.113)	(1.804)	(1.279)
Government	-4.119*	-3.401*	
	(2.159)	(1.851)	
Education, academic research, or think tank	-0.756	-0.039	0.739
	(1.159)	(1.007)	(0.719)
Other	-0.634	-0.128	-0.225
	(0.647)	(0.567)	(0.402)
Under 30	0	0	0
	(.)	(.)	(.)
30-34	-1.078	-1.198	0.614
	(1.102)	(0.940)	(0.667)
35-39	0.473	-0.691	0.804
	(1.098)	(0.960)	(0.665)
40-44	-0.548	-1.699*	0.48
	(1.140)	(0.975)	(0.688)
45-49	0.191	-1.373	0.244
	(1.298)	(1.109)	(0.785)
50-54	-0.387	-0.97	-0.006
	(1.286)	(1.099)	(0.781)
55-59	0.389	-0.568	1.108
	(1.522)	(1.297)	(0.921)
Over 60	-0.358	-0.844	-0.051
	(1.145)	(0.977)	(0.705)
Brazil	0	0	0
	(.)	(.)	(.)
China	3.366***	1.253*	0.894*
	(0.754)	(0.643)	(0.454)
India	2.323***	2.512***	-0.432
	(0.787)	(0.678)	(0.508)
Outside Recruits	1.228	2.183***	0.256
	(0.772)	(0.679)	(0.472)
R Square	0.563	0.456	0.321
N	82	79	82

Table A7: Top Three Challenges to Growth For Each Economy

Developed Economies	
United States	1. Government debt
	2. Government and bureaucratic inefficiencies
	3. Income inequality
France	1. Too-high tax rates
	2. Difficulty in hiring or firing and other burdensome labor market regulations
	3. Government debt
Germany	1. Inflation
	2. Too-high tax rates
	3. Income inequality
Italy	1. Government and bureaucratic inefficiencies
	1. Government debt
	1. Too-high tax rates
Japan	1. Government debt
	2. Aging or other unfavorable demographics
	3. Lack of innovation, education, or training of labor force
Spain	1. Difficulty in access to finance
	2. Corruption
	3. Too-high tax rates
United Kingdom	1. Government debt
	2. Lack of innovation, education, or training of labor force
	3. Weak domestic demand for products and services
Emerging Economies	
Brazil	1. Poor or inadequate infrastructure
	2. Lack of innovation, education, or training of labor force
	3. Government and bureaucratic inefficiencies
China	1. Corruption
	2. Income inequality
	3. Inflation
India	1. Government and bureaucratic inefficiencies
	2. Corruption
	2. Poor or inadequate infrastructure