

Education is the New American Frontier

WASHINGTON – The main theme of the Democratic Party, as we approach the November elections, is economic justice. The Republicans gave too much to the rich. Too many poor people in America. Too many middle class families struggling. It is time to recreate some balance. Fine, we understand the picture and the rationale for change. The Republicans, in turn, do not have much to say. The somewhat feeble message is to go back to the frugal ways of the past: limited government, limited taxation, obtaining thus the magic of re-energized free enterprise.

While there is definitely more in the programs of both parties, they are both surprisingly myopic in as much as they fail to see the need to create human capital as the essential precondition for more wealth creation. To the Democrats we should say that the issue is no longer about the fairness in which the pie is sliced. No doubt, there is growing inequality in America. But the real story is not about the extravagant compensation packages of CEOs; but about America's difficulty in growing the pie. With so much focus on economic and social inequalities, we are losing sight of the fact that the country has lost steam. For the last few years we have had bogus growth founded on delusions of wealth (the supposedly never ending real estate appreciation cash cow). People spent "found money" represented by growing equity in their homes that was not real. Now, even for the relatively prudent, the equity in their homes has been cut to size and the home equity lines of credit need to be paid back. For the reckless, of course, it is a lot worse: foreclosure, bankruptcy and all that.

While the consequences of ill advised spending favored by the housing mirage are well known, the reality of America's diminished wealth that was hidden underneath the spending

frenzy is not in full sight and thus not fully analyzed. The fact is that, overall, as a country, we are not as wealthy as we used to be.

And to restart the engine of growth it will take more than lower taxes. This is why the Republican message is also disappointing. Sure, lower taxes, on balance, are better than higher taxes. But the issue before us is more than creating the proper macroeconomic environment that will stimulate new growth. Indeed, in order to have meaningful new growth, we need to understand that the drivers of growth have changed and thus we need to retool. And this retooling should not be impossible, as Americans are more inclined to undo and redo than most other nationalities. But the urgency to redo and retool has to sink in.

The urgency is due primarily to some of the effects of globalization. Globalization has brought into the mainstream hundreds of millions of new, relatively inexpensive workers. Like it or not, they compete with our workers. Assuming equal or comparable skills, they are more competitive because they are cheaper. This is the main driver fostering the migration of labor intensive industries to developing countries, China first and foremost, but also Vietnam, Bangladesh, the Philippines and all the others. This is systemic change. Those industries and all those jobs are gone. Tax incentives and other assorted bribes will not do much to counter this transformation.

And the fact is that we have seen only the beginning of this labor force realignment. As education standards improve in developing countries, new skills will be developed and thus better educated workers in Asia will take over other sectors, to the detriment of the skilled workforce of America. In the meantime those who are not swept away by this new current will see their income stagnate, for the obvious, if unpleasant, reason that their US employers will have to keep their cost low in order to compete with the newcomers.

The days in which American industries dominated the world are over. The days in which General Motors could negotiate generous benefits packages with the labor unions are over, because there are no longer any margins, no fat profits to be shared. Today, General Motors, aware of the financial weight caused by these stupendous costs, is trying to get out of the old arrangements in the hope of surviving.

So, once again, the main economic issue is not about fairness nor is it about fiscal incentives. The fundamental issue is about human capital, or lack thereof. Simply stated, America cannot and will not remain a first class economic power with a third rate education system. Until now the failures of American education have been masked by the surprising unevenness of the education scene. In America education is local and driven by local issues; not to mention that the rich can opt out of it altogether, sending their children to private schools. So, we have at least two types of education. One for the small elites which is good or even superior; and one for everybody else which is between mediocre and horrible. Until recently, the pipeline for the elites funneled the talent that would go and populate the super universities whose human crops could be harvested by the leading corporations. But the pipeline from private or high quality high schools to prestigious universities is too narrow these days to create and maintain an internationally competitive workforce strong enough to sustain the whole country.

The innovation produced at the top level no longer generates enough surplus to give buoyancy to the rest of a society –a society that may be hard working but that is unskilled and thus uncompetitive and for this reason poorly paid. And so we have at least two economies: the competitive sectors that thrive in the new globalized environment and those who suffer from globalization because they cannot adequately compete with the new comers from the emerging economies. If we ignore this fact: an increasingly uncompetitive workforce, we can try and

twist this issue of the American economy in every way it would please politicians, but we shall not improve the underlying fundamentals.

Of course it is easy for Democratic contender Barak Obama, seeking the votes of the underprivileged and of a struggling middle class, to affirm that it is all about fairness and thus the need for redistribution of what appear to be excess profits going to very few at the top. So, a little bit of Robin Hood politics should do all some good. Some of the very rich may have to pay more taxes and, who knows, may have to give up their shares of the private jet. The poor will get a little relief. Indeed. For the millions who do indeed have immediate pocket book issues, relief is appealing.

On the other side of the divide, the idea of tax relief and disciplined public spending may appeal to struggling business people who would like to grow their activities.

But, yet again, the issue is no longer about the most appropriate fiscal or macroeconomic environment. The issue here is about the very foundation of a competitive knowledge economy and that foundation rests on superior human capital. Lacking such capital, we are in trouble. We are no longer on top. We struggle and, inevitably we shall fall behind. In this context fighting for deciding who gets what may be expedient in the short term. But, long term, it does not resolve the systemic problem of declining incomes due to a progressively uncompetitive workforce.

Even Karl Marx, if I may digress, postulated a successful socialist society on a prosperous economy. Socialism, let us not forget, was not about equality, it was about a (supposedly) more rational use of all economic assets to increase the general welfare. Socialism was not about socializing poverty. It was about socializing wealth. Such wealth must be produced and today it is all about brains and very little about muscle.

If this were not enough, the education gap in America is exacerbated by the race issue. Simply stated, in Black or Latino neighborhoods, the public schools are usually at the bottom in terms of quality. So, those who need the education ladder the most in order to extricate themselves from poverty, low paying jobs, marginalization and worse are those who are treated the worst.

If the middle class accountant is in trouble as his job may soon find its way to Bangalore, the poor inner city kid who goes to a dismally dysfunctional school has even fewer chances. He may drop out and thus be illiterate or semi-illiterate. Or he may get a diploma which in the real world is almost useless, given the low quality of education that he received.

In the past, Blacks were poor because they were openly discriminated against. No access to this or that. Today Blacks and Latino are more likely to stay poor because they are without access to quality education. A lower income uneducated person has next to zero chances to improve his/her lot. Thus the underclass will stay underclass. This is the immense unfairness of a society in which we would like to think that "Access" is our motto, as everybody should have a chance. No, a ghetto kid is trapped by the circumstances of his birth. Very much like a poor person in a third world village, for him/her birth is destiny. Politicians may come along promising aid and relief. But, unless this relief comes in the form of meaningful education, it is not worth much.

If the situation and the chances of those at the very bottom of the American society is truly dire, for most of the others the prospects are not that rosy either. They will have to compete with equally educated and very eager Asians. Unless their skills improve substantially, everything else being equal, lower labor cost will prevail. Of course, eventually this cost advantage will be eroded. But this is many years in the future. In the meantime we have to appreciate the new

competitive environment and retool accordingly by creating a first class workforce that will work in the high value industries of tomorrow.

For the time being, the educated elites are doing reasonably well. In the ocean liner Globalization they have the education, the skills, the knowledge and thus the first class arrangements. They run the competitive, innovative industries. They get to export to the emerging markets. They benefit from trade.

But the second and third class uneducated passengers, upon arrival, do not have the chance to improve their lot through hard work and ingenuity. They are cheap, unskilled labor, competing with illegal immigrants at home and new workers abroad. We need someone to go down to the third class with lots of books and a lot of energy. With proper training, when we get to port, the third class passengers –who happen to be mostly our minorities– may have a chance.

This is what the current political debate should be about: how to give proper education to all, so that, as a society we may stay internationally competitive and prosper. Either we get new skills for all or those who are left behind or we shall be progressively poorer. Not a good future for this Land of Opportunity.

John Edwards and the Impossible Ethical Standards

WASHINGTON – We know what happened regarding the disclosure of former Senator and former would be Democratic party nominee John Edwards extramarital affair. There was the expected mini

media earthquake and non stop coverage, at least for a while. Edwards caught in the act. Edwards hiding in a hotel bathroom. Edwards possibly had a child from his lover. All this while married and while his wife deals with breast cancer. A mix of juicy and sordid stuff. Hence the media feast. Edwards is finished. For now at least. For later, who knows. He may undergo therapy, self-examination, repentance and come back better than new. This is also a familiar segue to stories of personal misconduct.

Still, while the script is familiar, the real, important but not debated question is: why this story should have, as a matter of course, a political dimension? Indeed, why? This is garden variety adultery. An issue between Edwards, his wife, his lover and may be others. But why does this story immediately create political consequences? "Well, -many would say- because it reveals something important about the man's character. He deceived his wife, thus he may deceive the Nation. Besides he lied about it".

Oh well....Isn't it a bit too much? True, any aspect of a person's life reveals something about their character. But if anybody who had an affair should be disqualified from positions of high or even modest responsibility, then we would have a real problem. This is not to say that the issue does not exist. It does exist. But can we automatically translate someone's marital infidelity into a definitive conclusion that this person is unfit to govern? This is silly. Or, rather it should be regarded as silly in a normal environment.

But the point is that in the United States of America we do not have a "normal environment". Politics in America is not just about figuring out the most cost effective public policies that can benefit as many citizens as possible. Quite often, politics is a lot more about moralizing than about policies. And, case in point, John Edwards' message was mostly about moralizing. It was about the plight of the poor and the downtrodden, the other America, the America forgotten, left

behind, hopeless. Well, whatever the resonance of his message with the Democratic primary voters, (not much, judging by the numbers), Edwards was a preacher/politician.

From this angle, his rather human failings disqualify him from preaching while being a politician. He has lost the moral high ground. He cannot grandstand anymore, because he got caught (almost literally) with his pants down.

But if we could imagine a different context, a context in which the ability of someone to hold public office is based primarily on competence, this whole business of personal conduct, in issues that have nothing to do with public policy, should be looked at in a different light. Let us assume that Edwards had proven qualities of brilliance as a chief executive, would this extramarital business disqualify him, if we all agreed as a society that his love life and how he handles it, is his personal business? No, his personal conduct, (unless it were criminal), should be irrelevant.

But we are not in that different context. While there are real life debates about nuts and bolts issues in America, featuring people who aim at finding practical solutions to real life problems, somehow, politics, especially at the highest level, is about moral guidance. And one cannot be a moral leader, unless his/her personal conduct is totally without blemish. Any blemish, (unless theatrically revealed and atoned for, before one starts preaching) diminishes or denies the moral credentials. The understanding that human beings are imperfect and fallible, somehow does not apply to would be political leaders. The fact is that the people, the voters, seek reassurance along with competence. And sometimes the reassurance coming from someone who feels morally superior and who projects this aura of being some sort of prophet is more important than any real or presumed competence.

Of course, no one denies that leaders have to be inspiring. But there should be a limit to what should be expected in that

department. Whereas here in America passionate speeches that call us to a higher duty are mistaken for political talk. And this explains the Barak Obama phenomenon. Passion, good delivery and a novel persona (half black and half white) accompanied by the declaration (made by himself) that the country is in a deep crisis, thus he cannot wait any longer, has been enough to propel an unknown politician to the national scene, giving him enough momentum to defeat all the others.

But what was the magic ingredient? He was propelled to the national scene by being different and talking passionately, with a fervor that has a distinct preaching flavor to it. People were not impressed with his record or his past achievements (slim at best); but by his passionate call to totally reform, change and transform the whole of America. Others of course have come along in the past with similar messages of total change; but this did not get them very far. Obama is different and he comes in a different package. But the basic point is that if the adultery story had had him as protagonist, he would be history, just like John Edwards. His credentials as prophet in chief would crumble, and with that his moral claim to be a new leader.

This is what we get when we mix a way of moralizing and preaching that applies to religious leaders and political skills. The outcome is not so good. The fact that someone can use his/her record in their personal life and their beliefs and passions as a political qualification is a mistake as it introduces extraneous elements in a context that is primarily about other things. Which is not to say that the moral qualities of people who want to be in public life are not relevant. They are relevant. The fact is that would be policy-makers should not be appreciated because they talk like saints; nor should they be held to impossible standards of sainthood. The notion that we need moral perfection as a prerequisite for anybody aspiring to high office is

ridiculous. In fact it is worse than that, it is damaging to the nation. It causes many talented people to stay away from public life, because they would not subject themselves to a level of scrutiny that does not exist elsewhere in the rest of society.

In the meantime the lesson for John Edwards, for all the others who think that high office is a church pulpit and for the public willing to accept this confusion is: “Distinguish between moralizing and policy proposals. If you want sound public administration, examine the policies that are on the table. If you want to deliver or listen to a sermon, go to a church”.

Europe’s “Soft Power” and the Georgia Crisis

WASHINGTON— The way Europe is handling the Russian invasion of Georgia, (including the disturbing corollary of a possible unilateral recognition of the independence of South Ossetia and Abkhazia by Moscow), invites some reflections about the merit of “soft” versus “hard” power as primary international relations tools. Has Europe’s soft power succeeded in persuading Russia to desist from its design to reassert its influence on one of pieces of the former Soviet Union and change course in this crisis? It would appear that this is not the case. It would appear that Moscow has established who is the boss in the Caucasus, while actual or potential European reactions played almost no role in the way in which the Kremlin managed this operation. European verbal reactions, so far at least, have been treated as inconsequential noise.

Yet, in foreign policy debates, it was and it is still quite fashionable and “progressive” to compare Europe’s enlightened policy of engagement, founded on its soft power tools, to America’s indiscriminate and rough use of raw military power. According to this well meaning conventional wisdom, soft power suggests dialogue, persuasion and the ability to engage others through agreements, trade and cultural exchanges. The second one suggests a somewhat tyrannical, unilateral approach. “Do as I say, or the marines will be following shortly”. Europe is about multilateralism, engagement. America is about coercion (whatever the political purposes).

Indeed.

Of course, this whole idea that raw power does not succeed; whereas soft power yields better fruits, better relations and a smoother world has had its best moments in the early phases of Washington’s Iraq’s adventure. When America’s ill advised (according to most) or even criminal (according to some) Iraq enterprise seemed to be pretty close to ending in failure, (“debacle” was the preferred way to describe it), the whole story seemed to present conclusive evidence that military power is a thing of the past. “There are no military solutions to essentially political problems”. The morale was the following: “You (primitive) Americans want to use brute force to impose your own idea of change on people who not only disagree with you but who fiercely resist this imposition. Raw power, military power, therefore is not only horrible in terms of the destruction and the casualties that it creates, but it also futile. It just does not work.” Thus, better to forget about military options and convert to soft power. Via engagement and dialogue, with the added spice of commerce and thus enhanced prosperity for all as the clear end game, we have a better chance to resolve the issues that the deployment of military force can only exacerbate.

Indeed.

Easy enough to criticize the modalities in which American raw, military power has been used in Iraq. Trigger happy America has made many egregious mistakes. No point enumerating all them here. However, any dispassionate analysis of the wrong and ill advised use of military power, in Iraq or elsewhere, is not a valid argument to proclaim that military power is a relic of a brutal past to be discarded by enlightened people. And the current Georgia crisis, *cum* Russian invasion, illustrates this point.

Commenting on the rather meek EU reaction to this significant crisis showing Russian unilateral action (even if provoked) *via military power* in Georgia, while Europe watches helplessly, EU spokesman Martin Selmayr commented: **“We can’t send storm troopers, but we have a trade and economic policy we can discuss [with Russia]. We are an economic force”**. (Emphasis added). Now let us analyze this statement, painfully true in the first part (the storm troopers, or lack thereof), and questionable in its second part (the option of successfully bargaining with Moscow pressing the Russians on economic issues). Martin Selmayr did not say “Under the circumstances, we think it would be a bad idea to send in our storm troopers. Still, in any event, our military, is prudently standing by”. He said “We can’t send storm troopers...”. He did not say: “We would rather not send them”. “He said “We can’t send them”. **This suggests a categoric impossibility: it cannot be done.** And why is it that wealthy Europe, with its strong Euro cannot send anybody? Well, because, in its pursuit of soft power, Europe these days does not have much in terms of military muscle readily available. Simply stated: there are no storm troopers to be sent. And certainly not because Europe is helpless and poor, just like Georgia. There are 27 countries and close to 500 million people in the European Union. Europe has an aggregate GDP equal to if not greater than America’s. There are plenty of industrial resources. But, confronted with a significant crisis with a clear neo-imperial flavor at its doorstep,

caused by unilateral use of military power by Russia, Europe's first assessment is "We can only use diplomacy and economic bargaining, *because we have nothing else*. There are no other options". Is Moscow going to be impressed with the EU idea to force change on the ground in Georgia via economic bargaining with Russia? Probably not.

In fact, in the specific case of Russia, Europe's soft power based on economic pressures may not work well either. Europe's acute dependence on Russia's oil and gas does not do much to improve its bargaining power. While Russia certainly needs the cash coming from these sales, Europe would be crushed in a very short time without Russia's energy supplies. In this context, sadly, Europe is militarily irrelevant and economically dependent. Thus Moscow simply ignores it. Which is to say that soft power alone, when dealing with a rather rough neighbor, may not do the trick.

The awareness of the absence of real means to counter Russia's aggression may be the reason behind a rather resigned European approach to the crisis. "Oh well, this is how the Russians are, you know. When provoked, they jump. Therefore, in order to stay out of trouble, given what happened in Georgia, in the future let's try and avoid other actions that may be interpreted by Moscow as provocations". During the old Cold War there was a term to describe this accommodating approach towards the old Soviet Union. It was called: "Self-finlandization", that is censoring one's own behavior, preventing thus possible negative repercussions from a powerful neighbour. It is impossible to say how widespread this attitude may be in Europe today. (And certainly, today's Russia is not the old Soviet Union). But it is out there.

Certainly the Europeans are not sounding an alarm. "Somebody help us. We only have soft power. The other side knows that we cannot oppose them; thus they behave badly, being fully cognizant of the fact that we cannot oppose them". Instead, they say that the situation in Georgia is regrettable; but

somehow unavoidable. Nobody in Europe is saying to Russia: "Get out of Georgia, or else". The painful truth is that there is no "else" in Europe's arsenal.

Well, this is what soft power alone gets you. You are weak and everybody knows it. If someone out there is willing to act aggressively counting on zero reaction from you, as you have no tools, then bad behavior is not discouraged. If word gets around that the local police force is now disarmed, some criminals may take notice of this strategic change.

As the new post surge situation in Iraq is showing, there is a positive, productive use of military power as a key ingredient in the new mix of a better planned counterinsurgency strategy that is beginning to succeed. The fact that shooting indiscriminately is a bad idea does not automatically exclude that shooting discriminately, along with sound engagement policies, may be productive.

The trick is in creating the proper mix. In a word, it is not an either or proposition: "either raw power or soft power". It is about having both and managing skillfully both. If it is true that raw power alone may not get results, the reverse is also true.

Teddy Roosevelt famously embraced the approach of speaking softly, while carrying a big stick, as the most prudent way to move forward. The preferred approach should always be to resolve issues by speaking softly. But all those concerned should see the big stick and –most importantly– they should be absolutely convinced that one will use it –without hesitation– if all else fails.

America should improve its talking skills, while also devising a more judicious and nuanced use of its stick. But the critical point is that America has a stick. Europe has the much more difficult challenge of finding the will to get a stick and to create a policy consensus that would convince the

rest of the world that Europe is prepared to use it –and not just in third world countries police operations of little or no consequence. But this may be asking too much of a loose coalition of countries whose main aspiration is to do their best to stay out of trouble.