India’s Bharti Airtel Conquering Africa

WASHINGTON – What is the connection between India’s telecom giant Bharti Airtel acquisition of the African mobile operations of Kuwait based Zain and President Obama’s huge investments in health care reform, in terms of time, energy and political capital?

The connection is that while a relatively impoverished America, still shaken by the aftershocks of the banking crisis and the ensuing monumental recession, decided to focus on redressing domestic issues of social justice, (health), the emerging markets new players come of age and, deservedly so, start occupying new space. To put it differently, the choice of policy priorities and the ensuing expenditure of huge amounts of limited energies on one issue as opposed to another are not without consequences. As “we do” health care, the “Indians do” telecoms.

The emerging markets come of age

While here in Washington we debate who should get what part of a –shrinking– pie and what is fairness, the former Third World shows that now it has the size, staying power and ability to take a bigger and bigger share of the world’s new markets and of the opportunities that they present.

Nothing intrinsically wrong on the part of President Barak Obama in indicating that health care is important. But so important to make it the most significant national policy issue for more than a year? When the economy deserves serious attention, to elevate health care to the status of “America’s priority one” was not wise. This was not the issue to concentrate upon, as the US economic foundations, shaken by the disaster of 2008-2009 and still very unsteady, needed immediate attention. But we did not focus on the economy, except for rescue operations. And so, as we have been engrossed in this time consuming, huge, highly partisan and eventually costly domestic debate on health, the world's balance of power keeps shifting away from us and in favor of a more assertive Asia, finally coming of age.

The dynamics of a "South – South" major deal

What is significant about the Bharti Airtel-Zain deal is both the fact itself and its symbolic meaning. Consider this: this is a very sizable transaction valued at $ 10.7 billion. But, more than the dollar value, it is important to stress that this is an entirely "South-South" deal. Two multinational corporations based in emerging markets –India and Kuwait– agreed on the sale of assets that provide telecom services to the last huge emerging market: Africa. In all this, as the world economy is being progressively transformed, our American footprint is less and less visible.

Africa's telecom market is important

Old stereotypes might lead one to dismiss this African telecom acquisition as a mid size deal of marginal value, related to small, inconsequential markets. Well, not so. The deal is sizable and it is about mobile telephony operations in 15 African countries, (Mostly Central and Eastern Africa), with a total customer base of 42 million users to date –and a significant upside potential, considering that Africa, huge growth notwithstanding, is still way behind the rest of the world in terms of telecom services penetration.

Besides, with this acquisition, Bharti Airtel becomes the fifth largest telecom provider in the world; thus "fulfilling our vision of building a world class multinational" –in the words of Sunii Bharti Mittal, Bharti's Chairman.

Not a watershed; but another sign of Asia's growing relevance

Is this deal a watershed? Probably not. But it is yet another sign of the systemic transformation underway, indicating the growing relevance of Asia in global markets. And it is really important to stress that, while all this is taking place –Asia coming of age– we in the old developed west are not yet putting our economic house in order.

In its wisdom, the Obama administration did not place US competitiveness on top of its governing agenda. It chose instead health care, a deserving but costly issue. And, contrary to what has been said, this reform will do practically nothing to improve US international economic competitiveness.

Are we focusing on the right priorities?

Eventually the logic of globalization will assert itself, by determining winners and losers. Those who are investing in new opportunities will be rewarded more. President Obama chose to prove his mettle on domestic social justice issues. Fine. And so, he did; and eventually he won his battle; even though the long term political ramifications and fiscal consequences of an extremely controversial reform that split the country in two are yet to be seen.

But the real point is that, while the White House expended a huge amount of time and energy on health, the likes of Bharti Airtel go around gobbling large pieces of new markets, progressively positioning themselves as global players.

America's competitive base: is it still there?

Of course America still has its global players. Sure enough, we have HP and Dell and Apple and Cisco, Intel, United Technologies, Dupont and General Electric, and so on. But we have fewer world leaders then we used to; and now, after this horrendous recession, one should seriously reflect on what is and will be the credible foundation of America's future competitiveness. The auto sector may eventually recover; but it is now in a sorry state, still on respirator, alive thanks to taxpayer subsidies in amounts unthinkable until very recently. (Remember that General Motors until a few years ago was the world's largest auto producer!) The banking sector, stupendous bail outs notwithstanding, is still in precarious conditions.

Boeing lost its luster…and the list goes on

Boeing, once the unchallenged aerospace star performer and the symbol of America's technological leadership, just announced yet another delay for the delivery of the first advanced jetliner 787 "Dreamliner" (may be nobody thought at the time that the nickname might become a joke, as this new aircraft is still basically "a dream"). This new delay, piling up on many other delays, not only costs Boeing money in terms of contractual penalties; but it tarnishes the image of American industry and puts in question Boeing's once coveted reputation of technology and know-how leader. If Boeing cannot deliver on time, while it cannot even provide a realistic estimate of what it takes to fix (admittedly complex) production and assembly problems, is it fair to wonder whether America has still got what it takes to get big projects right? Or have we lost that skill?

Ancient air traffic control systems

On a separate note, we read that now, may be, we are going to take steps to start the modernization of our ancient (1960s vintage) air traffic control system. Note: we are about 20 years late on this, and who knows how long it will take for a total modernization to take place. And America has no high speed trains, while the rest of the world, from France to China, keeps rolling them out, thus creating alternatives to overcrowded skies.

Decrepit infrastructure

And let's not talk about our decrepit, chronically underfunded, infrastructure that routinely gets a “fail” grade from professional associations of civil and structural engineers. (While the federal stimulus money addressed some infrastructure projects, it was literally a drop in the ocean, compared to the monumental needs).

Very low broadband penetration

The US meanwhile chugs along being number 16, *yes 16*, in terms of broadband penetration in the world; while telecoms, internet providers and government regulators bicker on who should be doing what.

Energy policy: still missing

On energy, we have wasted a year with no real policies and no guidance. Now, it seems that the administration may take some steps to allow new Gulf Coast drilling. This may, just may, increase a bit our domestic oil production down the line, something that may provide a little help, some day, in term sof increased production; while we sorely need “now” a real, robust national energy strategy and a strong consensus on how to build a viable post carbon economy.

Education: still a problem

On a different yet equally sad note, new laudable efforts notwithstanding, our secondary public education system remains mediocre to bad, with minority students being the most underserved, thus recreating a *de facto* racial discrimination, due to limited or zero access to good jobs for millions of under educated kids.

Meanwhile, Nissan rolls out its all electric “Leaf” model

In the meantime, auto maker Nissan is busy advertising its new “Leaf” all electric car to be rolled out very soon. It will be built in Japan, the UK and in the Nissan plant in Smyrna, Tennessee. Being proactive, Nissan has created partnerships with a variety of US public institutions and utilities, so that they will work together in establishing the basis of an electric distribution system that will be able to support the new electric vehicles, once they will be on the road.

Time to adopt a strategy that will prioritize American competitiveness

The point of all this is that governing is about choosing the right priorities, building a broad consensus around them and then implementing them expertly. While America still has an enormous reservoir of talent and expertise, we do not have the right priorities in place and consequently we have not mobilized in a smart way the country's still impressive potential.

Instead of making the economy issue one, our Government chose to get involved with social issues that, however important, are not vital and should not have been placed on top of the "to do list". And, as we deal with our chosen priorities, the likes of Bharti Airtel take over huge chunks of emerging markets.

Singapore Wants to Stay Competitive

WASHINGTON – If there is one economy that is generally understood to be a net beneficiary of globalization this would be the small island state of Singapore. They started early on, back in the 1980s, to modernize everything, thus creating a well oiled, well organized, if somewhat autocratic, environment almost entirely geared towards the promotion of high value economic activities, well supported by a modernized infrastructure and a capable public administration apparatus. Singapore’s cleanliness, super efficiency and pro-business attitude attracted foreign investments. Its ethnic Chinese leadership created bridges with China and gave Singapore a unique opportunity to broker deals and to invest in the mainland. And the reward has been the attraction of high tech investments which in turn led to significant knowledge transfer, an above average growth and the creation of widespread prosperity.

Singapore: not as good as it should be

But today’s news is that the forward looking technocratic leadership is worried. They are worried that Singapore is losing or may be on the verge of losing its edge. If higher competitiveness was achieved through considerable investments in human capital and in the creation of efficiencies all around, in business as well as public administration, there are signs that the edge has been eroded.

The new budget sets priorities

Indeed, the new state budget for 2011, recently presented by Deputy Prime Minister Teo Chee Hean is almost entirely focused on the issue of refashioning and strengthening Singapore’s competitiveness via a series of measures aimed at increasing the level of skills of the Singaporean work force, so that the once famed edge may be reconstituted. “We are now a more developed economy, further up the productivity curve”, observed Deputy PM Chee Hean. “We have made progress, but those ahead of us have also progressed and moved up as well. And those behind have made rapid advances and are catching up with us”. Hence the need to focus on improved education standards and higher productivity.

Education and Productivity

To advance this goal, the Government is establishing a "National Productivity and Continuing Education Council". *And here, in the very name chosen for this new Council, the Singapore leadership reaffirmed what should be the obvious but perhaps not often enough reaffirmed crucial, strategic link between "education" and "productivity".*

Competitiveness needs to be enhanced

The headings of the budget are all focused on this major effort aimed at enhancing competitiveness. ***A)Investing in Continuing Education; B) Supporting Enterprise Investments in Innovation and Productivity; C) National Productivity Fund; D) Supporting Business Restructuring; E) Enhancing Land Productivity.*** Will all this succeed? Who knows. But what is important to note is that one of the most sophisticated, albeit small, Asian economies feels the heat of the global competition and is determined to move a few notches up the value chain in order to regain its competitive place.

But if tiny Singapore whose claim to fame is efficiency and productivity is on the move, what about the developed West?

In 2000 Europe announced the "Lisbon Goals" –a high tech revolution strategy

In the year 2000, with much fanfare, the European Union announced with a high degree of optimism the launching of the "Lisbon Goals" high tech agenda. Having noted the unfolding IT revolution dominated by the USA and to a lesser extent Asia, Europe declared its determination not only to catch up but to acquire a world leading position in the advanced technologies that will reshape the economies of the world.

The stated goal was nothing less than to make Europe "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010".

Very ambitious targets

Given a rather lackluster record on technology and innovation up to that point, itself due to a low level of spending in R & D, this was a very, very ambitious goal aimed at essentially transforming Europe from supporting character in the innovation scene into an IT and high tech powerhouse. According to the "Plan" adopted in Lisbon by the EU leaders, the "Goals" would be achieved by adopting whatever innovation solution would work in order to enhance productivity and leading technologies. If the strategy would succeed, the world would look at Europe, and not just at the US and emerging Asia, for state of the art this and that. A great and worthy idea, no doubt.

Part of the plan was also the project to create a "European Institute of Technology", some sort of super university, or cluster of universities, to be modeled after MIT in the US that would be an integral component of this massive modernization effort.

Goals not met

So, what happened since 2000? Well, unfortunately not much. Former Dutch Prime Minister Wim Kok, entrusted with conducting a "mid-term review" of progress to date, in his report presented in November 2004 expressed serious doubt that Europe would achieve its "Lisbon Goals". He noted "disappointing delivery", due to an "overloaded agenda", "poor coordination" and "conflicting priorities". At the same time, The European Round Table of Industrialists, (ERT), a business group, expressed its "deep concern about the continued erosion of Europe's competitiveness".

Lisbon Goals: "Failure"?

In 2009, towards the end of the time line set by Europe for the achievement of its "Lisbon Goals", Swedish Prime Minister Fredrik Reinfeldt admitted that: "Even if progress has been made, it must be said that the Lisbon Agenda, with only a year remaining before it is to be evaluated, has been a failure"

Odd enough: blame those who have tried to make positive changes

Not a complete and utter failure across the board, but mostly a failure. R & D spending has not advanced much. No new hubs of high value innovation established. No new striking centers of excellence created. The US, 2008-2009 massive financial crisis and astronomic rescue cost notwithstanding, continues to lead, (with a bit of shortness of breath, mind you), in labor productivity and IT innovation; while China and indeed Asia overall is investing massively in modernization. Europe, with due exceptions here and there, is not shining.

Germany powers ahead

And even where there is progress, such as in German labor productivity, this is oddly pictured as harmful by other (envious?)Eurozone members who are less competitive vis-à-vis Germany. With truly twisted logic, it has been recently observed that, as Germany has done very well in containing labor costs and enhancing labor productivity, this has widened the competitiveness gap with the Eurozone laggards who have now comparatively greater difficulties in retaining their markets, because the Germans are "too good'.

German Economics Minister Rainer Bruederle retorted that it is peculiar to accuse Germany when those who are not doing well "lived beyond their means and neglected their competitiveness". So there. Here you have the picture of the actual Europe, as opposed to what was imagined in 2000. Rather than trying to emulate them, some blame those who are doing better.

What about anemic America?

But, just to show that most of the “old” industrialized countries share similar problems, the Washington, DC based Center for the Study of the Presidency, led by establishment veteran David Abshire, just recently (March 19), released a paper titled “Prosperity or Decline” prepared by some recognized US bright minds. The Report is not too sanguine on the current US competitiveness posture and America’s chances to retain its innovation lead, the only recipe that would guarantee America’s leadership in world affairs and a reasonably high standard of living at home.

“Prosperity or Decline”?

Norman Augustine, former CEO of defense and technology giant Lockheed Martin and almost universally praised as one of America’s sharpest thinkers, presenting one section of the report, noted that America’s edge has been eroded or is fast eroding. He pointed out that at present, as a society, we are the lucky beneficiaries of huge investments made long ago. These benefits, without replenishment, are beginning to wear out. In the global economy the US is confronted with millions of progressively more skilled people who are willing to work for a fraction of what their US counterparts get paid. The primary and secondary education system is of dubious quality and quite bad in many areas.

And even the vaunted American university education system, still ranked very high in the world, is suffering because the increasing cost of maintaining state of the art “super universities” is not matched by commensurate revenue/grants growth, absolutely necessary to attract and retain the best minds and state of the art research facilities. Finally, Augustine noted the disproportionate cost of litigation for corporations, something that detracts precious resources from needed new investments. Other presenters noted the unsustainable levels of both Government debt and balance of payment deficit, as well as the erosion of the old free trade consensus.

Do decision-makers understand?

Well, yet another report, issued by a another blue ribbon panel on behalf of a Washington think tank, whatever the patina and the fame of the contributors, by itself is not going to transform the policy landscape. But, while somewhat pessimistic, this gloomy outlook replete with warnings matches concerns repeatedly expressed by respected The New York Times columnist Tom Friedman and many others who believe that there is some kind of tone deafness in Washington, whereby key policy makers seem unable to recognize and address in a timely manner the salient strategic issues, creating thus a mismatch between what the country really needs and what is on their policy agenda. To put it simply: Washington has got its priorities all wrong.

Structural debt: can we deal with it?

To add further gloom, there is the other unpleasant issue of structural long term debt, not just in the US, but across most OECD members. Of course, much of the recent debt increase is due to extraordinary measures needed to counter the ill effects of the unprecedented real estate and banking crisis.

Fine.

But this crisis occurred in an environment in which most industrial democracies were already in debt and on a course leading to higher public spending and comparatively lower investments. This trend is mostly due to the promises made by the welfare state, coupled with major demographic shifts: lower fertility rates and increasing numbers of older people, in absolute terms and as a percentage of the total population. A lot has been promised to retirees and now there are more and more of them, while, due to significant birth rate drops, there are far fewer active workers paying into the system. So, on balance, most modern societies are spending more than they are investing. And as spending has overtaken revenue, the rest is paid for with borrowed funds.

Decline is not a heart attack. More akin to coping with chronic ailments

And so, where are we? This is not a disaster. We are not about to fall into the abyss. This is not like being victims of a fatal, massive heart attack. But we are like someone who used to be healthy and now is afflicted by a variety of annoying, chronic diseases that require constant care and attention –and that cost more and more money. Money that cannot be spent on other things. The opportunity cost is that while you pay more and more for your care, you do not have much to spare to buy new equipment for your small business. This is the long and the short of this.

Little investment, little growth

Low rates of investment, slow down of the innovation process, insufficient investments in education, high levels of debt and societies with increasing numbers of retirees –retirees who are fiercely protective of each and every entitlement program designed to keep them happy and comfortable. And unfortunately all those promises were made at a time in which nobody could clearly foresee the future, gigantic financial obligations, (nowadays we call them "unfunded liabilities"), created by this socially minded public largesse. This is the picture across the developed world. More pronounced in Europe and Japan, less so in America; but prevalent across the board.

Singapore gets it

The technocrats running small Singapore have gotten the message and they manifested the intention to redouble their efforts in order to retain or regain their competitiveness. A small city state run by capable people is like a modern maneuverable vessel. It can change course rather fast. The old OECD supertankers will take a long longer, assuming that is, that those in charge will decide that a course correction is not just prudent; but absolutely essential and urgent. Alas, while we may hear noises about course corrections, we do not hear much talk about its urgency, so far.

Washington: social issues first. Wise choice?

Barak Obama campaigned on a promise of dramatic transformation and a drastic reformulation of policies so that America would be the best that it could be. Well, in the last year, here in Washington, beyond coping with the banking crisis, we have focused most of our energies on social justice issues, (the complex health care package just passed). By all means this is a worthy concern. But in the meantime we have done almost nothing to improve our competitivensss and our productive potential. In the end "social justice" is just an aspiration, unless you have some added value to spread around.

Successful social policies are predicated on an ongoing wealth generation capacity

It is worth remembering that even old Karl Marx postulated that successful socialism could be established only because a socialist economy would be more efficient than wasteful, inefficient capitalism. "Socialism –as he put it–is not about the socialization of poverty".

Which is to say that a even a successful socialist society, according to its major theoretician, was predicated on sustainable high levels of growth. So, it would be good that all of us would understand that competitiveness –itself the foundation of new growth– is the necessary premise for any kind of social policy, including the most egalitarian. Without growth, we cannot even fight over the spoils; because, once the sources of wealth we did produce will have been eroded, there will be less and less to fight over.

Health Care v. Energy

WASHINGTON – What's the correlation between the vast shale gas deposits in Texas, West Virginia, Ohio, Pennsylvania and New York state, (with more in Quebec, Canada) and the ever more complex and politically laden health care (more appropriately renamed by some "health insurance") reform package, about to be fought over in what appears to be a decisive Washington congressional battle? Well, on the surface, none whatsoever. In practice, though, there is a huge "either or" connection, in as much as the intense focus on health care prevented the Obama administration and Congress to do much else, including crafting appropriate and badly needed policy guidance that could give impetus to the exploitation of abundant, domestic natural gas energy resources –resources that could get us much farther along in our process of changing the basic energy components that will propel the US economy into the future. As "we are doing health", we "cannot do energy". And this is not good news, as energy is our future.

The new natural gas picture

Just think of this: very recent technological refinements would allow the large scale exploitation of vast natural gas resources, known to exist for a long time; but until recently deemed to be too difficult to extract and thus uneconomical. These deposits, such as the Marcellus field stretching from West Virginia to Pennsylvania and New York add significantly to our proven gas reserves. The combined total reserves could last 100 years at current levels of consumption. This is not a marginal discovery that just adds a bit here and there. This is huge.

Energy policies are needed

This new gas reserves picture means that we have a lot more than we thought. This has to change significantly our plans, strategies and the direction of massive energy investment flows for the next 10 or 20 years. And indeed there is already a flurry of exploration aimed at bringing these deposits to fruition. But, without clear long term policy guidance and without an agreed upon energy strategy, many potential players have adopted a rather cautious attitude, delaying investment decisions and thus the development of new resources that could truly modify the energy outlook for the US for many years.

No coherent plan, smaller investments flow

Investors need to know what the environmental constraints are and will be as they employ new and in some instances potentially damaging techniques that include pumping water into wells that may mix with minerals and later on damage the soil. Furthermore, investors need to have a better idea of what the future price of carbon based electricity and fuel will be. Are they going to be taxed heavily in order to reduce the amount of carbon we consume? Are we going to look at gas more favorably as a transportation fuel since it pollutes less than gasoline, not to mention that it will be produced at home, and not imported at a high cost? What about incentives and or tax brakes that could hasten the pace of exploration thus bringing this new source of fuel to market sooner rather than later?

No policy: inevitable delays

Many of these issues need to be looked at comprehensively, in order to shape some kind of strategic energy outlook for America. And such a plan would help those who are sitting on the fence right now, trying to divine which way policy would go so that they will tailor their investments accordingly. This being the case, the more we delay our national efforts aimed at creating a comprehensive policy framework, the more we shall delay the exploitation of a significant domestic resource that woud create new options at least for the short and medium term, allowing more time to develop truly game changing alternatives that most probably will be based entirely on renewable non carbon based sources of energy.

Simply stated, the aggressive development of abundant domestic natural gas could alter the mix of investment in future electrical power generation, while it could also significantly reduce the amount of oil America imports, assuming that overtime we could switch from gasoline to natural gas for a sizable segment of our more than 247 million vehicles.

Washington cannot handle more than one big issue at a time

But Washington can only deal with so many large policy issues at any given time. Hugely controversial health care has been and still is front and center. It absorbed most of the focus, energies and time of the administration and of the Congress for more than one year. As a consequence, not much room left for other key strategic issues, such as America's energy future –an issue that in more fortunate times would deservedly get top priority status. But the hard fact in Washington is that If we do health, we do not do energy.

Energy should be a priority

Ordinarily, most would agree that the make up of energy supply sources in America is a key strategic and economic issue, as the US is the highest per capita energy consumer in the world, currently importing more than 65% of its oil from foreign sources, at the tune of more than 260 billion dollars per year, an amount that is larger than the much demonized US trade deficit with China.

So, in normal circumstances, the awareness that new technologies, first experimented in Texas, based on horizontal drilling and the injection of water in wells so that the pressure may free up huge natural gas deposits making them economically exploitable would be a sensation, as this means that we have the opportunity to look at our natural gas deposits as a much bigger component of our energy mix for quite a long time.

Shale gas news get little attention

But now, while newsworthy, and certainly talked about, this development does not get the attention it would deserve, as the policy and regulatory environment that could expedite or delay investments in this strategic domestic resource has not been properly clarified. While new policy guidance is by no means the only issue that would drive investments, quite clearly it is a key component.

Key issues need to be resolved soon

Among key concerns, as indicated in a special section produced by IHS CERA specialists published as a supplement in *The Wall Street Journal* of March 10, 2010, if we assume that natural gas could be used for additional electrical power generation, decisions on whether to invest or not would largely depend on expectations of how carbon based fuels will be regulated 10 or 20 years from now. Large scale power generation plants have a long life span. Today's prices and rates are of some interest. But what motivates huge investments is expected profitability over decades. Hence the need for policy clarity that will shed light on what can be reasonably expected going forward.

Gas and wind

Furthermore, depending on what we expect to be the mix of future electrical power generation, it would appear that natural gas generation would be ideally suited as a back-up for electricity producing wind farms, whose output is affected by wind variability. Little wind, little electricity, so there is a need for back up generation, and this could be obtained through gas fired plants. If we imagine a scenario in which we really embrace wind as a renewable source on a massive scale, then the potential use of gas as back up for wind farms also grows.

Gas as transportation fuel

And then there is the vast potential utilization of natural gas as a transportation fuel, with clear advantages for our balance of payments, as this gas supply is domestic. This switch would also improve our national security, since it would diminish our chronic and growing dependence on foreign oil supply. Finally it would be more environmentally friendly, because natural gas generates lower amounts of emissions compared to gasoline.

Switching to natural gas as transportation fuel will not be easy. We would need to create, practically from scratch, a whole new national network of filling stations and the supply system that would restock them. One way to get started on this would be by switching to natural gas large fleets of vehicles that usually rely on a centralized refueling system. This would create reliable demand, while it could provide the basis for a larger gas distribution network.

Gas and electric cars

But we also have to take into account that, moving forward, natural gas would have to compete with more gasoline efficient vehicles and later on, assuming adequate progress in the technology, with vehicles powered by electric batteries. And this opens up the debate as to whether it would be more efficient to use our gas as fuel for cars, or as fuel for the electrical power necessary to refill the batteries of electrical vehicles, as indicated in the IHS CERA report referred to above.

Vexing issues but little policy guidance

All these are important questions and experts should debate the cost-effectiveness of different mixes. But one thing is clear, without a clear policy and regulatory regime that would determine the shape of the landscape not just for today but may years down the road, we shall be stuck with a murky regime that will delay decisions about huge investments that could significantly improve the make up of US energy supply.

We could gain time by exploiting our gas

The possible exploitation of these vast natural gas reserves does not create an entirely new long term strategy, as this gas, however abundant, is eventually finite, while electricity demand is projected to grow significantly, thus requiring more and more supply. So, long term, it is obvious that renewable energy sources will have to play a bigger and bigger role. But we have a very long road ahead before cheap, renewable energy supply will be deployed on a massive scale. In this context of incremental changes, the newly developed ability to successfully exploit huge reserves of domestically based natural gas should be regarded as great news. It is abundant and it is right here, at home, much of it located in the proximity of tens of millions of consumers and large scale end users.

Washington reality: we do health, we do not do energy

But Washington can only chew so much. The Obama administration strategic choice to make health care the signature issue of the first year of this administration means that for this President social issues are more important than actions aimed at strengthening the basis of our economy. Whatever the eventual fate of the health care package, it is clear that we have done very little on energy issues for more than one year, because the health issue has taken all the space. Only time will tell whether this choice of strategic priorities was wise or not.

Greek Profligacy and the Myth of Cost Free Welfare

WASHINGTON – the Greek public sector deficit crisis has attracted inordinate media coverage largely because it broke out all of a sudden. The Greek Government, led by recently elected Socialist Prime Minister George Papandreou, "discovered" that its predecessor conservative Government had cooked the books and lied about estimated public sector deficits. So, as it turned out, the fiscal imbalance in reality is double the initial projection. And this carries the Greek deficit not only beyond the theoretical European strict limit of 3% of GDP; (already broken by others, for that matter), but it brings it to around 12.7% of GDP; that is beyond any sustainable level. This is big news, even though it affects directly only a small country, at the periphery of Europe, with a relatively marginal economy. Of course, the attempt was made to gauge the likelihood of any kind of "domino effect", whereby a potential Greek bankruptcy might drag the whole Euro zone edifice down.

Greek "contagion"?

Could we have "contagion", given the considerable lending by many European banks to Greece? But, outstanding European loans to Greece notwithstanding, the idea that tiny Greece would bring down the whole of Europe was really farfetched. Unless, of course, other Greek-style surprises of heretofore hidden losses might spring up elsewhere. To date at least, this seems unlikely. While we know that there are other problem countries affected by huge fiscal imbalances, there is no forecast of an impending Europe wide unraveling.

Europe holding on

Greece is not that important an economic player to cause the downfall of Germany and France. The Greek budget crisis is a big problem, indeed, but not a European catastrophe. The Greeks have been told, (or better, “ordered”) by their EU partners that there will be no bailout. They must take the necessary, if politically bitter, countermeasures in terms of drastic spending cuts and this should be enough to avert bankruptcy. The Euro as the common currency shared by Greece and 15 other EU member states is not in any imminent danger.

So, case closed?

More than just debt

Well, not entirely. Greece represents an extreme example of total fiscal irresponsibility, cleverly disguised for a while and certainly driven by the politics of the welfare state. And in Greece this free spending style was nicely blended with endemic corruption, extravagant levels of tax evasion and an otherwise mediocre economic performance. But Greece is a member of the European Union. And so this debacle becomes a problem for all the other members of the EU, as it blemishes the image of Europe as a Union of modern countries. No other member of the club wants to have, within Europe, this kind of Banana Republic governance model. And I am sure that this concern has been clearly conveyed to Prime Minister George Papandreou by his European counterparts.

A larger lesson about the consequences of public largesse

But, bad image aside, even if we limit ourselves to the issue of fiscal profligacy, the Greek example indicates that at least some Western Governments are prepared to take huge risks, behaving at times most irresponsibly, in order to placate constituencies who believe that the purpose of Government is “to give” more and more; constituencies who put pressure on elected leaders so that they will deliver more and more. Greece has become a sensational story because of the extreme overspending and the sudden revelations. And again, beyond the surprise, there has been the unplesant task of selling to the public this unprecedented austerity program.

The "free lunch" pipedream is still alive

This has not gone down well; and we have seen the vociferous and at times violent street demonstrations, and the emotional reactions of those who would like to cling to the dream that there really is a free lunch; that you can do both: overspend without limits and keep giving extra this and that to all kinds of constituencies, without ever paying the bill. And so now, along with the headlines about the drastic spending cuts, we have the photos of riot police battling demonstrators who would like to believe that somehow there must be a better, less painful alternative for them.

Did anybody learn anything?

In the end, in the case of Greece, it seems that the general public, beyond the current moment of hyperventilation, will have to surrender to the hard facts, unless they want to force the Papandreou Government to exit the Euro and may be the whole EU structure –and this seems highly unlikely. So, reluctantly and despondently the Greeks will fall back in line. If they follow the plan, they will cut spending and eventually rebalance their public accounts.

But I doubt that the larger lesson as to what provoked the crisis –the insane, yet widespread hope that in a modern western society you can indeed get something for nothing– will be properly understood. And, as this fallacy about magically obtainable unlimited entitlements, while someone else (who?) eventually will pay the bill, is not fully understood in Greece, it is probably lost in all the other countries in which, large deficits notwithstanding, (Belgium, Spain, Italy, Portugal, the United Kingdom), there is, for now at least, a semblance of normalcy.

A stable currency does not give you growth

And here is the real problem, a problem that goes way beyond the understandable desire to protect the Euro, potentially weakened by irresponsible fiscal policies, as a credible currency. A stable currency is a good thing. And it is good that the European Central Bank will continue to act as a good steward of the Euro's reliability. But a stable currency, while essential, is no guarantee of underlying dynamic societies and economies. The Greeks will have to swallow the bitter pill. So, they will eventually rebalance the accounts, (we hope). But, at the same time, even staying within the Euro zone, they will have less money and their standard of living will be lowered. Unless the general public will learn the simple lesson that higher standards of living are not grounded on public largesse but on individual and corporate enterprise, the real lesson will stay hidden. The Greeks may become more sober; but the people, unless they are ready to embrace the basic tenets of private sector-led growth, will be both poorer and more disgruntled.

Welfare state yes, but who pays for it?

More broadly, Greek-style extremes aside, not many in the West are getting the message of what it takes to grow. In our ongoing love affair with the notion of a public sector that will provide more and more things: subsidized public sector jobs, free grants to this and that, tax shelters, lavish pensions, health care, free education and what not, we have forgotten that none of this things in the end grow the economy, while in the end someone has to pay the bill.

If it is politically unpleasant to make anyone pay the bill, then the cost of the unpaid fun will pile up and Government will need to finance its largesse through borrowing. And when more and more borrowing becomes not just a temporary expedient for extreme situations, but a routine way to finance ever increasing public spending, this entails a shift in basic Government functions: from focusing on public administration issues to spending more time and energy in the identification of ways to finance more spending. In the end, financing the debt –not governing– becomes a top Government priority.

If you have larger deficits, you have less economic growth

Furhermore, even in situations in which there is a huge or growing debt but this debt can still be financed (Spain, Portugal, Belgium, Italy, and Japan, among others), this comes at a high cost. While the State may be able to continue to meet its obligations towards bond holders, interest due on the outstanding debt starts eating into a larger and larger share of existing revenue. And so the State can no longer perform basic functions such as investing in R&D, infrastructure development, defense or even education. Indeed, once interest on the debt is paid out, there is the regular operating budget just to keep day to day Government activities going; and so there is very little left for any discretionary spending. The Government can perform, at best, routine operations; but it has no resources and thus no flexibility to lead, in domestic as well as international policies.

Less capital for investments

In the meantime, a larger share of national savings will be directed to financing the debt. This means less and probably more expensive residual capital available for productive investments. In the end, the State and its profligacy, due to the desire of the political leadership to satisfy the desires of more and more constituencies, becomes an objective drag on new growth. Large, (or excessive, depending on your point of view), public expenditures –and the attendant need to finance the deficit– absorb more and more limited capital that cannot be used otherwise.

Europe has chosen welfare over growth

This state of affairs is endemic in Europe. Even though most European countries have not reached the insanity of Greece, on average, the public sector absorbs a very large percentage of GDP, 40% or more. In general, high spending entails higher taxes. But, even with high taxation, there is still a need to borrow heavily to finance the rest. ***While these societies seem to manage somehow, the real, if hidden, cost of this setup is in a myriad of missed opportunities for new growth, as funds that could otherwise be invested have to be employed to finance entitlements and other transfer payments.***

Indeed, as the primary focus of Government is the provision of services to a variety of deserving constituencies, the pool of residual public sector capital available for productive investments shrinks. Besides, high levels of taxation, (necessary to finance increased spending), along with rigid labor laws, may also contribute to discouraging new enterprises. So, in the end, there is a lot more involved here than finding a way to balance the books, trying to reconcile a high level of spending with the need to find revenue and/or resort to more borrowing.

If we choose to devote resources to service delivery, we have to understand the implications

In the end the real issue on the table is a philosophy of Government and the shaping of a societal consensus whereby the essence of public policy is to provide services and to alleviate hardships, as opposed to the creation and the nurturing of an enabling environment conducive to the expansion of the economy.

Nothing wrong, in principle with espousing this approach focusing on making today’s life more comfortable, as opposed to devoting more resources to future growth.

More entitlements, less growth

But, if this is indeed the choice, it should be fisrt of all clearly articulated, (as opposed to being incrementally implemented), and fully understood by all citizens in all its immediate and long term implications. If our goal is to live today as comfortably as possible, almost like retirees, then we do indeed create public policies geared towards the delivery of services and the growth of entitlements at the expense of investment and growth. ***But it should be clear to all that, unless we become extravagantly rich due to fantastic levels of high value innovation and strong productivity growth, we cannot at the same time spend most of what we have today and have enough left for new investments.*** Maybe Norway can do it, as it has a very small, educated population and the extra bonus of significant revenue coming from oil and gas exports. But there are not many such examples.

What about the US?

And what about the US? Well, we are in an interesting, yet delicate, position right now. By European standards, we still have a miserly state that provides comparatively little in terms of services and entitlements. (Our combined total public outlays: Federal, State and Local amount to roughly 33% of GDP). But, quite apart from the recent extraordinary recession that caused an explosion of public spending to fund huge emergency countermeasures, we know that, unless we change our basic system rather drastically and soon, we are geared towards a dramatic increase of public spending. The cause is in systemic demographic changes (more elderly Americans receiving public moneys) and the after inflation cost explosion of services such as medical care for the elderly.

Which way is America headed?

And here is our problem. Are we going in the direction chosen by Europe, or are we going to revert to a model of a Government that spends less on the provision of services, thus freeing up more resources that will be hopefully directed to the expansion of the pie and thus more prosperity? Long term, quite apart from how soon the current recession and related spending will end, this is the real strategic choice before us.

Former Massachusetts Governor Mitt Romney, warming up for a likely new bid for the Republican nomination for White House, argues in a new book, ("No Apology: The Case for American Greatness"), that we should be repairing our system so that it can be once more geared towards investing in new growth, while providing a modicum of a safety net, via the delivery of social services and some entitlements.

Fine.

Balancing growth and the expansion of opportunity

Yet, even if one agrees philosophically with the limited government model reproposed by Romney, the really complicated issue is to determine the proper balance between being pro-growth and the need to provide to the disadvantaged in a way that will really help them transform their lives, by granting them real solid options –such as good education–that will increase their opportunities. How much and what do you provide? And in what way do you provide effectively? A mountain of historic evidence shows that providing "more", while nice, does not necessarily help to solve problems.

It is once again the old and worn story: "Give a fish to the hungry everyday, or invest resources teaching them how to fish, so that they will catch their own fish and become self-sufficient"? it is a shop worn, tired little example, and yet its wisdom still escapes us. Try as we may, we are still struggling with this. If we are at all reasonable, we should want to push for growth. But our sense of social cohesion and human decency also tells us that deep down we do not really believe in social Darwinism, whereby the fittest survive and for all the others, well… tough luck. They are lost along the trail because they could not make it.

Understanding the difference between social spending and social investments

The European story tells us about the penalties paid in terms of missed growth, plus huge debt overhang, via an excessive tilt towards equality and public interventions in the shape of hardship alleviation. Can we, as would be President Mitt Romney suggests, be decisively pro-growth, yet mindful of the need to have everybody on board, by providing to all the tools necessary to advance –first and foremost via a truly vibrant, modern, comprehensive education system? Can we invest in this kind of "fishing" education for those who will otherwise depend on future handouts? And are we willing, as a society, to recognize the qualitative distinction (and choose wisely) between investing in the future (education) and relief payments (welfare, unemployment checks, and so on)?

Our future is not going to be Greek-like. But it could be closer to Italy or Japan: low levels of investment, stagnation and slow decline. Less dramatic; but equally unappealing.