

The US Natural Gas Revolution Increases Employment In The Energy Sector – It Will Also Help Overall Economic Growth – A Welcome Boost

[the-subtitle]

By Paolo von Schirach

May 27, 2012

WASHINGTON – The US shale gas revolution has already had and will have enormously beneficial economic effects at two critical levels. First of all it supports investments and jobs in the energy sector. But, of even greater importance, lower energy prices sustained over a long period of time will have a major tonic effect that will spread throughout the entire economy. The total impact is likely to be quite significant for America, providing a badly needed lift to an otherwise sagging US economy.

Shale gas adds to energy supply, employment

According to IHS Global Insight, shale gas will contribute to larger and larger percentages of total US natural gas output. Shale gas was 34% of total production in 2011. It will move to 43% by 2015 and jump up to 60% by 2035. The natural gas sector adds to US total economic output. According to a Star-Telegram December 6, 2011 story, it was \$ 76.9 billion in 2010. It will go add \$ 118.2 billion in 2015 and \$ \$ 231 billion in 2035. And then there are new jobs, usually high paying jobs. The industry supported 600,000 jobs in 2010. Projections indicate 870,000 by 2015 and up to 1.6 million by 2035.

Ripple effects

Beyond all that, there are vast ripple effects. With a huge supply increase, natural gas prices collapsed, with obvious benefits for average consumers and for industrial sectors that are heavy energy users. American consumers pay less for electricity and for heating their homes, while steel mills and plastics industries see their costs going down and their global competitiveness going up.

Adding to GDP

Some estimate that the positive ripple effects of lower US energy costs could boost average growth by 0.5% or even 1% of GDP for the next decade. This does not sound like much; but it is instead really huge. Over the last 20 years the US economy grew at an average 2.6% rate a year. In the previous 20 years the rate was 3.1%. An additional half a point year after year would make the difference between slow and dynamic growth.

Cheaper fuel, cheaper goods

Improved economic growth is likely to come from the use of natural gas as transportation fuel. Most US goods travel on heavy trucks that burn expensive oil derived diesel. With trucks using cheaper Liquefied Natural Gas, (LNG), much lower fuel costs will translate into lower costs of goods in stores. People will spend less for their day to day living. They will have more disposable income for big ticket items and/or for new investments. On top of that, the use of natural gas in the automotive sector will create new jobs in Detroit and in truck manufacturing companies that will have to develop and roll new lines of products.

New chemical industry investments

The US chemical and plastics sectors will see significant new investments. Corporations will flock to America, lured by low electricity costs and by abundant natural gas used as feed

stock in many of their manufacturing processes. For instance, as Reuters reports, *"Chevron Philips Chemical Co. plans to build an ethane cracker that converts ethane from natural gas into chemicals used in plastics. The plant will employ 400 people in Baytown, Texas"*.

And then there is the balance of payments angle. The larger and larger use of natural gas as fuel for heavy trucks and later on cars will allow the US to import less oil. And this will mean a lower national bill for imported energy. In 2011 the US spent more than \$ 300 billion on imported oil.

Energy security will be enhanced

Finally, there is energy security. Increased reliance on more abundant domestic energy, coupled with increased oil imports from within the Western Hemisphere, justified by increased production in Canada and Brazil, means that the US will no longer be reliant on Middle Eastern oil.

When this will happen, this huge geopolitical shift will also transform US foreign and security policies priorities. When America will no longer need Gulf oil, we shall invest much less in protecting the daily flow of supertankers through the Strait of Hormuz. That oil will still be vital for China and Japan; but not for America. So, it is likely that it will be up to the Chinese Navy to patrol the Arabian Sea. The US 5th Fleet, now anchored at Bahrain, will sail home.

Obama Attacks Romney As A

Successful Capitalist – This Means That His Strategists Believe That Attacking Private Enterprise Is The Way Win To This Election – Attacking Capitalism A Good Strategy, In America?

[the-subtitle]

By Paolo von Schirach

May 26, 2012

WASHINGTON – Obama and his surrogates keep attacking Mitt Romney's record as head of Bain, the private equity firm that made him very rich. They are throwing at him every possible stereotype: *heartless boss of an asset stripping company, vulture capitalist, a man with no humanity who showed no consideration for the human suffering caused by the closing of manufacturing plants he ordered, and so on.* Nicely crafted TV ads feature people who had lost factory jobs as a consequence of the reorganizations ordered by Romney and his team at Bain. With emotional and dramatic tones they recall what happened to them and countless others. And it was all because of Bain and Romney. The openly pro Obama cable TV outlets, such as MSNBC, pile on with an avalanche of experts producing "facts" that indicate how Romney actually destroyed assets while sucking in all the value of the companies Bain took over. Bain as a cancer. Pretty strong stuff.

In fairness to Obama, similar scripts was used at least for a

while during the Republican primaries by other Republicans like Rick Perry and Newt Gingrich who were trying to depict Romney as a “bad capitalist”, as opposed to the good ones who build empires, but always with a gentle and caring touch.

Capitalism is bad

Still, these relentless attacks against private equity as if it were indeed the evil step brother of an imaginary socially minded, good capitalism should be noted. While Obama’s attacks are not openly against private enterprise and capitalism “as a system”, his opponent in this 2012 elections is the closest thing to a very successful American businessman. At this stage, whatever distinctions Obama may want to make, (see below), in essence he is attacking capitalism, free enterprise and all that goes with it, including “creative destruction” that is to say the accepted understanding that new enterprises come out of the destruction of older and less efficient ones. All of a sudden, according to the president of the United States, *in America* pursuing profits is at least suspect, if not totally evil. And, even worse, becoming very rich as a result of free enterprise is disgraceful and morally questionable.

Nuances in Chicago

True, enough, Obama has tried to make some nuanced distinctions. At his May 21 press conference in Chicago, Obama pointed out that being the CEO of a company is not a qualification to be president.

“My view of private equity is that it is set up to maximize profits. And that’s a healthy part of the free market. That’s part of the role of a lot of business people. That’s not unique to private equity. And as I think my representatives have said repeatedly, and I will say today, I think there are folks who do good work in that area. And there are times where they identify the capacity for the economy to create new jobs

or new industries, but understand that their priority is to maximize profits...when you're President, as opposed to the head of a private equity firm, then your job is not simply to maximize profits. Your job is to figure out how everybody in the country has a fair shot. Your job is to think about those workers who got laid off and how are we paying for their retraining. Your job is to think about how those communities can start creating new clusters so that they can attract new businesses. Your job as President is to think about how we set up an equitable tax system so that everybody is paying their fair share that allows us then to invest in science and technology and infrastructure, all of which are going to help us grow. And so, if your main argument for how to grow the economy is I knew how to make a lot of money for investors, then you're missing what this job is about".

Fair enough, so a president is much more than a CEO. His public policy concerns go way beyond those of a CEO. I guess we can all accept that. That said, Romney does not say that he will use in his presidency the same approach used at Bain. He claims that his record as CEO of a major enterprise proves that he can manage large organizations. (In contrast, when Obama got elected in 2008 he had managed nothing. Not a thing. Not even a lemonade stand. He had zero executive experience).

Obama is attacking free enterprise

Whatever Obama's distinctions in Chicago, the general tone of the attacks against Romney are about his character and ultimately his morality and his humanity as revealed by his tenure as a very successful CEO.

My point here is that quite intentionally Obama and his associates are sending the message that capitalism is bad, that making a profit is immoral and that allowing a capitalist into the White House means more suffering for the common folks, because capitalists have no morality and no principles. All this is amazing, because this is America, the land that

made capitalism its secular religion.

Of course there have been other times in which it was popular to attack Fat Cats and Robber Barons. Attacks against blood sucking quasi-criminals who prey on the hard working American people are not new. But they are not that common either.

In this campaign, Obama has reinvented himself as the protector of the humble and the weak against Mitt Romney, a man whose real record in business –we are told– is about asset stripping, closing factories and firing helpless employees.

This line of attack was tested and vetted

Let's pay attention here. This line of attack against Romney did not emerge accidentally. I am quite sure that this "attack the capitalist" approach has been vetted and tested by the Obama campaign through innumerable focus groups and countless polls. *Eventually it was adopted because the Obama people really believe that it will work. In other words their data shows that, at least in some critical battle ground states, attacking capitalism is a winning strategy in America. Let me say this again: in America, (not Bolivia or Venezuela), attacking capitalism gets you elected to national office.*

A different America

If Obama's strategists are right, (*and I really hope they are not*), the resulting picture is truly scary. It means that millions of Americans really have a negative opinion of private enterprise and capitalism. They prefer the supposedly helping hand of government. If this is indeed what millions believe, then this has become a different America. An America, as others have pointed out, much closer in values and aspirations to Europe. Given Europe's sorry state of terminal decline, (at least the entire South), the notion that we are headed that way, because this is what the people want, is truly sad. It would mean that America lost its original character and the value system that supported it.

Will Greece Finally Exit The Euro? – Economy Is Too Weak – Current Austerity Focused On Higher Taxes, While Keeping A Huge Public Sector Makes Things Worse – Expect No Growth

[the-subtitle]

By Paolo von Schirach

May 24, 2012

WASHINGTON – The unmentionable is now openly talked about. Greece may have to leave the euro after all. Until recently this was considered a complete impossibility. Even talking about it was akin to blasphemy. The common currency agreements, we were told, do not contemplate an exit. Once in, you are in, for ever. But now there is at least talk.

Monetary union among unequal members was a bad idea

I am not sure of how a Greek exit, now often referred to as “Grexit”, a term coined by Citigroup analysts, could be arranged with manageable levels of pain and not too much market confusion. But I am sure that the whole concept of a monetary union linking together vastly unequal members was and is a bad idea.

Weak economies, bloated public sectors

The problem is that in Southern Europe the economies are not productive: there is hardly any innovation and no dynamic investment environment, while labor and other costs are too high.

At the same time, the political systems favor notoriously inefficient and bloated public sectors because public sector jobs are a way to soak unemployment while rewarding political friends. So we have the unhappy combination of weak economies and large public sectors that are both too expensive and totally unproductive.

After joining the euro, Greece and the others did not think even for a moment that they would need to reform in order to catch up with the more energetic Northern European countries so that they could actually stay and prosper in the common currency. No, absolutely not. They kept doing exactly the same, only borrowing a bit more to finance larger public deficits.

Wrong way to fix the problem

Now we are at the point in which the systemic weaknesses cannot be kept hidden any more. But the crazy answer is to rebalance the books through austerity that hits society and not by shrinking the bloated governments. A pro-growth austerity program, as David Malpass points in a WSJ op-ed piece, favors enterprise and the creation of new business activities, while shrinking the state via cuts in public employment and asset sales.

Well, in Greece they have done exactly the opposite. The state not only did not shrink, it actually grew a bit more, while it tries to get new revenue through impossible levels of taxation that are suffocating whatever economic vitality was left. And so the unproductive state with all its coterie of politically supported friends prospers, while society and the private

economy, already in terrible shape, suffers even more.

This is a recipe for economic suicide. The idea that one can engineer economic recovery by taxing companies and people to death, (the same complaints can be heard in Italy and Spain), is ludicrous.

Southern Europe could adopt the Northern model

In theory it would be quite possible for the Southern European members of the eurozone to adopt the Northern models. There is nothing mysterious about recipes aimed at reforming public administration and taxation, while creating a new investor friendly environment. The Republic of Georgia did this. Some African countries have made significant progress towards this.

A matter of values and psychology

But I doubt that Greece and the others are willing to adopt Northern ways. The problem in the South of Europe rests in values and psychology. For most people a public sector job for life is much more appealing than taking a chance in the private sector. Nobody really considers the aggregate consequences of this collective predilection. A large and inefficient public sector consumes resources rather than producing them. High labor costs and rigid labor rules discourage investments.

With this approach, no solution

Unless something gives, the result is exactly what you see. Out of control debt that cannot be repaid because the economy is too weak. But instead of reversing course by cutting the public sector while encouraging new enterprise, they make the problem worse by adding to taxation while keeping the state just as large and unproductive as it was.

If this is the approach, I cannot see how these countries, starting with Greece, can share the same monetary union with

more enlightened countries. Time to plan for Grexit.

Obama Failed To See How Bad The Economy Was – Besides, His Instincts Are Not Modern – His Focus Is On Social Protection, Not On Favoring Growth

[the-subtitle]

By Paolo von Schirach

May 23, 2012

WASHINGTON – The US economy is growing, but very little. Sadly, this is the worst recovery in modern history. Since the beginning of the upward cycle, total GDP growth is only 6.8%. This is less than half the average of past recoveries, 15.2%. But is this all Obama's fault? Not all of it. Still, beyond debatable policy choices, his his main responsibility is in setting the wrong tone. Obama is a man of the past, not the visionary who can chart the future in admittedly difficult circumstances.

Underestimating the crisis

If we look at policies, the Obama administration most egregious mistake has been to underestimate the depth of the 2008-2009 recession. This was really critical because treating

the economy as a manageable problem encouraged other mistakes, the worst of all being focusing on health care reform.

Health care is important, of course. But the economy is far more important. Besides, passing major legislation affecting the entire country with no bipartisan support was a huge political blunder. Whatever the content of the health care legislation, it became and stayed an extremely divisive issue.

Wrong bets on renewable energy

We could add more to the list, such as an administration so totally in love with renewable energy that it ignored the shale gas revolution that has put renewable energy out of business. Betting on the wrong horse cost America quite a bit of money. Gas is not as sexy as solar panels. But it is extremely cheap. This means lower energy prices, with obvious gains for the entire economy

Gigantic problems

That said, we should add that Obama has been confronted with a combination of gigantic problems. The first one is that this particular recession caused by too much debt would have been hard to deal with for anybody. Simply said, people crushed by their own debts cannot go out and spend, this way fueling growth.

Globalization hit American workers hard

The second one is probably even bigger. And this is the impact of the globalization of labor markets on tens of millions of US workers. Exposed to the international competition of mostly Asian companies employing millions willing to perform comparable jobs at a fraction of US wages, US companies had to retrench. Many went under or outsourced. Many others froze wages. And this killed the US middle class used to have rising standards of living when it was still shielded from global competitors. which is to say that when the 2008-09 recession

hit, it found an already weakened and relatively impoverished country.

Obama did not understand

Obama and his people did not appreciate the magnitude of these challenges. They just did not see them. And so there were no bold new initiatives aimed at unleashing American talent and enterprise, our only chance to move the value chain and produce value by creating new sectors. I do understand that it is easy to say all this with the benefit of hindsight. But I would say that Obama's total lack of practical business experience did not help him at all. His dream team of super smart Ivy League advisers did not get this either.

Obama's profile

Be that as it may, there is also the issue of how one appears. And here Obama fares negatively. In my judgement, Obama's fault is that he appears tied to old formulas whereby in hard times the government main job is to protect the weak, as opposed to doing its utmost to promote the new. And this is wrong, not so much in terms of short term outcomes, (after all thanks to Obama unemployed people get checks and others gets subsidies on this and that), but in terms of the psychology that it reveals.

Not a modern man

Obama is not a modern man. He is a welfare state champion who can thrive politically because there are fragile constituents in need that he can help and who will reward him with their votes in November. And this is after all how he is shaping his re-election campaign. He is promoting himself as the champion of the needy. He is trying to depict Mitt Romney as a greedy capitalist who is only seeking profits while not caring at all for the general welfare. This is old and trite populist stuff.

By all means there has to be a balance. Government has to

consider the general welfare. But let us not forget that (in this new unforgiving global economy) if we do not grow, and grow fast, there is nothing to distribute at the end of the day.

Without growth we have nothing

The very fact that Obama could be generous with his favorite causes only by borrowing an extra \$ 5 trillion should be a wake up call. We cannot keep borrowing for ever in order to fund unsustainable benefits. In the end, if America does not grow more vigorously, we will end up like Europe: a few people working, too many getting subsidies and a weaker society suffocated by impossible levels of debt. Unfortunately, I do not see president Obama leading America away from this course and onto a bold, pro-growth path. This is not his instinct and not his talent.

In Chicago NATO Reaffirmed Its Role And The Willingness To Upgrade Its Forces – Very Nice, Except That It Is Not True, Given Shrinking Defense Budgets Across Europe

[the-subtitle]

By Paolo von Schirach

May 22, 2012

WASHINGTON – The big news out of the Chicago NATO Summit was the timetable for an Afghanistan exit. This “agreement” to get out with no victory and no real stability in the country is a sorry looking fig leaf aimed at covering a bad idea –a prolonged war– poorly designed and poorly executed. But there was more on the agenda. This (ghost of a once relevant) military alliance used the Chicago Summit as an opportunity to reaffirm its mission to protect all the member states with adequate military tools.

NATO Defense capabilities

To this end, NATO issued a *Summit Declaration on Defense Capabilities: Toward NATO Forces 2020*. All very nice, except that most of what is declared is at best wishful thinking, at worst willful lies. NATO is a walking ghost held together by the United States, with some help from Britain and France and bits and pieces contributed by Poland, The Netherlands and a few others. Germany is a bit of a mystery. In only when it suits her, witness its refusal to participate in the Libya mission last year.

The NATO macro picture is of a military alliance soon without armed forces. The US always did more. But now the ratio of contributions has shifted from 60% US and 40% Europe to 80% US and 20% Europe. And that 20% is not that good. If the Europeans were able to pool together their military procurement, then they could have more “bang for the buck”. Whereas, as things are done, the outcome is pitiful. But here are some excerpts from the Declaration issued in Chicago, with my notations.

European efforts

We recognise the importance of a stronger and more capable European defence and welcome the efforts of the European Union to strengthen its capacities to address common security challenges. These efforts are themselves an important

contribution to the transatlantic link.

Notice the hint about a stronger and more capable European defense. All pie in the sky. These exhortations have been made for decades. The only thing we know is that European defense budget are significantly lower and headed down. Indeed, with Europe in bad economic shape, do not expect Greece, Italy and Spain, or even the UK, for that matter, to ramp up defense spending. The fact that this vacuous stuff is produced and reproduced every year in these NATO declarations, is not even funny any more. It is a tragedy when lies are dished out routinely and nobody objects.

Libyan success?

The strength of NATO has been Allies' forces – their training, equipment, interoperability and experience – drawn together and directed by our integrated command structure. The success of our forces in Libya, Afghanistan, the Balkans and in fighting piracy is a vivid illustration that NATO remains unmatched in its ability to deploy and sustain military power to safeguard the security of our populations and to contribute to international peace and security.

Here is another whopper. Only a few weeks into the 2011 Libyan air campaign the small European air forces had run out of smart bombs, showing how ill equipped they were to fight even a minor war against Ghaddafi, a third rate enemy. Imagine if this had been a real war.

All the capabilities NATO needs are there. Really?

We have already made concrete progress since our last Summit in Lisbon and the adoption there of the new Strategic Concept in ensuring NATO has the capabilities it needs to defend our citizens, conduct crisis management operations, and foster cooperative security.

Really? Virtually no defense spending (at least in most NATO

countries it is essentially meaningless) and we still get great capabilities? Genius at work here.

Streamlining the European defense industrial base

Maintaining a strong defence industry in Europe and making the fullest possible use of the potential of defence industrial cooperation across the Alliance remain an essential condition for delivering the capabilities needed for 2020 and beyond.

Yet another joke. Even when it really mattered, when Europe was under Soviet threat, defense industry cooperation was discussed and debated *ad nauseam*, with almost zero results. Now that cooperation is a less pressing issue these ritual invocations for pooling resources mean really nothing.

Unity, of course

NATO's greatest strength is its unity. Through 2020 and beyond, stimulated by the requirement to use defence resources in the most efficient way, we will deepen that unity to maintain and upgrade NATO's military strength.

Now, this is the best. Out of 28 members, only 9 participated in the 2011 Libya air campaign essentially led by France and Britain (with the US, as we were told, "leading from behind"). Germany did not participate. Sure enough many more are in Afghanistan. But most of them are not in combat zones, while many have provided token contribution of literally dozens troops. So much for "unity". As for the pledge to "deepen and upgrade our strength", how will they that? May be from now on defense contractors will accept Greek bonds as payment? Otherwise, I see no signs of increased defense spending. So much for "military strength".

NATO had a function. Today it is a sorry affair rapidly turning into a farce. The old joke shared among insiders that "NATO" really stands for "No Action Talk Only", is now becoming real.

Too Much Hype For Facebook, A Company That Does Not Make Anything – America Used To Produce and Reward Real Innovators – Social Media Not As Valuable

[the-subtitle]

By Paolo von Schirach

May 17, 2012

WASHINGTON – I am quite uneasy with the hype surrounding the Facebook IPO. I thought I was in a minority of one when I saw an equally skeptical The Wall Street Journal op-ed piece by Rich Karlgaard, Forbes publisher. (*The Future Is More Than Facebook*, May 17, 2012). Well, at least some seasoned observers are also not so enthused.

Facebook is the story

Facebook is “the” story. And this is all what the business media have been talking about. Saturation coverage on Bloomberg TV and CNBC. It is assumed that the IPO will be a smashing success, bringing the company to a market capitalization of over \$ 100 billion. Mark Zuckerberg, Facebook founder and CEO will be worth \$ 18 billion. This is truly astonishing for a company that does not make anything.

Well, not so, others would argue. *“This is yet another*

American story of entrepreneurship appropriately rewarded". Well, if money is the standard, that's what it looks like. But I am still uneasy because Facebook is all about fluff. No doubt, given its exceptionally high number of users, Facebook is a great platform allowing people to socialize (I have an account). So, let's stipulate that it is useful in creating valuable connections, and may be more. Still, Facebook is not a "product". It does not help the economy. It does not increase productivity. Sure, you may argue that precisely because it is a neutral platform it will allow people to use it creatively and do great things through it. Who knows, may be so.

We used to reward those who made things

And yet there is a difference between this and what we used to call successful enterprise. America used to celebrate innovation that brings real economic value. As Karlgaard pointed out in his WSJ piece, Bill Gates was another young entrepreneur who became fabulously rich at an extremely early age. But he created the first mass produced operating system for personal computers. And Microsoft products have been and still are key components of the incredible IT revolution that has revolutionized most economic sectors and introduced unthinkable efficiencies worldwide. Now, this is "value".

More recently, the more eccentric yet incredibly creative Steve Jobs revolutionized the phone and tablet experience with products that blend in all sorts of magic features. Some fluff there too, but also real value. Apple "makes things".

Facebook is a social media platform. I do not know; but I can hardly believe that a vehicle for chatting and exchanging pictures is the best of the American innovation genius and this is why it will be so handsomely rewarded by investors who really want to have a piece of it.

the ongoing energy revolution does not get the same coverage

I can think of other industries we should be focusing on. As we speak, in the US we have a major hydrocarbon revolution. (I have written a lot about it). "Hydraulic fracturing" allows the exploitation of natural gas and oil trapped in rock formations. Thanks to "fracking" North Dakota with an oil output above 500,000 a day is now the second oil producer in America. And abundant natural gas, (a lot of it in Pennsylvania, Ohio, West Virginia and New York), is already driving down the cost of electricity, with economic benefits for tens of millions of consumers and key industries that are large users of electricity (steel), not to mention others (petro-chemicals and plastics) that use natural gas as feedstock.

And finally inexpensive natural gas will soon be used as transportation fuel, allowing America to save billions on imported oil. Now, this is big stuff. "Fracking" is a revolutionary technology that transformed the oil and gas industries. But, beyond the experts, few people know about any of this. It does not get major media coverage. Sure there is plenty of money in energy and some companies and investors are getting rich. But the hype is not with the energy that literally powers the nation. It is with Facebook, as if creating platforms for social interaction is really America's future. Quite frankly, I hope we have more to offer.

Vertical farming

And others are offering. But nobody pays much attention. Think about those who are experimenting with vertical urban farming, a truly revolutionary way to grow food right in the middle of the cities where people live. This way we will spare the environment, minimize (precious) water consumption, while cutting down all the cost related to food production, storage, transportation and distribution. Now, this is a big deal, potentially a revolution. And yet, hardly a mention in the media. At best it is treated as a curiosity promoted by some eccentric people.

Too much value for a platform

Look, I do not want to diminish the importance of any innovation that may indeed enhance the quality of our lives by improving social interactions. Facebook has earned its rightful place in this sphere. Still, too much hype and too high a valuation for a company that does not make anything and does not have any content.

High Quality On Line Education Is A Democratic Revolution

[the-subtitle Soon enough millions will have access to knowledge until now restricted to very few. Tremendous impact on the economy and society]

By Paolo von Schirach

May 10, 2012

WASHINGTON – Dream with me for a moment. Imagine a world in which any student can have access via the internet to the best teachers, providing the best instruction on any given subject. And the instruction is delivered in many different formats, allowing for the different starting skills of the students and individual pace of learning. Imagine that all this is available and provided for free or for nominal charges by dedicated NGOs that want to make education a public good accessible to all who wish to have it. Imagine the tremendous leap forward for many societies that would greatly benefit from having additional millions of educated people. More

creativity, more innovation. A better world no doubt.

High quality on line education already available

Guess what: this is no longer just an aspiration. Pioneering innovators like Salman Khan, founder of Khan Academy and Sebastian Thrun, a Stanford University Professor who founded Udacity, are clear examples of what can be done and in fact is being done today. Salman Khan started almost by accident, by producing short on line tutorials to teach younger relatives.

Professor Thrun decided to experiment by making his Stanford University lectures available on line. He was a popular professor. He had 200 student attending his class. Much to his surprise, just days after placing his material on line he had an audience of 5,000 that soon turned to 10,000 and then 14,000. After many other changes and different iterations, now through Udacity of which he is a co-founder he reaches 160,000 students around the world. And his subject is about complicated computer science stuff. Khan Academy, whose material is aimed at younger students with tutorials in many more subjects, has more than 140 million views and 320,000 subscribers.

These are staggering numbers.

Just the beginning

And these brilliant pioneers are just the vanguard of an education revolution just beginning to unfold. No doubt there will be more ways to deliver content, more ways to customize it. *Given these already astonishing results, I think that in just a few years we shall see the unfolding of a true revolution. And this will be the democratization of high quality education, education being the most valuable capital one can acquire, as it is the precondition for almost anything else in the modern world.*

Accessible to all

Think for a moment of the implications of this change. Until now high quality education was considered a privilege for the super smart and the super rich. So, given what we are used to, it is hard to imagine a future world in which one's principal source of personal and intellectual growth is delivered free of charge or almost free of charge through a computer by some of the best instructors available in the world. Impossible to assess all the implications and the incredibly disruptive impact that this will have on highly structured and mostly mediocre education institutions that deliver average instruction at a very high price.

Education is the most valuable asset

Indeed, we know how valuable a good education is in today's world and how difficult it is to get it. We know that in today's highly competitive knowledge economy how well one can master any given subject is the passport to good jobs, great careers, upward mobility and financial success. Within the current system, most highly competent individuals are the products of the best schools and the best universities. And here is the mandatory right track. Admission into a great private school, and then use that diploma as a spring-board to get into a super university. This path is almost universally considered the essential precondition for to making it.

The problem is that this system providing excellent education is restricted to only a small minority of the student population: the really talented who may get scholarships, and the children of the very rich who can afford its extremely high cost. The rest can aspire only to passable, mediocre or bad public education. After that, the truly motivated will go to a decent or so-so college where they will get a so-so higher education leading to a so-so job.

Only few get the best

Therefore, only a tiny sliver of the student population will

get a superior education. Many more will get a mediocre education; while the majority of the population is lucky to get a high school diploma. And, despite its mediocrity, the cost of this inefficient apparatus that breeds inequality keeps growing, up a point in which even an average quality college education will become unaffordable for most middle class students.

And bear in mind that here we are talking about the happy few who get to go to college. If you put together all the students who get any type of higher education, superior and average, these are privileged young people living in developed countries who have schools and universities they can attend.

The rest of the world gets little or nothing at all. Even basic literacy is an elusive goal for hundreds of millions.

Democratizing education

But here come the likes of Salman Khan and Sebastian Thrun. These brave visionaries lead the way to a new world in which almost anybody can get a real education, not just a smattering of something delivered by mediocre instructors. Everybody can have access to the smartest, most brilliant teachers who can open up entire universes of new knowledge to any student with a computer and a decent internet connection.

This is a revolution

I am sure that many more will follow this new trend and deliver new education material on line through other innovative modalities. Therefore it is impossible to predict how education will look like 10 or 20 years from now. But one thing is clear. The ability to deliver high quality at a low price to millions is a revolution and its impact will be revolutionary.

In fact, the ability to democratize learning so that it is truly accessible to all those who crave it may be one of the

most dramatic and farther reaching transformations brought about by the internet era, with vast consequences for society, the economy, and governance that it is hard to even fathom.

Our thanks should go to the innovators who are leading the way.

Divided Washington Will Not Enact Pro-Growth Policies – Anemic US Economy Does Not Grow Enough – More Like Europe

[the-subtitle]

By Paolo von Schirach

May 7, 2012

WASHINGTON – Watching on C-SPAN, (the meritorious public affairs TV channels), a session of the US House Budget Committee was quite depressing. There was no real debate on the issues aimed at getting to some constructive policy outcome. I heard only prepackaged slogans and a lot of predictable posturing.

Posturing

The Republicans “say” they want to liberalize the economy to lift growth so that the tax base will be expanded and revenue will actually increase. In the meantime, they say “no” to

higher tax rates. Nonsense, claim the Democrats. The Republicans want to cut taxes for the rich. This will diminish revenue for needed social programs, hurting the poor. So let's eliminate tax cuts for the oil companies and use the additional revenue to support health care. And on, and on. More than what was said, it was the way everything was said. It was all tired stuff, boringly scripted and totally predictable. The Republicans against "tax and spend". the Democrats against "tax cuts for the rich". And all members voted on any measure or amendment strictly along party lines.

Divided Government

This is no way to govern. Unfortunately, given our divided Government and this kind of rigidity, expect nothing different before the November elections. Still, unless Mitt Romney wins the White House while the Republicans will keep the House and take over the Senate as well, chances are that divided government will continue. If Obama will get re-elected, and I suspect he will be, given a still uninspiring Republican Party candidate, there are still good chances that the Republicans will keep control of the House and may be even capture the Senate, considering the large number of Democratic incumbents who may be a t risk there. Either way, if divided government continues, we are likely to get more of the same. Nothing will get done.

Fiscal reforms

And yet America needs to fix its fiscal mess. Luckily it does not have to fixed immediately. But it is now urgent to give the country, the world and financial markets the signal that there is now a strong bipartisan consensus in Washington about bending the cost curve. Simply stated, we need entitlement reform, some cuts in defense spending and tax simplification accompanied by some tax increases. Even with a long implementation time line, a broad based fiscal policy agreement would give reassurance to all, and in particular to

business and investors. And it is important to reassure financial markets as to the continued reliability of the United States as a debtor finally able to put its house in order. We already had an S&P downgrade, do we want more?

Low growth

But even if we did all this, this is only half the story. Well crafted fiscal and tax policies are a good tonic for the economy. Still, while they can facilitate growth, by themselves they cannot create it.

America is essentially stuck in a low gear. There is no acceleration here. The last quarter the economy grew at a very modest 2.2% rate. Only 115,000 new jobs have been created in April, barely enough to compensate for population growth. The housing market is not back yet. People are still paying old debts.

Furthermore, fewer new companies are created. As Edward Luce notes in *The Financial Times*, *"In 2010 just 8% of all US businesses were less than a year old, against 13% in the 1980s"*. This is a worrisome trend. And fewer new companies are created because there is less financing available. Fewer companies mean less innovation, possibly fewer breakthroughs.

Less innovation

Capitalism advances only through its "creative destruction" process. If there is no creativity, we are stuck with old and overtime less productive technologies and systems. And what does this mean? Well it means that in a fiercely competitive global economy, if we do not innovate fast others take over. If we do not innovative and move up the value chain, we can only try and cling to smaller pieces of shrinking economic sectors by cutting wages, as we have fewer productivity enhancements due to lower investments.

More like Southern Europe

Allowing this to continue amounts to making America much closer to what we see in Southern Europe or even France today. There is an ugly word for it: decline. The French just bought themselves a new left of center president, the Socialist Francois Hollande. He claims that he will do less austerity, while he'll deliver more growth. This is great. But how will he make growth happen in a stagnating French economy? The only growth recipe the Europeans and now the Americans seem to understand is more public spending. And this means higher deficits. I am not sure this is going to work.

Create a better business climate?

But we are not doing much better. Can paralysed Washington deliver policies that will improve the "enabling environment", so that more Americans will go into business chasing opportunities, this way helping overall growth? Impossible. And yet America needs clear and simple taxation, R&D tax credits, plus simple, user friendly regulations, not to mention clarity on health care obligations for employers. All this would contribute to a better investment climate.

If we could make all these changes at the Federal and State level, this would improve the picture. But I do not see any signs. The House Budget Committee session I mentioned above is just a small illustration of a debilitating impasse. Unless the attitudes change, expect more of the same.

Focus on entitlements

As for the creation of more fertile ground for growth, I have the bad feeling that for many Americans this is far less urgent than securing Social Security checks at current levels and Medicare benefits just as they are. And yet if we focus on entitlements as opposed to wealth creation, then our best days are really behind us. *"This is what we have. It could be better; but we'll have to make do"*. True enough, overall America is still a very rich country. But with less

innovation, fewer new companies created, real incomes stagnating and fewer people employed we are getting a little poorer every year. Does anyone care?

The US-China Summit Became The Chen Guangcheng Event – Major International Publicity For Human Rights Story Highlights China’s Dilemma: When Will Political Reforms Be On The Agenda?

[the-subtitle]

By Paolo von Schirach

May 5, 2012

WASHINGTON – The long scheduled US-China Summit in Beijing, part of an established practice aimed at having periodic high level contacts between the two countries, interestingly enough morphed into the “Chen Guangcheng Story”. *Forget about currency and investment issues, we want to know about the daring escape of this Chinese lawyer protesting against forced abortions and what will happen to him.*

The escape

We know the story. The blind human rights activist, after a

successful escape from house arrest in a rural Province, managed to get to Beijing and into the US Embassy, seeking American protection. Still, leaving aside the complicated (and unclear) sequence of events, including alleged mistakes and misunderstandings between Mr. Chen and US officials, the fact of the matter is that the high level US-China Summit was completely obliterated by the daily headlines updating the world on the latest installment of the Chen saga. Consider this: a single case of human rights abuses obscured a major bilateral event, featuring Secretary of State Hillary Clinton and Secretary of the Treasury Tim Geithner. All this negative publicity is not good for China.

Political legitimacy

Whatever will happen to Mr. Chen and his family, (it looks as if they will be allowed to travel to the US where he will be able to study law at NYU), and whatever will happen to his brave friends, (those who helped him escape and make it into the US Embassy), this highly publicized incident underscores the fact that the Chinese Government sooner or later will have to deal with its most fundamental problem: political legitimacy.

China under closer scrutiny

Until recently it was relatively easy to silence or isolate dissidents through the usual police measures. But now this is becoming more arduous, as the Chen cases illustrates. Actions get noticed. And this is mostly because China's new wealth and prestige attract more scrutiny both internally and internationally. Domestically, something like public opinion is developing. People are more informed and more connected, and they are more and more inclined to protest. A more affluent and better educated Chinese middle class is not as passive as the country used to be.

Which is to say that the old tacticts of intimidation and

repression, while still available, are used more sparingly and with more circumspection. Increasingly the Chinese authorities begin to realize that what they do gets international media attention, that domestic approval has to be considered, while world opinion also matters.

Reforms?

But this new scenario in which some form of “approval” is deemed to be necessary creates a huge dilemma. Is the best course of action to resist change, no matter what? Conversely, if reform and liberalization are indeed inevitable, how fast should they proceed and how far should they go? It is clear that, if reforms in the future will go anywhere near the level of full democracy, then the days of the current leadership and of all its internal mechanisms are numbered.

America's role

Which course will China choose? Nobody really knows. But I suspect that the leaders will try gradual opening. If this is the case, we should wish China well. The world would benefit if China is both prosperous and politically stable. That said, while America should deal with this enormous issue of possible political reform in China with great caution, it should also remember that its earned reputation of defender of human rights carries huge responsibilities. Do remember that in Chinese popular jargon the expression “Safest Place” means the US Embassy. Chen sought refuge in the US Embassy, not in the Russian or Cuban Embassy.

Disappointing US Jobs Report – Country Needs Bipartisan Reforms – Time To Allow The Centrists In Both Parties To Take The Lead And Enact Laws That Will Recreate Confidence

[the-subtitle]

By Paolo von Schirach

May 4, 2012

WASHINGTON – A really lousy jobs report. Only 115,000 new jobs created in the US in the month of April. And the unemployment ticked down to 8.1% just because 300,000 Americans dropped out, and so they are no longer counted as unemployed. But the really scary item is the percentage of Americans in the active labor force, the so called “*labor participation*“. It dropped from an all time high of 67.3% in the late '90 to only 63.6% this year. And the chart shows a precipitous drop from 2008, the year in which the terrible recession started in earnest, with no recovery. Almost a straight line pointing down.

Blame game

Politically, this anemic labor growth trend damages President Obama. Tougher to get re-elected with such a modest economic record. But the problems run deeper. Far too easy to assign blame to the President. Certainly he can be blamed for his choice of policy priorities. He spent the crucial first two years of his mandate on the health care issue. Important yes, but not as critical as the economic recovery. He provided no

leadership on fiscal or tax reform.

That said, the Republicans have been mostly obstructionists, believing that any kind of deal with this Democratic President was bad politics. And so, with an opposition practicing a scorched earth policy, and a President prisoner of equally partisan Democrats, after an awful recession almost nothing of substance was accomplished aimed at recreating more confidence among business leaders. Right now we are down to cheap, populist slogans about “taxing the rich”, and “no new taxes under any scenario”. Very productive.

Business world would like to see broad, bipartisan reforms

While public policy is only one piece of the economic puzzle; it is a very large piece. Corporations would have appreciated a bipartisan, therefore sustainable, fiscal recovery plan that would have included a sweeping tax reform, (with fewer rates, no more loopholes and lower corporate tax rates), and serious entitlement reform. Getting any of this done is very complicated; but not impossible. And yet we got absolutely nothing done because of a political system prisoner of opposing ideologies.

The US is not yet penalized by its creditors in terms of higher interests rates on its ballooning national debt only because Europe’s troubles, at this time, are far worse than ours. And so US bonds look more attractive than Spanish or Italian bonds.

Painful de-leveraging

That said, there is unfortunately a lot more. This was not an average recession. This recession was caused by massive amounts of debt, while real assets were overvalued because of the housing bubble. Now homes are worth much less, while people are still carrying a huge chunk of the debt load they contracted in the go-go years. Getting out of massive debt is a slow process. In the meantime, private consumption cannot go

back to what it used to be because millions of people trying to pay back debts just do not have that much money to spend. And here we are talking about the lucky ones who have jobs.

Business not investing much

The only good news is that most businesses that survived the recession, having shed labor and costs, are now leaner and in much better shape. They sit on a lot of cash. Yet they do not invest much in part because of lower demand and in part because they do not get inspiring signals from Washington. They see only policy paralysis due to political animosities.

Divided government can function only through compromise

Let's agree on this. *This US system that allows divided government can function and deliver useful public policies only through political compromise led by the centrists in both parties.* The trouble is that they –the centrists– are now practically extinct. If president Obama gets re-elected, there is a very good chance that we shall have more divided government, with the Republicans controlling the House and possibly even the Senate.

In this scenario, unless America wants to commit suicide by self-asphyxiation, it would be to wise allow the centrists in both parties to take the lead, broker deals and get something constructive done. This mess has gone on far too long.