

# **Gigantic Power Failure Affected 620 Million Indians – The Worst Blackout In History – Time For India’s Policy Makers To Get Serious About Pro-Development Policies, Starting With New Infrastructure And Modern Regulations**

[the-subtitle ]

**By Paolo von Schirach**

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July 31, 2012

**WASHINGTON** – Power blackouts do occur, even in supposedly super modern countries. think of the 2003 massive power failure that affected the US North East. But what has just happened in India is probably the worst power failure in all of human history, certainly the worst in Indian history.

### **370 million, then 620 million without power**

On Monday 370 million Indians were affected. (That is the equivalent of the entire population of the US and Canada). It appears that this was due to some states going deliberately above their allocated “quotas”, therefore upsetting a huge part of the grid. But on Tuesday it got worse. 620 million without power. That’s about half the population of India.

In a US context, imagine 150 million people in America without power for a couple of days. And what’s worse, at least right after the second and larger blackout officials were clueless as to what caused it.

### **Mix of bad policies and arbitrary regulations**

I have expressed my doubts about the resilience of India’s economic growth. (See above for links to earlier pieces). This epic catastrophe unfortunately highlights the cumulative failures of a country that, despite its many talented people, really cannot get its act together. News stories have tried to explain how electricity is generated and distributed in India. Reading them it is almost impossible to comprehend how a system so convoluted, so messy and so anti-economic has survived until now.

### **All wrong, nicely mixed up**

You have everything that should not be done in order to encourage investments in this vital sector, essential to provide power to a developing nation whose growth largely depends on reliable electricity. There are major issues at every level. There is political uncertainty and consequent

policy confusion, arbitrary regulations on coal mining that starve coal fired plants, prohibitions, mandates, political prices for some categories, subsidies for others, a bad mix of public and private ownership, poor oversight and corruption.

All this delayed needed investments; and so you have outdated systems prone to failure. To top it all off, many Indians steal power, (some estimates indicate that up to 40% is syphoned off the grid), while others who get it free of charge resell it (illegally) to industries or other users. Given this mess and the size of the country, quite honestly one wonders why major disruptions do not occur more often.

### **Back up systems reduced the impact**

The silver lining here is that most Indians are used to frequent power failures. (For more than 300 million power failures large or small make no difference, as they have no power to begin with). For this reason most factories, airports and private businesses have their own independent back up generators. When the big outages occurred Monday and Tuesday factories turned on their generators and continued working. Hardly ideal, but back up systems reduced the amount of disruption; even though some factories got into trouble because most generators cannot run for more than a few hours without refueling. Still, even with back up systems in place, hundreds of millions were affected. Gigantic traffic jams were caused by non functioning traffic lights. Trains were not working, and so on.

### **Will this be a wake-up call for India?**

Be that as it may, when we go past the huge domestic damage and the international embarrassment, it would be good if some Indian policy-makers would grab this catastrophe as an opportunity to start a new course towards real modernization. And modernization has to begin with an agreed upon master plan for major infrastructure upgrades, first and foremost power

generation and distribution. But in the case of electricity it is impossible to induce the private sector and/or multinational corporations to invest, because of the system of subsidies and quotas that make it impossible for most to make money generating power. Therefore streamlined regulations that would include real economic incentives have to precede new projects.

### **Talented Indians cannot work in this environment**

There is no question that there are plenty of truly talented people in India. Many Indians who emigrated to the US, Canada and elsewhere have done extremely well as scientist, business people and managers. But the smart people who stay in India cannot possibly operate at full speed in a country so poorly organized, with a sorry blend of adversarial politics, ancient systems, absurd regulations and rampant corruption.

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**In An Opinion Piece Former Secretary Of State Condoleezza Rice Outlined US Foreign Policy Priorities – Most Notable: Europe Hardly Mentioned At All – By This Incredible Omission We Can**

# Conclude That The Atlantic Community Is As Good As Dead – No Obituary, But An Era Ended

[the-subtitle ]

By Paolo von Schirach

July 28, 2012

**WASHINGTON** – Former Secretary of State and before that National Security Advisor Condoleezza Rice laid out her vision of US foreign policy in a The Financial Times Op-ed. (*America must remember it is not just any other country*, July 27, 2012).

## **America should be more engaged**

Ms. Rice argues for a more engaged foreign policy that would promote the principles of free trade that are conducive to the growth of free societies. China is signing free trade agreements everywhere in Asia, while America is not. She makes other important points regarding the need to support the beginnings of the Arab democratic process, the need to welcome more skilled immigrants into the US, the importance of focusing on US domestic energy sources and finally the need to strengthen the US economy and public education.

## **No mention about Europe**

*Practically absent in her otherwise thoughtful piece is any significant mention of relations with Europe.* She says, in passing, that “our engagement with Europe has been sporadic and sometimes dismissive”. She also writes that it was a mistake “to abandon missile defense sites in Poland and the

Czech Republic". And this is about it. No mention of NATO, of the Atlantic Community or NATO-led operations, such as Afghanistan. No mention of the European Union and of its relations with Washington. No mention of the key European countries: Germany, France and the UK. *Not a word.*

This is rather extraordinary. In an opinion piece discussing America's role in the world, a former senior foreign policy-maker in two Republican administrations does not devote even one paragraph to European-American relations, the pillar of US post-war foreign policy. The Europeans were (and are) our Allies, and NATO was (and is) the instrument through which the Alliance was managed.

### **Cold War is over**

Of course, much of the focus on Europe throughout the post war period was due to the Cold War. But that era is over. The Soviet Union imploded more than 20 years ago. Russia is a diminished country. It lost its Empire. It no longer has the ability to project power in the middle of Europe. The Wall is long gone. Berlin is the capital of a reunified Germany.

### **Still, North America and Europe are the core of "The West"**

However, even though the strategic relevance of Europe has diminished, Europe and North America could still be the core of a vibrant West. Whatever one can say about the rise of Asia, and of China within Asia, Europe and North America combined would represent by far the strongest economic grouping of nations in the world. The 27 member strong European Union has a GDP bigger than the United States.

If Europe, Canada and the United States could work effectively together to promote the liberal democratic agenda Secretary Rice discussed in her piece, it would be hard to match their combined resources, power and global influence.

### **End of the Atlantic Community**

But Europe is not even mentioned in a piece about US foreign policy priorities by a former US Secretary of State. Implicitly this means that, even though we still have the NATO Alliance and we still fight in Afghanistan with some European NATO Allies, the real thing is over. There is no common foe (the old Soviet Union) and the Atlantic Community died with it even though no formal announcement has been made. Absent that, there is no new agenda.

### **No real partnership with a weak Europe**

Of course, there are other reasons for failing to mention Europe. Beyond the changed geo-political scenario due to the end of the Soviet Union and the Warsaw Pact, it is difficult today to reshape a new productive relationship with a politically fragmented, militarily insignificant and altogether weaker Europe. While Europe still retains great economic strength, the Old Continent as a whole is in slow but steady decline. Its ability to speak with one voice on any subject is limited or non-existent. This Europe is not an ideal partner for America, still a superpower, although not exactly at its peak performance these days.

### **End of an era**

While acknowledging the vastly changed circumstances, it is sad to notice that the death of the Atlantic Community is real, while (as in the case of this op-ed piece) it is announced implicitly, by omission, just as we might not want to advertise the death of a distant, poor relative. Too embarrassing.

That said, by reading Secretary Rice's piece you would never guess that America's relationship with Europe was the dominant issue of US foreign policy when Ms. Rice was born and throughout most of her professional life. But not anymore.

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# The Roots Of Sustained Economic Development Rest On A State Of Mind – Values Shape Priorities And Actions

[the-subtitle Education about value systems and priorities conducive to growth is essential for shaping successful development strategies – Part 6 – End of Series]

By Paolo von Schirach

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July 27, 2012

**WASHINGTON** – *This is the sixth and last installment in a series exploring what we know about “economic development” and the value system necessary to promote and sustain it. Please look at the link above to get to the previous pieces.*

**Max Weber: The unintended economic consequences of religion based ethics**

A rather famous example may serve to illustrate that strongly held beliefs may have significant economic consequences. Long ago, the argument was made by the German sociologist and economist Max Weber that the successful emergence and self-



reinforcement of capitalism was strongly supported by a value system that was the byproduct of religious beliefs.

### **Religion based ethics had profound economic consequences**

In his seminal work "*The Protestant Ethic and the Spirit of Capitalism*", Weber argued that the early successful capitalists, especially in Germany and North America, were not originally driven by the desire to improve their material conditions *per se*. They were not out there to "make money". Rather, they were motivated by religious beliefs that influenced their economic activities. These beliefs made them successful wealth creators.

### **The successful will be saved**

According to Weber, there is a correlation between the Calvinist theological belief of predestination and the development of an ethical and behavioral code that *just happened to be conducive to the development of successful capitalist systems*. Very briefly, strong belief in "predestination" meant that some individual souls were going to be saved and others damned according to decisions made by God.

This belief could have plunged people into a sense of complete fatalism. Instead the Calvinists, secure that somehow as witnesses of the True Faith they had to enjoy some special place, overtime developed a theory whereby there should be "signs" of predestination that would indicate to the "chosen ones" that they would enjoy eternal life.

According to this view, success in the material world should be considered as a positive "sign". By permitting an individual to improve his circumstances through diligent labor, the Lord would provide "a sign of predestination". Whereas, the lazy, the drunk, the good for nothing who failed in the material world were clearly sinners. They could not possibly be among the saved.

## **Capital accumulation**

In the austere Calvinist environment, the goal was not to amass wealth in order to consume it by living the dissolute life of the rich as in other societies. This wealth was understood to be a testimony of God's blessing. The producer was supposed to be the "steward", the guardian of wealth and not its consumer. The good Christian would live a sober, simple, laborious and honest life. Capital was to be created but not spent; *thus it would be reinvested*. Furthermore, the Calvinist, constantly under the watchful eye of the Almighty, had to behave according to the Biblical moral code. Honesty and integrity had to be part of his life, just as hard work and frugality.

So, here we have the basic ingredients of capitalism: strong motivation towards enterprise, a mind constantly focused on devising ways to rationalize processes and improve on what exists. ***And this meant a mind set bent toward seeking technological innovation, while fostering capital accumulation and reinvestment.*** Finally, we had a behavior that had to be respectful of basic Christian rules –which happen to coincide, at least to a degree, with the rules of a free market economy. These rules would oblige individuals to keep their word, (contracts), to have respect for someone else's property and rights; while they would create at least some deterrent to those tempted to engage in theft or dishonesty.

## **Behavior conducive to growth had its roots in religion**

*In all this, the salient element is that a certain economic behavior that happened to be conducive to the strengthening of a capitalist market economy, at least at its inception found its roots and its legitimacy in transcendental concerns that had nothing to do with economic development goals as such.*

According to Weber, a set of beliefs spurred people to act in a fashion that just happened to have long lasting, significant

economic consequences in spurring enterprise and investments. And so we can say that ideas and value systems are very real in their consequences. Indeed, a value system that happens to be conducive to the development of capitalism helped its inception and supported it in its early stages.

### **Economic behavior is determined by values and beliefs**

Today, after the explosion of psychological studies encompassing practically every aspect of human life, most would agree that the ethical make up of an individual (which includes any values drawn from religion, culture or chosen ideology) and his general psychological inclinations have a strong impact on all activities the person would engage in, including economic activities.

Most would agree that the inner core of a person's mind, the result of education received and of the culture absorbed, determine, among other things, an individual's openness to change, willingness to take risks, dependability, honesty, conscientiousness, diligence, etc. All these happen to be qualities that have a direct impact on that person's economic behavior as an employee, as an employer, as an entrepreneur, as a civil servant or as a judge.

### **Motivation studies and gurus**

So, the mind set is a critical variable in economic behavior and this is why so many are bent on teaching people how to improve it. Indeed, a very fashionable field of study in the Western world focuses on "motivation": i.e. how to improve individual performance and effectiveness, especially in economic activities. How do we make a worker eager to do better?

Motivation gurus would disagree as to the best recipes; but generally they would concur that the key to change human behavior and thus the outcomes of human actions is a modification of the individual's value system and consequently

of what should be the good priorities to focus on.

**If the mind is critical, then we have to change it as we push forward any development agenda**

*This being the case, a constructive modification of the state of mind of those who are still outside of the development sphere should be a logical key component of any development strategy. And education about new ways of thinking and approaching reality is a lot more than “skills training”. As stated in the title of this series: “The roots of sustained development rest on a state of mind”.*

*While changing anybody’s state of mind is not at all simple, unless we engage those who are outside of the development mainstream on this critical level of education about values, beliefs and thus priorities conducive to growth, much of the development effort will be, as it has been, in vain.*

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**The Roots Of Sustained  
Economic Development Rest On  
A State Of Mind – Classical  
Thinking Assumed Innate  
Economic Behavior – Today We  
Understand That Economic**

# Progress Depends On Intangibles Such As Curiosity And Motivation – Part 5

[the-subtitle ]

By Paolo von Schirach

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July 26, 2012

**WASHINGTON** – *This is the fifth installment in a series exploring what we know about “economic development”. Please look at the link above to get to the previous pieces.*

## **Questioning the conventional economic wisdom**

Although the debates as to which are the key ingredients of economic growth and the agents of growth have not been settled, at least at some level for the longest time there has been an almost unchallenged orthodoxy which came to dominate “official” economic thinking, at least in the West. And this is the “classical” economic theory, which, notwithstanding the many instances in which it has been proven wrong by empirical facts, continues to have a surprising resiliency.

## **Classical economic theory**

Western classical economic theory that continues to provide the elements and the framework for a large part of economic discourse is rooted in the European rationalism of the XVII

and XVIII Century. According to this thinking, Man is fundamentally a rational creature. Therefore, it is postulated that he will have a natural propensity to look rationally at economic activities. This propensity will spontaneously lead him to constantly maximize the use of resources in the most rational way, in order to obtain the best return for the effort. He will also have a natural proclivity to always develop better tools and sophisticated machines that will enable him to improve quantity and quality of existing and new products.

It is important to stress that classical economic thought postulated the existence of an innate human predisposition to always look for better ways, to experiment with new technologies and to constantly refine processes in order to obtain the best return on any investment of resources.

### **Qualities are not innate, they are acquired**

In more recent times, new psychological theories made it apparent that capabilities and skills, including those "rational qualities" to always search for better solutions attributed by the classical theory to humankind in general are instead acquired through a process of learning, as opposed to being innate, natural tendencies.

The ability to innovate and to quickly find optimal commercial applications for innovation is in fact an acquired and progressively refined skill learnt in school and/or on the job by the people who are actually involved in the different stages of any productive process. Leaving aside exceptionally talented individuals, the key variable for economic success is to improve the average skills. Skills can be improved, depending on the length and quality of the instruction provided to the individuals. An environment that stimulates and rewards original thinking is an almost indispensable precondition to creatively build upon what exists and engineer more and more innovation.

## **Psychological make up**

Thus today we define the individual's capability to perform well and innovate in any given economic activity as *the outcome of a learning process that provides basic knowledge coupled with a psychological approach that postulates that progress can be constant, that it is desirable, and that it is within the mental abilities of all people to actively contribute to it.* In other words, people acquire knowledge necessary to perform certain activities; but more importantly they learn that it is always possible to apply their own ingenuity with the objective of constantly improving upon what exists today.

Thus, little by little, we are coming to accept the notion that at least certain critical components of the economic equation have to do *with the psychological make up of the individuals.* These conditions largely determine whether the person will just execute basic commands or feel instead motivated to push the envelope.

Further, we have come to recognize that the economic actions of individuals are a function of their knowledge and skills, combined however with creative thinking. Most importantly such a propensity towards creative thinking is a skill that can be acquired through learning and education process, formal or informal as it may be.

## **A major shift**

This is already a major shift. Little by little we are coming to believe that, assuming a given level of knowledge available to all, the individual's psychological disposition towards innovation and change is probably the single most critical variable in the economic process. Depending on what he/she is taught about the value of innovation, or what is learnt through experience, the individual is likely to do or not do certain things that are going to have significantly different

economic consequences.

This is important. Modern thinking has moved away from the notion of a “natural, inborn propensity” to maximize value shared by all humans. But, although this shift is relevant, we have not yet grasped its full dimension.

### **Still an incomplete picture**

Indeed, the current debate about innovation, is still largely focused on skills, that is how much people know, how good is their academic background. How much economically applicable knowledge about science, technology, management and business practices has the individual received? From this vantage point, the individual is regarded almost as an empty vessel. Pour in the right mix of information, knowledge and training and he/she will perform in a way that will produce improved economic results.

It is undeniably true that certain specific and increasingly sophisticated skills are absolutely required in order to improve performance, as many economic activities are more and more tied to the ability to understand, manage and manipulate complex information. Yet, this approach, although largely true, is incomplete. It fails to capture the broader picture.

The fact is that economic skills are interconnected and tied to the rest of the person: his/her attitudes, beliefs, needs, aspirations and problems.

Whereas we still fail to fully grasp that individual economic behavior is one component of the person's psychology and ensuing disposition towards all areas of his life, including economically relevant activities.

### **Psychology is the key economic variable**

*Assuming equal level of skills, the dominant variable that determines economic behavior and thus different economic*



*outcomes is the basic psychological make up of the individual. If we want improved economic results, we have to focus on “what makes the person tick”, what motivates him to do more, to think outside the box.*

*If this propensity were indeed innate, as assumed by classical economic theory, then with the same or comparable levels of knowledge, on average, all humans would perform at the same level, with the same results. But they don't.*

*Some cultures stress development, progress and innovation, while others do not. In fact, (see link above to earlier pieces in this series), many societies have not even got to the point of fully understanding economic development, let alone appreciating the value of constant innovation. The problem is not so much lack of knowledge but what to do with it.*

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**The Roots Of Sustained Economic Development Rest On A State Of Mind – Most Of The World Has Yet To Experience Real Development, Let Alone Understand It – Even In The West We Do Not Have A Clear**

# Economic Recipe That Can Be Embraced By All – Part 4

[the-subtitle ]

By Paolo von Schirach

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July 25, 2012

**WASHINGTON** – *This is the fourth installment in a series exploring what we know about “economic development”. Please look at the link above to get to the previous three pieces.*

## **Development: For Most Still a Distant Concept**

When it comes to economic development, the capitalistic West and the large portions of Asia and other continents that have adopted Western practices are not yet the universal standard. A large, if not still the largest, portion of the world’s population is still functioning according to the old, pre-capitalistic parameters focused perhaps no longer on sheer survival but still on subsistence.

## **Subsistence is still the only reality for hundreds of millions**

Hundreds of millions who subsist on \$ 1 or \$ 2 a day can scarcely begin to comprehend the concept of “man made growth”, let alone embrace it by becoming actively involved in activities that would engineer such growth.

For hundreds of millions of people on earth life is still

about toiling in order to get enough to eat today in a world where they believe that there are only finite resources, most of them inaccessible to them, because of cost. This narrow worldview cannot conceive of the notion of entrepreneurial activities aimed at “producing” more than what exists today.

### **Zero sum world**

By the same token, those who live in realities dominated by the entrenched perception that resources are finite, by default operate following a “zero sum game” approach. According to this view, in a world of finite resources one can have more only by taking away something from others. Following this basic idea, clever people become involved in activities, (political, military or otherwise), that will place them in a position to either directly control the existing pool of wealth or to acquire material gain by supervising its distribution. The name of the game is not “wealth creation”, (the outcome of economic development), but it is instead “wealth control”.

### **Wealth control versus wealth creation**

Anywhere we have the predominance of a mind set and practices aimed at wealth control, it is very hard –if not outright impossible– to have the germination, let alone the rooting, of the idea that people can advance both economically and socially, not by taking away from someone else, in a zero sum game, but by engaging in economic activities aimed at creating something more and something new. In these circumstances, the mental path to even begin to think about increased “wealth production” has yet to be discovered.

### **No theoretical consensus in developed countries**

But, as discussed in earlier pieces in this series, even in the modern, industrialized world, where economists have been theorizing for centuries as to the purported methods that will cause or foster wealth creation, we have not yet mastered or

defined a proven recipe. We have produced large libraries of books on economic theory, models and analysis. But the most striking observation in reviewing economic literature is a lack of conceptual unity based on real facts.

To date, economics is not a real "science". At best it is a diverse, sometimes confusing, ensemble of widely differing theories. As yet, we have not been able to clearly identify basic principles which determine certain dynamics nor the ingredients that will trigger growth both in societies that have it and in those which do not have it or that would want more of it. The confusing element that tends to spoil most theories is that human beings, the economic actors, in most cases do not act in a predictable way. Their mind is not where the theory assumes it should be.

### **How do we create constant growth?**

All this is to say that thus far we have not yet singled out the rules (assuming that they exist) nor devised a system that can generate and guarantee continuous, steady growth. All this may appear quite paradoxical. Think of it. Long ago the West embraced the concept of the possibility and desirability of economic growth largely based on technical innovations. One way or the other, growth, albeit uneven and often elusive, has become a tangible reality. Yet experts, after a century long debate, have yet to agree as to what the exact recipe to make it happen should be. And, even assuming good recipes, how come that quite often they are not embraced by those who really need growth?

### **Socialism: a better way to achieve growth?**

To cite just the most obvious example of a radically different approach to the goal of growth, Socialism, (in its different varieties), was conceived and then applied –no doubt in good faith at least in some instances– as a supposedly better, indeed more "scientific", way to secure the same goals of

progress and growth –only to agree later on, friends and foes alike, faced with the evidence of monumental failure, that its shortcomings were far greater than its benefits.

### **Disagreements within the capitalistic West**

But even in the Western mainstream, supposedly based on capitalistic principles of investments and competition along free market principles, we vehemently disagree about the right mix of ingredients for growth.

We do not have clear recipes. Carefully crafted economic plans fail miserably or, at least, fall short of desired results. Conversely, periods of high growth occur without any clear correlation to existing economic policies. In some instances we have had gigantic economic reversals, painful and long, such as the Great Depression and the more recent Financial Crisis.

### **Uneven development**

In other instances some societies, try as they may, seem to be impotent prisoners of listless, anemic trends that fail to deliver on the general expectation that they should be moving forward. Think of much of Europe today, Japan and large parts of Africa and Latin America.

By the same token, even in societies that seem to be doing relatively well, such as the United States before 2008, we have significant portions of the population that neither participate in nor benefit from this unprecedented stretch of great economic dynamism. Last but not least, predictions about economic trends are almost always wrong.

So, half the world has yet to experience self-sustaining economic development. The other half, knows it, sort of, but cannot create a formula to sustain it and reproduce it at will.

# **The Aurora Movie Theatre Massacre Is About A Deranged Individual Who Could Easily Buy Guns – Almost Unrestricted Access To Weapons Is Part Of The American System – So, Let's Not Act Surprised**

[the-subtitle ]

**By Paolo von Schirach**

July 21, 2012

**WASHINGTON** – Since in America almost anybody can buy guns and ammunition in a store as if they were purchasing milk, it is no surprise that, at times, mentally disturbed people, just like 24 year old James Holmes, will take advantage of this and use easily obtained guns to plan and execute mass killings, just like Holmes did in the Aurora movie theatre.

**Deranged people and easy access to guns, a bad mix**

It is very simple. Within a very large society there are some people who, whatever their pathologies, have the desire to do

something outrageous on a grand scale. Here in America, they know that the legal and regulatory system allows them to get the guns they need with minimal effort. And so they take advantage of the opportunity and go ahead with their plans.

Given all this, acting surprised after the Aurora movie theatre massacre is a sign of hypocrisy or stupidity. Imagine this. You have a house full of highly combustible material. You have a four year old child. You give your child 10 boxes of matches to play with and then you leave the house to run errands. You come back, the house is burnt down and your child is dead. Are you surprised?

### **No surprise**

This is the same. We have a number of non diagnosed deranged people in our midst. At least some of them do harbor destructive ideas. And we have a system that allows them to freely purchase enough guns and ammunition to start a small war. And then we act surprised when someone takes advantage of what the system allows him to do and does something really bad on a grand scale. No surprise: we have people with motive, and we make it ridiculously easy for them to get the tools they want.

The Aurora, Colorado, movie theatre massacre perpetrated by 24 year old James Holmes has been followed by a predictable flow of pious words of sympathy, some perhaps coming from the heart, and some just expedient blah, blah, intoned by politicians who want you and I to believe that "they do care" because they have a soul.

### **No gun laws changes**

Fine. And then what? Well, then nothing. There will be some more police work, forensic this and that, eventually a trial and some kind of conviction that will send the perpetrator to prison or to a mental hospital.

But nothing –repeat, nothing– will be done regarding the most obvious issue: *serious gun control*. Americans have a fetish about guns. It goes way beyond having guns for self-defense. It is almost a religion. Alright, if this is the way we want it, if we really want to make it so easy for practically anyone to acquire several guns and mountains of ammunition, then we have to accept that large scale massacres just like this one in Aurora will happen again. And when they do happen, please do not act surprised.

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# **The Roots Of Sustained Economic Development Rest On A State Of Mind – Only Those Who Can Conceive Positive Change Will Be Able To Embrace Development – Part 1**

[the-subtitle ]

**By Paolo von Schirach**

July 18, 2012

**WASHINGTON** – Let's start with a basic notion: economic development is a new phenomenon in human history. This makes it very difficult to understand it; let alone produce it at will. Furthermore, Enlightenment driven intellectual biases based on the fundamental rationality of the human being, rationality that would make him “naturally” predisposed to



maximize economic advantage, contributed to intellectual confusion as to what really causes and or makes development possible.

### **For the longest part of their history humans did not know development**

Let us not forget that for tens of thousands of years humans lived on earth pretty much like the other creatures. They came into the world. They were engaged in looking for and finding food. They devised ways to fend off predators, sometimes successfully sometimes not. They reproduced when possible, often fell prey of disease, and usually they died young because of hunger, disease or violence visited upon them by predators or other humans. For tens of thousands of years there was no such thing as “development” as we understand it today.

### **Growth is New**

Both the notion and the reality of “economic growth” –especially the fast paced economic growth that has been more the norm, rather than the exception, in the western world in the last fifty years– are new. Although for many Westerners “growth” seems to have become self-evident as a reality and thus achievable as a goal, it should be emphasized that this phenomenon represents a “revolutionary” shift vis-à-vis anything that mankind had known until relatively recent times. The only known “reality” that both shaped and conditioned the worldview of millions for tens of thousands of years was that the only possible result of human activity is (at best) to reproduce what already exists.

### **Change is new**

The idea that it is indeed both desirable and possible to improve material conditions through human planning, the invention of new tools and methods and the organization of productive activities, and that the outcome of all this would

be to increase the quantity, the variety and the quality of what is available, is new. The idea that one can devise and then apply new techniques, power sources and tools to activities such as handicrafts or manufacturing that would augment both total output and its quality; or that it is possible to improve upon the techniques related to the old ones (agriculture and animal husbandry) is new.

Indeed, the very notion that through human ingenuity and applied creativity it is possible to systematically produce and create something "more" than what already exists, if looked at against the backdrop of the long history of mankind, is truly "revolutionary". But how did all this happen, and why? And, by the same token, given the reality of development somewhere, how can we bring it elsewhere, where it has not occurred yet?

### **How did all this happen?**

As such a crucial transformation did not occur as a clear, discreet experience, we have a major difficulty in spelling out the ingredients, the dynamics and the environment that gave life in past instances –and that can give life today– to sustainable economic development or progress.

For the longest time, most theories were shaped by a basic assumption. There is a dominant rational trait within the human psyche that will lead humans to actions aimed at maximizing utility. But empirical evidence shows that this is not true; at least not all the time, as millennia with little or no development show us. What is true instead is that notions that are conducive to development can be learnt, while the known technologies that enable it can be adopted and/or improved upon.

*Still, the fact that new ideas leading to development can be learnt does not mean that they will be easily embraced, as soon as people are exposed to them.*

For such an assimilation to take place, a significant transformation of the human psyche was and is a necessary precondition. First and foremost, we need a transformation that allows the psyche to begin to conceive, in the abstract, something that does not yet exist in the material, tangible reality. And this because development is about giving life to a new idea, not yet in the here and now.

### **Role of intangible factors overlooked**

However, because the role of the psychological, “intangible” psychological factors necessary to trigger an approach consistent with development were overlooked and thus not properly considered, the students of economics concentrated a disproportionate amount of attention on the tangible and material factors, the building blocks of development, attributing thus economic development to a change in material circumstances. This is a bit like saying that in order to be a great painter, an individual does indeed need canvass, various paints and brushes. Of course, he does. *But the availability of these tools do not guarantee his success as a painter.*

This narrow approach has created distortions that have had a significant impact in shaping policies aimed at fostering growth in developed but especially in underdeveloped countries. By overemphasizing the need to improve material circumstances, (this is of course a necessary precondition), we have somehow lost the point that the main agent of change is the human psyche. For it is the psyche that provides the sense of need, the orientation and the direction of sustained intellectual energies that can be mobilized materially toward this or that pursuit. If people do not believe in development before they have created, it will not happen.

***End of Part 1***

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# **In This Presidential Campaign “Anything Goes”, Including Willful Distortions – Pundits Have No Opinion On The Morality Of the Candidates – And We Are Supposed To Trust Presidents Who Fought Their Way Into Office Through Lies?**

[the-subtitle ]

**By Paolo von Schirach**

July 15, 2012

**WASHINGTON** – On a recent Sunday TV talk show on one of the major networks there was a great deal of interest on the barrage of attacks launched by President Obama and his surrogates against Mitt Romney’s tenure at Bain Capital. Romney is openly portrayed as a “vulture capitalist”. As a CEO –you should know– his only concern was to to squeeze as much as possible from the companies he bought, with total disregard for workers.

**Romney is a bad, bad guy**

Companies were chopped, chewed and then tossed away, like garbage. And Romney also merrily outsourced as many jobs as he could abroad in the hope of higher profits due to lower labor

costs in emerging countries. Conclusion: some kind of a “businessman”, this Romney. He is just an unprincipled, cold blooded scoundrel, focused only on getting rich.

### **Pundits only interested on the impact of smear on polls**

This stuff is pretty outrageous. This is willful character assassination. But the commentary and the opinions given in that TV show had nothing to do with the truthfulness of the allegations. It was all about whether this line of attack aimed at discrediting Romney would actually work. And, if so, what should Romney do? How should he counterattack in order to regain the upper hand?

In the clever back and forth on this issue nobody bothered to examine whether the allegations as presented are actually true or not. Apparently this does not matter. National opinion leaders are interested in interpreting where the game is headed and who the clever winner might be. They have no opinion on the morality of the players.

### **Pundits not interested in standards of conduct**

I think this is really bad. There is right and wrong. There are standards of human conduct. Telling lies, even in a political campaign, is wrong. And if instead of lies you have willful misrepresentation of facts it is exactly the same. But nobody cares about any of this.

In other words, the effort is totally focused on analyzing the messages that work (the results show up in opinion polls) and those that don't. The fact that candidates may distort, fabricate and invent stuff purely to embarrass the other guy is immaterial. The point of an election is to win. Any means that will get you there are apparently legitimate.

### **Unacceptable**

Call me naive, call me sentimental; but I just cannot accept

this level of cynicism. A political campaign should be about debating different policy agendas and about vetting the records of the candidates. But it should not be about fabricating or distorting records with the clear objective to make the other side look bad in front of public opinion. And let's be clear, all the operatives who concoct this nasty stuff know exactly what they are doing . And they do know that all this is wrong and immoral.

### **Lee Atwater and Michael Dukakis in 1988**

Let me illustrate this with a famous example. Lee Atwater was considered a master strategist among Republicans back in the 1980s. He led the election campaign of George Bush senior in 1988. His opponent was Massachusetts Governor Michael Dukakis.

Looking at his record, Atwater and his crew found out that Dukakis had promoted a weekend furlough program that granted some time out of jail even to violent offenders. Among them there was Willie Horton. He did not come back from his furlough. Instead he committed a series of violent crimes until he was caught. Dukakis had not started the furlough program; but he endorsed it, even for violent offenders.

For Lee Atwater, the Willie Horton case seemed a wonderful opportunity to paint Dukakis as soft on crime and therefore a weak national leader. And so Willie Horton –one major blemish, but only one– became a central theme of the entire campaign. Republican ads blasted Dukakis. Eventually George Bush won the elections, in some measure due to Atwater's clever "Willie Horton" ads. Because of his clever tactics Atwater was called by one biographer *"the best campaign manager who ever lived"*.

### **Repentance**

But this is not the end of the story. Years later, Lee Atwater, terminally ill with brain cancer, sent word out to Dukakis asking for his forgiveness for "the naked cruelty" of the 1988 campaign which was centered on how he consciously

manipulated the Wille Horton incident to make Dukakis look bad. So, a savvy political operative knew perfectly well that what he was doing to win an election was immoral. It took him to be near death to apologize; but he had known all along that what he had done was wrong.

It is obvious that the pundits who comment on today's political attacks also know (at least in most cases) what is true and what is not. But they have nothing to say about the moral qualities of the candidate who authorize the release of the nasty stuff. They are there to explain the game. They have no qualms in how it is played. And this is really bad.

### **“Anything goes” is a bad foundation for any Republic**

Let's look at the consequences. First we accept that “*Anything Goes*” in politics, because, *Dear Americans*, the name of the game is winning, whatever the means. But then we are supposed to trust and respect as president a candidate who fought his way into the White House through willful distortions and lies.

This is a horrible foundation for any genuine Republic. The real strength of a Republic rests on the virtue of citizens and office holders. With no virtue, the whole thing becomes an insiders game, a scam run by the all too clever operatives like Lee Atwater. And scams do not last.

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## **This Year The “Charlemagne Prize” Went To Wolfgang**

# **Shauble, German Minister Of Finance, In Recognition Of His Work For Europe – But A Coveted Prize Named After An Emperor Who Died In 814 A.D. Is Evidence That Europe Has No Modern Role Models – All This Shows The Poverty Of The European Idea**

[the-subtitle ]

**By Paolo von Schirach**

July 14, 2012

**WASHINGTON**– A couple of months ago, Dr. Wolfgang Schauble, German Minister Of Finance, was awarded the Charlemagne Prize in Aachen, in recognition of his work “for Europe”. Last year the recipient was Jean-Claude Trichet, the former president of the European Central Bank, (ECB). The Charlemagne Prize is a coveted and prestigious European honor. Schauble got it for his work on German and European finances and Trichet received it for his long stewardship of the ECB.

## **A prize for European achievements**

So, high ranking European public officials and notables get an important recognition. The general idea behind the Charlemagne Prize is that an honor named after a famous European would go to meritorious individuals who have worked to further the



construction of "Europe". Nothing exceptional in any of this. Except for the historic figure chosen to represent the embodiment of the highest *modern* European ideals: the Emperor Charlemagne. ❌

### **Charlemagne, Holy Roman Emperor in 800 A.D.**

If you think of it, this is almost grotesque. Charlemagne had absolutely nothing to do with modern Europe. *And when I say nothing, I mean really nothing.* He lived before the Middle Ages. He was the King of the Franks and later on, through military conquest, he managed to control substantial chunks of Western Europe. On account of this conquests, there was an attempt to reconstitute in some vague fashion a medieval version of the Roman Empire.

All school children in Europe learn that on Christmas Eve of the year 800 A.D. (*Yes it is really 800 A.D., some 700 years before the discovery of America*), Charlemagne was crowned "Holy Roman Emperor" in Rome by Pope Leo III. This way the lost glory of Rome was somehow brushed up –hence "*Roman*" Empire– with the fundamental addition of "*Holy*", symbolizing that this resurrected Empire would be Christian.

### **Empire the precursor of a United Europe?**

The fact that the political boundaries of the then Holy Roman Empire ruled (for only a few years) by Charlemagne resembled somewhat the boundaries of the original European Common Market, (comprising France, West Germany, Italy, Belgium, the Netherlands and Luxembourg), later on authorized the fanciful, and historically meaningless notion that the early Holy Roman Empire was somehow the precursor of the European Common Market, founded in 1957 with great pomp via the "Treaties of Rome", if you want some more empty symbolism.

After World War Two, the good citizens of Aachen –the German city close to the borders with Belgium and the Netherlands

where Charlemagne had actually died— decided to name a prize that would symbolize peace and solidarity among Europeans after this Emperor who had ruled over the ancestors of many Europeans. And so Charlemagne (who reigned as Holy Roman Emperor from 800 until his death in 814) over time became the agreed upon “Founding Father of Europe”.

### **The Vikings as the Founding Fathers of America?**

It is said that success has many fathers. Well, if you have to dig that deep to find a European father, then Europe’s success is not really a sure thing. In a North American context, imagine that we had no Jefferson, Madison, Franklin, Washington, Hamilton or Adams as Founders. Desperately looking for one, going back quite a bit, we would agree that our Founding Father was the Viking Thorvald Ericson who landed in Newfoundland in 1004 A.D. For the purpose of making him an honorary early American, we would conveniently assume that he sailed south into today’s US territory. A pretty thin American tradition, wouldn’t you say, if you have to go so far back? Well, we’ve got our Jeffersons and Hamiltons. Europe does not have their equivalent, hence the need to go so far back.

Historic stretching and distortion of facts so that they will suit a desired narrative is quite common across all civilizations. But in the case of Europe what is truly worrisome is that one has to go back more than a thousand years to find a European ruler and then redefine him as non controversial Founding Father, knowing full well that Emperor Charlemagne could not possibly have shared any of the visions of the modern would-be Europe builders.

### **Thin European tradition**

The truth of the matter is that, while there have been many people in more recent times who had ideas about a United Europe (*which does not yet exist, by the way*), contemporary Europeans do not seem to be able to agree on anybody a bit more recent

than a Frank King, later on Holy Roman Emperor, as the true embodiment of a European idea.

### **Nobody on the currency**

Lack of consensus role models carries further. On the Euro, the common currency of 17 of the 27 EU members, you see bridges and windows and other generic representations that convey absolutely nothing about a deeply shared European identity. And these bridges, as opposed to eminent Europeans, are there on the currency because there are no such pan-European symbols of a shared and deeply felt "European Identity". At least nobody that could be embraced by all without causing resentments and animosities.

I am happy that Wolfgang Schauble and Jean Claude Trichet before him got this European recognition. However, the fact that this great European prize is named after Charlemagne, a historic (and purposely mythologized) figure completely disjointed from European modernity is a sad indication of the extreme poverty of a pan-European patrimony that most Europeans could rally around and feel comfortable with.

### **Charlemagne no connection with a modern, (still not united) Europe**

In the present context of "Grand European Visions" with zero plans to get there, Charlemagne as the first Great European is also a dream, an artfully concocted fantasy. While a real historic character, this Emperor from long, long ago has been conveniently remade into a "Europeanist", so that the few believers in "Europe" could have a non controversial symbol they can revere.

Depressingly enough, such is the real strength of the "European Idea": antiquarian stuff divorced from the actual feelings and concerns of modern citizens of individual European countries for whom "Europe" is an abstraction – something that will happen some day– they feel little or no

allegiance to.

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# **As An Open Society, America Had An Edge In Nurturing And Attracting Talent – But Now The Edge Is Gone, While Other Countries Try To Catch Up – From China To India And Even Saudi Arabia, They All Want To Nurture Innovators**

[the-subtitle ]

**By Paolo von Schirach**

July 13, 2012

**WASHINGTON** – *“A free market in brainpower”*. This is what FORTUNE magazine advocated in an important article a few years ago (December 10, 2007) on trends in the movements of high value human capital. If this was good advice then, it still is today. Brainpower encompasses the valuable (but, apparently not universally valued) educated people who, congregating in clusters of researchers, innovators and entrepreneurs, constitute the strongest asset that an advanced knowledge economy can have: human capital. And this brainpower is, of course, at the foundation of the ability to discover and

invent; and, in so doing, open new horizons, create new value and ultimately more shared prosperity.

### **Human capital is key**

Highly developed human capital is an absolutely crucial precondition to success and to retain success. Many students of the phenomenon, such as Richard Florida, have noted that, assuming unimpeded freedom of movement, the innovators tend to move where there is more of them. The ideal venue would also include a receptive environment whose main pillars are quality research universities that truly encourage and sustain new thinking, and cross pollination with new enterprises. In these clusters there is an open, tolerant space where dialogue and exchange is not only possible, but really interesting and vibrant, so that it will act as a magnet for fresh talent to pour in. Professor Florida and others have described how cities like Austin or Seattle or Vancouver have become such magnets. And all this is good.

### **Free flow of talent**

The problem is in the fact that we do not have a system that guarantees the absolute free flow of talent there where it wants to congregate. At least the flow is not as free or as sustained as it could be in optimal conditions. For instance, in the US case we have a major "upstream" problem constituted by a mediocre to bad secondary education system that is simply incapable of producing the numbers of new quality students who will go and repopulate the universities and graduate schools in the magnet centers, or elsewhere for that matter; thereafter they themselves becoming the innovative entrepreneurs. We have many, of course; but not enough. Bill Gates of Microsoft a few years ago appeared in front of the Senate Labor Committee pleading for radical reform of the entire US high school system, bluntly indicating that the likes of Microsoft cannot employ the products of this outmoded, under performing education system. Not much happened

since.

Of course, lacking domestically grown brains in sufficient quantity, we could import them, as we have done in the past. Indeed. As Richard Florida noted, if we lump together all the immigrants coming to America, we discover that they are more educated than the native population. While we tend to think of immigrants as mostly low cost manual laborers, *“11 percent of foreign born adults in the United States –states Florida–have a graduate or professional degree, compared to only 9 per cent of natives “.*

### **Quality immigration**

This quality immigration made a real difference in the past, giving a significant edge to America on an intellectual, research and ultimately economic level. Today, any casual observer cannot fail to notice the significant percentage of Indian, Chinese and other immigrants at the top of high tech and other firms in the United States. These highly skilled individuals add value and help America retain the edge that the native population alone could not secure by itself.

But these facts notwithstanding, amazingly today the debate is not on how to create a system that will help us sustain this advantage brought about by high quality immigrants by encouraging more of them to come here. In fact, just the opposite. The debate is on how to prevent educated would be immigrants from “stealing” American jobs from Americans. The main argument for protectionism in intellectual and academic jobs is now exactly the same as the one regarding opposition to openings to low skilled laborers. Opponents maintain that, by flooding the market with foreigners, employers inflate the labor supply; thus they can keep wages or salaries artificially low for all. While there may be some truth to this, it should not be impossible to establish and police a level playing field, whereby all people would compete on skills only, and not by willing to accept below market

compensation.

The inability to attract fresh talent is a very serious issue. Of course, after 9/11, we had a truly anomalous situation in which security overwhelmed any other concern as to the desirability of feeding the old pipeline that led highly educated foreigners to the US. While things have improved, the damage has been enormous. While the US pipeline was reduced to a trickle because of new security obstacles, (and also by the perception that talent from many countries was not wanted, due to political reasons), other pipelines have been fed, primarily those leading to other Anglo-Saxon countries, but not exclusively.

All this notwithstanding to date the US still retains an enormous built in advantage in the many centers of excellence already established that can keep attracting talent, assuming no artificial impediments to this flow. Thus, the relaxation of the post 9/11 restrictions, combined with more aggressive recruiting, should see the increase in the inflow of foreign talent.

### **Cluster formula can be replicated**

Of course, the US formula is not unique. With many variations, it can be replicated. Given the right mix of ingredients, vibrant research and innovation communities can be established, and have been established elsewhere. Just to name one of the most obvious examples, Nokia did not come about in Finland accidentally. It could get established and thrive there because it benefited from a vast connective tissue that starts with excellent Finnish secondary education and continues with world class academic centers such as the Helsinki University of Technology, located in Otaniemi, along with research facilities in Oulu, in the north of the country. Add to this a fairly cosmopolitan English speaking population and a public sector willing to invest heavily in the future, through pro-innovation agencies such as Tekes, and one can see

why Finland has many first rate innovations centers that make it one of the most competitive economies in the world.

### **Immigration not benefiting Europe**

Having said that, Continental Europe overall is in worse shape than the US. Many new immigrants are settling in Europe. However, the vast majority of the newcomers flowing into Europe are under educated compared to the averages of the native population. Unless current demographic trends that point to a dramatic shrinking of the native Europeans are reversed, Europe in the future will rely proportionally more on the value of the contribution of under educated immigrants. Given significant cultural and religious obstacles to full integration for many of the new arrivals, many of them will live at the margin of society. They will be unable to make significant contributions to cultural and entrepreneurial advancements in their adopted countries; at least not comparable to the contributions made to the US economy and society by many of the "high value" immigrants to the US.

### **China lacks the eco-system**

China is the world's workshop. Now it is thinking about its future competitiveness. It would certainly want to transform its enviable edge in low cost manufacturing into high margins derived from innovation and original entrepreneurship. But, at last for the moment China still lacks the open, tolerant environments necessary to nurture innovative minds. Its universities are still largely hierarchical, bureaucratically organized structures. They are a far cry from the nimble, decentralized model prevalent in the most innovative western counterparts. Given time, of course, all this may change and the Chinese innovators may very well find optimal homes to test their ideas in their own country. But this is not at all a sure bet. Academic freedom and entrepreneurial freedom are tied to the openness of the broader society. China has a long way to go.



In India, a far more open, liberal country (at least compared to China) this is already happening, to some degree. Many expatriate Indians, seeing the emergence of islands of excellence in their native country, (Bangalore, Chennai, Hyderabad), now see the value of going back to their roots and contributing to India's growth. This amounts to both a net drain from the places in which these expatriates had previously established themselves, as well as a cut in the future flow of talented people who now are finding adequate outlets for their creativity in centers of excellence closer to home. That said, India has its own challenges. The broader society is not business friendly. Political animosities, fragmentation of power, institutional weaknesses, endless red tape and rampant corruption are not exactly business incentives.

### **Can we buy our way into innovation?**

Elsewhere, we observe the desire to leapfrog decades, perhaps centuries of backwardness through bold moves. Understanding that the future will belong to those who innovate, Saudi Arabia is now deploying a sizable chunk of its oil wealth in a higher education bet. It wants to create a brand new center of excellence in science and technology that hopefully will open new vistas for the country in future times when the oil rent will have been depleted.

The King Abdullah University of Science and Technology, or KAUST, opened for business at the end of 2009. It was willed and funded directly by the sovereign who devoted to this effort 10 billion dollars; thereby reaching –in one day–the endowment level that MIT created in 142 years. For the time being, the effort is shepherded by Saudi Aramco, the national oil company, arguably the most modern, technologically savvy Saudi corporation.

This higher education enterprise, along with the parallel venture of Alfaisal University, represents a very concrete

attempt aimed at transforming a culturally backward country into a nimble, innovative society. The intentions are serious and sincere. The open question is whether, vast amounts of money notwithstanding, Saudi Arabia and similar rich countries can create that unquantifiable atmosphere, well described by Richard Florida and others, that makes places productive because they are vibrant and therefore capable of attracting fresh talent. As Mr. Al-Kattan, Dean of the medical College within Alfaisal University put it: *"This environment will not suit everybody"*. He was speaking about life in Saudi Arabia for the mostly expatriate faculty that will be necessary at least at the beginning to get things started. Indeed.

So, let us say that, unless life in the kingdom changes dramatically, it will suit mostly those expatriates who are willing to make personal sacrifices for the sake of attractive compensation packages. While these individuals will provide a starting point for what should be high quality education, it does not follow that these richly endowed universities will be able to create an environment that will make them true centers of excellence. There is a strong correlation between a cosmopolitan, open culture and innovation. Saudi Arabia may need more than gigantic infusions of money into brand new universities in order to catch up with other advanced societies.

### **Human capital needs care**

Given the formidable obstacles on the way to forming and nurturing of human capital, it is astonishing that the West, the US in particular, which spent decades and decades to build it, is not sufficiently concerned about its preservation and upkeep. At this stage, while we may hope for a renewed pipeline of scarce domestic talent, (whose flow will depend on drastic public education reforms), one way of guaranteeing the future viability of centers of excellence is in welcoming those who would like to come but who are prevented by current cumbersome security screenings or by measures aimed at

protecting the home grown human talent.

Human talent, as anything else, should thrive in a renewed environment enriched by valid newcomers. As long as we can ensure a level playing field for all, Americans should not fear the new comers. But if the real reason for restricting the immigration of talented people is that we want to ensure that the native talent will be guaranteed the best slots, we may be doing some people a favor; but a great disservice to a society that will lose the fresh contribution of people with new ideas. In the long run protectionism, pursued for its own sake in whatever area, is a poor defensive measure, a rear guard battle that is always lost.