

“Power Africa”: US Aid To Increase Electricity Production

By Paolo von Schirach

June 30, 2013

WASHINGTON – Back in 1998, while working on an export promotion project in Mozambique funded by the World Bank, I had a chat with a young US Embassy officer stationed in Maputo, the capital. When I asked her what she was working on, she told me that she was organizing exchanges of musical groups. I was frankly stunned.

Musical groups exchanges?

Mozambique, a truly poor country to begin with, at that time was barely emerging from years of a civil war between FRELIMO and RENAMO that resulted in the almost complete destruction of whatever economy and infrastructure had been left behind by the Portuguese, for centuries the colonial rulers. Beyond that, Mozambique was plagued by the legacy of its nasty civil war in the shape of untold numbers of land mines that made it almost impossible to use a large part of the land. With all that, the US Government was using scarce aid resources to organize tours of musicians? Talk about having your priorities all wrong.

Electricity for Africa

Well, now it looks as if we may be doing a bit better. While in Africa, President Obama announced a new “Power Africa” initiative aimed at funnelling US Government investments up to \$ 7 bln into electric power generation and distribution. This significant amount will be matched by \$ 9 bln to be

provided by American corporations such as Symbion Power and General Electric. The program will target Nigeria, Liberia, Ghana, Tanzania, Kenya and Ethiopia.

This is very good news for Africa. While the Continent is growing, it is a well known fact that lack of access to reliable and affordable electric power is probably the single biggest obstacle to economic development. It is intuitively obvious that very little can be done without electricity. Besides, in most of Africa electricity comes and goes, with interruptions that may last for several hours, or even days. And do keep in mind that in most countries, whatever electricity there is, distribution is usually limited to cities, with almost nothing going to rural areas.

Try and run even a small workshop –let alone a factory– without electricity. For this reason, most businesses in Africa have to invest in their own diesel powered generators. But this means a significant addition to total production costs, in countries that have low labor productivity to begin with. On top of that, African companies face other hurdles in terms of inefficient public services and inadequate to horrible roads. More reliable and reasonably priced electricity would go a long way to improve all that.

America finally stepping in

That said, what took so long? While China for decades has been unloading billions into Africa, sending there its companies, its banks and its people, America has been essentially absent when it comes to assistance targeted to economic development.

In fairness, America is in the lead among donors when it comes to fighting HIV-AIDS and supporting other health care programs. This massive amount of aid coming from America saved lives. Still, being alive but condemned to a life of ignorance and poverty is not such a great prospect.

Of course, America has what it takes in terms of know how and

sizable multinational corporations that can make and support the right investments. Still, this combined \$ 16 bln pledge is not that much. In most African countries 80% of the rural population has no power at all, while cities –and this includes factories, offices, government services, schools, hospitals– usually have inadequate electricity.

First step?

My hope is that this “Power Africa” initiative launched by President Obama is just a first step, to be followed by a continuous American commitment –both Government and private sector– to Africa’s economic development. It is true that Africa is the last frontier. There are hundreds of million of potential producers and consumers eager to join the global economy. Still, without adequate infrastructure this will be a very, very long journey.

What Is The “Social Cost” Of Carbon Energy?

By Paolo von Schirach

June 29, 2013

WASHINGTON – A recent [WSJ](#) editorial reveals that the Obama administration is resorting to self-serving gimmicks to justify its fight against carbon based energy. Without any discussion or debate, the EPA has started attaching to its regulations new monetary “measurements” of the “social cost” of carbon energy. The reason for doing this are obvious. In many instances replacing carbon energy with more expensive renewables makes no economic sense. However, if you add to the

measurable costs of carbon energy the additional “social costs”, then carbon sources lose because all of a sudden they become more expensive than renewables which, by definition, supposedly carry no added “social cost”.

Arbitrary calculations

This is new way of calculating the “real” cost of carbon, as opposed to just adding the nominal cost of the various components, may appear totally unobjectionable to some. But it is also completely arbitrary, especially if the calculation is done by unelected regulators on the basis of whatever inspiration they get from different special interest groups that calculate these “social costs” according to their own metrics and criteria.

As the WSJ argues, if we let this bureaucratic prevarication go unopposed, then we can get to the absurdity whereby carbon energy will be eventually outlawed on account of its “social costs” by regulatory fiat, without any national conversation or debate on the legitimacy of the metrics used to get to the “social costs” numbers.

There is a “social cost”

That said, I disagree with the WSJ on one fundamental point. To say, quite correctly, that regulators will select whatever arbitrary figure they choose regarding the “social cost” of carbon does not necessarily mean that the real number should be zero, simply because until now we never bothered to look at the “social cost” variables.

Look, if anybody in America had a choice between living next door to an old, not upgraded, high polluting coal fired electric power plant and a state of the art, low emission gas fired plant it is obvious that they would choose living in the vicinity of the much cleaner gas burning plant. And why? Because they would want to avoid breathing the foul air coming out of the old coal plant. And why is that? Because polluted

air is most unpleasant and it is known to cause all sorts of respiratory diseases, while increasing the chances of contracting chronic illnesses and possibly cancer. It is also known that children and the elderly are especially at risk.

Here you are. These are the “social costs” of dirty carbon sources. Therefore it is rather disingenuous on the part of the WSJ to argue that, since until now we have never included the “social cost” of coal fired plants, the real number is and should be zero because any number we selected would be totally arbitrary.

How do you calculate the economic damage caused by pollution?

The truth is a lot more complicated. As the example cited above demonstrates, there are indeed high social costs attached to using high polluting energy sources. The trouble is that it is extremely difficult to calculate them accurately. Therefore, given this complexity, we should not give unelected regulators the extraordinary power to determine what these costs are purely on the basis of their intellectual biases.

That said, let’s be honest. We should all strive to create conditions that enhance our quality of life, and that includes fair scrutiny of the broader impact of the type of energy we use. It is intuitively obvious that “cheaper” energy does not always mean “better”. Ask the Chinese. They got ahead economically, but only at the cost of creating an environmental nightmare. In their single minded pursuit of economic growth, they totally ignored “social costs”. And now they are faced with the staggering costs of cleaning the air in their unlivable megacities.

Biased, Negative Reporting On UK Shale Gas Discoveries By Aljazeera TV

By Paolo von Schirach

June 27, 2013

WASHINGTON – Talk about transparent bias. Al Jazeera TV has a vast network of foreign correspondents. For this reason it is well worth watching. Plenty of coverage on often interesting issues that you'll never find on resource constrained US TV networks that cut most foreign bureaus long ago. That said, do not count on Al Jazeera, a network based in gas rich Qatar, to give you fair reporting on global energy issues.

The horrors of shale gas

Case in point: coverage of the discovery of much larger than expected shale gas reserves in the UK is ridiculously tainted. Al Jazeera did report that IGas has dramatically revised upward its estimates of shale gas reserves in Cheshire, Northern England. Indeed, based on revised data, it would appear that just in the areas so far explored there are at least 102 trillion cubic meters of shale gas, possibly 172 trillion, as opposed to 9 trillion. For gas dependent Britain this should be extremely good news. This additional gas alone would guarantee self-sufficiency for at least 10 to 15 years.

So, good news? No, not really, Al Jazeera tells us. Shale gas extraction causes an environmental nightmare. Hydraulic fracturing, or fracking, (the technology used to free up gas gas from rock formations), is known to cause earthquakes and

massive water contamination. Besides, the whole process releases methane into the atmosphere, thereby contributing in a major fashion to global warming. And this is why all the good people in England and across the world are opposed to fracking, concludes the Al Jazeera report.

No mention of the long history of fracking in the US

Really? In the US fracking has been safely used for decades and now it is used massively in several states, from Pennsylvania to Texas, in order to exploit huge shale gas deposits. As a consequence of a veritable, massive scale "shale gas revolution", America now has more gas than Russia. There is enough gas for 100 years. This incredible bonanza represented by cheap domestically produced natural gas means lower electricity costs for America. Sure enough, there have been accidents and instances of water contamination. However, no study, official investigation or analysis, and there have been many, concluded that fracking constitutes a systemic threat to humans or to the environment and that for this very reason it should be banned.

Technology is safe

Most studies on hydraulic fracturing, and these include many conducted by environmental protections agencies in various US states, concluded that all the accidents that have been reported are due to shoddy work. In other words energy companies, often small contractors, did not follow proper industry standards. Wells were not properly built and protected, and so on.

The consensus of industry and regulators, and this includes Obama's Environmental Protection Agency, is that if sound protocols are followed, fracking represents no inherent danger. Indeed, precisely because the technology is safe billions of dollars have been invested by US and foreign energy giants in the enormous opportunity represented by shale

gas.

Guess what, Al Jazeera is based in gas producing Qatar

But not even the slightest mention in the Al Jazeera TV report of the long and good shale gas exploitation record in the US. No mention that all the energy multinationals are heavily engaged precisely because they know the technology is safe. So, why this incredibly one sided and biased Al Jazeera reporting on the discovery of huge amounts of shale gas in the UK?

Let me think. Could the reason be that Al Jazeera is owned by Qatar, a tiny Persian Gulf country whose main and only source of wealth is exporting its own natural gas to places like Europe? What do you think?

Obama's Speeches Not In Sync With America's Deep Concerns

By Paolo von Schirach

June 26, 2013

WASHINGTON – I notice a huge disconnect between the big concerns of the day in America – a slow economy that grew even less than we thought in the first quarter, stubborn unemployment, fears that we may have lost our innovation edge – and President Obama's major speeches. America worries about deficits, debt, about the forlorn army of the long term unemployed, while Barack Obama used a Berlin platform to make bold but essentially empty and frankly fatuous proposals about nuclear disarmament. He wanted to speak in Berlin on the

anniversary of JFK's famous "Ich bin Ein Berliner" speech. So, a new "historic" speech to follow another? Hardly so. Obama spoke to a smallish crowd and made proposals that stirred very few, were politely discussed (for about five minutes) by experts and a few politicians and then quickly forgotten.

Revamped green agenda

Back on the home front, Obama tried to reassert his green credentials by announcing a barrage of new regulations aimed at curbing US emissions. Here there will be some political traction, because Obama spoke to a significant section of the Democratic base, so that they will not lose heart on the seriousness of this president's anti-global warming, green agenda.

Still, even if we understand the politics of this speech, are coal fired plants emissions at the top of America's concerns these days? Again, there is dissonance here between the average Americans' worries about jobs and unemployment and new Obama-backed policies that as a minimum will threaten the near term viability of the gigantic US coal industry. Whatever the long term environmental benefits of phasing out coal –and they will be real– in the near term closing down coal fired plants will have a cascading negative effect on industrial users that rely on coal produced electricity, utilities, freight rail companies that transport the coal, mining companies and the actual coal miners.

Bad timing

In politics, timing is almost always more important than "being right" on the issues. Is this time of economic uncertainty the best opportunity to launch a new initiative that is most likely to hurt before it brings tangible benefits? Look, we know that it will take years to implement what Obama just announced. And most of his measures will be opposed and fought over in the courts. So, do not expect

immediate dramatic consequences. However, there was enough there to create worries at a time in which the country needs hope. (If you were a coal miner in West Virginia, how would you feel after listening to this speech?)

Out of place

And here is my basic point. Besieged by a rather hostile Washington political environment, (the conservative Republicans are certainly not doing America any favors by opposing this President mostly on ideological grounds), Obama took refuge in grandiose but in the end bland pronouncements that make him look out of place. In a world dominated by endless turmoil in Arab countries, with Syria in flames, China about to surpass us economically, Iran and North Korea acting as the usual trouble-makers, Obama launched nuclear disarmament, as if this were a truly pressing matter.

Power of persuasion?

Likewise, while America suffers because of slow economic growth, Obama re-launched anti-emission regulations that are likely to hurt economically before they bring about real benefits. To me this looks like disconnect. Does the President know what is really going on? Or, worse, does he believe that the power of his convictions and his eloquence will move mountains? Does he believe that, because of his Berlin offer, Putin will rush to sit down with him and quickly come to an agreement about strategic nuclear weapons cuts? Does he really believe that with his steady regulatory hand at the helm he will redirect America's energy consumption from evil carbon to benign renewables? I wonder...

Will America Ever Become A Truly Color Blind Society?

By Paolo von Schirach

June 25, 2013

WASHINGTON – The only way to finally “resolve” the painfully complicated race issue in America is to finally become a truly color blind society. The day in which anybody’s race becomes totally irrelevant on economic, social, cultural and moral issues, then and only then we shall be able to say that America managed to overcome this horribly divisive race problem.

The problem with affirmative action

That said, some of the key remedial actions devised long ago to give a fighting chance to Blacks, (beyond land mark federal legislation of the 1960s that finally prohibited any type of open discrimination on the basis of race or color), seem to have had the unintended consequence of encouraging people –Blacks and Whites– to keep regarding race as a critical matter in adjudicating all sort of issues: from college admission to hiring staff.

If we look back at the policy goals, affirmative action legislation was intended as a tool that would give a chance to those who had been historically discriminated against. Quotas were aimed at insuring that at least some Blacks and other minorities could make it. Fair enough.

When it is good to be a minority

Still, the awareness that, for instance, a number of places in

universities are reserved for African-Americans and other minorities has had the unintended consequence of encouraging Blacks to keep thinking of themselves as a previously oppressed minority now entitled to special treatment.

In other words, even today, a reasonably well-educated Black person has every interest in preserving his/her "Black identity" in order to benefit from a system that, in the name of overcoming past injustice, allows him or her to have an extra advantage in the competition for limited places in a university. In a truly color blind selection process, a process in which there is no goal to secure a "diverse" student body, this person would lose the extra advantage, and he or she may not make the cut.

Which is to say that, paradoxically, in an affirmative action context, being Black in many instances is in fact an asset rather than a liability. But this realization of the advantages of racial minority status also justifies the self-perpetuation of the old assumptions: "I deserve special treatment today. This is a totally legitimate way to redress past and present discrimination. Affirmative action is only a remedial tool to counter the effects of lingering racial prejudice".

Reinforcing racial identity

Which is to say that remedies such as affirmative action legislation, even if sincerely aimed at kick starting the creation of a level playing field, in reality encourage "minorities" to think of themselves not as citizens like everybody else but as a perpetually aggrieved group. And this because it is this status and only this status of minority entitled to redress that allows them to claim special treatment when it comes to going to college, getting a job or being awarded certain types of government contracts.

Quotas fuel prejudice

That said, it would be totally unfair to deny that racial prejudice is still alive and well in America. Unfortunately, even today, people are denied jobs, credit and a lot more simply because they are Black, and therefore assumed to be “untrustworthy, lazy, unproductive”, and what not. None of this is done overtly, because it would be illegal to do so. But it is done.

However, it is also true that affirmative action provisions aimed at overcoming the consequences of groundless prejudice tend to reinforce the racial divide. Blacks see them as necessary redress for past discrimination and present bias. But in so doing they keep thinking of themselves as a “Black minority” rather than citizens, as everybody else.

Whites see affirmative action as favors bestowed for political reasons on otherwise undeserving people. To the extent that Whites believe that Blacks get jobs they do not really deserve only because of quotas this helps reinforce rather than dilute racial prejudice.

“I am an American”

In a recent talk show featuring several conservative Blacks, (a small minority within the larger minority), it was refreshing to hear that most of them rejected the “African-American” label for themselves. “I am an American”, they said. “I happen to be Black. But I am an American”. Interesting.

I call this rejection of (perpetually) aggrieved group identity an important step forward. When both Blacks and Whites will finally reject race as an issue likely to influence any type of judgement call America will have truly progressed.

Bank For International Settlements Annual Report Tells Central Bankers To Stop Trying To Fix Economic Policies

By Paolo von Schirach

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June 24, 2013

WASHINGTON – The Basel based Bank for International Settlements, BIS, in its annual report admonished central bankers in the US, Europe and Japan. They should go back to worrying about monetary issues, leaving economic policies to governments. I couldn't agree more. Indeed, I had pointed out (see link above to a related piece) that central bankers have become (by default, not by design) the chief economic policy makers in the US, in Europe and to a large extent in Japan.

Bernanke stepped into a policy vacuum

In the US, lack of political consensus on any economic agenda means policy paralysis in Washington. Well, clearly with good intentions, Fed Chairman Ben Bernanke stepped into this vacuum trying his best to revive the economy, using the tools he has. He tried to re-energize America by keeping interest rates artificially low, this way creating incentives for people and institutions to buy stocks. The whole idea was to direct funds

into productive enterprises. A new flurry of investment activity, in turn, was supposed to create new enterprises, this way adding to employment. (In a somewhat different context, Draghi tried the same regarding the Eurozone).

Fed-dependent Wall Street rally

Well, the results of all this Fed activism are modest. Sure, US unemployment is down, but only by a little bit. (From 8.1% to 7.6%). However, it is clear that the Fed sustained actions and signals have encouraged a major stock market rally that is not supported by economic fundamentals. Investors put money in stocks mostly because the Fed provided strong disincentives to invest in other instruments. The unintended consequence of a Fed-dependent Wall Street is that when Bernanke recently indicated that the Fed might –just might– slowly change course, investors got scared and sold. Hence a significant, (even though not disastrous), Wall Street sell off.

BIS: go back to monetary issues

Anyway, whatever the near or medium term consequences of all this central banks' activism, the old fashioned BIS just gave some old fashioned advice. Central bankers should stick with their key mandate: monetary stability. Leave to elected policy makers the task of dealing with the creation or modification of macroeconomic incentives. In principle, this is rather basic, intuitively obvious, sound advice. But it is not likely that Bernanke, Mario Draghi and Bank of Japan Governor Haruhiko Kuroda will follow it.

Lacking any meaningful new plan from Washington or Brussels Bernanke and Draghi will continue to do what they are doing, this way providing oxygen to anemic markets, even though they know full well that their “remedies” are no real substitutes for government led changes in fiscal, tax and other key policies. On a somewhat different level, BOJ Governor Kuroda

is now essentially, even though not formally, part of the Japanese executive branch. And so he will follow Prime Minister Abe's orders.

Where are the elected leaders?

Be that as it may, the unfolding scenario is rather uninspiring. We have the major economic building blocs of the post war West, (the US, Europe and Japan), in the grips of serious systemic problems that manifested themselves in excessive public spending, mounting debt, little innovation, slow growth and high unemployment.

Unfortunately, governments seem to be paralysed, (with the exception of Japan that just launched a major plan aimed at fueling economic renaissance). While governments are paralysed, central bankers in Washington and Frankfurt do their utmost to keep things moving. Noble goal, but eventually unsustainable, while the execution of these policies caused other problems, such as inflated stock market valuations.

It is time for elected leaders to actually step in and lead. However, with Japan's notable exception, (leaving aside whether or not Abe's policies will eventually work out), I see no action.

Abenomics Is A Good Try, But Aggressive Economic Policies

May Not Be Enough To Revive Japan

By Paolo von Schirach

June 23, 2013

WASHINGTON – Today's Japan may be a sad but realistic illustration of what famed British historian Arnold Toynbee meant when he stated that civilizations do not die because of war or natural catastrophe. No, they silently "commit suicide". In other words, whatever leaders and policy-makers may try to do, the larger society in some instances loses its optimism and consequently its appetite for growth and innovation. If this negative trend is not reversed, the cumulative impact of economic, social and demographic stagnation is a slow death.

Abe's economic revolution

Well meaning politicians are trying to rescue Japan. We know that Shinzo Abe, Japan's super active new Prime Minister, has launched a most aggressive economic reform plan aimed at bringing Japan back to the enviable performance of the glorious 1980s. He has focused on massive monetary stimulus, new investments and a deregulation plan aimed at shaking up Japanese agriculture, services and the health care industry, among other sectors.

At the very beginning there seemed to be genuine traction for Abenomics. The stock market shot up. The Nikkei average went from 9,000 in December 2012 to 15,000 in May of 2013. Buoyed by a lower yen engineered by the Bank of Japan, many Japanese exporters increased their sales abroad.

Higher growth?

However, beyond the financial markets response, in order to get out of its 20 year slump, Japan would need to have real, sustained growth. Growth is also mandatory if Japan wants to begin reducing its mammoth public debt, now at more than 220% of GDP. But Abe's plan may not succeed. Indeed, the initial enthusiasm is beginning to fade. Japan's Nikkei average, from 15,000 is now back to 13,000.

Structural reforms not welcome

But why is this economic therapy not working? The fact is that both economic and political analysts believe that Japan as a society is neither willing nor capable to undergo the shake up that Abe would like to see happening. Making Japan nimble, flexible, more efficient and productive would entail going against a myriad of vested interests, including those of small farmers and those who profit from the current service sectors arrangements, however wasteful and inefficient they may be. More broadly, it would appear that Japan is unwilling to give up its entrenched conservative culture, a culture that for instance makes it very difficult for Japanese women to have real careers, especially if they want to work and have children.

Demographic collapse

At a different, but nonetheless economically relevant level, Japan is experiencing demographic collapse. Assuming that current dismal fertility rates will continue, in 2060 Japan will have lost about 1/3 of its population. Imagine that, from 128 million in 2010, to 87 million in 2060. (Data reported by TIME magazine). No babies also means an increasingly older population. And it is unlikely that, while the working age population shrinks, armies of elderly Japanese in their 70s and 80s will be engaged in new productive activities. We are looking at a country about to be transformed into a gigantic nursing home.

Why is this happening in Japan?

Shinzo Abe is doing his best to push stimulus and incentives for new investments and enterprise. However, if the Japanese society does not respond, there is little else that even the most innovative policy-makers can do.

In all this, the big, still unanswered question is: "Why is this happening"? Japan is an advanced, modern society, with high education standards and an enviable standard of living. Until yesterday it was home of the world's number 2 economy. Why this loss of zest for growth, innovation and expansion? Why no more babies? Really hard to say.

There are no objective factors that determine decline

When Toynbee stated that civilizations end because of suicide he could not provide "objective conditions" that would "force" societies to lose hope and enter terminal decline. None of this is objective. As I said, Japan is a rich country. There is something deep down in the collective psyche of a people that creates either a positive or negative outlook, irrespective of objective circumstances. The Japanese society seems to have entered a terminal phase of pessimism.

Of course, this may change. New ideas may come about that may provide a new wave of positive inspiration that may in turn re-energize this lethargic society. But it is unlikely that the material incentives included in Abenomics by themselves will be enough to cause a transformation of the country's collective psychology.

One final lesson that may be drawn from Japan's inexplicable decline. Classical economics postulates that human beings are rational economic actors who will always respond rationally to incentives. Well, may be human beings are not as rational as economists would like us to believe.

A Tax Police Report Describes Widespread Tax Cheating Schemes in Italy

By Paolo von Schirach

June 22, 2013

WASHINGTON- Just like the rest of Southern Europe Italy is limping along, trying to reconcile a gigantic public debt, (more than 120% of GDP), high taxes imposed on the citizens to finance it, budget cuts to reduce it, zero growth, stubbornly high unemployment and lack of enterprise. To make this even worse there is uncertain and fragile policy guidance. The country has no strong leaders armed with a compelling vision. Enrico Letta, the new Prime Minister, is yet another professional politician whose main job seems to be to hold an improbable Left-Right coalition together.

Widespread illegality

In all this the Italians try to survive. And this is a huge part of the problem. Rather than using their energy, ingenuity and wits to innovative and produce, many Italians spend an inordinate amount of time and energy trying to deflect the blows of higher taxes and oppressive regulations. As a result, there is widespread illegality. A recent report of the Guardia di Finanza, the Italian tax police, illustrates the negative fiscal impact of a culture of mistrust that induces widespread illegality. My simple and short conclusion is that an excessive tax burden coupled with a really bad economy encourages millions of Italians to cheat.

1/3 of all retail transactions unrecorded

The Italians are geniuses at circumventing laws and in devising tax avoidance and plain tax evasion schemes. Let's start from the bottom. According to the Guardia di Finanza report, at least 1/3 of Italian shopkeepers, restaurant and bar owners fail to issue receipts. So, about 1/3 of national retail transactions are not recorded and therefore not taxed. At a higher level of sophistication, there is a real industry aimed at creating fake corporations in other countries that issue false invoices that are then "paid" to them by Italian companies. This way bogus tax deductible expenses are created and untaxed money is transferred abroad.

And then you have the time honored practice of corruption in awarding almost any and all types of public procurement contracts. Bids are rigged, local authorities are overcharged, kickbacks are paid to all those who provided favors. Last but not least, there is abuse of welfare programs. False disability and pension claims are the norm, this way causing an artificial growth of already bloated public spending.

This is not funny

When discussing these clever practices many commentators laugh. They say that all this is a credit to Italian resourcefulness and ingenuity. The smart Italians cheat the tax man and then go out and have a lovely dinner to celebrate. Well, the deeper truth is sad, not at all funny. Yes, the Italians are clever. But unfortunately, given the perverse system they created for themselves, their talent is wasted in devising illegal ways to survive, as opposed to engaging in productive, job creating activities.

Unfortunately, the scope of this web of illegality is so huge that it will be almost impossible to eradicate it. In an ideal world, Italy should adopt a flat tax system, seriously deregulate economic activities and labor markets, and

drastically reduce the size of its mostly parasitic public administration.

Radical rethinking?

But this would require a cultural revolution premised by a total rethinking of the proper relationship between private enterprise and an adequate, modern and service oriented public administration. Unfortunately, there is no sign of such an awakening. This being the case, nothing will change.

And so, the Guardia di Finanza will keep going after small shopkeepers who do not issue receipts, this way trying to shelter some of their (often meagre) income from a perennially semi-bankrupt and hungry state. Yet another unproductive effort amounting to an additional waste of resources.

If You Want To Understand America, Go To Mount Vernon, The Home Of George Washington

WASHINGTON – Washington, DC in many ways is America's Shrine. The main public buildings, the Capitol, the White House and then the Memorials erected to George Washington, Thomas Jefferson and Abraham Lincoln, are solemn reminders of America's origins and meaning. The first modern republic, a noble experiment created to test this simple proposition: "*Are men capable of self-government?*"

The first modern republic

At a time in which Europe was led by Kings who governed under the assumption that God gave them the right to do so, the Founding Fathers created institutions based on the assumption that all individuals have "inalienable" God given rights. In order to live together as a society, free people would delegate some of those powers to elected representatives whose primary duty was and is the protection of individual liberties.

Imagine that. At the end of the XVIII century this was truly revolutionary. Well, right now I am not sure of the answer about America's ability to have a functioning self-government. These days Washington offers a sorry spectacle of a rudderless democracy where the people representing the key institutions seem to have lost any understanding of what public service should be about.

A visit to Mount Vernon

Is there a remedy for this? I am not sure. But I can say that at least for me going to Mount Vernon, the place where George Washington lived and died, (only a short ride from the Nation's Capital), is a beautiful and inspiring experience.

There one can relive the atmosphere of America's beginnings.

And what is most striking about Mount Vernon is its simplicity. Sure enough, it was the large estate of a well to do Virginia farmer. But any second rate aristocrat in XVIII century Europe had a much bigger and much more opulent home. Let alone the grandiose palaces of Kings and Emperors.

In Washington's home, in his experience, I see decency, restraint, tolerance, pragmatism, and superior wisdom. In Washington's decision to leave public office while he was under no obligation to do so I see humility and a profound understanding that no man should become overly attached to the powers of public office.

Washington's armchair

From his days as President Washington brought home only a few objects. Most intriguing for me is the armchair he used while in office, now on display at Mount Vernon. Simple and functional. Nothing fancy. And yet, and yet, think about it. This is where George Washington used to sit and think, and write and deliberate, for years. A simple object, so full of meaning.

The Tomb

But the real meaning of Washington's life for me is in his tomb. A very simple crypt. There he is: General Washington and his wife Martha at his side. A raised sarcophagus for the President and an almost identical one for his wife. Beautiful; but extremely simple. And I can see all that from behind an equally simple iron gate. Only a terse inscription on a stone tablet above the entrance: *"Within this Enclosure Rest the remains of Gen. l George Washington"*. Nothing more.

And there he is. There, in that unadorned yet extremely dignified burial place, is the Man who, along with a few others, created America. They created it, they cared for it and nurtured it, and then they left the scene.

George Washington did not want a mausoleum for himself. Just a simple tomb. Much can be learnt by observing how this leading Founding Father lived and by realizing how he still speaks to us, even in death.

Bernanke Hinted At A Slow Phasing Out Of QE3 And Markets Tanked, Proving That We Have A Fed Inspired Bull Market

By Paolo von Schirach

June 20, 2013

WASHINGTON – *“What the Fed giveth, the Fed taketh away”*. This pretty much summarizes the (orderly but significant) June 20 sell off on Wall Street. Look, the massive drop (the Dow Jones lost 353 points) may be just a hiccup, an isolated event that does not indicate a trend. That said, it is clear that investors are selling stocks mostly because Ben Bernanke, the Chairman of the US Federal Reserve, just indicated in a press conference that at some point, may be next Spring, the “accommodating policies” the Fed has been pursuing may be phased out, albeit slowly and moderately.

Strong reactions to a mild statement

Now, Bernanke’s statement was hardly a bomb shell. He did not say: *“We over did it. And now we announce the end of QE3 and the beginning of interest rate hikes”*. He only said that, if indeed the economy will keep improving, (optimistic idea, if you ask me), the extraordinary measures taken by the Fed to boost expansion will be gradually phased out. Nothing shocking here.

And yet the markets reacted strongly to this mild warning about things to come, later on, with a major sell off. Whatever the ultimate meaning of this one day event, this

strong reaction to a hint of future action is at least an indication that American capitalism, while of course driven by market fundamentals, is also inordinately influenced by the Fed. And we are talking here only about indications of future, moderate moves which may or may not take place, depending on objective labor market conditions. We are not talking about abrupt Fed announcements concerning major policy shifts.

A Fed induced stock market growth is not good

This cannot be good. In ordinary circumstances we should not have major market gyrations because of mild Fed announcements regarding possible, gradual actions that may or may not take place next year. These gyrations reflect the fact that we have had a Fed inspired stock market rally and that all investors are acutely aware of this fact. Any hint that the party may be over causes sudden fear attacks. Which is to say that the June 20 sell off had nothing to do with objective market conditions. Investors acted only on the basis of their perception of policy changes impact.

Indeed, we know that for ostensibly noble reasons the Fed created an environment in which the only way to make some money is to invest in stocks. As a result, we no longer know the actual value a stock because, beyond objective facts affecting stocks valuations, we have inflated prices due to Fed actions that made it impossible to make money through other forms of investments.

And market players are so conscious of the Fed role in creating this overvalued market that when Bernanke said that current policies at some point will be gradually phased out many investors decided that the party is over and that it may be wise to quickly get out of Wall Street while the going is still good.

Well, if you thought that stock valuations were a reasonable reflection of the health of the American economy, think again.

Sure enough there are basic factors that cannot be ignored. But when you add to the mix the tons of steroids ladled by the Fed in the last few years, you have equity markets that look a lot better than they really are. It is a very distorted and therefore deceiving picture.

Let people invest on the basis of real market conditions

My simple conclusion is that the Fed should stop meddling. For that to happen the US Government should end the Fed's mandate to secure full employment. This mandate allows (forces?) the US Central Bank to manipulate economic incentives in order to support growth, up to the point that we no longer know what is "real" and what is Fed induced.

The attempt to boost more economic expansion, so that more people will get jobs, is noble. Still, in the long run allowing economic actors to deal with reality as it is is a lot better. Let people buy stocks because they are worth something; and not because –due to Fed policies– there are no returns on other forms of investments.