

The Tragedy Of The Uneducated Poor in America

WASHINGTON – Much has been said about the “crisis” of American public education. Indeed, if we look at the ranking of American high school kids compared to their peers in other developed countries, they do rather poorly in terms of academic achievement. In fact their performance is so bad that one wonders how on earth can America be and stay a leader in sophisticated technologies, innovation and business creation since its young people seem to be chronic under achievers.

The truth about education

Well, here is the truth. The U.S. academic averages are bad. But the averages hide the fact that there is a new kind of segregation in America; and it is all about education opportunities.

The rich can pay for and get a good education for their children –public or private. The poor cannot. The children of the rich receive the instruction and the training that will open doors to good universities, and later on good or great careers. The children of the poor in most cases will go to bad schools –the only kind available in their chronically under served neighborhoods. Many of them will graduate with meaningless diplomas. Some will drop out of school and have absolutely nothing.

Therefore, it is incorrect to say that the American education system –in its entirety– is in crisis. Indeed, some of it is doing well, or very well. But some of it is in pitiful conditions. And it is the part serving the poor that skews the national averages.

The crisis is all about the poor

So here is the thing. The children of the rich and well to do are doing reasonably well, or well in school. In most cases, the chronic under performers are the poor and the minorities, (often times one and the same).

As Michael Petrilli and Brandon Wright put it in their article *America's Mediocre Test Scores*, (EducationNext, Winter 2016), it is an established fact that the poor do much worse in school. And the problem is not that lack of income impairs their ability to learn. The problem is that poverty in America very often comes along with homes where there is alcohol and drug abuse; or single parent households, child abuse, crime, and a lot more. In other words, poverty in many cases creates an environment that is truly toxic for young people who would need to concentrate on their studies.

"Why do kids from low-income families –write Petrilli and Wright– tend to score so much lower on average than their more-affluent peers? Is it something about poverty itself, that is, a lack of financial resources in the family? This is likely the case, as financial stress can create "toxic" conditions in the home and also make it difficult (if not impossible) for parents to afford the tutoring, educational games, summer camps, after school activities, and other educational experiences that middle-class and upper-middle-class students take for granted (and that almost surely boost their achievement)."

*"But it's not just about money –they continue– Poverty is associated with a host of other social ills that have a negative impact on learning. **For instance, children in poverty are much more likely to be living in single-parent families headed by young, poorly educated mothers. Poverty is also associated with higher rates of alcoholism and other substance abuse in the home; greater incidence of child abuse and neglect; and heightened family involvement in the criminal justice system.** [Bold added]. All of these are well-known "risk factors" that are associated with lower test scores as*

well as with a greater likelihood of dropping out of high school."

Vicious cycle: poverty begets poverty

So, you get the picture. Children who live in poverty don't do well in school. In part, this is due to the fact that at home there is no supporting system that encourages them to do their home work and do their best in school. Their parents are often uneducated. There are no books in the house. There are no conducive after school activities. No theater, and no trips to the local museum. On top of that, most of the poor tend to be African-Americans or Latinos. Belonging to these ethnic minorities already places them at a disadvantage in a still racially divided society.

All in all, being a minority and poor is the kiss of death for most children when it comes to having a fair shot at a better life. For most of them, "upward mobility" is a dream.

To make it worse, public schools in poor neighborhoods tend to be of lower quality when compared to those in rich areas. Which is to say that in America today the family you are born to and the neighborhood you live in is probably the single best predictor of future academic proficiency and life time career and economic achievement.

Birth is destiny

Put it differently, just like in many poor countries, and just like in Europe prior to the industrial revolution and the diffusion of democracy, in today's America "birth is destiny". Where you are born and grow up and the income and level of education of your parents in most cases determine what you will become as an adult. This is truly horrible. This is America. As a society, we should be able to do better than this. Much better.

Charter Schools can help

This does not mean that all poor and minority children are totally neglected by their families. Indeed the whole Charter Schools movement, and its popularity, is about giving poor kids living in poor and under served neighborhoods –kids who otherwise can only enroll in mediocre or failing public schools– a choice. Not all Charter Schools are great. But many are by far better than what the public education system offers in poor neighborhoods.

At least some parents of poor children, quite often themselves people with little education, realize that a better education will give their children a shot at a better life. So much so that the best Charter Schools are literally under assault by low income and minority parents who desperately try to get their children enrolled. In order to give everybody equal chances, Charter Schools hold admission lotteries. If your number is drawn, you are the lucky one. You get in. For all the others there is the grim alternative of a mediocre or failing public school.

Winning the lottery

Now, think about it. This is America. Once upon a time “The Land of Opportunity”. And yet, in this enchanted place where –we are told– all people are truly free to be whatever they want to be, the future of a poor child depends –literally– on winning a lottery. The winners get to go to a good Charter School; a school with good teachers who will prepare them for a life of higher achievements: college, good training, and a good job.

A good education for every one

All the others, well all the others were just not lucky enough to get in. You see, they did not win the lottery.

This is a national disgrace. In the United States of America we should be able to offer all children, regardless of income, background or race, a good education; so that all of them

would have the intellectual tools and skills to engage in our society, and have a shot at good lives in this fiercely competitive global economy.

Round One: US Shale Wins, OPEC Loses

WASHINGTON – Here is the news. The US shale oil industry, while badly wounded by the price war waged by Saudi Arabia, is still standing and fighting on. In fact, it is now better than ever. Thanks to rapid technological innovation, it has been successfully re-engineered. Although bruised, it is slimmer, more productive and more efficient than ever.

Unsustainable low prices

Saudi Arabia instead may not be able to sustain its own scorched earth, low oil prices campaign; not because of its impact on Saudi oil profitability, (still very healthy); but because Saudi Arabia needs a much larger oil revenue to finance its budget and to continue subsidizing a population that looks at public money as an entitlement. Indeed, low oil prices for the indefinite future may jeopardize the very survival of the Saudi state.

How it started

A couple of years ago, when oil prices started sliding due to a supply glut, Saudi Arabia announced that, contrary to expectations, it would not cut production in order to jack up crude prices. This was an unusual reaction, and all analysts wondered what prompted it.

In the past, OPEC's strategy had been to maintain price stability at a fairly high level. Not too high so that it would financially damage buyers; but high enough in order to guarantee high margins for OPEC producers. That balance seemed to be with oil prices at around \$ 100 per barrel. In order to achieve this goal, OPEC, led by Saudi Arabia, in order to support prices would cut production when supply exceeded global demand.

New policy

So, why the new course of action? Why would Saudi Arabia allow oil prices to slide? There were several theories. Saudi Arabia wanted to damage Iran. No, the Saudis were going after Russia, because they did not like its military support to Syria. ***But the most popular theory was that the Gulf oil giant wanted to kill its newest but possibly weakest competitor: the US shale oil industry.***

US shale

Indeed, thanks to the use of hydraulic fracturing (or fracking) the booming US shale oil industry had surprised the entire world. Using fracking to extract oil from shale formations, with incredible speed American shale oil producers had added millions of barrels of US production in just a few years, this way creating the global oil glut that caused the rapid crude price decline. This sudden change in global demand and supply obviously worried the Saudis, the established oil markets arbiters.

Too expensive?

That said, just like almost everybody else in the oil business, the Saudis "knew" that extracting oil from shale is very expensive. The consensus was that US shale oil could be profitable only with crude well above \$ 60 per barrel.

Yes, shale oil production via fracking is a fantastic

innovation. But production costs are much higher than the industry average. Therefore, if you wanted to get rid of this US shale oil annoyance that caused a global supply glut, just drive the price of crude way down for a while by over supplying already saturated markets, and the the US shale oil producers would go bankrupt. As easy as that.

Make them go bankrupt

And for a while it seemed that the Saudi game plan (assuming that this is what they were really trying to do) was actually working. With oil going from \$ 100 to \$ 60 and then down to \$ 40 a barrel, US shale oil companies' profits fell or disappeared altogether. The most indebted small and medium US producers could not get more financing. And so they went under. A large number of operations stopped.

It was a carnage. In just a couple of years, tens of thousands of shale oil industry jobs were lost. A very large number of vendors and suppliers to the shale oil sector suffered. Entire communities that catered to energy workers had to absorb major losses.

Surprise!

However, guess what, the huge body blow of declining oil prices that in no time had gone from \$ 100 to \$ 40 per barrel, or even lower, surprisingly did not kill the US shale oil industry.

To the amazement of all industry practitioners, the shale oil sector managed, in almost no time, to become more efficient and more productive. Costs were slashed, year after year. Oil recovery rates improved, quite substantially. Yes, as a consequence of falling prices, overall US oil production went from 9.7 million barrels a day down to 8.5 million; a net loss of 1.2 million. But the survivors are now nimble and profitable, even with oil below \$ 50 per barrel. Many of them can still make money with oil at \$ 40 per barrel.

Saudi Arabia now in trouble

Meanwhile, it looks as if Saudi Arabia cannot live much longer with the consequences of its own low crude prices policies. Let's make it clear. The Saudi oil industry is not in any trouble. It remains very profitable even at low prices, simply because Saudi oil extraction costs are very low.

However, the problem is that the Saudi government needs oil at \$ 100 in order to finance its budgets, public investments plans, and a variety of subsidies offered to almost all Saudi citizens.

Out of cash

Sustained low oil prices caused a sudden state revenue shortfall. And this has created a huge fiscal problem. For the time being, Saudi Arabia can cope. It has used some of its vast currency reserves. It has issued bonds to finance its large and expanding budget deficit. So far, so good. But the outlook is not at all promising. Assuming low prices for the indefinite future, little by little Saudi Arabia will run out of cash.

Given all of the above, at some point OPEC, led by Saudi Arabia, will have to cut production in order to increase oil prices. This will increase Saudi state revenues and stabilize the Kingdom's fiscal situation.

Shale producers are more flexible

That said, this will also be good for US shale producers. Unlike other "conventional oil" producers, the US shale companies now have the technology that allows them to ramp up production relatively quickly, while cutting it when global supply is excessive. Which is to say that when prices go up more rigs will go into operation. When prices start sliding due to excessive supply, shale oil operators can shut down some operations, without going bankrupt in the process.

Shale wins

All in all, the plucky US shale upstarts, usually small companies sometimes poorly managed and not well-financed, managed to take huge blows, quickly reinvent themselves, and come back, stronger than before. This proves that disruptive technological innovation is possible –even in mature industries like oil. All in all, at the end of this oil price war round, shale wins, OPEC loses.