

How Will Macron Govern France?

WASHINGTON – Emmanuel Macron’s meteoric ascendance –literally from nothing prior to a short stint in the Hollande administration, to President of a major European country—is by itself a stunning political achievement. The very fact that obscure Macron saw an opening for himself as the leader of a brand new movement (he called it *En Marche!*) in a crowded field populated by seasoned politicians at least twice his age speaks volumes about Macron’s political instincts.

He was lucky

That said, we also know that Macron was very lucky. The center right party candidate, the Republican Francois Fillon, the favorite to win this presidential race according to most, suddenly imploded on account of the scandal related to fake staff jobs he offered to his wife and children. With Fillon sunk and a very weak Socialist party candidate running, Macron became the only credible alternative to Marine Le Pen, assuming that he could make it to the second round of the vote. Indeed there was a brief but all too real scare that grew as the first round got closer. It was all about Jean-Luc Melenchon, an unreconstructed Marxist who connected surprisingly well with the old French leftists (still many of them!) and with many young voters. Had Melenchon managed to overtake Macron in the first round, it would have been a disaster for Macron, the would-be new leader of a the newly reconstituted reformist center. (Imagine the scenario of a second ballot with Le Pen and Melenchon as the two finalists fighting for the French presidency).

Predictions were correct

In the end, as we now know, Macron managed to get to the

second round, even though not by much. And then, after this critical first round semi-victory, everything happened according to most predictions. Macron won on May 7 by a large margin, (64%), while support for Marine Le Pen did not pass the symbolically significant 40% threshold. In fact she only got to 34%. Now she is defeated and humiliated, although still alive politically and –she says– willing to keep fighting.

Happy ending?

So, happy ending? Not quite. France and the world dodged a major bullet. A Le Pen presidency, at least at the start, would have been very disruptive, given her very negative views on Europe, the Euro, trade relations, and the NATO Alliance. Not to mention the heavy and disturbing baggage of xenophobia, racism, anti-Semitism, and more.

How to rejuvenate France

That said, while Macron's victory for sure is a precious reprieve, it is no guarantee that a severely weakened France, burdened by unaffordable social spending, unwieldy labor rules, and inefficient state owned corporations will become all of a sudden nimble, regain the enthusiasm needed to get out of the swamp of low growth and high unemployment; not to mention be able to overcome the unresolved issue of millions of (mostly Muslim) non assimilated immigrants, in many instance the breeding mix for radicalized youth who engage in acts of terror.

It is important to stress that Macron won on a positive message. He stated that France must embrace –not reject– globalization, foreign trade and strong relations with Europe. He forcefully argued that France is part of the global economy. Withdrawing behind protectionist walls is no solution.

Untested leader

All true. The unknown here is whether this new –and completely untested– young president (the youngest leader of France since Napoleon) will be able to galvanize his country, while at the same time gathering the necessary parliamentary support to pass critical labor and tax reforms, the minimal policy preconditions to create the enabling environment for French business and enterprise to flourish.

In order to secure these reforms Macron needs a major win at the forthcoming parliamentary elections. He needs a workable majority in the National Assembly in order to govern. Can his brand new political party repeat the leader's May 7 surprising victory?

The best choice?

Finally another somber consideration. The very fact that we applaud Macron's victory as a major turning point in French and indeed European politics is in itself stunning. Macron is completely unknown, untested and inexperienced. Not that the establishment politicians inspire such great confidence.

However, the 64% obtained by this young new president is by itself a manifestation of a country adrift, grasping this modest straw (Macron) because this was the only way to avoid the abyss of a Le Pen victory.

When the French elevated General De Gaulle to the presidency, at least they knew they got a proven leader with a long, distinguished, and very public record. Today Emmanuel Macron is the new occupant of the same Elysee Palace once occupied by De Gaulle. The difference is that the French people who voted for Macron in large numbers have no clue as to how he will perform, because he has no real record.

The Dream Of New U.S. Manufacturing Jobs

WASHINGTON – We know that President Donald Trump pledged to renegotiate (supposedly unfair) trade agreements worldwide with the goal of re-balancing the U.S. trade accounts, while forcing companies to move lost U.S. jobs back to America.

Millions of jobs

His narrative –accepted as truthful by millions of U.S. voters– is that America lost millions of jobs in the last couple of decades, while buying from China and Japan (among others) goods worth hundreds of billions, with no reciprocity, because incompetent U.S. trade negotiators (Democrats and Republicans) were so ineffective (in fact so stupid) that they allowed this disaster to happen.

Brand new trade deals

According to the White House, the remedy is quite simple. You reopen old deals, get better terms through tough negotiations, and you force the offending countries (Mexico, Japan, China, South Korea, among others) to sell less to America, buy more from America, and spit back all the U.S. jobs that moved to their countries on account of badly conceived trade negotiations led by incompetent and unpatriotic Washington trade representatives.

Not that simple

If it were indeed so simple. The problem is that jobs are not akin to cash that can indeed be moved from one country to another in a matter of minutes. Regarding the loss of U.S. jobs, the fact is that in the last 20 to 30 years millions of U.S. manufacturing jobs moved to China because of China's extremely low labor costs. At the time, this was a most

compelling reason.

Cheap labor

American and other Western companies, always seeking new ways to keep costs and therefore prices down, chose China as their base of manufacturing operations because China's labor costs at the time were very low. Therefore, making industrial products in China –especially goods that required labor intensive operations– was comparatively quite cheap.

In a fiercely competitive global economy, all companies seek and want to take advantage of low production costs which allow them to sell at lower prices, this way undercutting their competitors.

All this happened in large measure because (after China joined the World Trade Organization, WTO, in 2001) the rest of the world accepted China as a member in good standing of the international economic and trading system.

No one seriously wanted to penalize made in China products because of the harsh working conditions in Chinese factories and China's rock bottom wages. Was that a bad decision? Possibly. Still, be that as it may, the long term consequences of that decision, for all practical purposes, are irreversible.

Trade war and no new jobs

A trade war with China, while the notion seems appealing to many, would cause a huge global crisis (you can expect retaliations and counter retaliations). And it would not produce the effect that President Trump would like to obtain: millions of jobs, now held by Chinese workers, "returning" to America, while America enjoys enhanced prosperity, and a positive trade balance.

And why is this impossible? In large measure this is due to

the cumulative impact of China's role as a global manufacturing hub. This enviable position led to the creation, over time, of complex supply chains that link Chinese factories, (and therefore Chinese workers), with a web of suppliers and vendors, within China and/or other countries in the region (Taiwan, Vietnam, Thailand, South Korea, and others). These sophisticated supply chains provide the components and semi-finished products that are finally assembled and completed in China. The finished goods are eventually shipped to the United States and other countries.

This being the case, it is simply impossible, even if we assumed the unanimous will to do so, to yank the jobs now with any Chinese factory which performs the final assembly of industrial products and move them to America.

You cannot recreate complex supply chains at will

And here is why. For this "operation" to be successful, one would have to move and/or recreate –from scratch– in America the entire supply chain that now supports that particular Chinese factory. And this would require the creation, here in America –again, from scratch– of fine tuned business relationships between the lead manufacturer and a brand new network of U.S. suppliers and vendors based on their proven ability to perform at the level required (quality, standards, specifications, delivery time) and at costs low enough to guarantee the competitiveness of the made in America finished product.

No U.S. companies operating in many sectors

If this were not enough, given the lack of meaningful industrial activity in many of the manufacturing sectors that moved to China or elsewhere decades ago, many of the needed suppliers that would be part of the brand new U.S. based supply chain simply do not exist anymore. They went out of business. How about that. No companies making the necessary

components, no supply chain.

Impossible

From all of the above, you can see that the idea of transplanting complex networks of companies, working in harmony with one another, from China to the U.S. is an impossibility.

Again, let me stress that those supply chains were not improvised in China a couple of weeks ago. They were created over decades of tests, trials and error. The notion that the entire web of complex business relationships now at the core of Chinese manufacturing can simply be dismantled and transported to the U.S. is a childish fantasy.

An additional problem: automation

And if this were not enough, you have to consider automation, a relatively recent development which did not play a significant role at the time of the jobs migration incentivised by low Chinese labor costs.

Keep in mind that automation has nothing to do with unfair trade practices. But it has the practical effect of killing U.S. factory jobs that used to be performed by humans. This is an unstoppable trend. Yes, the robots do many and in the future most of the jobs that factory workers used to do.

In a relatively short time, tomorrow's modern factory will probably be completely automated, with only a few highly specialized IT experts and engineers in charge of supervising the robots, and the overall production schedule.

Which is to say that, even if we assume that some manufacturing activities would "return" to America and/or new ones are created on U.S. soil, not much will change in terms of net new employment in manufacturing. In a best case scenario, maybe some factories will come back. But most of

the workers who used to be employed in that sector will be replaced by automation.

We are in a new era

Keep in mind that now we are in a new era; an era in which humans will do less and less factory work. As robots now and in the future will do most of the work, labor costs will become less and less of an issue in determining the location of new industrial plants. Still, as tomorrow's factories will be even more automated, it is hard to see net gains in manufacturing jobs in America, or in the rest of the high cost western world, for that matter.

No jobs coming back

In conclusion, here is the thing. The creation of complex supply chains created by Chinese companies to support China-based production over many decades cannot be dismantled and quickly reassembled at will here in America.

Furthermore, from now on automation is and will be the new manufacturing jobs killer. While automation, at least in some areas, may result in creating new forms of employment in new sectors that we cannot even think about today, the old factory jobs we used to know at some point will become extinct.

Can we do anything to reduce the trade deficit with China?

That, said, what about the chronic trade imbalance with China? Very hard to do this. And this is in large measure due to the fact that millions of American consumers love to buy cheap consumer goods. And China, for the moment at least, is still the low-cost producer.

However, what can and should change in this enormously large bilateral trade relationship is the unfair treatment of foreign companies trying to establish themselves in China, or trying to sell their products and services to China.

Unfair treatment

There is plenty of evidence indicating that U.S. exporters are penalized in a variety of ways. For instance, the Chinese use their own competition laws as an effective non tariff barrier against foreign companies. Chinese authorities selectively target U.S. and foreign companies accusing them of anti-competitive behavior, forcing them to pay fines and to license their technologies to Chinese entities, this way undermining their ability to work in China and their overall competitiveness.

Demand better terms

This is an area where the Trump administration has legitimate ground to complain and demand better terms from China. Still, even if successful, this effort would lead at best to the narrowing of the trade imbalance gap, not to its disappearance.

As for the millions of new manufacturing jobs coming back to America on account of broad new trade agreements, well, dream on. This is just not going to happen.

Wanted: Credible Centrist Political Leaders

WASHINGTON – Recently, a Democratic party elected leader of national renown argued in a public forum that in order to regain lost momentum and credibility with the American voters the Democrats have to redefine themselves as the party of economic growth and inclusiveness.

Common sense messages

At a national event focused on the future of U.S. small businesses, a Republican national leader claimed that America's greatness rests on its foundations as an opportunity society in which people can advance because of a rules based system that recognizes and rewards merit.

John Hickenlooper, the Governor of Colorado, a successful state chief executive, stated that through collaboration between Republican and Democrats we can find workable compromises on the future of the US health care system, and other national priorities.

Well, what do I make of all this? Very simple. These statements made by credible centrists in both parties raise the hope that it may be possible, even in this incredibly poisoned political climate, to rally millions of Americans, hopefully a majority, around the basic ideas of an optimistic country in which policy-makers promote economic growth, while upward mobility is based on genuine merit; and nobody is excluded or kept from advancing because of social class, gender, race, or anything else. In fact, the opposite –equal opportunity for all- is embraced by all.

And this must include quality education, the best foundation of future success in life, available to everyone; while bridges are built across every divide, and doors are wide open to all who are willing to make an effort.

It is an old idea

This idea of America as a level playing field and fair rules used to be a shared vision embraced by most. Indeed, it was the belief that America offered genuine opportunity that attracted millions of immigrants who wanted to create in America a better life for themselves. It is about time to re-propose this vision in a manner that can be shared by today's Americans –Democrats and Republicans.

Indeed, who could object to public policies that promote economic growth, social advancement based on merit, while all citizens have genuine access to quality education, careers and consequently a good seat at the table?

Lost hope

Of course, the last few years have told us an entirely different story. It is a story of lost hope, deep disappointment, and resentment. A story of popular distrust in the honesty and abilities of most elected leaders. A story of exaggerated promises not kept.

This has created an emotional anti-government rebellion on the right, (*"Washington is a rotten place"*) and the triumph of policy agendas on the left which advocate economic and social re-balancing achieved through redistribution by taking (ill-gotten gains) from the few ultra rich and giving to the rest of society. All this will be wisely designed and orchestrated by government, through taxation and subsidies.

Despondent America

The outcome of all this is not pretty. The unexpected outcome of the November 2016 presidential elections is evidence of the widespread feeling of deep despair. Indeed, according to millions who voted for Donald Trump mostly because he is not a professional politician, "the system" failed –period. Its failure is so deep that it is not worth salvaging. In fact, it should be dismantled. Millions of Americans feel deeply alienated.

Paradoxically, notwithstanding continuous economic growth and lower unemployment since the end of the Great Recession in 2010, rightly or wrongly millions of Americans who used to be part of a self-confident middle class now are and feel poorer and left behind. At the same time, millions of young people feel hopeless facing a world of diminished opportunities, while laboring under the crushing weight of absurdly large

student debts.

There is a way out

That said, I sense that there is a way out of this. Difficult, yes; but not impossible. Yes, America needs house cleaning. It needs fresh faces not tainted by the old ways of doing business.

The unimaginative political elites still populating Washington, DC have survived by over promising everything to everybody, while pretending to pay for all the goodies they offered to various (of course deserving) constituencies, knowing full well that the only way to finance all this public largess (unaffordable entitlements) was and is to borrow more and more, this way getting the country deeper and deeper into debt. Sadly, the Washington elites have no real economic growth strategy, while their policies aimed at buying votes through entitlements funded by public money and more and more borrowing are driving America towards the abyss of insolvency.

Credible people who will tell the truth

Most Americans have common sense. However, they need credible new leaders who will tell the unvarnished truth about the dangers of systemic and growing fiscal imbalances, (i.e we have to agree on a sensible plan to reform all major federal entitlement programs, by far our biggest fiscal problem), while pointing the only way to get out of this ditch: economic policies (think tax reform and smart deregulation affecting business activities) that will promote a more robust economic growth in a genuinely open and inclusive society. An inclusive society in which elected leaders are committed to destroying all artificial barriers to entry, while opening new avenues of opportunity to all.

President Donald Trump, a new leader who is not carrying the baggage of the distrusted establishment politicians, could lead the way in shaping a new American political conversation.

As his presidency is just getting started, it is impossible to say whether he will engage in this effort or not. We should all hope that he will. This would benefit the country and him.

Impossible?

Well, in the end all this sounds too lofty, in fact unrealistic. Yes, this is an appeal to an admittedly mythologized idea of an America "where anything is possible as long as you work hard and play by the rules" which (truth be told) never fully existed in the way many refer to it.

And then there is the huge problem of yanking benefits away from millions (deserving or undeserving, it does not matter) who got used to getting them. *"Come on...get real. Nobody gets elected by promising less, let alone by promising to cut existing benefits. And we in Washington just do not know how to deliver stronger economic growth. We only know how to distribute subsidies"*.

The way ahead

And yet, if we do not want to see America follow Europe on the path of historic decline, it is imperative to make real progress on these two related fronts:

1) restore fiscal sanity by reforming all the major entitlement programs

2) genuinely and forcefully promote economic growth and real opportunity for all

The alternative is political chaos, the de-legitimization of our institutions, and rapid economic decline.

Some elected leaders of both parties know this. I just hope that their common sense message will be heard, understood and embraced.

Wellness Programs Will Transform US Health care

WASHINGTON – Undoing Obamacare is proving to be a lot more complicated than what confident President Trump (and the Republicans in Congress) had anticipated. The problem is that it turns out that most Americans want universal health insurance and affordable health coverage –the promise of Obamacare. But they do not want to pay what it costs to obtain medical care in our horrendously complicated and super expensive system.

A political problem

And this creates an insoluble political problem for the Republicans now in charge. It is clearly impossible to yank coverage away from previously uncovered Americans who got used to getting significant health care benefits thanks to Obamacare. Many get benefits at a deep discount, because of subsidies granted to low income people. At the same time, there is no easy way to reduce the cost of coverage to all those who have seen their premiums go up in the last few years because of unforeseen systemic cost increases.

We have created a monster

That said, if we distance ourselves for a moment from the political infighting that focuses almost entirely on who gets what coverage and who will pay for it, we see that the entire U.S. health care system –before Obamacare and after– is in fact a true monstrosity. We have created a real Frankenstein. Physicians get paid only if they treat patients. Most patients do not pay because they have insurance.

And, to top it all off, the overall health of most Americans has deteriorated because of widespread bad habits involving a horrible diet and no exercise. There you have it. A medical profession that thrives on insured sick people and not even a semblance of any wellness education program aimed at keeping people healthy. The outcome? America spends about 18% of its GDP on health care –a stupendous amount– while Americans are not at all healthy.

A flawed system

The reason for this veritable disaster is that the entire health care edifice is built on terrible premises. The first one is that American physicians are mostly self-employed professionals who make money only when you –the patient– are sick. They have no financial interest in keeping you healthy. In fact, the opposite applies. If you are healthy, they get no revenue from you.

The second one is that when most people are sick, in most cases someone else pays the cost, i.e. health insurance. And so we have created a perverse system with perverse incentives.

Fix what is broken

Physicians deal with you –the patient– just like an auto mechanic deals with your car when you bring it to their workshop. They look at what's wrong with your vehicle, identify the problem, and try to fix it through a repair. And off you go, until the next time you have another problem, (hopefully soon).

The difference between auto mechanics and doctors is that when you go to the mechanic you pay with your own money. Whereas, in the health care system in most instances someone else (the health insurance that covers you) pays the bill.

We love sick people

Given the way this system works, (captive customers who send the bill to a third party) most American doctors have a built in incentive to over treat you; because this how they make extra money. And they believe they can do this because they know you will not feel the financial pain of the cost of the cure, thanks to your health insurance that will pay your bills.

Hence the widespread tendency to over prescribe almost anything: ordering batteries of diagnostic tests, new procedures, often unneeded surgeries, and what not. And why would doctors do that? Very simple: because this is how they make money! And they have few disincentives, because they know that in most instances their insurance-covered patients –that would be you– do not pay, or pay only a fraction of what the doctor charges.

No interest in prevention

By the same token, given the fact that sick patients bring revenue, while healthy people do not, most physicians do not have any interest whatsoever in advising you about ways that will help you improve your life style and habits, so that you maximize your chances to stay healthy, especially as you get older.

On the contrary, they truly benefit from you when your bad habits cause you to be sick more often. Better yet, the ideal customer is a patient with multiple chronic afflictions –many of them caused by widespread bad life style habits, such as over eating, eating unhealthy food, drinking too much alcohol, doing drugs, not exercising. In fact, the more the chronic afflictions, the better. If you are chronically ill, this means that you are and will be a permanent source of income, because your chronic ailments require constant (expensive) treatments and monitoring, possibly for life.

Cost explosion

That said, this situation, while ideal for physicians, created a gigantic problem. America has the dubious distinction of having the highest health care costs in the entire world, (as a percentage of national wealth), when compared with all other developed, rich nations that provide high quality care to their citizens.

And the cost of health care delivery keeps going up because it is almost unchecked, given the perverse incentive to do “more” of everything to people who do not pay directly. And all this is happening while Americans are becoming more and more unhealthy because of the explosion of otherwise preventable ailments –think type 2 diabetes– due to bad personal habits when it comes to diet and exercise.

However, while armies of now chronically ill patients get treatment, the health insurance industry has difficulties in trying to remain profitable, while containing costs. Inevitably, the additional costs of care are passed on to the insured individuals. Feeling the pressure of higher insurance premiums, the people turn to the politicians so that they will “do something” in order to make good health care available to all, and truly affordable for all.

Nice idea. However, if we leave the fundamentals of the system just as they are now, there is in fact no way out.

There is a way out

A solution does indeed exist. But it would require a complete revolution affecting the entire American health care structure.

However, this would require a new national consensus about the true purpose of medicine. Medicine should be indeed about curing sick people. But, most of all, it should be seen as an integral part of a broad effort aimed at teaching people how to be and stay healthy. And this includes practicing proper nutrition, avoiding all addictions, and having plenty of good

exercise.

Reduce ailments by teaching wellness

Of course, good habits will not make all illnesses or accidents-caused trauma go away. Of course not. But they would greatly reduce and eventually do away with the national epidemics of chronic diseases –first and foremost type 2 diabetes and a variety of cardiovascular afflictions – caused primarily by bad personal habits. Believe it or not, treating millions of people who are chronically ill mostly because they do not know how to live a healthier life costs hundreds of billions of dollars every year. Most of this money could be saved, thereby reducing the overall costs of care.

Rewards for keeping people healthy

And here is how it would work. In the future, physicians would be employed by health maintenance facilities that would reward them financially for being proactive and successful in keeping their patients healthy. In the current system healthy patients are actually a problem for doctors who make money only when they can provide services. In the future, healthy people who stay healthy should become symbols of medical achievement.

In a sane world we want healthy people to stay healthy. Think about it. The individual is in good shape, feeling healthy, strong and energetic. She or he can devote all their energies to leading a productive life, as opposed to worrying about diabetes and hypertension.

Costs would go down

As a result of a well structured national education program focused on wellness, the total cost of health care delivery would fall dramatically, because the millions of chronically ill patients who drive up the costs would eventually become healthy and therefore in no need of constant, expensive medical attention.

Below you can see practical illustrations of how wellness and prevention programs will help contain health care costs. The compilation listed here is drawn from various sources. Keep in mind that the figures provided about cost savings are estimates. They may be inaccurate.

Still you will get an idea of the cause and effect connection between changed personal habits coupled with intelligent prevention programs and significant cost savings for the entire U.S. health care system.

Wellness programs and prevention save money

- *For every HIV infection prevented, an estimated \$355,000 is saved in the cost of providing lifetime HIV treatment.*
- *A proven program that prevents type 2 diabetes may save costs within three years. One of every five U.S. health care dollars is spent on caring for people with diagnosed diabetes. People who increased physical activity (2½ hours a week) and had 5 to 7 percent weight loss reduced their risk of developing type 2 diabetes by 58 percent regardless of race, ethnicity, or gender.*
- *A 5 percent reduction in the prevalence of hypertension would save \$25 billion in 5 years.*
- *Annual health care costs are \$2,000 higher for smokers, \$1,400 higher for people who are obese, and \$6,600 higher for those who have diabetes than for nonsmokers, people who are not obese, or people do not have diabetes.*
- *A 1 percent reduction in weight, blood pressure, glucose, and cholesterol risk factors would save \$83 to \$103 annually in medical costs per person.*
- *Increasing use of preventive services, including tobacco cessation screening, alcohol abuse screening and aspirin use, to 90 percent of the recommended levels could save \$3.7 billion annually in medical costs.*
- *Medical costs are reduced by approximately \$3.27 for*

every dollar spent on workplace wellness programs, according to a recent study.

- *Dietary sodium is linked to increased prevalence of hypertension, a primary risk factor for cardiovascular and renal diseases. Cardiovascular disease alone accounts for nearly 20 percent of medical expenditures and 30 percent of Medicare expenditures.*
- *Reducing average population sodium intake to 2,300 milligrams per day could save \$18 billion in health care costs annually.*
- *Tobacco use accounts for 11 percent of Medicaid costs and nearly 10 percent of Medicare costs.*
- *Tobacco screening is estimated to result in lifetime savings of \$9,800 per person.*

Prevention increases productivity

- *Indirect costs to employers of employee poor health—lower productivity, higher rates of disability, higher rates of injury, and more workers' compensation claims—can be two to three times the costs of direct medical expenses.*
- *Asthma, high blood pressure, smoking, and obesity each reduce annual productivity by between \$200 and \$440 per person.*
- *Workers with diabetes average two more work days absent per year than workers without diabetes.*
- *Absenteeism costs are reduced by approximately \$2.73 for every dollar spent on workplace wellness programs, according to a recent study.*
- *Research from the Milken Institute suggests that a modest reduction in avoidable risk factors could lead to a gain of more than \$1 trillion annually in labor supply and efficiency by 2023.*

Wellness programs are the solution

Anyway, you get the picture. The point here is that U.S.

policy-makers need to understand that as long as they battle with one another trying to determine who will pay what part of a horrendously flawed system there will be no real transformation. Only some more patches to an inherently bad system.

Re-frame the health care debate

As a society we have to recognize that we really have to change our parameters. We have to understand that it is absolutely essential to teach people how to stay healthy, as opposed to spending 18% of our GDP to treat armies of chronically ill citizens who could learn how to practice good habits that would keep them healthy.

Facing Low Oil Prices Exxon Is Looking For New Strategies

WASHINGTON – Major oil companies are in deep trouble. Too much global supply means lower crude prices. If this continues –and there is every little evidence that it will not– this means that large exploration projects in far away lands that typically require large up front investments may no longer have economic justifications. Simply stated, these projects mean too much money invested now for potentially weak or even negative returns years from now.

Move into shale

Hence the decision just announced by the new Exxon leadership to invest more in the U.S. shale oil sector. This move would require lower up front capital investments, as opposed to the traditional focus huge on large “conventional oil” exploration

ventures, many of them off shore operations, which may cost billions over a number of years before they become operational. It is hoped that this move into U.S. shale would create greater operational flexibility, since shale wells do not cost that much and can be “turned on or off” fairly quickly, depending on global demand and supply fluctuation.

This is how *Oil & Energy Insider* (March 3, 2017) describes the move:

“Exxon goes big on U.S. shale. New ExxonMobil (NYSE: XOM) CEO Darren Woods gave his first presentation to investors this week, where he outlined a strategy to step up investment in U.S. shale. Exxon will allocate a quarter of its 2017 budget to short-cycle shale projects. The move will help the oil major navigate an uncertain market, as cash can be returned to the company much quicker from shale drilling than it can from the major offshore projects that Exxon has long been accustomed to. Still, Exxon will move forward aggressively on its large offshore discovery in Guyana, hoping to bring it online in the next few years. “

Diversify

So, here is the thing. Exxon is trying to diversify its energy portfolio. It will continue work on existing “conventional oil” projects. But it will try to mitigate the risks associated with large commitments to new expensive projects in a volatile and downward trending crude prices environment by buying more into the less risky U.S. shale sector.

I say smart move. However, it may just not be enough. In part thanks to the U.S. shale oil revolutions that began in earnest about a decade ago, there is just too much crude supply world-wide.

It may not work

Hard to believe that OPEC’s oil price support efforts –its

decision to cut production, somewhat— even if aided by similar production cuts enacted by Russia and other non-OPEC producers, will manage to put a real floor on oil prices.

Good luck to Exxon. It really needs it in order to protect its position as an American oil giant.

No Economic Growth Without Clear Property Rights

WASHINGTON – The almost unanimous mission statement of key International Financial Institutions (IFIs) devoted to development, along with national development agencies and their many private and public sector partners is that they are all united in a major effort “*to fight poverty*”, or at least “*reduce poverty*” around the world. Well, may be so. But if this is indeed their goal, they are not focusing on one of the most important issues –may be the most important– that prevents poor countries to get out of poverty.

Not what you think

And it is not what you think. The issue is not insufficient health care services, poor education facilities, or gender inequality. Nor is it insufficient resources devoted to international aid. It is something completely different –and perhaps surprising for both analysts and practitioners.

The issue is property rights, in fact lack of properly defined, universally recognized and enforceable property rights.

Such property rights are clearly defined and codified in

modern capitalistic economies. But in most emerging countries their legal status is uncertain, very messy and confused. This creates huge impediments in buying and selling property.

Indeed it is hard and in most cases outright impossible to sell what you do not legally own. Furthermore, all these assets with no legal standing cannot be used as collateral when requesting commercial loans.

The problem is not poverty

Simply stated, in poor countries the main impediment to economic growth and therefore higher standards of living, is not lack of wealth, as in crushing poverty.

The problem is instead that most emerging markets lack the recognized legal frameworks and regulatory arrangements regarding property and its legal status that are common place in most modern countries.

According to economist Hernando de Soto, (*The Mystery of Capital*, published in 2000), the key to understanding under performing economies and therefore continuing poverty is not lack of wealth as an objective impediment.

The problem is that the existing real estate and industrial/commercial ventures assets –and the not insignificant wealth they contain– in most cases are not legally owned by those who control them. Therefore they cannot be mobilized and leveraged by their “owners” in order to spark new investments and thus additional growth. They are therefore “dead assets”. And for this reason they cannot be mobilized to obtain financing that would promote significant new economic development.

A big deal

Is this lack of modern property laws and regulations shared by most developing countries really a big deal? Yes, it is.

Let me expand on this. In the U.S. in Europe and elsewhere there are clear laws that provide a legal framework for real estate ownership and related transactions. These laws regulating property rights (with universal applicability within a country) created accessible inventories of all real estate assets. They prescribe how deeds held by property owners should be formulated, what a title to a property is and how it is legally obtained. They also clearly indicate which public agencies are the official repositories of all deeds and titles. As a result, all the real estate existing within any country's borders is properly accounted for, while all transactions (buying, and selling and more) related to it is a matter of public record.

A uniform legal system regulates property rights

The point here is that in developed countries all records of who owns what are compiled according to one standard formula, this way creating one system that captures all assets and all transactions involving them. These standardized records in turn become accessible public documents that clearly define the nature and boundaries of a property and allow anybody to reliably trace its lawful owners.

Legally owned property can be mobilized

But this is only half the story. The truly important consequence of this uniform legal treatment of property is that, by virtue of having such a system in place, real estate becomes a "live asset" that can be easily bought and sold and rented at market prices.

Most critically, property becomes an asset that can be used as guarantee and collateral for commercial loans and mortgages. Lenders can determine the market value of these assets on the basis of publicly available information regarding their size, locations and other attributes.

Furthermore, owners of large businesses can sell parts of

their assets and receive fresh capital by creating corporations that own the assets and therefore can legally issue shares. This way, new shareholders can “own” a fraction of the assets controlled by the corporation without any need to subdivide the assets controlled by it.

None of this in emerging countries

In emerging countries, almost none of this exists. There are some rules regulating property; but they are not uniform. They are murky and usually recognized only in a specific locality. Outsiders do not know them and do not understand them. All this means that property cannot be easily and reliably bought and sold on the basis of market prices. Hard to buy from someone who has no legal title on the asset in question. The buyer has no guarantee that henceforth he will indeed be recognized as the lawful owner.

Besides, most loans that require real estate as collateral, as well as other transactions based on the ability to offer solid guarantees to lenders or business partners, are off-limits to most property owners, for the simple reason that most people do not “legally” own what they have.

Squatters have no rights

Let me explain. The “owners” do occupy and use property, a building for instance. May be they built it themselves. But they have no legal title to the land on which the building sits, or to the building itself. In most instances they are squatters who built something illegally. Therefore, since they did all this outside any prescribed law, they cannot use the wealth they do have and control –however modest this may be– as collateral that would be accepted by banks in order to get a loan. De Soto correctly calls these assets “dead capital’.

This is critical

Now, how important is all this? very important. Indeed, we all

know that commercial credit is the yeast of all modern capitalist economies. It is really hard to think of economic growth without the lubricant and fertilizing power of commercial loans.

But almost all loans that require collateral are beyond the reach of most would-be borrowers in emerging countries. This has the effect of a huge wet blanket on economic growth. How can a small entrepreneur borrow from a bank to finance its expanding business if he/she cannot offer any collateral? very simple: they cannot.

Informal sector does not help

Of course, other means to obtain credit may be available within the informal economic sector, (think “loan sharks”), but they are generally extremely onerous in terms of short repayment terms and exorbitant interest rates. Therefore these instruments are in most cases unappealing.

It is clear that these types of “loans” can hardly become the main engine of economic growth serving the purpose of funding promising new enterprises as is the case in most advanced economies where commercial loans are routinely provided by established banks.

How much “dead capital”?

And how much “dead capital”, (meaning capital that does exist but cannot be leveraged), are we talking about? Well, according to de Soto’s book cited above, an enormous amount:

“By our calculations, [de Soto and his team worked in several countries in order to conduct their research] the total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least \$ 9.3 trillion”.

“This is a number worth pondering: \$ 9.3 trillion is about

twice as much as the total circulating U.S. money supply...It is more than twenty times the total direct foreign investment into all Third World and former communist countries in the ten years after 1989, forty-six times as the World Bank loans of the past three decades, and ninety-three times as much as all development assistance from all advanced countries to the Third World in the same period".

(NOTE: Data cited in de Soto's book goes up to the year 2000. Since then the picture may have shifted somewhat. But there has been no dramatic transformation, because in most developing countries property is still held mostly without proper legal title. Therefore, it still cannot be used as collateral for commercial loans and/or any other form of financing).

These are truly amazing figures. Yes, poor countries are poor. But not as poor as we would generally think. The problem is that whatever wealth most individuals hold in these countries, it cannot be used as a legally recognized asset; and therefore it cannot be leveraged. This is a major impediment to growth.

Working hard is not enough

It should be stressed that this impediment originating from lack of legal status of so much property has nothing to do with how much or how hard people work in these countries. In poor countries many people do work hard, and they do acquire assets.

The problem is all about the failure to create a modern property laws system that would allow citizens in developing countries to gain legal title to what they own, this way transforming large amounts of "*dead capital*" into "*live capital*".

Priority one

In the light of de Soto's remarkable findings, a

legal/regulatory/administrative effort leading to clear and enforceable property rights should be priority one for both governments and donors who want to enhance economic growth in developing countries.

You want to eliminate poverty? Well, begin with breathing real life into (now anemic) commercial lending backed by real estate as collateral. And this starts with creating a rational and transparent property rights legislation and system that will allow business people to a) gain title to what they own, and b) be able to borrow in order to grow their enterprises, offering their now “live assets” as acceptable collateral.

The Obama Foreign Policy Record

WASHINGTON – The almost universally accepted narrative dished out daily by the serious, high brow U.S. media is that come January 20, 2017, with Donald Trump as President, we shall have 4 years of “*Amateur Hour*” in U.S. foreign policy. This dismal prospect is of course a far cry from the thoughtful, insightful and properly balanced foreign policy agenda expertly crafted and implemented by President Barack Obama and his top-notch foreign and national security policy team.

The incompetents are taking over

We are told by savvy analysts that, all of sudden, from reliable, steady competence that –as we all should know– raised American prestige worldwide, we shall plunge into an abyss of policy mayhem stirred by dangerous ignorance mixed

with laughable (or dangerous) braggadocio, with a stupendously unqualified Commander in Chief at the helm.

Condescension

This narrative is another expression of the Olympian condescension of the perennially entitled leaders of the Washington foreign affairs establishment. They simply cannot get used to the reality of a complete outsider, with no real hands-on experience in this field until now reserved to few insiders, now in charge.

Trump is inexperienced

True, Trump is inexperienced. He may indeed fail in foreign policy, and we should not take this prospect lightly, as there are bound to be consequences. On the other hand, he may not fail, after all. Trump will have a team working for him. Most of the people he picked thus far have considerable international and national security experience.

Right mix?

That said, has he chosen the right mix of people? Even more important, when confronted with difficult decisions, in murky situations when there is no obvious right policy choice, will Trump have the right instincts? Will he manage to safeguard—better yet, advance—the American National Interest? Quite frankly, we do not know yet. Time will tell.

Obama's record

However, while we can only speculate about the future, we do know a great deal about the Obama Team foreign policy record. And, no, it is not stellar. Contrary to the official narrative, the supposedly expert hands that have been in charge until now are not shining stars. And Obama is no great leader when it comes to directing U.S. foreign affairs. Hesitation, mixed messages and retreat have defined American

foreign policy under his stewardship.

Now, after George W. Bush's profoundly ill-advised pro-democracy enthusiasm which led America into two horrendously costly and mostly unsuccessful wars –Afghanistan and then Iraq– a new foreign policy guided by restraint was indeed a welcome change after the 2008 elections. But there is a huge distinction between careful, calculated withdrawal behind defensible lines, while spelling out U.S. continuing strategic priorities, and policy confusion leading to retreat.

Allowing chaos in Iraq

In Iraq, President Barack Obama used Baghdad's intransigence regarding the legal status of U.S. troops which would stay on after December 2011 as a good excuse for ending the negotiation with then Prime Minister Nuri al-Maliki. With no deal with Baghdad in place, the U.S. pulled completely out of Iraq at the end of 2011.

At that time Iraq was a relatively stable but still fragile and politically split country (Sunni in the North, Shia in the South) in which America had invested an enormous amount of resources. Pulling out completely while the wounds had not healed was an ill-advised and in the end horribly wrong decision.

To this day, President Obama claims he had no choice, given the uncooperative stance of the Baghdad government. But this is nonsense. If the Obama administration really wanted a deal with Prime Minister al-Maliki that would have allowed a substantial U.S. military presence after 2011 it would have found a way to get one.

Get out

The fact is that Obama wanted out of Iraq, entirely for domestic political reasons. He wanted out of Iraq in order to show to the American people that he had made good on a major

campaign promise: he had brought all the troops home. And, in fact, later on he repeatedly bragged about this “accomplishment” represented by the closing of the Iraq War chapter. Which is to say that concerns about Obama’s popularity at home caused America to essentially abandon a country in which it had invested years, hundreds of billions, and so many lives of killed U.S. soldiers.

Could sizable American troops stationed in Iraq have prevented the steady descent into chaos that followed their departure? We do not know for sure. But it is not far-fetched to believe that they could have helped keep things together.

Belated U-turn in 2014

That said, Obama was forced to make a complete U-Turn on Iraq when this deeply divided country was confronted with an invasion masterminded in 2014 by the Islamic State, or ISIL from its bases in Eastern Syria. A massive invasion, by the way, that the sophisticated Obama intelligence leaders never saw coming.

With no U.S. troops on the ground, (thanks to Obama’s complete troops withdrawal decided back in December 2011), ISIL breezed, mostly unopposed, into Northern Iraq. In a matter of days it took over Mosul –the second largest city in the country– and the entire North West of Iraq. An eyewitness quoted by *The Guardian* said that:

“The city [Mosul] fell like a plane without an engine. They [ISIL] were firing their weapons into the air, but no one was shooting at them.”

Beyond taking over Mosul, ISIL captured vast amounts of cash and a huge arsenal of U.S. supplied weapons and material, simply because the Iraqi troops had run away.

So, here is the upshot regarding Obama’s record on Iraq: U.S. troops out; ISIL in. The Caliphate takes over 1/3 of the

country within days. America forced to move back in. But slowly and with hesitation. Meanwhile, militias funded by Iran spread through the country. This is complete policy failure.

Surge in Afghanistan?

In Afghanistan, President Obama started with an almost comical public debate in the Fall of 2009 (first year of his mandate) about what U.S. policy should be regarding the continuing Taliban insurgency. Obama finally ended the deliberations in November 2009 with a commitment to a "Iraq-like" surge in Afghanistan. But it was a surge accompanied by a publicly announced withdrawal timetable.

Yes it was just like that. Washington would send additional troops aimed at stabilizing this perennially chaotic country; but only for a short while. How ill-advised. You go to war not to shoot around a little bit, and then go home. You go to war to win. Or you do not go at all. Result? 20016 is over and the war in Afghanistan is still going on. This is another failure due to Washington's indecisiveness and half measures.

Get rid of Ghaddafi

Then there was Libya, and the ill-conceived idea of toppling dictator Ghaddafi, without even a thought of a game plan about what to do afterwards. Result? Ghaddafi was toppled and he is certainly dead. But so is Libya, now a failed state torn apart by various warring militias. This is failure number three.

Hesitation about Syria

And what about Syria? in 2011, at the beginning of the Arab Spring, President Obama declared that President Assad heavy-handed repression of initially peaceful pro-democracy demonstrations was intolerable. Assad, Obama declared, "*had to go*".

Strong words. However, this clear statement of a U.S. policy

objective –nothing but regime change would do for Syria–lacked even the semblance of a policy aimed at obtaining the outcome: make Assad go.

This incoherence between grandiose objectives and no policy to implement them was only the beginning of a half-hearted U.S. policy in support of some factions within the Syrian opposition.

Military planners should know that a little bit of support is not enough. In war, either you are in or you are out. Even if your method is to support the opposition, as opposed to sending your own troops, you have to be with them all the way. Support to your side in the conflict has to be decisive. The objective must be victory.

Media criticism

Well, even the serious usually pro-Obama media, after years of U.S. half measures, recognized that Syria is a huge policy failure for Obama. this is a BBC analysis dated October 2015:

“[Regarding Syria] the philosophical discussion at the White House was heated and fierce, leading to stalemate, not resolution.

For years Obama and his deputies refused to say categorically: we’re not doing this. Instead a decision was postponed.

Four years later, the result is a splintered Syrian opposition, the growth of the Islamic State group and a humanitarian disaster stretching across Europe.

Last year, in a move that was more symbolic than serious, Obama asked Congress for money to fund a programme allowing US personnel to teach rebels marksmanship, navigation and other skills.

The goal was to train about 15,000 rebels in Jordan and other countries so they could return to Syria and fight. However, US

defence officials admitted last month [September 2015] that only four or five of the recruits in the programme had actually returned to the battle."

It ended badly

And this was the BBC, a fairly sympathetic voice. A year later, things got only worse. The result of years of U.S. policy confusion and half measures is a semi-destroyed Syria, Russian massive intervention in support of Assad, the Iranians and Hezbollah firmly planted there, a defeated opposition just driven out of Aleppo, not to mention untold numbers of dead people and millions of refugees. And now, a new ceasefire was arranged by Russia in partnership with Turkey and Iran. The U.S. is not even at the table. Talk about American retreat. This is a colossal policy failure.

ISIL in Iraq

And then there is ISIL in Iraq, the worst consequence of the U.S. total military withdrawal from the country it had invaded back in March of 2003. In a speech to the Nation, on September 10, 2014, President Obama sounded really tough about ISIL and the threat that it represented for the region and indeed the world.

He declared that: *"Our objective is clear: we will degrade, and ultimately destroy, ISIL through a comprehensive and sustained counter-terrorism strategy"*.

It sounded that America really meant business. To begin with, Obama told the world that Washington had assembled a powerful coalition of 66 countries. Impressive? Not so much. If you care to dig just a little bit, you discover that this unbeatable anti-ISIL Armada includes heavyweights like Luxembourg, Somalia, Iceland, Bosnia, Bahrain, Romania, Cyprus, Estonia, Panama, Montenegro, Latvia and Albania. Are you still impressed?

Painfully slow progress

And the American military effort has also been modest. Two years later, while there have been significant successes against ISIL, we are still not done. Coalition supported Iraqi forces, (by the way this would also include support from Iran) are getting closer to Mosul; but they are still far from retaking it and eventually driving ISIL out of Iraq, let alone “destroying” it, as Obama pledged.

This is almost inconceivable. ISIL is a bunch of nasty thugs who use barbaric methods. But ISIL is not the German Wehrmacht smashing France, or the Japanese Imperial Army conquering Manchuria or the Philippines. It is a rag-tag, third-rate military force. It is unbelievable that America, with the largest and most technologically advanced military force in the world, could not destroy the self-proclaimed Islamic Caliphate in a matter of weeks.

To the contrary, a recent *Washington Post* story indicated that this battle against ISIL is going to be long slug:

“.[...]But a full offensive to retake the city [of Raqqa, de facto capital of ISIL] could still be months or more away, despite hopes in Washington that an operation to take the Islamic State’s most symbolically significant stronghold would be well underway before President Obama left office.”

This slow and uneven progress is the military outcome of policy confusion and partial military engagement. Despite Obama’s clear commitment a couple of year ago, the mighty U.S. still has not managed to “*degrade and ultimately destroy ISIL*”.

Pivot to Asia?

And there are many more examples of grand plans that yielded little. Consider the pivot to Asia. Nice idea; but little to show in terms of results. Suffice to say that China, just as

America publicly committed to shift its policy focus on Asia, has managed to increase its sphere of influence throughout most of the South China Sea –essentially unchallenged.

True, the Obama administration made all the right noises when confronted with the evidence that China is busy building up and militarizing small islands scattered across the South China Sea that it occupied with the bogus justification that these rocks (some of which do not even qualify as “land” according to international law) have always been under Chinese sovereignty.

The Obama administration has not been able to challenge this creeping Chinese expansion, nor has it been capable or willing to persuade the Chinese to retreat and get out.

Iran

I am purposely leaving out of this analysis the Iran nuclear deal, because it is a lot more complicated than these other issues, and because in Iran’s case the Obama administration acted with purpose towards a fairly clear policy objective: freeze the Iranian nuclear program. And this objective has been reached. While there are many vocal critics of the deal, none of them seem to have a better plan. Just getting out of a “bad deal” without having anything to replace it will not yield better outcomes.

Obama’s retreat

Anyway, you get the picture. Clearly, it is always easy to point out foreign policy failures with the benefit of hindsight. Of course, it would be completely unfair to blame Obama for an Arab World in chaos, and other major troubles.

Still, the net result of Obama’s 8 years in office is not stellar.

All in all, U.S. policies regarding Iraq, Afghanistan, Libya,

Syria and ISIL reveal a pattern of hesitation, in fact genuine confusion, and the inability to define, articulate and pursue what in Obama's mind is the U.S. national interest.

What U.S. retreat signals to the world

It would be disingenuous to conclude that all these failures, mixed messages and retreats from the world stage do not matter, because America after all is still the most powerful country on earth.

It is obvious that other political leaders around the world look at both American military capabilities and American political will. If they conclude that America lost its will, its powerful military forces will not deter as much as they used to.

Will Trump be better?

In the end, it is perfectly alright to express doubts about President-elect Trump ability to articulate a mature U.S. foreign policy. Still, the idea that come January 20 2017 the rowdy, clueless children are taking over, while the thoughtful grown ups have been driven out of the room is nonsense.

Quite frankly, if the poor Obama foreign policy record is the best the mature and experienced adults are capable of, then we may as well give the untested Trump and his team a chance.

Who knows, they may surprise us.

No Real Development Without Economic Growth – Part 2

WASHINGTON – International development practitioners focus on policies through which they can eliminate or alleviate poverty, the visible manifestation of underdevelopment, rather than planting the seeds that may foster self-sustaining economic growth and therefore true development –which is, by the way, the only proven way for any society to really get out of poverty. This “*poverty alleviation is our goal*” approach, while well intentioned, encourages the misallocation and outright waste of limited financial and human resources, all in the name of the noble cause of the “*fight against poverty*”.

Non sustainable projects

For instance, it is considered good policy to create “economic” activities in poor countries, whatever they may be, that will generate some new income for the poor. However, in the haste to make some positive changes happen now, donors all too often leave out any solid analysis of the reasonable chances for such activities to become self-sustaining after the donor initial funding and assistance is gone.

The consequence of incomplete analysis is that very substantial resources have been squandered in supporting non sustainable activities –all of them justified as honest, good faith efforts to reduce poverty. Unfortunately, quite often when the donors leave the poorly planned and under resourced activities collapse.

Focus on what it takes to produce sustainable growth

In fairness, absolute poverty creates so difficult an environment that it may very well be impossible to engineer within its confines any kind of meaningful economic enterprises. Indeed, there can be a legitimate debate about

what is really at issue: *“Poverty as lack of economic development”*, or *“The dreadful condition of poverty that, as such, prevents building the foundation for economic development”*.

True enough, it is obvious that the sick and the hungry, societies without clean water or electricity, along with refugees displaced by conflicts, cannot possibly engage in any meaningful economic development activity.

Relief alone will solve nothing

Still, if we focus most of our resources on improving what are very bad, sometimes horrible living conditions without recognizing the absolute necessity to create at the same time indigenous economic wheels and help them turn as soon as possible, at best we have delivered some measure of humanitarian relief. To be sure, relief has a positive impact in reducing the impact of poverty, or at least its worst consequences in terms of disease, malnutrition and overall hopelessness.

But in so doing we will not have caused any meaningful qualitative transformation. Qualitative change leading to real development must include the creation of a workable process through which societies are able to chart a path towards self-sustaining economic growth.

Poverty is reduced through self-sustaining enterprise

Contemporary examples reinforce this fact. Structural changes encompassing laws and incentives rolled out by governments in some important poor countries greatly improved the *“enabling environment”* for wealth creating activities, some of them supported by foreign investors. These policy changes have had the consequence of allowing millions (tens of millions in some large countries) to be more productive ***and thus lift themselves out of poverty through their very own engagement in wealth creation activities that in preceding times were not***

accessible to them.

China and India

The different stories of economic growth in China and India in the past twenty to thirty years have been told many times.

But it is important to stress here that the activities of donors and aid programs have had very little impact on the gigantic, systemic policy changes which fostered growth in both India and China. The key factors that unleashed huge creative energies have been economic liberalization policies that allowed and indeed encouraged people in China and India to become more productive, to invest in education and new enterprises, and make money without penalties or fear of being dispossessed.

in China and India significant poverty reduction has been the byproduct of almost unprecedented rates of economic growth made possible by policies that fostered the creation of new enterprises. It has nothing to do with donor-assisted policies which had poverty reduction as their primary goal.

It is all about successful wealth creation.

Donors do not like to focus on economic growth

But, somehow, the notion of economic growth as the primary goal of development does not appear to be a noble enough purpose. At least for some development practitioners, economic growth conveys the images of rapacious businessmen, outrageous profits, corrupt practices, wheeling and dealing, profiteering, cronyism, child labor, domestic and foreign exploitation perpetrated by the unchecked powerful; and –worst of all– it means accepting growing economic disparities within societies.

Some of these critiques are justified. Unfortunately, some of these problems are often part of the picture within struggling

societies that just embraced entrepreneurship, at least to some degree.

It is true that economic development, while crucially important, rarely occurs in a linear, harmonious fashion, with gradual, well-distributed benefits for all. To the contrary, it is a messy affair, especially in developing countries that usually lack the well-oiled framework of laws and effective institutions that should at least limit excesses and protect people from injustice.

Economic growth is a messy process

However, the existence of significant flaws in how economic development occurs does not disqualify the basic proposition of wealth creation as a precondition for any lasting improvement in the human condition.

In fact, unless we postulate really large-scale, donor-led activities *in perpetuity*, there is no other way to reduce and eventually eliminate poverty. There just isn't.

But many development practitioners are unconvinced. Many of them, contemplating the negative aspects of uneven economic growth, affirm that, unless this process can be properly regulated to ensure harmonious growth and fairness, then it is better not to have it all. So there you have it: better all poor but equally poor, if the alternative is wealth, but just for some.

Development practitioners often lack a business background

The inability to put economic growth front and center in the framing of development agendas in part can be explained by the cultural make-up of the practitioners.

The development industry is managed mostly by civil servants and functionaries who work for public donors: state-run development agencies or multilateral development institutions.

In the U.S. many of them are former Peace Corps volunteers, essentially lay missionaries who see development as moral duty to help the poor.

These professionals are flanked by large, religious or lay, private charities. For all of them, development is a mission, not a policy goal that requires the mobilization of indigenous resources in an economically productive way.

Bottom line: most of them are not business people.

As a rule, all these practitioners do not know or understand business and what it takes to make economic growth happen and flourish. For many of them, their primary mission is fighting poverty. They view this as a moral, noble endeavor for the good of mankind.

Teaching people how to make a profit in a competitive environment – the indispensable lever for economic growth– is viewed as promoting self-centered and egotistical drives, therefore not at all a laudable effort. In fact many see it as morally questionable.

Poverty reduction alone will not do it

However, lacking a clear focus on economic growth as the paramount strategic objective, the goal of achieving development through poverty reduction is likely to be an endless and quite frankly fruitless task. True, with all these efforts, the poor may become a little less poor, but they will not learn much about how to become self-sufficient through engagement in money-making enterprises.

Asia grows, while donor-supported Africa does not

Asia reduced poverty largely through the elimination of artificial barriers to economic activities, while at the same time promoting education as the ticket to gaining marketable skills, and therefore access to better jobs and a better life.

On the other side of the divide, we have the sad story of Africa as the paradigm of what has gone consistently wrong, ***despite decades of well-meaning, donor-led efforts aimed at reducing poverty and improving overall conditions.***

Whatever has been tried, it failed to create, (with few exceptions, of course), an environment in which enterprises could flourish, with the attendant positive outcomes of sustainable wealth creation activities and consequent diminution of poverty.

This massive failure, compared with the success stories driven from within Asian societies, should provide enough material for reflection on the validity of the current approach.

Still, as yet, this reappraisal has not taken place. Donors are still "*fighting poverty*"; instead of creating solid foundations for sustained economic growth.

No Real Development Without Economic Growth – Part 1

WASHINGTON – International development is generally defined by practitioners of this craft as "*the fight against poverty*". I totally disagree with this approach that focuses on poverty, the practical manifestation of lack of economic growth, instead of dealing with the real problem that I define as: "*What does it take to get sustained growth, since growth is*

the prerequisite for economic and social progress in all societies”? Fighting poverty is about fighting the symptoms, the practical manifestation of a lack of economic growth. What we want is healthy, productive societies that will create more wealth, and thus more widespread well-being. More growth means less poverty.

Fighting poverty

Indeed, how an issue is defined goes a long way in shaping the nature of the efforts aimed at dealing with it. And, in this instance, the definition of both the problem and the solution is wrong. As I said above, the broad objective of the international development community vis-a-vis poor countries, (politely described as lesser developed countries), has been defined as *“poverty reduction”, or “the fight against poverty”*.

The World Bank, the most important multilateral lending institution focusing on development, is *“Working for a World Free of Poverty”*. Its Mission statement is *“To fight poverty with passion...”*

So, poverty as a condition, rather than promoting sustainable policies that will allow societies to get out of poverty for good, is the focus of donors’ attention.

Public relations

To some extent, this emphasis on *“fighting poverty, or “poverty alleviation”* is simply public relations. It is an attempt to deflect the critiques of the anti-global movement that, years ago, while elaborating its bizarre conspiratorial theories that would capture the root causes of all the planet’s ailments, bunched together the World Trade Organization, the International Monetary Fund, the World Bank, and Multinational Corporations. It defined all of them as a clique of demonic players working together to further mankind’s misery in general, and the exploitation of the third

world in particular.

Hence the pressure on the maligned “*development industry*” to do something in order to improve its image. It tried to do this by presenting to its critics noble institutional objectives that would humanize their institutions. “*Hey, Mr. & Ms. No Global, you are mistaken. We are the Good Guys. We are with you. We are fighting poverty. We are completely focused on helping the poor. There is no other agenda*”.

Christians ethics encourage giving

Undoubtedly there are other cultural/religious factors that can help explain this “*fight against poverty*” focus. At least to some extent, the Good Samaritan attitude stems from religiously derived ethics formulated by the Christian cultures that shaped the values, and therefore policy propensities, in many of the Western countries which “invented” the development industry.

Indeed, if we go back to the roots of this humanitarian approach, we see that over the centuries within Christendom we have seen the proliferation of a vast universe of charitable initiatives –many of them organized and run by religious institutions– aimed at aiding the poor.

Within Christianity, the moral obligation to give to the poor is the other side of a parallel moral bias against excessive wealth ever present in Christian ethics. The remedy to social inequality is for the rich to give away some of their (ill-gotten?) excess wealth to the poor, sometimes called “the less fortunate”.

But, in general, the Christian moral obligation to give to the poor was never aimed at having a truly transformative economic and social impact. It was meant as a good deed that would somewhat alleviate the painful conditions deriving from a state of poverty which was, however, considered to be a permanent feature for some segments of society.

Plenty of relief activities that are not transformative

At a different level, it is difficult to evaluate the deep motives of modern day wealthy philanthropists who contribute to relief initiatives, whether defined as “poverty reduction” or otherwise. But it would appear that the likes of Bill Gates fall pretty much in the same category of those who attempted to redress and alleviate.

For instance the children immunization goal pursued, no doubt very competently, by the Bill & Melinda Gates Foundation, noble as it is, taken by itself, is not transformative. True enough, immunized children in Africa will not die of common diseases. But chances are that, unless other critical changes will take place within their societies, they will be alive but still condemned to a miserable (and short) life of abject poverty.

(This approach based on partial interventions that do not help economic development may be changing. The Gates Foundation and other wealthy donors are now shifting to initiatives aimed at fostering the creation of opportunity in poor countries, for instance through upgrades in education. They begin to appreciate that a new mind set, new values and new skills can and should be the foundations for wealth creation activities that will help transform these societies).

Poverty as “bad luck”

More broadly, the issue of poverty is really not well understood in Western Christian culture. So much so that it has been explained away. Historically poverty has been regarded as a product of bad luck for some that can and should be somehow mitigated through faith-inspired charity performed by the rich. Indeed, even today in polite company in the Western World the poor are often described as “*the less fortunate among us*”.

Let’s think about it. We, the well off, “*have*” because we have

been fortunate. The poor, alas, less so. Again, words have meaning. According to this definition, our economic station in life is determined by having been more or less “fortunate”. Which is to say that the possession of material wealth is all about random distribution of luck. The poor happen to be poor because –look at that– they have been less fortunate than we have.

Successful capitalism has nothing to do with luck

At some level this is true, especially in the case of children. Some are born in rich circumstances and some are born poor. Clearly those who were born in privilege have an enviable head start in life.

But this is only a small slice of reality.

Please, consider this. Most millionaires in the U.S. are self-made people, as opposed to being mostly “lucky” beneficiaries of inherited wealth. This means that an open economic system, protected by laws and independent courts, free institutions, transparent rules and no artificial barriers to entry, encourages people to try and forge a better life for themselves.

It is abundantly clear that all this has nothing to do with “being fortunate”. And yet the use of these misleading definitions distracts us from confronting the real issues.

Poverty will be eliminated through successful enterprise

Poverty is mostly about the bad combination of lack of education, lack of capital and economic opportunity, and lack of entrepreneurial drive – all of them necessary preconditions to start and fuel wealth creating activities.

If we do not tackle these issues –education, opportunity, entrepreneurship– by creating at least an embryo of the institutional eco-system that opens up opportunity and by

instilling the will and the ability to create enterprise, we shall continue to provide humanitarian relief to the poor, without offering a realistic new path to growth.

Borrowing from the old story about the qualitative difference between giving somebody a fish and teaching them how to fish, to date the fish hand outs continue, while the fishing schools are scarce, or non existent.

The eco-system

Even the most superficial analysis shows that wealthy societies did not become wealthy because of random circumstances; because people who live there won a major lottery.

Leaving aside all the defects of capitalism, at a macro level capitalistic economies have been successful because the institutions created by capitalistic societies allowed –or better yet promoted– a reasonably good functioning of the engines of wealth creation mobilized and run by private initiatives. As a result of the productive activities created through these engines, poverty, at least extreme poverty, has been eliminated.

Which is to say that prosperity is the outcome of a mind set focused on wealth creating activities on the part of many inventors, innovators and risk taking capitalists. They create the businesses that create employment and therefore more prosperity. The aggregate outcome of all these efforts, consisting in a vastly improved standard of living for most, has nothing to do with “being fortunate”. it is all about being creative, industrious and persistent.

Relief as opposed to growth

But this is not how the issue is framed by the development community. The development practitioners have identified “poverty elimination or reduction” as the core development

mission.

In so doing, wittingly or unwittingly, they focus (*and make us focus*) mostly on the effect of lack of economic development (poverty) and what we should do about alleviating it through donations and relief activities, rather than on a credible way out of it that can only be centered on a viable economic development agenda fully owned and promoted by the people who live now in poor countries.

(See the rest and conclusion in Part 2, to be posted tomorrow)

US Public Education In Crisis

WASHINGTON – The international student proficiency scores gathered under the auspices of the Program for International Student Assessment, (also known as PISA), tell us a sad story about the state of U.S. public education. Simply stated, compared to the rest of the developed world, US kids do poorly in math and barely within average in other key subjects. How can America remain the world economic leader in this hyper competitive global knowledge economy, when U.S. school children do not know basic math?

Debates but no action

And please note that this new (and rather depressing) PISA international ranking is not news. Previous PISA scores were very similar. And these mediocre to bad comparative test results come after decades of sometimes heated debates in America focused on the need to drastically improve U.S. public education standards. Which is to say that endless

deliberations yielded almost nothing of value.

Indeed the first loud warning about the state of U.S. public education came all the way back in 1983, with the publication of ***“A Nation at Risk: The Imperative for Educational Reform”***. This was a landmark report produced by then President Ronald Reagan’s National Commission on Excellence in Education.

We are not out of the woods

The publication of *A Nation at Risk* was supposed to be the wake-up call, the strong alarm bell that would force policy makers and civil society organizations to rethink and reorganize public education by improving standards and most of all the quality and preparedness of teachers.

Well, it did not work out that way. More than 30 years later, and notwithstanding good experimentation and some improvements, (think charter schools, for instance), we have yet to see major reforms implemented nationwide.

Hence the depressing performance of US kids in these international PISA scores, year after year.

How bad?

Well, how bad is bad? Here is an account of the PISA results as published in [US News and World Report](#):

“The 2015 Program for International Student Assessment, or PISA, study is the latest to document that American students are underperforming their peers in several Asian nations. The U.S. was below the international average in math and about average in science and reading. Singapore was the top performer in all three subjects on the PISA test.

More than half a million 15-year-old students in about 70 nations and educational systems took part in the 2015 exam. The test is coordinated by the Paris-based Organization for Economic Cooperation and Development, or OECD.

Here are the main things to know about the PISA exams:

Not so encouraging.

The test is based on a 1,000-point scale. Among the findings:

-In math, the U.S. average score was 470, below the international average of 490. Average scores ranged from 564 in Singapore to 328 in the Dominican Republic.

-In science, the U.S. average score was 496, about the same as the international average of 493. Average scores ranged from 556 in Singapore to 332 in the Dominican Republic”.

U.S. students: bad in math, mediocre in other subjects

So, here is the picture, the U.S. placed number 25 (out of 70) in science; 24 (out of 70) in reading proficiency; and 40 (out of 70) in mathematics.

Here is the conclusion: America is still very much a “Nation at Risk”. It is just amazing and indeed inexcusable that decades of talking about education reform produced at best minimal results. If America were a poor under developed country with no resources, we could understand this under performance. But this is still the richest country on Earth. Given this country’s resources –financial and intellectual– the protracted inability to fix U.S. public education is inexplicable.

Here is the real story

Or may be this anomaly can be explained, after all. U.S. mediocre to bad scores averages hide the fact that in America we have what amounts to a two tier education system. One good and the other bad, or very bad.

Indeed, state of the art schools (mostly private) are available for the children of the elites who, for good money, can buy the best education available. The poor and the

minorities (often one of the same) can access only mediocre or failing public schools. Not surprisingly, these under served students do poorly or very poorly in school. Indeed, some of them graduate from high school being functionally semi-illiterate. Some never graduate. If you combine good and very bad schools, the result is low average scores.

The elites are well served

The only conclusion here is that this surprising lack of interest in public education reform and improvements sadly stems from the fact that the children of the elites (the people who in the end make policy) are doing just fine, thank you.

As for all the others who are struggling, their learning conditions and dismal career and life prospects are not a national priority, it seems.

What a shame.