

# 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.

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## 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.

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**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.

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## **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)*

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## 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.

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## **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 underserved 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.

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## **Public Assistance Is A Curse**

**WASHINGTON – *“Continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human***

*spirit*".

### **Aid is bad for you**

This is a pretty accurate description of the long-term (unintended, we hope) consequences of well intentioned, government-funded economic welfare programs. Indeed, if all you do is to give aid for free, and with no time limit to needy people, you end up making them perpetual dependents.

Like it or not, by allowing disadvantaged people to get by without any personal effort, you kill their motivation to do their best to help themselves. Yes, if this is the substance of public assistance programs, relief becomes indeed a *"narcotic, a subtle destroyer of the human spirit"*.

### **Who said it?**

Well, agree or disagree, it is interesting to find out who said this. An easy answer would be Ronald Reagan, the somewhat romantic champion of unfettered free market capitalism, the high priest of celebrated American values centered on self-reliance, and indomitable *"do-it-yourself"* spirit.

According to Reagan, Americans do not want aid. No, they want freedom; so that they can take care of themselves, relying on their own efforts.

### **FDR warning**

But no. It was not Ronald Reagan who said this. Actually, it was President Franklin Delano Roosevelt. And he said this in 1935, when millions of impoverished Americans were still dealing with the devastating consequences of the Great Depression.

What? FDR, the Father of the New Deal, and of the beginnings of the U.S. Welfare State said that relief was a *"narcotic"*?

***Yes, he did. Which is to say that in a more enlightened era,***



***even those who created new public assistance programs in order to deal with emergency situations, understood that those programs should be limited in size and scope.***

But already long ago we forgot FDR's warnings. Now nowadays anybody aspiring to elected office will promise more and larger programs, for ever larger constituencies. And yes, whatever may be said officially, all voters are led to believe that the benefits will never stop. In fact, now the recipients assert that they are entitled to receiving them. Welfare and relief somehow have become new civil rights.

### **Bad policies inspired by political goals**

And so politicians administer free benefits/narcotics, even though many of them know full well that these benefits are *"destroyers of the human spirit"*. In fact, this may be the main reason why they spread them around so lavishly. Giving away all sorts of free goodies may help them at election time. (*"If you re-elect me, there will be more programs, just for you"*).

However, because of these ill-advised policies the fabric of the American society will be progressively eroded. Large armies of people relying on some form of welfare cannot be expected to be productive citizens eager to face challenges.

### **More of the same**

Yes, after decades of experimentation with ill-advised welfare programs which induce dependence, by now we should know that ***"continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit"***. Yes, all politicians should know this. And yet they continue promoting these policies and remedies.

I guess trying to get elected is a much more important goal

than promoting the public good.

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## Unhappy Americans Look for Culprits

**WASHINGTON** – The most visible impact of “*The Great Stagnation*” , (the title of Tyler Cowen’s book provides a good definition for this uninspiring economic era), is that many Western societies, including America, have lost whatever confidence they had in the ability of elected representatives to deliver steady economic growth, and therefore more prosperity. Hence a peculiar mix of revulsion and cynicism towards the “*political establishment that failed*”, and at the same time completely unrealistic confidence –almost blind faith– in would-be new, non traditional leaders who promise cost-free, total transformation –first and foremost the overnight rebirth of slow-moving economies.

### **Politicians do not deliver the prosperity they promised**

Regarding popular sentiments in the U.S., just look at the stunning outcome of a recent NBC/Wall Street Journal poll. Only 24% of all American polled indicated that the country is moving in the right direction, while 70% believe that we are headed the wrong way.

The problem is that most people, looking for the causes of an anemic economy, now believe that their own personal economic misfortunes are almost entirely attributable to the errors and/or misbehavior of corrupt or incompetent political leaders.

Hence the delusional hope, in many cases absolute certainty,

that if we finally “*throw all the rascals out*”, and replace them with genuine fresh talent, all will be well. Sadly, here we have a combination of bad diagnosis and delusional faith in an impossible cure.

### **Lack of innovation, constrained opportunities**

As Tyler Cowen explains in his book referenced above, the developed world is going through a bad patch of slow growth due lack of innovation. This means that there are very few new economic opportunities created by new technologies.

In the meantime, most Western societies, the U.S. included, are suffering because of the negative consequences of globalization. With hundreds of millions of Asians willing to work for far less money, millions of steady manufacturing and services jobs held by so many Americans migrated to Asia. No chance that these jobs will be coming back. I mean not a chance. Which is to say that anybody who promises to “bring our jobs back” is dreaming, or worse.

### **Who is guilty of all this?**

Anyway, no matter what the real facts are, this is what millions of Americans believe. **Number one:** most U.S. voters have lost confidence in the political and policy-making process as we know it, mostly because “establishment politicians” are unable to deliver improved economic standards. **Number two:** large numbers of voters – large numbers; but not majorities– are willing to take a chance on untested would-be leaders (businessman Donald Trump on the right, and Senator Bernie Sanders on the left) because they are perceived to be “good outsiders”, not tainted by the corrupt Washington establishment; even though one should note that, just like the old establishment politicians, both Trump and Sanders also promise great things at almost no cost. In fact, these brand new would-be Chief Executives promise much bigger and better things.

So, here we have a really bad combination of disgust about what exists and childish fantasies about what the next happy chapter is going to be. It is clear that there would be no *number two* (escapist fantasies about great, flawless leaders), without *number one* (excessive pessimism about the current political establishment).

### **Loss of confidence**

Number one is serious business. Millions of Americans are now convinced that this country is run by an insiders' game rigged by the special interests who pay for the election of candidates. Once in office, these puppets do exactly as they are told by their paymasters. The accepted story is that the innocent American people are fooled by nice stories told at election time; and then they get just a few crumbs that fell from the table, because all the goodies go to the crooks who paid for the elections of their corrupt representatives.

### **Disgusted voters**

While this is an exaggeration, there is unfortunately enough truth in this generalization, (think of the armies of Washington lobbyists, the "revolving door" always open for retired politicians who want to go into business, the PACs, the convenient tax exemptions), to generate and justify genuine disgust about the whole political process. And this is a real problem.

Let's not forget that the peaceful self-perpetuation of the American Republic rests on the assumption that most people believe and will continue to believe that we have a legitimate, ethical system that operates in a transparent way, and that this system is run mostly by law-abiding office holders.

### **People feel cheated**

This is not the case anymore. People feel cheated because

politicians do not keep their promises. And there is some truth to this. Indeed, in order to get elected, most candidates for public office routinely promise that they will magically create millions of new jobs. But the honest truth is that elected officials at best can help create a more pro-business environment. No elected officials can create millions of jobs. Looking at our current predicament caused by aggressive Asian competition and lack of innovation, it should be clear that nobody can reverse new historic trends and major global shifts through legislation.

### **Politicians cannot fix this problem**

No U.S. Senator, Governor or President can reverse the rise of Asia, with its hundreds of millions of low-cost workers who get millions of jobs outsourced from the U.S. simply because Asian workers are happy with much lower salaries, and therefore are more cost competitive. By the same token, no U.S. President can prevent automation from killing hundreds of thousands of factory and now services jobs.

Promising the impossible is immoral. And yet all candidates do it, all the time. Voters believed those who in either party made the biggest promises. But now they do not believe them anymore, not because they understand the truth about "*The Great Stagnation*", an epochal change that cannot be controlled, let alone reversed by elected officials; but because they believe that these politicians are personally responsible for their plight.

The accepted narrative is that the masses suffer because most U.S. politicians are in the pockets of the greedy 1% who want to grab everything. Unfortunately, most Americans do not really understand the true dynamics of globalization.

### **Rigged game**

Most voters no longer believe in the establishment because now they are convinced that America is a rigged insiders' game.

According to the simplistic and yet generally accepted narrative, America is still very rich. The problem is that most of the wealth is stolen. Millions of Americans believe that Wall Street and major corporations are making huge gains by willfully sending jobs abroad, while all the cash goes to them, a tiny minority. Meanwhile, corrupt politicians paid by the special interests twist the system so that the greedy few will keep receiving even more, thanks to customized laws and tax provisions that favor the already ultra rich elites.

### **Throw everybody out**

Contemplating this ghastly picture, the disgusted voters are not asking for reforms. No, they decided that the entire establishment needs to be junked. And so, in this most unusual presidential campaign, they turned their attention and hope to outsiders, with blind faith that, once elected, these new leaders will step forward and fix everything, quickly and painlessly.

The fact is that the outsiders, if anything, make even bigger and therefore far more preposterous promises. But millions of voters are willing to believe them, because they appear to be "sincere". Since they are outsiders, they are not tainted by Wall Street money, PACs, Washington lobbyists, and the dirty business of buying and selling votes. So, they must be real saviors.

### **There are no saviors**

Well, they cannot be. And this is has nothing to do with their intentions. It has to do with the limited reach of any public policy. As indicated above, we are going through a bad patch that is only in some measure the result of poorly designed laws and regulations.

Washington cannot make productive innovation happen by legislative or regulatory fiat. Washington can and should promote and support a pro-growth, pro-innovation, pro-business

environment. But even assuming that we did this tomorrow, this would be no guarantee of success. Eventual success is about the drive and the ingenuity of smart people who will come up with new technologies, new products and new services. This is a highly desirable outcome; but it cannot be mandated by law.

Aspiring “Political Saviors” cannot and will not deliver prosperity just because they say they will. Unfortunately, this simple common sense message will not be listened to by people yearning for a panacea.

### **The old guard is out**

At this point, the infatuation is on, and the focus is and will stay on those who promise miracle cures. Sadly the traditional political forces are too discredited. Whatever sensible message about establishing a healthy distinction between realistic and unrealistic expectations they may put forward, they will not be believed.

And why? Well, because for decades they have been in the business of making exaggerated promises they knew they could not keep. For a long time they got away with over promising, because the economy was still growing. But now it isn't anymore, and so nobody believes them. Hence the rise of the Saviors.

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## **Italian Prime Minister Talking Nonsense**

**WASHINGTON** – Yes, there is something to be said about optimistic political leaders who inspire their people to hang on and do the impossible, even when things do not look so

good. Sometimes convincing leadership can perform miracles. Think of Winston Churchill during WWII, or Ronald Reagan in the 1980s.

### **The South comes back to life**

Well, so what do we make of this statement by Italian Prime Minister Matteo Renzi during a recent visit to Naples? This is what Renzi said; *“If the South [of Italy] restarts, Italy will restart, this way becoming Europe’s locomotive”*. Think of that: Italy (11% unemployment, practically zero growth for a decade) transformed into Europe’s engine. And all this because of the South, (one of the most depressed regions within the EU), all of a sudden roaring into action. What do you know, in the blink of an eye Italy will be ahead of Germany!

### **Laughable**

Is this sunny optimism or laughable stuff? Please pick the latter. The South of Italy has been and is a perennial tragedy of malinvestment, corruption, stupidity, apathy and desperation leading young people to emigrate. And please do not forget the almost complete dominance of organized crime, (Mafia, Camorra and N’drangheta), in practically all matters.

### **How The Economist sees it**

If you want details, here is how The Economist put it a while ago:

*“The south [of Italy] grew more slowly than the north before the financial crisis. But the main source of the divergence has been the south’s disastrous performance since then: its economy contracted almost twice as fast as the north’s in 2008-13—by 13% compared with 7%. The Mezzogiorno—eight southern regions including the islands of Sardinia and Sicily—has suffered sustained economic contraction for the past seven years. Unicredit, Italy’s biggest bank, expects it to continue. [...]”*



*“Of the 943,000 Italians who became unemployed between 2007 and 2014, 70% were southerners. Italy’s aggregate workforce contracted by 4% over that time; the south’s, by 10.7%. **Employment in the south is lower than in any country in the European Union, at 40%**; [bold added] in the north, it is 64%. Female employment in southern Italy is just 33%, compared with 50% nationally; that makes Greece, at 43%, look good. **Unemployment last year was 21.7% in the south, compared with 13.6% nationally.** [bold added]. The share of northern and southern families living in absolute poverty grew from 3.3% and 5.8% respectively in 2007, to 5.8% and 12.6% in 2013.”*

*“Downward pressure on demand is exacerbated by the south’s lower birth rate and emigration northward and abroad. The average southern woman has 1.4 children, down from 2.2 in 1980. In the north, fertility has actually increased, from 1.4 in 1980 to 1.5 now. Net migration from south to north between 2001 and 2013 was more than 700,000 people, 70% of whom were aged between 15 and 34; more than a quarter were graduates. Marco Zigon of Getra, a Neapolitan manufacturer of electric transformers, says finding engineers in Naples, or ones willing to move there, is becoming ever harder. According to Istat, Italy’s statistical body, over the next 50 years the south could lose 4.2m residents, a fifth of its population, to the north or abroad.”*

### **Add African immigrants to the mix**

And let us not dwell on the dislocation and additional problems created by the tens of thousands of poor African immigrants who land in the South of Italy every year. They cause huge frictions, while straining modest resources. And, by the way, youth unemployment in the South reaches 60% in some regions.

OK, now we have some context within which to place Renzi’s optimistic comments. Think of it for a moment: *“If the South restarts”*. This is total and utter nonsense.

## **Stupid statements**

Given the bleak picture presented above, talking about such a “restart” as if it were achievable, and practically around the corner, is a bit like saying “*In a little while, when Afghanistan will be a modern industrial economy*”...; or “*Next year, after Venezuela’s economy will be back on track*”...; or “*in 2017, after all of Africa will have electricity and clean water*”... For any of these highly desirable scenarios to materialize, every sane observer knows that we are talking generations, even assuming good policies and strong perseverance over decades.

Yes, it would be nice if overnight, magically...“*Puffff*”...the South of Italy became a modern Region, this way energizing the rest of the country, leading Italy to unimaginable new heights.

## **This is not going to happen**

But no, this is not going to happen. The South is trapped in its culture of short termism, thievery, corruption, organized crime, and unbelievable levels of maladministration. The notion that one or two initiatives, and a sprinkle of investments will trigger a systemic transformation of this perennial economic swamp is not just naive, it is frankly stupid.

I am not sure why the Italian Prime Minister said this. But I find it remarkable that nobody called him on this. Nobody pointed out how preposterous all this is. No media comments. No requests for clarifications as to how this magic “restart” will materialize itself.

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# Living In A False Data World

**WASHINGTON** – We are used to hear that we live in a “data driven” world. Thanks to ICT and the computing power explosion, it is possible to gather, streamline and organize millions, in fact billions of bits of information. All this intelligently organized and sifted data provides precious information that will influence, in fact will determine investments, marketing strategies, purchases, and even the pitch of political campaigns.

## **Reliable data**

Fine, all well and good. But this “data revolution” assumes that we do have reliable data; and it also assumes that we have a good sense of *“what all this means”*, once we have carefully looked at all the available information.

And here I see serious problems. At one level, we may engage in self-deception by giving excessive weight (or not enough weight) to some data. And, on a different level, what if the data is false, or heavily manipulated? In both cases we are in trouble.

## **Data in context**

Let’s talk about exaggerating the importance of some data. For example, take unemployment. The US Government is proud to tell us that at around 5% the unemployment rate is back to “normal”. True. Except that this unemployment statistic, while correct, is rarely placed in context.

Unemployment is definitely way down, and this is good news. However, the percentage of the US population that is actually working compared to the entire working age population is well below what it used to be 10 or 15 years ago. Indeed, labor participation reached 67.3% in 2000. And now in 2016 it is at down to 63%. Which really means fewer people employed.

In other words, the often cited unemployment data omits the fact that millions of Americans simply dropped out of the work force, and therefore are no longer counted. Therefore, if we look at how many Americans are actually working compared to the overall working age population the picture is not so good.

Likewise, when employment statistics are presented, we usually get an aggregate number or percentage. The conventional wisdom is that if unemployment is down this must be good news. This means that the economy is growing, and therefore there is demand for more labor. What can be wrong with this? Well, nothing wrong really.

### **From a different angle**

However, if we look just a bit under the surface, we see that among the millions of new jobs that have been added in the last few years very few are related to productive activities (manufacturing, mining, energy) that produce new wealth. We have millions who found work in the hospitality industry, or who are on the lower echelons of the health care industry, along with many janitors and landscaping workers. Most of these are low pay, often part-time, marginal jobs.

Therefore, if you focus only on the overall unemployment figures and conclude that all is well, because a healthy labor market is a powerful indicator of a healthy economy, you are engaging in self-deception.

### **Over valued stock market**

On a different level, a buoyant stock market used to be considered a sign of a healthy economy. But these days it is no longer so. US share prices are dangerously inflated for reasons that have nothing to do with any misinterpretation of the real economy and market forces.

They are inflated because the US Federal Reserve continues to keep real interest rates at historically low levels. This

unusual ZIRP policy created a bias against any form of saving. Since they get zero per cent keeping their money in the bank, people seeking some return on their money are induced to invest in the stock market. And since millions started buying stocks for lack of any alternatives, this has inflated stock values.

So, at this time the stock market data is not a helpful indicator of anything regarding the real economy because valuations are grossly inflated. High valuations are disconnected from economic performance. Of course, there have been bubbles before and we can expect more in the future. But this is a gigantic bubble created by the Federal Reserve and its monetary policies. The shares valuations data does not capture any of this.

### **False data**

And now let's get to the bigger problem: false data. When the Greek debt crisis emerged back in 2009 it became obvious that the truth about the impending fiscal disaster had not emerged up to that point in part thanks to the complicity of the national statistics agency, (Hellenic Statistical Authority, ELSTAT). At the behest of the Greek government, the agency was happily producing false data, with the obvious intention of hiding the truth about the huge fiscal hole for as long as possible.

More recently, right after Mauricio Macri was elected President of Argentina, one of his first moves was to get new staff in the national statistics agency, (INDEC). His goal is to recreate credibility for economic data published by his new government. It is clear that the previous administration published false (or distorted) data in order to convey the message that the tottering economy was in fact doing well under their stewardship.

### **Just a few bad apples?**

Well, these are some of the cases we know about. But are these just a few exceptions? Are all other governments around the world complying with high ethical and professional standards when it comes to reporting economic statistics? I would not be so sure. For example, a major country in Africa, beyond inflating GDP growth statistics, cuts the actual number of its very large population in order to show a higher per capita GDP, this way trying to show a sign of economic progress that is not really there.

And then we have impeachment procedures against Dilma Rousseff, the President of Brazil, accused of manipulating public accounts in order to show a healthier fiscal situation. And what about India's GDP numbers? Most experts argue that they are inflated, even though it is not clear by how much. In other words, India is also under suspicion of "cooking the books" in order to create a brighter economic picture.

### **China's GDP numbers**

And, finally, the real monster: China's GDP growth figures. Nobody believes the official Chinese data anymore. No, China does not grow at almost 7% a year. The question is: how big a lie is this? Is the real GDP growth 6%, or is it 3%? We simply do not know. There are many theories but no hard facts, simply because nobody trusts the official Chinese data.

Now, think about all this for a moment. China is the second largest economy in the world. And yet most experts and analysts routinely argue that the official numbers are fake. But why would China do this? It is quite simple. In China positive economic statistics are necessary tools to strengthen the regime's political legitimacy. Inflated growth numbers tell everybody a good story: the Communist Party leadership is doing a splendid job.

### **What about everybody else?**

Once again, are we talking about just a few cases of rogue

governments that do not play by the rules? Or is this fraudulent manipulation of sensitive economic data far more extensive?

I would say that the likelihood of data manipulation increases with the degree of authoritarianism. A government not held accountable by any one is not interested in enforcing high standards of truth and transparency. You can bet that it will say whatever it can to make itself look good. As there are not so many accountable democratic governments around the world, we can safely conclude that much of what is published and is then used by analysts as “data” is at least inaccurate, in some instances totally false.

### **Bad consequences**

And data manipulation has really bad consequences. Unless a company enjoys the benefits of political favors, it is hard to make major economic decisions when you literally “*do not know what’s going on*” in any country that is in the habit of manipulating important economic data. Likewise, it is hard to attract serious foreign investors when you cannot reassure them that the country is ruled according to proper transparency standards.

### **Data driven world, with many lies**

So, here is the thing. We live in a very strange and paradoxical world. The IT experts tell you that they routinely capture millions of pieces of information on consumers, their preferences, their habits and buying patterns. And all this data drives decisions and investments by large corporations.

At the same time, we see how statistics, even when correct, are routinely manipulated in order to fit a preordained (and often dishonest) narrative. If you want to make the case that the US economy is doing fine, you can point to hard data: 5% unemployment, 2% GDP growth, historically high stock market valuations, low inflation.

But if you want to paint a darker picture, you will point to other hard data. 2% GDP growth is 1/3 below the historic 3% norm. On the basis of other real data, you will say that most of the new jobs are part-time gigs that at best provide survival wages, without creating any chance of upward mobility. You will argue that there are millions of part-time workers who would rather have full-time jobs but cannot get them. And you will also say that, based on hard data, (real corporate earnings for instance), the US stock market is over valued, thanks to Fed policies.

### **No reliable data without accountable governments**

Once again, regarding the wider world, you can rest assured that every non democratic regime in which leaders are not held accountable –and there many of them– economic numbers are either false or heavily manipulated, so that they can be used by the leaders to support a self-serving political narrative.

Yes, this is a data driven world. And data analysts can indeed perform wonders, provided however that they have real data to work with. And this is not the case. At least not in large parts of the world.

In the end, there is no chance to have true data driven decision-making processes without true democracy, real accountability and transparency.

In the final analysis, good governance is the precondition for getting good data.