Trump Takes U.S. Out of Paris Accord on Climate

WASHINGTON – U.S. coal miners and out of work factory workers: this is for you! President Donald Trump publicly announced that the U.S. will withdraw from the Paris Climate Accord that his Democratic predecessor, Barack Obama, promoted and warmly endorsed. Trump's argument against the Paris deal is that it will penalize the American coal mining industry, and the overall American economy in the short term, with only vague hopes of somewhat lower world temperatures, way down the line.

Bad deal for America

As Trump sees it, this is a bad deal for America; and so the right thing is to get out of it. Sticking to the obligations created by the Accord would amount to enacting the equivalent of a huge energy tax on the US economy, because compliance with new, strict emission controls (in order to limit the amounts of greenhouse gases released into the atmosphere) will be very expensive.

As a candidate, Trump promised that he would withdraw from this climate deal, and now that he is President he is doing it. We know that his close advisers are divided on this issue. His daughter Ivanka and son in law Jared Kushner, along with Secretary of State Rex Tillerson, recommended not withdrawing. Still, in the end Trump sides with the opponents.

What does this mean?

That said, from a practical standpoint, America's exit, at least in the short term, will not amount to any worsening of the global climate. Indeed, the Paris Accord, if all goes well, promises only modest progress on lowering the temperature of the world, and only after many years. And this will happen only if we assume that all the other participants will actually do what they promised to do in terms of enacting new policies aimed at lowering their consumption of fossil fuels, this way reducing greenhouse gases emissions. Do keep in mind that the Paris Accord has no enforcement mechanism. The commitments made by the signatories are purely voluntary. In the case of China, the world's biggest polluter, Beijing is theoretically bound to implement new policies several years from now.

Political consequences

Still, Trump's decision on this rather emotional issue has had immediate political consequences. From the stand point of other nations, particularly the leaders of the G 7 Trump just met in Taormina, Italy, this amounts to America choosing to go it alone, openly dissenting from a global consensus on the global threats to the earth created by the unrestrained consumption of fossil fuels.

U.S. no longer leading

In the short and medium term, this means that America is no longer leading the world on a critical policy issue, As most world leaders see it, America has now retreated in its narrow universe characterized by a bizarre anti-science fixation pursued by a strange president who is "anti everything".

Anti-everything Trump

Indeed, Trump is so anti-immigrant and xenophobic that he wants to build a wall along the entire border with Mexico.

Furthermore, according to the now widely accepted narrative, this is a president who is openly against free trade, against the EU, against NATO, and against Muslims, (sort of). Given all this, Trump being also against joint international efforts aimed at stopping and hopefully reversing climate change is disappointing; but not surprising. This new development fits the now accepted narrative.

America is no longer leading. Trump’s America has retreated behind a myopic worldview of narrow self-interest.

From the standpoint of old friends and allies, Trump’s announcement on exiting the Paris Accord is yet another (sad) sign that America is no longer the “Leader of the free World”.

In fact, even before this new development on the Paris Accord, German Chancellor Angela Merkel had already publicly argued that it is time for Europe to think of and plan for a future without close ties to the U.S., since Trump’s America is no longer a reliable friend.

Political symbolism

Again, keep in mind that all this is mostly about political symbolism. It will take four years for America to fully extricate itself from the obligations contracted under the Paris Accord. This is fairly long time. And again, keep in mind that under the terms of this Paris deal, major polluters like China and India have modest obligations when it comes to reducing their own emissions that will kick in much later. Which is to say that you should not expect world temperatures to start rising tomorrow, simply because today President Trump announced that America will pull out in four years.

No gain

However, as indicated above, this decision is not without political consequences. In the end, all this is will amount to an additional loss of international prestige for Trump’s America.

With all this in mind, whatever you may think about the intrinsic policy value of the Paris Accord, it would have been better for Washington to be part of it, as opposed to becoming now a big pariah in the eyes of the world.

Trump is talking to his base

Well, then why did he do it? Very simple.

Trump’s narrow concern here is to reassure his domestic political base –the millions of Americans who voted for him last November. This base includes out of work coal miners and people displaced by the closure of old manufacturing plants.

Trump’s message to them is that his job is to revive the American economy. If this means heavy reliance on dirty energy, so be it. Out of work factory workers want money to pay their bills. They do not care about the fate of polar bears or about extreme weather phenomena in Africa. And they do not care about rising sea levels.

Finally, dire scenarios of New York City and Miami under water in just a few years (because of the rapid melting of the Polar Caps) are definitely a hoax –at least according to Trump and his supporters.

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, may be 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.

Why Is Montenegro Joining NATO A Big Deal?

WASHINGTON – With the US Senate approving by a huge margin Montenegro entering NATO, the US-led security pact, (only 2 senators opposed), soon enough this small country, once a region of the former Yugoslavia, will join the western military alliance created on April 4, 1949 with the Treaty of Washington. In "normal" times, this tiny NATO enlargement should not be an event that would move the needle one way or the other.

Montenegro is small

Indeed, on the face of it, Montenegro NATO membership should be a "non issue". Hard to believe how a very small Balkan nation, with a population of 650,000, an army with only 2,000 soldiers, and a country GDP that is about the same size as the budget of the New York City police force, will alter the balance of forces in Europe.

A symbol

And yet, it is a sign of the times we live in that this issue of Montenegro and its accession into NATO somehow has become a big deal. Russia sees this step of Montenegro joining NATO as further evidence of a relentless eastward NATO expansion, most likely with the intent of encircling the Russian Federation, therefore creating a national security threat for Moscow.

Sending a message to Moscow

The US and other western countries instead want to portray the extension of NATO’s protection to this small Balkan nation as a manifestation of western political resolve. Russia is accused of trying to alter unilaterally the post war borders of Europe. Washington extending a helping hand to Montenegro, this way guaranteeing its security from possible external threats, supposedly would send a signal to Estonia, Poland and other NATO members bordering Russia: *“America is here to stay in Europe. No intention to leave. Abiding by the letter of the NATO Treaty, Washington pledges that it will stand by its allies, large and small, no matter what”.*

Adding more complexity to the Montenegro accession issue, it is clear that the country was and is divided on this matter. Pro NATO political forces have accused Russia of meddling.

Moscow and Washington should address distrust issues

Be that as it may, instead of using tiny Montenegro as a political symbol, it would be better for both Washington and Moscow to get together and seriously try to find common ground regarding legitimate security concerns. No, NATO is not about to attack Russia. By the same token, NATO should recognize Russian concerns regarding ethnic Russians outside of the borders of the Russian Federation, and Moscow’s historic connections with Slavic nations in Eastern Europe and the Balkans. The way forward should include ways which will enable Russia to feel more secure, while NATO countries can be convinced that Russia will use diplomacy, and not military force, (or subversion), to further its political interests in

Eastern Europe and other border areas.

Find a way to improve East-West relations

Montenegro’s accession to NATO will change nothing when it comes to the balance of forces in Europe. However, the very fact that we are even talking about this enlargement of the western alliance as a real problem, contributing to the further deterioration of East-West political relations, is indicative of the under currents of deep distrust between the US and Russia.

It should be in the interest of both Washington and Moscow to address this distrust.

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.

China To Become Green Super Power?

WASHINGTON – Many Western environmentalists and commentators openly praise China for its declared energy policy objective of turning itself into a truly *"Green Super Power"*. They claim that, unlike Trump's America, (ignorant and backward), China (smart and forward-looking) truly understands the threat of global warming, and is actually doing something very serious about it.

Hundreds of billions for green power projects

Indeed China has committed hundreds of billions of dollars to renewable energy projects. It is leading the world in massive investments in wind and solar projects, with more to come.

Contrast that with heretic America now led by a President who believes and publicly affirms that global warming is nothing but a hoax. Indeed, instead of leading the way in renewable energy investments, President Trump's America promises to revive (dirty, high emissions) coal production, while he just signed executive orders that will re-start two major oil pipeline projects that had been blocked by President Barack Obama, at least in part because of environmental concerns.

Responsible China

So, there you go. Communist China's leaders are acting as responsible stewards of our Planet Earth, while democratic America is the prisoner of anti-science bizarre bigotry that ignores "the facts" about green house gases and global warming, and the dire consequences of disastrous energy policies still based on fossil fuels that will end up cooking the world.

The truth is more complicated

Well, this is how the critics of American policies would like to frame the argument. But the truth is far more complex. It is indeed true that China is investing very substantial amounts in green energy projects. But it is also true that renewables are and will continue to be a small fraction of China's power generation capacity. The fact is that China relies today and will continue to rely in the future mostly on coal –yes, old-fashioned dirty coal– to produce about 66% of its electricity.

In contrast, if you look at the current mix, U.S. electricity generation is on balance far greener.

Green America?

In the U.S. coal is now used for only 33% of power generation, a much lower proportion than China's, (50% less, in fact). On account of the shale gas revolution that made natural gas abundant and cheap, America now relies on low emissions natural gas for 33% of electrical generation capacity. This percentage is destined to increase, mostly at the expense of dirty coal. While this transformation is driven by market factors, as opposed to government green policies, the added bonus here is that natural gas is a much more environmentally friendly fossil fuel.

If you add 20% of power generation produced by nuclear and 6%

from hydro, (an old-fashioned source of renewable energy), the picture is not that disastrous.

Less coal, more natural gas

While the contribution from other renewables is still rather small in America –solar represents only 0.6% of total power generation capacity, while wind is a still a modest 4.7%– the fact remains that America relies on coal for only 33% of its power generation, while China uses this dirty fuel for almost 70% of its total electricity generation.

So, looking at the numbers, (to date at least), America is far greener than China.

The truth is that coal-fired plants are and will continue to be for years to come the major electricity producers in China. Even at current levels of new investments in renewables, it will be a long time before China becomes green in a meaningful sense.

Biomass

In the meantime, if we break down China's renewable energy mix, we see that (if we exclude hydro) by far the biggest percentage is represented by biomass. As noted by Bjorn Lomborg in a recent op-ed piece published in The Wall Street Journal (*A "Green Leap Forward" in China? What a Load of Biomass*, February 5, 2017):

"It is peculiar—though unsurprising given the sensibilities of Western environmentalists—that those who celebrate China's "Green Leap Forward" almost always focus on wind and solar technology. By far the largest source of renewable energy used in China is traditional biomass—that is, people burning charcoal, firewood and dung, as China's poor do to stay warm. Biomass is the biggest source of killer air pollution in the world."

Health concerns

As biomass energy production entails burning animal dung, wood and charcoal, this type of fuel is hardly green, because of the fumes and soot produced by its combustion. If you consider that in China biomass is used for home heating and cooking mostly by the rural poor, this means that the fumes released by these "green fuels" cause a variety of respiratory diseases to vulnerable, low income people.

It will take a long time

So, what is really going on here? It is true that China is committed to increasing the percentage of its electricity generation provided by clean solar and wind. In absolute numbers, China's renewable generation added capacity is truly impressive. However, as a percentage of the total (keep in mind that China has a population of 1.3 billion energy users), this contribution from renewables is and will continue to be rather modest.

Still reliant on coal

The fact is that major efforts in wind and solar notwithstanding, China still relies and will continue to rely on traditional dirty coal as the key component of its power generation mix for many years. In fact, while wind farms are built, China is adding more coal-fired generation.

It is therefore a misrepresentation to state that China is well on its way to becoming a "Green Super Power". While the intention may be there, it will be a long time before China will be able to rely mostly on renewables for its power generation needs.

Let the markets decide

The larger lesson here is that in the end it will be superior technology delivered at competitive prices that will tilt the power generation balance. When renewables will be really cost competitive without subsidies, then they will be adopted on a massive scale in China, in America and elsewhere.

Right now, at least in the West, the push for early adoption of still expensive technologies is not driven primarily by economic considerations. It is pushed forward by policy-makers through mandates, set asides and tax breaks created because of strong environmental concerns.

While this is understandable, we should not muddy the waters by arguing that if China can go all the way with renewables, so should America. China is doing something important. But, on close inspection, a lot less than what is stated by Western environmentalists.

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 are 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 and not universally enforceable. They are murky and usually recognized only in a specific locality within the country. 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 clear legal title on the asset in question. The buyer has no guarantee that henceforth he will indeed be recognized as the lawful owner.

Given all this, 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 amazingly large 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.

Oil Prices Will Go Down But U.S. Shale Will Survive

WASHINGTON – After the oil production cuts recently announced first by OPEC and then non OPEC oil producers, oil prices rallied. This is because supply cuts must mean tighter markets and therefore higher prices. Well, looking at what most energy sector analysts say, this idea of a sustained oil rally is a dream that will soon end. And this is because there are too many exemptions to these announced cuts, too many special cases and too many opportunities to cheat, since rather modest total production cuts are to be spread thinly among many producers.

Oil prices will fall again

Who is going to check about full compliance? Bottom line, expect oil prices to lose altitude again, as soon as hard data about production among OPEC and non OPEC countries will become known, probably towards the end of January. Keeping all this into account, while West Texas Intermediate, WTI, closed at about $ 53 on January 5, it is hard to believe that it will stay at that relatively high level for much longer.

What will happen to the U.S. shale sector?

That said, the really interesting question, assuming persistent low crude prices, is whether the U.S. shale oil industry will be able to withstand another prolonged price squeeze.

If recent history is good guidance, I would say: yes, it will. Surprising everybody, the American oil shale sector, until a few years ago deemed to be profitable only assuming oil would stay at or above $ 60 per barrel, managed to survive, when oil beginning in 2014 went down to $50, $ 40, and even $ 30 per barrel.

Of course, the success record is quite uneven within a sector characterized by so many diverse players that differ in terms of size, profitability of their reserves and financial conditions. Many shale energy company, especially those carrying quite a bit of debt, just could not make it. They went bankrupt. Others were bought by stronger competitors.

U.S. shale oil sector made up of diverse players

In truth, there is no such thing as a homogeneous U.S. shale oil sector. There are many energy companies operating in different states. Each one is different. And the chances to survive or thrive in a tough market environment because of low oil prices depend on many factors unevenly spread. Indeed, while examining companies, analysts have to take into account the specific geology that will affect production techniques and oil recovery levels and related costs, the company's management skills, the amount of debt each company carries, the ability to apply in a timely manner state of the art new technologies, and a lot more.

Still, even taking to account that some companies are strong and some very weak, with many more in between, it is fair to say that the sector as a whole proved to be surprisingly resilient, given the low profit margins in a depressed oil price market.

Sustained production

Yes, the total U.S. rig count went down, dramatically, following the 2014 price collapse. But overall production, with some ups and downs, did not go down that much. The shale oil sector proved to be quite flexible.

While large conventional operations cannot be brought on line, closed and restarted at will, the shale sector is far more flexible. And this means that shale operators do not need to bet on a 5 year window of high prices that will guarantee profits in order to start operations.

They can quickly respond to price fluctuations, producing more when prices are high; while shutting down production when prices drop below their break even point. Look, obviously it is not just like flipping a light switch. But you get the idea. Shale is nimble.

How much flexibility and resilience?

So, flexibility and resilience define the American shale oil sector. But here is the question. Is it possible for U.S. shale to become ever more productive and nimble? Or, at some point, no matter how much they try to cut costs, the energy companies hit a profitability wall?

While we know that the shale plays in the Permian basin in Texas can stay in business even with oil at $ 40 or even $ 30 per barrel, what about all the other reserves in Oklahoma, North Dakota and other states? If we assume prices going down to $ 40 or even $ 30 per barrel for an extended period of time, how many shale companies, many of them operating in far less favorable locations, have a realistic chance to survive, let alone be profitable? Can new fracking technologies perform more miracles, or has the sector become as productive as it can get?

How long can Saudi Arabia endure the adverse impact of lower oil revenue?

The honest answer is that we do not know. That said, we also do not know how long oil prices will stay this low. Indeed, we do not know how long Saudi Arabia, the world's biggest producer and OPEC's *de facto* leader, can endure the economic and fiscal impact of low prices without resorting to much steeper cuts in order to jack up prices and therefore state revenues.

We all know that Saudi Arabia's oil industry will be profitable even with oil at $ 30 per barrel, because Saudi extraction costs are very low. But the problem is that the

Saudi Government depends on high oil prices to finance practically everything.

While the Monarchy is trying to change things, right now the Saudi State needs to lubricate with cash infusions a rent based society in which hardly any Saudi citizen is engaged in truly productive activities.

Low oil prices hurt

Which is to say that low oil prices hurt different producers in different ways. OPEC now has tried to drive prices up by announcing relatively modest production cuts to be spread among various producers. Some non OPEC countries indicated that they would also participate, with the shared objective of jacking up prices.

Based on what know, this time the trick probably will not work, because too many producers are saying one thing about cuts and then planning to do the opposite (keep production levels high, or in some cases, ramp up production).

When will Saudi Arabia announce serious cuts?

But at some point Saudi Arabia will start running out of cash; and so it will have to cut its oil production in order to drive prices up. This would help the Saudi state immensely in its effort to stabilize its finances. However, any Saudi move aimed at supporting oil prices would also help the marginal U.S. shale producers. Some of them are hanging tight, hoping for better days to come.

In other words, who will give up first? Will the U.S. shale sector be eventually defeated by prolonged low oil prices? Or will Saudi Arabia have to swallow the bitter pill and cut production (therefore giving up some of its market share) in a far more significant way in order to drive prices up, with full knowledge that this will help U.S. shale companies?

Bet on Yankee ingenuity

All in all, when it comes to endurance and resilience in adverse market conditions, I would still bet on Yankee ingenuity. The American shale oil industry surprised the world by inventing and then deploying hydraulic fracturing (fracking) and horizontal drilling on a large scale, this way bringing on line millions of barrels of oil that was deemed to be unrecoverable. And then they delivered an even bigger surprise when they managed to make the entire sector much more productive and efficient in record time, when faced with a sudden crude oil price collapse.

None of this could be done, everybody said. And the shale oil people did it. May be they will keep doing it, surprising all analysts once again.

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.