

Will Washington Give Arms To Ukraine?

WASHINGTON – Back in February 2014, right after a popular rebellion ousted pro-Russian President Viktor Yanucovych, this way taking over political control in Kiev, the then Obama administration was long on promises of aid and support; but very short on delivering almost anything of real value to the new supposedly pro-American and pro-European Ukrainian government.

Economic basket case

On the economic front, Ukraine was then (and still is today, by the way) a virtual basket case: an impoverished, non competitive, underperforming economy, poisoned by systemic corruption. On the military side, whatever your political preference on who is to blame for the ongoing fighting between government forces and pro-Moscow ethnic Russians in Eastern Ukraine, back in 2015 it became obvious that Washington was not going to support the new anti-Russian Kiev government in any meaningful way.

Non lethal military aid

President Obama offered some non lethal equipment, (such as radar, night vision goggles), MREs, (military food rations), blankets, uniforms, and socks, (yes, socks), to the Ukrainian army –but no real weapons.

New Trump approach?

Now, with Trump in the White House, most recently the noises have been changing. It is no accident that U.S. Secretary of Defense Mattis recently made a high-profile visit to Kiev on that country's Independence Day. During public celebrations which included a military parade, Mattis stood at the side of

Ukrainian President Petro Poroshenko. Mattis trip to Kiev followed another important visit to Ukraine by Secretary of State Rex Tillerson in July.

In public remarks in Kiev Mattis stated that the Pentagon is reviewing options that could include supplying real weapons to Ukraine; including anti-tank Javelin missiles, and possibly anti-aircraft missiles.

Of course, Mattis insisted that this American hardware—assuming a US Government decision to send it to Kiev—falls under the category of defensive weapons. America's stated goal—again, assuming a green light on this—would be to give Ukraine the tools to defend itself from Russian attempts to unilaterally change borders in the East.

Mattis justified any possible U.S. policy shift regarding weapons sales to Ukraine by pointing out that Russia is not living up to its commitments under the Minsk agreements aimed at solving through peaceful means all issues related to the future of ethnic Russians in Eastern Ukraine.

Policy shift

Well, should these supplies of U.S. weapons to Ukraine actually take place, this would indicate a major policy shift from the “do nothing” Obama years. For several years, Obama's deeds (forget his speeches in support of Ukraine) indicated that America would not get involved, even indirectly, in any conflict involving Russia in Eastern Ukraine, a region with deep historic, ethnic and religious ties to the Russian state. With Obama in the White House, Ukrainian President Petro Poroshenko realized that he was on his own.

Now Donald Trump is President. So, a new more muscular approach to Ukraine in Washington vis-a-vis Russia? We shall see. Despite what Secretary Mattis just said in Kiev, I am inclined to believe that the Trump administration does not want America enmeshed, even if indirectly, in yet another,

almost impossible and probably endless conflict, far from home.

A crowded national security agenda

Let's look at the long "to do" list for the U.S. military, when it comes to hot spots. Washington is and will be engaged in the Middle East, (Iraq and to a lesser extent Syria) for quite some time. The President just announced a more muscular and open-ended policy towards Afghanistan, with the stated goals of defeating the Taliban insurrection. And then you have creeping and potentially explosive crises with North Korea, Iran, and may be with China on the South China Sea. Based on recent Washington moves and public pronouncements, we may also have to add Venezuela to this already long and challenging national security agenda.

Does Washington want to add an insoluble conflict in Eastern Ukraine to the headaches list, while cash strapped America has a hard time keeping up with existing and potential commitments? I do not think so.

Is There A Democratic Party Policy Agenda?

WASHINGTON – If you watch most of the cable news channels these days you get a steady diet of endless, in fact almost obsessive, commentary on what President Donald Trump said or twitted today, and what the seasoned analysts around the table think about it.

Endless coverage

As President Trump relishes being unconventional and breaking all the established "Washington rules", plenty for the experts to talk about. Fine. Except that this all they talk about. Which is to say that if you watch CNN or MSNBC what passes as "the news" is the endless effort to score the latest Trump outrageous tweet. And as different talk shows follow each other, the new anchor picks up exactly where his/her colleague left it and repeats the tweet of the day and asks a different panel of savvy experts what we should make of it. The variations in all this are limited to the degree of (feigned I believe) amazement and/or outrage.

Again, this is not happening on occasion. This is now the standard offering throughout the 24/7 news cycle. Look, I do understand that the media has a duty to report on what the President of the United States says or tweets. And certainly, since Mr. Trump enjoys being unconventional and controversial, his statements give fodder for talk shows.

Is there a Democratic Party agenda?

Still, my point here is that there is practically nothing else in the news. The one thing that is missing, probably because it does not really exist, is a thoughtful alternative policy agenda coming from the Democratic Party. Cable news shows do not report on it because most likely there is nothing to report.

And this is truly astonishing. We have an entire news media apparatus supported by scores of pundits who keep telling us that we have a strange President sitting in the White House who says and occasionally does unpredictable things, while the Republican majority in Congress is in (terminal?) disarray. And yet no alternative vision to this (apparently) unsatisfactory state of affairs is presented by the Democrats and discussed by the media.

Sit back and watch the Republican Party implosion

Are we to conclude that the Democratic Party strategy is just to sit back and watch the hoped for Trump implosion and the eventual dissolution of a Republican Party torn apart by incurable internal ideological battles? This may be a clever tactical approach. But this is not a strategy for a national political force aspiring to govern the United States of America. Let us not forget that the Democratic Party in 2016 lost its momentum and ability to connect with millions of voters. It lost the White House to a complete outsider and it failed to regain control of the Senate even though the odds favored it.

No compelling message in 2016

In 2016 the Democrats best hope was Hillary Clinton, a shop worn uninspiring candidate who represented a retread of the tired Clinton Brand. And she had to fight until the end against Bernie Sanders, a feisty old socialist whose astonishingly outdated policy agenda was all about redistributing (ill gotten) wealth accumulated by the demonized 1% in a more equitable way. That's all the Democrats had to offer: Clinton and Sanders.

What's the alternative?

Today, precisely because the Republican Party policy program seems confused and confusing, the American voters need to hear about a credible and thoughtful Democratic Party alternative agenda. It is OK for the late night comedy shows to use the latest Trump outrage as material for their jokes. This is fine. Political satire is healthy in a vibrant democracy.

Show America how the Democrats will govern

But the news media should stop this obsessive saturation coverage, while the Democratic opposition, instead of relishing the Republicans' self-inflicted wounds, should rise to the occasion and offer a new and inspiring vision on how they intend to govern America. As of now, I have seen none of

that. And the reason for this, I suspect, is that the Democrats do not have anything new to say. And this is sad. A healthy republic needs a healthy debate on policy alternatives. Right now we have mostly noise.

America's Delicate Democracy

WASHINGTON – Democracy, anyone? But, yes, of course. We all want democracy. In principle we all agree as to the advantages of living in a democratic country, where there are constitutional guarantees which uphold and protect freedom of expression and enterprise, free elections, rule of law, transparent and fully accountable government, respect for minority rights, and a lot more.

Preserving and passing on key values

In reality, though, it seems that many societies –including an old democracy like the United States– are no longer able to preserve, nurture and pass on to the next generation the essential shared values that make it possible to have a well-functioning democratic republic.

Let's get this straight. A vibrant democracy needs a lot more than political pluralism and free elections held at regular intervals, as prescribed by the constitution.

Yes, these are essential preconditions. But, although absolutely necessary, they are not sufficient to guarantee an effective democracy. You can have (reasonably) free elections, and still give life to a polarized or just confused political system which produces dysfunction, or even chaos.

Basic preconditions

Here are some implicit, yet basic, preconditions without which democracy becomes a flawed mess. Any vibrant democracy is premised on a reasonably well-educated population in which most citizens/voters agree at least in broad terms as to what rule of law means. This is all about justice, fairness, protection of minority rights, unfettered openness, real access to education, to all economic activities and to the unimpeded pursuit of public office.

The citizens also agree about the goals of public policy. And this includes agreement as to where the boundaries between the private and the public spheres should be. This means that the people share a genuine understanding about the proper role of the state in providing for the truly needy and in creating appropriate and fair systems that would enhance, in fact guarantee unfettered access to economic and other opportunity to all, without at the same time creating politically inspired and justified entitlements and/or set asides for any group or social class.

Paralysis

Well, here in the United States we still have all our republican institutions protected by our Constitution. But we also have political and policy paralysis. And this prolonged paralysis tells us that, unfortunately, as a society we no longer agree on critical fundamental values.

And this did not start with the November 2016 elections. During the eight years of the Obama presidency the Republicans did their best to block or delay anything that the White House wanted to undertake. The widespread perception among conservatives and also many independent voters was that Obama was in fact not the President of the United States trying to promote policies that would benefit most Americans but an ideological leftists who wanted to remake America into

a quasi-socialist state. Hence the reflexive opposition to practically anything President Obama proposed. The outcome was paralysis. Almost nothing done when the Republicans gained the majority in the House of Representatives after the 2010 mid-term elections.

Today, after the significant Republican victory of 2016, we have a populist President Trump who at least until now seems to act on changeable instincts rather than on the basis of a well laid-out, properly articulated and widely embraced strategy. The impression is that, beyond broad goals delivered through appealing slogans, this Chief Executive is uncertain as to which are the policy tools that would take America to higher ground.

Ideological warfare

The legislative branch, in turn, is torn by deep ideological warfare, and most of all by the astounding inability of both Democrats and Republicans to elaborate and articulate in a compelling fashion their own strategic visions for America. The outcome of this is more policy paralysis. If this were only a temporary aberration, a glitch, America could survive and move on. But, as noted above, this paralysis did not start in 2016, it has been going on for a number of years, irrespective of who is in power.

Now that the (rather fragmented) Republican Party is in charge, we have the flip side of the Obama years scenario. Now we have the Democrats as almost statutory obstructionists. They will not get behind this President on anything at all, as a matter of principle. Battling them we have a disunited, in fact disjointed, Republican Party ostensibly in the majority. The Republican Party is clearly incapable, not only of attracting members of the opposition in order to form bipartisan coalitions on key policies, but also of maintaining even a modicum of unity and cohesion among its Senators and Congressmen.

This is serious. Indeed so serious that, if we cannot repair the ideological rifts and the deep divisions that make it now impossible to create viable (bipartisan) coalitions which can identify and successfully tackle policy priorities that will benefit America and its people, the very future of this old republic is in question.

Checks and balances

The fact is that, a long time ago, the Founding Fathers devised a complicated and delicate –I underscore “delicate”– system of government that was primarily aimed at preserving liberty.

America was not and is not about creating a strong government that “*would get things done*”. It is mostly about creating institutions aimed at protecting free people against the threat of tyranny. And for this reason the Founders came up with a complex alchemy of “*checks and balances*” : equally strong centers of power that will keep an eye on one another, this way preventing any one of them from becoming too strong, and therefore a threat to liberty.

Easy to block anything

But here is the thing. While this system of equal forces balancing one another is an effective instrument when it comes to preventing any dangerous power grab, it is also ideally suited for launching successful obstructionist efforts at multiple levels.

Simply put, preventing almost anything from getting done is relatively simple within the U.S. constitutional framework. A small group of legislators, in some instances even a single law-maker, can delay or prevent major pieces of legislation and/or critical presidential appointments from moving forward.

“Getting things done” requires a relatively high degree of political agreement within the parties and often between the

parties and among various factions and interest groups within the broader American society.

Lacking such an agreement, the system becomes easily dysfunctional. And this is the way it has been for a number of years, regardless as to who is in charge in the White House or in Congress.

Delicate system

That said, Let me be clear. There is nothing wrong, as a matter of principle, with the U.S. Constitution. What is deeply wrong is that nobody really cares very much about the fact that this American system of government is actually premised on a fairly broad consensus about the mission and the scope of government, sincerely and openly shared by both major parties and other interest groups. In other words, this American constitutional system, while old and tested, is in fact very delicate. It needs consensus.

Recreating the consensus

Indeed, the system is so delicate that it cannot properly function without a fairly high level of “upstream” consensus about shared values and consequently about what should be the appropriate functions of the federal government. These shared values should be the ideological and cultural glue that should unite most if not all citizens and their elected representatives.

Given all this, it is obvious that given this constitutional setup it is next to impossible to have a reasonably well-functioning U.S. government when vocal extreme factions vociferously advocating mutually exclusive visions are in control of the political agenda. They have created a charged environment in which “compromise” is synonym with “betrayal”. The outcome is policy paralysis. (Remember what I noted above about how easy it is to engage in obstructionist efforts while ostensibly operating within the rules of the U.S.

Constitution).

Anybody out there?

It should be fairly clear by now that we have a major problem. Accepting a perennially dysfunctional federal government is not an appealing prospect.

So, here is the question. Who is actively engaged in any meaningful, non partisan effort aimed at recreating the fundamental consensus about values and basic principles that made America possible in the first place? Anybody out there?

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.

No Serious Discussion About Entitlement Reform In The U.S.

WASHINGTON – Much has been said about the first Trump budget recently released. The expected partisan critiques –in fact outcry– focus on proposed cuts in Medicaid and disability benefits. Therefore, this becomes a “cruel budget”, an open attack against weak, low income Americans, and so forth.

No discussion about Entitlement Reform

Well, this may be true. However, the biggest problem with this proposed federal budget, (and with many budgets that preceded it, coming from both Democratic and Republican Presidents), is that –leaving aside symbolic fights– it is a reflection of an unchanged (unchangeable?) fiscal *status quo* that will stay pretty much the same until the American political leadership –Democrats and Republicans acting together– will finally address its ***Number One Policy Priority: Entitlement Reform.***

Symbolic cuts

The Trump Budget, even assuming that it will be passed by Congress as is, (it will not), will never “solve” the structural fiscal imbalance –namely: permanent high deficits– that has regrettably become the norm in America. You may indeed cut spending for the State Department, the Education and Energy Departments, and more. You may reduce Medicaid and the Food Stamps Programs. But none of this would really “bend” the overall spending curve. Hence the deficits and a growing national debt, soon to be out of control.

How so? Very simple. Anybody who has given even a mildly serious look at U.S. Federal Budgets notices a trend. The main drivers of (over) spending are large and growing federal entitlement programs that are not even voted on. They are on automatic pilot.

Social Security and Medicare bigger than ever

The fact is that these programs (first and foremost Social Security and Medicare, accompanied by many other smaller federal assistance program), have become so large that now they comprise almost 2/3 of total federal spending. If you add to this colossal total another 16% of overall federal spending devoted to national defense (sounds like a lot; but in relation to GDP defense spending is historically quite low), plus about 6% of total outlays that have to be set aside for debt service, (this is about paying interest on all the debt we have accumulated until now), and you realize that there is almost nothing left to squabble about.

Indeed, “the rest” –what the budget professionals call “non defense discretionary spending”– is less than 15% of the total. Since the bulk of all spending (with the exception of defense) is essentially off-limits, all the budget battles are fought on this residual 15%.

Which is to say that, unless we want to entirely abolish most of the U.S. Government, (Agriculture, Justice, Transportation, money for NIH and medical research, NASA, and more), we cannot possibly change the present pattern of spending without seriously looking at entitlement reform, with the goal of reducing future outlays. Since most of the real money goes to these programs, they should be reformed so that there will still be benefits for seniors in the future, but sustainable benefits. Simply stated, for social programs to work in a sustainable way, in the future most Americans will get less.

Everybody knows this

Again, every student of US public policy, beginning with House Speaker Paul Ryan, (He used to be Chairman of both the Budget and later on the Ways and Means Committees), knows all this.

And yet, for fear of causing massive social unrest, nobody –Republicans and Democrats– want to go even near the entitlement reform issue. The topic is worse than a non starter. It is almost unanimously viewed as political suicide.

Not straying from the conventional wisdom, as a candidate, Donald Trump promised that he would leave all key federal entitlements untouched, claiming that these benefits have been earned by individual Americans, and therefore they should not be messed with. A very conventional approach.

“The Moment of Truth”

A few years back, (2010), President Barack Obama convened a special bipartisan commission (it became known as the “Debt Commission”) that was chaired by Erskine Bowles (Democrat) and Alan Simpson (Republican) in order to give a serious look at the issues of taxation and spending.

These two elder statesmen took the lead and eventually issued a powerful report in December 2010 aptly titled “*The Moment of Truth*”. They, and most of the members of their Debt Commission, argued convincingly about the need to seek and find broad bipartisan support for a thoughtful plan aimed at reforming entitlement programs that had been designed in another era with different demographics (starting with life expectancy, much shorter at that time), and much lower health care costs. They pointed out that, if we change nothing, we are headed towards financial ruin.

They argued intelligently and convincingly. But nothing, absolutely nothing happened.

No action

As it turned out, President Obama (even though he created the Commission) did not want to tinker with issues viewed by most political insiders as “radioactive”.

The Tea Party Movement, at that time growing in national popularity, was led by amateurs who understood practically nothing about the real dynamics of public spending. Their home spun wisdom was that America’s run away public spending and ensuing annual deficits, were all due to “fraud, waste and abuse”. As simple as that. Their remedy? Eliminate silly programs and politically motivated earmarks, tighten the system, punish a few offenders who get benefits via false claims, and all would be fine.

Well, it would not be.

Given the overwhelming and growing weight of federal entitlements benefiting mostly senior Americans, you could abolish the entire Defense Department and you would still not be able to alter the overall pattern characterized by over spending and perennial budget deficits.

Spending favors senior citizens

Simply stated, in America, just like in most other rich democratic countries, there is now an unwritten social contract whereby large and increasing amounts of national resources are devoted to assistance to the sick and to the elderly.

The problem is not that the priorities are wrong. The problem is that this level of assistance has become unaffordable, because it is no longer matched by revenue. Hence our annual deficits that add to the already exploded national debt. Of course, we could raise taxes in order to rebalance the federal deficit. But this would mean significantly “higher taxes”, another radioactive issue that no mainstream politician wants to address.

More debt is the path of least resistance

So, here is the thing. Politicians want to keep doling out large entitlement benefits. But they do not want to tell the country that there is not enough money to pay for them. Instead, they have chosen the path of least resistance: use most of the federal revenue to pay for the entitlements, this way starving the rest, and borrow the balance.

This may look clever in the short run. But this approach means that we are well on our way to becoming Europe or Japan: societies with enormous public spending and huge national debts that simply do not have any resources to invest in their own future.

Let me say this clearly: these are societies headed towards decline. In fact, some of them are already beyond repair, mostly due to the impossible fiscal burdens represented by gigantic national debts.

Where are we headed?

Well, unless we want to become the next Italy or Japan, we need a serious conversation about the level of future federal benefits. This does mean *“throwing sick grandma in the snow, in the middle of winter”*. But it surely means readjusting benefits so that, going forward, we take care of the neediest first, while all the others will get smaller benefits, and later in life.

Anyway, all this is purely theoretical. The current budget debate, with all its theater of partisan acrimony, posturing and grandstanding, does not even begin to address entitlement reform. And this means that what we are having is not a serious, adult debate. This is mostly rubbish.

We need a serious debate

The American people deserve national leaders –in both parties–

who will tell them the truth about what we can afford going forward, and how we can and must share sacrifice, (fewer benefits, higher taxes, at least for some), in a fair and equitable manner.

This is what mature political discourse in a republic should be about. But nobody wants to even think about it.

The Dream Of New U.S. Manufacturing Jobs

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

Millions of jobs

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

Brand new trade deals

According to the White House, the remedy is quite simple. You reopen old deals, get better terms through tough negotiations, and you force the offending countries (Mexico, Japan, China, South Korea, among others) to sell less to America, buy more from America, and spit back all the U.S. jobs that moved to

their countries on account of badly conceived trade negotiations led by incompetent and unpatriotic Washington trade representatives.

Not that simple

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

Cheap labor

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

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

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

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

Trade war and no new jobs

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

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

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

You cannot recreate complex supply chains at will

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

guarantee the competitiveness of the made in America finished product.

No U.S. companies operating in many sectors

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

Impossible

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

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

An additional problem: automation

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

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

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

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

We are in a new era

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

No jobs coming back

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

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

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

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

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

Unfair treatment

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

Demand better terms

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

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

Wanted: Credible Centrist Political Leaders

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

Common sense messages

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

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

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

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

to all who are willing to make an effort.

It is an old idea

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

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

Lost hope

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

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

Despondent America

The outcome of all this is not pretty. The unexpected outcome of the November 2016 presidential elections is evidence of the widespread feeling of deep despair. Indeed, according to millions who voted for Donald Trump, "the system" failed

-period. Its failure is so deep that it is not worth salvaging. In fact, it should be dismantled. In fact, millions of Americans voted for Trump mostly because he is not a professional politician. Therefore he is untarnished by Washington's rot and well equipped to "*clean the stables*", "*drain the swamp*" and all by himself -with his power and superior intelligence- transform America.

Paradoxically, notwithstanding continuous economic growth and much 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, left behind and alienated. 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 “back to basics” idea founded on the values of openness, fairness and merit 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 leading to historic decline, it is imperative to make real progress on these two related fronts:

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

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

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

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

Wellness Programs Will Transform US Health care

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

A political problem

And this creates an insoluble political problem for the

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

We have created a monster

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

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

A flawed system

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

The second one is that when most people are sick, in most

cases someone else pays the cost, i.e. health insurance. And so we have created a perverse system with perverse incentives.

Fix what is broken

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

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

We love sick people

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

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

No interest in prevention

By the same token, given the fact that sick patients bring

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

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

Cost explosion

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

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

However, while armies of now chronically ill patients get treatment, the health insurance industry has difficulties in trying to remain profitable, while containing costs. Inevitably, the additional costs of care are passed on to the

insured individuals. Feeling the pressure of higher insurance premiums, the people turn to the politicians so that they will “do something” in order to make good health care available to all, and truly affordable for all.

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

There is a way out

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

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

Reduce ailments by teaching wellness

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

Rewards for keeping people healthy

And here is how it would work. In the future, physicians would be employed by health maintenance facilities that would reward

them financially for being proactive and successful in keeping their patients healthy. In the current system healthy patients are actually a problem for doctors who make money only when they can provide services. In the future, healthy people who stay healthy should become symbols of medical achievement.

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

Costs would go down

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

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

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

Wellness programs and prevention save money

- *For every HIV infection prevented, an estimated \$355,000 is saved in the cost of providing lifetime HIV treatment.*
- *A proven program that prevents type 2 diabetes may save costs within three years. One of every five U.S. health*

care dollars is spent on caring for people with diagnosed diabetes. People who increased physical activity (2½ hours a week) and had 5 to 7 percent weight loss reduced their risk of developing type 2 diabetes by 58 percent regardless of race, ethnicity, or gender.

- A 5 percent reduction in the prevalence of hypertension would save \$25 billion in 5 years.
- Annual health care costs are \$2,000 higher for smokers, \$1,400 higher for people who are obese, and \$6,600 higher for those who have diabetes than for nonsmokers, people who are not obese, or people do not have diabetes.
- A 1 percent reduction in weight, blood pressure, glucose, and cholesterol risk factors would save \$83 to \$103 annually in medical costs per person.
- Increasing use of preventive services, including tobacco cessation screening, alcohol abuse screening and aspirin use, to 90 percent of the recommended levels could save \$3.7 billion annually in medical costs.
- Medical costs are reduced by approximately \$3.27 for every dollar spent on workplace wellness programs, according to a recent study.
- Dietary sodium is linked to increased prevalence of hypertension, a primary risk factor for cardiovascular and renal diseases. Cardiovascular disease alone accounts for nearly 20 percent of medical expenditures and 30 percent of Medicare expenditures.
- Reducing average population sodium intake to 2,300 milligrams per day could save \$18 billion in health care costs annually.
- Tobacco use accounts for 11 percent of Medicaid costs and nearly 10 percent of Medicare costs.
- Tobacco screening is estimated to result in lifetime savings of \$9,800 per person.

Prevention increases productivity

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

Wellness programs are the solution

Anyway, you get the picture. The point here is that U.S. policy-makers need to understand that as long as they battle with one another trying to determine who will pay what part of a horrendously flawed system there will be no real transformation. Only some more patches to an inherently bad system.

Re-frame the health care debate

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

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.