

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 society 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 grand standing, 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, 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.

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.

No Real Development Without Economic Growth – Part 2

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

Non sustainable projects

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

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

Focus on what it takes to produce sustainable growth

In fairness, absolute poverty creates so difficult an environment that it may very well be impossible to engineer within its confines any kind of meaningful economic enterprises. Indeed, there can be a legitimate debate about what is really at issue: *“Poverty as lack of economic development”*, or *“The dreadful condition of poverty that, as such, prevents building the foundation for economic development”*.

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

Relief alone will solve nothing

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

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

sustaining economic growth.

Poverty is reduced through self-sustaining enterprise

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

China and India

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

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

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

It is all about successful wealth creation.

Donors do not like to focus on economic growth

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

Some of these critiques are justified. Unfortunately, some of these problems are often part of the picture within struggling societies that just embraced entrepreneurship, at least to some degree.

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

Economic growth is a messy process

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

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

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

poor but equally poor, if the alternative is wealth, but just for some.

Development practitioners often lack a business background

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

The development industry is managed mostly by civil servants and functionaries who work for public donors: state-run development agencies or multilateral development institutions. In the U.S. many of them are former Peace Corps volunteers, essentially lay missionaries who see development as moral duty to help the poor.

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

Bottom line: most of them are not business people.

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

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

Poverty reduction alone will not do it

However, lacking a clear focus on economic growth as the paramount strategic objective, the goal of achieving development through poverty reduction is likely to be an

endless and quite frankly fruitless task. True, with all these efforts, the poor may become a little less poor, but they will not learn much about how to become self-sufficient through engagement in money-making enterprises.

Asia grows, while donor-supported Africa does not

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

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

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

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

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

No Real Development Without Economic Growth – Part 1

WASHINGTON – International development is generally defined by practitioners of this craft as *“the fight against poverty”*. I totally disagree with this approach that focuses on poverty, the practical manifestation of lack of economic growth, instead of dealing with the real problem that I define as: *“What does it take to get sustained growth, since growth is the prerequisite for economic and social progress in all societies”*? Fighting poverty is about fighting the symptoms, the practical manifestation of a lack of economic growth. What we want is healthy, productive societies that will create more wealth, and thus more widespread well-being. More growth means less poverty.

Fighting poverty

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

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

So, poverty as a condition, rather than promoting sustainable policies that will allow societies to get out of poverty for

good, is the focus of donors' attention.

Public relations

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

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

Christians ethics encourage giving

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

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

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

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

Plenty of relief activities that are not transformative

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

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

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

can and should be the foundations for wealth creation activities that will help transform these societies).

Poverty as “bad luck”

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

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

Successful capitalism has nothing to do with luck

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

But this is only a small slice of reality.

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

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

Poverty will be eliminated through successful enterprise

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

If we do not tackle these issues –education, opportunity, entrepreneurship– by creating at least an embryo of the institutional eco-system that opens up opportunity and by instilling the will and the ability to create enterprise, we shall continue to provide humanitarian relief to the poor, without offering a realistic new path to growth.

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

The eco-system

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

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

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

Relief as opposed to growth

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

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

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

Donald Trump And Nuclear Weapons

WASHINGTON – Casual talk about nuclear weapons and their possible use is not recommended. Likewise, tough remarks about

not being outspent by opponents on nuclear weapons procurement and deployments may create anxiety and fears about “arms races” and a path to war within the general public; but they do not amount to a clearly delineated new nuclear strategy.

Modernize U.S. nuclear weapons

I would not try to over interpret general statements made by President-elect Donald Trump on matters pertaining to the U.S. nuclear arsenal and possible policy changes, as for the moment they are not accompanied by a specific new policy agenda.

That said, here is what President-elect Donald Trump could say and do about the American nuclear arsenal, if his purpose were, as I hope, to reaffirm the long-standing U.S. policy whereby peace is ensured by a robust and always credible American nuclear arsenal that can and will be used in case of an attack.

In a word, nuclear deterrence works only if America demonstrates that it has both the tools, (state of the art nuclear weapons, ready to be launched), and the determination to retaliate, (this is about the ability to convey to all potential enemies that America has and will have the political will to retaliate, under all circumstances, no exceptions).

because of all of the above, President-elect trump could declare that America will continue to invest in the modernization of its nuclear triad (strategic bombers, land based intercontinental ballistic missiles, and ballistic missiles based on submarines). He could justify this policy by arguing that a modern, up to date nuclear arsenal is also a reliable arsenal. (Hence the recent decision made by the Obama administration to finally procure a new generation of strategic bombers in order to replace dangerously old B-52s).

The importance of Command and Control

Furthermore, he could add that, in order to ensure continued reliability of its nuclear forces under any scenarios, the U.S. will continue to invest in all aspects of Command, Control, Communications and Intelligence regarding U.S. nuclear weapons.

This is all about the goal of conveying to our adversaries that America's nuclear deterrent will always be a viable option in any and all situations. Even under the most catastrophic scenarios, there will always be a surviving, legitimate Commander in Chief in full control of all U.S. nuclear weapons. Even if the President and Vice President and other national security leaders down the chain of command were killed by terror attacks, a legitimate U.S. National Command Authority will always survive, fully prepared to retaliate massively against any aggressor.

Always prepared

So, here is the simple message to any hostile power: Never count on America to be caught unprepared by a surprise attack. Never count on any scenario in which America would surrender without retaliating. Massive retaliation will always be U.S. policy. Therefore, count on the certainty that disastrous losses will be inflicted on any attacker. Swift and devastating "massive retaliation" will always follow any attack against America. Therefore: *"Do not even think about it"*.

Invest in ballistic missile defense

Moreover, a Trump administration should focus on the creation of credible ballistic missile defenses. The U.S. standing policy based on a credible nuclear deterrent and the determination to use it should work against major nuclear powers (think Russia or China) that (supposedly) will always act rationally. But it may not work vis-a-vis an unpredictable nuclear armed North Korea or Iran (should Iran

eventually get its own nuclear weapons).

Hence the need to protect America with robust missile defenses capable of intercepting and destroying incoming North Korean nuclear armed missiles before they reach U.S. soil. As odd as this may sound, America at this time has a very limited number of interceptors. They are woefully inadequate to guarantee our security against rogue nuclear powers that cannot be deterred by the threat of massive retaliation.

Reliable nuclear weapons reinforce stability

Should president Trump announce such policy objectives, they should be interpreted by all observers –domestic and foreign– as reassuring. America will continue to rely on its nuclear deterrent. However, for such a deterrent to be credible, and therefore for nuclear weapons to act as a stabilizing force, it has to be modernized, in order to guarantee its reliability, resilience and survival under any scenarios.

Obsolete weapons create instability

Indeed, although this may not be immediately apparent to the lay person, a neglected, semi-obsolete nuclear arsenal, accompanied by a weak Command and Control system that may break down under severe stress is dangerous and destabilizing. Whereas a state of the art force that is always ready and reliable and always controllable by a legitimate National Command Authority creates stability.

Keep the peace

A robust Command, Control and Communications system, capable of withstanding the shock of a massive surprise attack will guarantee that under any scenarios a competent and fully empowered authority in Washington will always be in total control over America's nuclear forces.

There will be no surprises

The sum total of all these policies regarding the continuous modernization of U.S. nuclear weapons would be to convince any and all adversaries that they should rule out any scenarios under which America may be caught by surprise and therefore not follow through on its promise to retaliate. The U.S. main policy objective here is to convince all enemies that there is no "war winning scenario" against America.

Therefore, when it comes to dealings with an America always armed and ready to retaliate, peace is the best option.