

# **Only Skilled Workers Will Make It In The Global Economy**

**WASHINGTON** – We can argue that in America may be about half the work force is doing alright because it is positively connected to the fast-moving global economy. For them globalization is good. Most of them are “knowledge workers”. They design the sophisticated technologies which power global or globally connected businesses, or at least are familiar with them and know how to work productively with them.

## **Some do well, many do not**

If they are in high-tech, renewable energy, complex global logistics, medical science and diagnostics, digital design, supply chains creation, management and sustainability these American workers are probably doing alright.

However, most of the others –those who perform low value, repetitive tasks or who are engaged in manual labor – are or will soon be at the bottom of the skills pyramid. Unfortunately this means that their jobs are not and cannot become stepping stones to future employment in more challenging and more rewarding sectors. In many cases, the jobs that involve repetitive tasks will probably be outsourced, or will disappear altogether, as victims of the relentless automation wave.

## **Lack of skills, lack of opportunity**

If you belong to the bottom half of the “old economy”, your current position is bad and likely to get worse. If you do not have and cannot acquire the skills that give you dexterity with machines that work with numbers, (most likely because you had a poor education and therefore you do not know how to work with these systems), you have no career future. You are or will soon be pushed down into dead end manual labor jobs like

janitor, landscape worker, bus boy, or nursing home attendant.

The unlucky former manufacturing workers who lost their jobs due to globalization and automation are equally in bad shape. If they cannot be retrained so that they could aspire to the more sophisticated positions in new high-tech manufacturing or services, in most cases they will end up in one of those dead end, low paying occupations.

### **Getting the jobs back**

Of course, when then candidate Donald Trump came along in 2016 arguing that the only reasons these fine factory workers lost their jobs is the greed of their corporate employers seeking easy profits by exporting jobs overseas, along with unfair trade competition from China, Germany, South Korea, Japan, Mexico and everybody else, these displaced workers were eager to listen. And they were willing to believe that, indeed, all it takes to restore their old manufacturing jobs, (with all the perks and benefits), is a new President who really wants to help the little guy by turning things around in Washington.

Yes, they believed that a President can reverse the negative impact of globalization. Yes, he can force U.S. companies to stay at home and hire more American workers. Yes, he can re-negotiate unfair trade deals, so that the avalanche of cheap imports will stop, while American companies will find new markets abroad.

### **A nice dream**

This is unfortunately only a nice dream. No, no President, however well-intentioned, can stop, let alone reverse, globalization. Yes, he can strong arm corporations in order to slow down or stop the outsourcing process. But this is no long term solution.

In the end, American companies will succeed only if they can be and stay competitive. Forcing them to keep expensive or

money-losing operations in America, so that workers can collect a pay check, while their nimble foreign competitors conquer markets leads only to eventual economic decline.

### **The way out**

So, what is the proper way of addressing this crisis brought about by the competition of cheap labor (mostly from Asia) and the relentless march of automation?

The only way is for the unskilled to become skilled.

Those who are not employable today because they lack the knowledge and the basic understanding of how the high-tech knowledge economy works need to get those skills. And fast. Those who do not, are left behind. For them there is no upward mobility, no career ladder.

***The old adage that "hard work" is the key ingredient to success in America is no longer valid. Yes, diligence and discipline still matter. But only when accompanied by the sophisticated knowledge that allows mastery of complex systems.***

### **How is France doing?**

Well, if this is the rather gloomy picture for millions of Americans who may have missed the bus leading to the global economy, what about elsewhere? What about France, for instance?

France recently embarked in a an incredibly ambitious political experiment. The French voters ditched the established political parties, of the left and the right, and elected President the young and completely untested Emmanuel Macron. And the reason is that this investment banker turned politician, promised nothing less than economic renaissance.

While he phrased his campaign slogans differently, he promised the same end results promised by candidate and now President

Donald Trump: a complete bottom-up economic transformation.

Newly elected French President Emmanuel Macron claims that his policies will kick-start France into high gear. This rather old and unimaginative country will become a "Start-Up Nation". As a result of fresh pro-growth policies, there will be a fresh crop of entrepreneurs and innovators.

### **Reform labor laws**

Well, in principle this is possible. However, how do you make this happen? One good place to start is by reforming the antiquated French labor market. France is still prisoner of the old, pro-union leftist agenda which is all about the protection of workers rights. Nothing wrong with that, in principle.

The problem is however that by focusing on the protection of those who are employed, French labor laws make it much harder for employers to hire new workers. Indeed, when a new worker is hired, given all the protections he/she is entitled to, it becomes almost impossible or at least extremely costly to dismiss him/her when business is down.

In other words, by offering maximum protection to employed workers, French labor laws made sure that fewer workers would be hired, even in good times. In addition, the perks and benefits going by law to employees made French labor costs too high, this way making French companies less competitive in the global market place.

### **Bite the bullet**

It seems that President Macron is willing to bite this bullet. His government wants to tackle labor laws reform.

But here is the political and psychological problem. Even if well designed and skillfully implemented, labor law reforms will threaten the job security of existing workers before they

will be able to broaden the labor market, therefore offering new opportunities to those who cannot get into it today. Which is to say that there will be pain first (guaranteed), and (possible, hoped for) gains later.

### **Can Macron convince France?**

Can President Macron convince the French people that he can manage this complicated process well? Can he convince workers who may lose their jobs now, on account of more flexible labor laws, that in the future, given greater overall flexibility, more appealing jobs will sprout across the nation, this way creating brighter prospects for millions of old and new workers? This is going to be a tough sale.

In the end, it is obvious that a brittle French jobs market will not help advance Macron's vision of France as a "Start-Up Nation". Economic renaissance is very appealing until voters realize that change may entail threats to their current security. I am a bit pessimistic about the depth of France's newly discovered enthusiasm for enterprise and innovation, once the French realize that this hoped for transformation is not pain free.

I doubt that Macron will have the ability to convince most of the country that a more fluid society with fewer protections is also a more flexible society that creates more opportunities. No doubt most French would like to see more competitive companies and more jobs created. But those who are employed now do not want to lose whatever job security they have.

### **The challenge**

As noted above, even here in America, until not too long ago the quintessential "Start-Up Nation", in many sectors of our society and economy we are failing to live up to the old and time-tested "can do" spirit of flexibility and quick adaptation to new circumstances.

We failed to build the education, vocational training and retraining structures that would have allowed millions of workers to have a relatively smooth transition from old-fashioned, large scale manufacturing to a new, complex and more demanding knowledge economy.

Can an even more ossified France do a better job? Can a young, optimistic President Macron inject a new vigor into a declining economy?

Time will tell.

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## **Unrealistic Plans To Stop African Migration Into Europe**

**WASHINGTON** – How can Europe stop the endless tide of poor migrants arriving daily from Africa? Very simple, argues Matteo Renzi, Italy's Prime Minister. The EU will offer a "Migration Compact" to the poor African states. Europe will provide about 60 billion euro in fresh funds for new infrastructure and other worthy economic and social development projects that will dramatically improve economic conditions, and therefore opportunities at home for the African poor. In exchange, the African governments will promise to enact measures aimed at preventing this endless migration of the poor towards what they perceive as better places to live in Europe.

### **A good plan?**

Sounds nice, doesn't it? Since we all understand that poverty

and lack of opportunity are the main drivers of this potentially endless migration, let's finance genuine economic growth and jobs in Africa, so that the poor will have an incentive to stay, rather than leave.

Yes, good plan indeed. Except that it is a really silly idea destined to fail. In fact it is so unrealistic that we can only call it dumb. I have no idea why this Migration Compact idea is even under consideration in Brussels; but it is obvious that it cannot be implemented. And even if it could be implemented, it would not produce the intended results: i.e. stop migration.

### **The numbers are daunting**

First of all let's look at some numbers. Africa's total population is about 1.1 billion people, most of them poor. Even if only a small percentage want to emigrate to Europe, that is several million. Second point, this proposed EU fund would amount to about 60 billion Euro, to be disbursed over a number of years. 60 billion Euro sounds like a lot of money. But it isn't, given Africa's size and population and the prevailing horrible conditions when it comes to the insufficiency or complete lack of the basics: electricity, clean water, schools, hospitals, roads.

In other words, 60 billion Euro, while not negligible money, is simply not enough to move the migration needle. Third and crucial point, several decades of failed or under performing development assistance programs aimed at Africa provide ample evidence that it is impossible to plan, organize, manage and efficiently implement large-scale initiatives involving multiple partners with diverse agendas.

### **Mission impossible**

And this Migration Compact mega project would combine all the problems encountered in earlier occasions. Let me name just a few. There will be a huge fund managed by a bureaucracy that

will be hampered by byzantine, made in the EU procedures, rather than focus on substance: i.e. funding projects. Add to this the need to create a Master Plan involving multiple backward countries that would identify projects to be funded and related time lines –all this with the full cooperation of chronically inefficient and usually corrupt African governments.

Then you would need the creation of a robust monitoring and evaluation system that would identify execution problems at every point of the continuum, (planning, project design, environmental impact assessments, buy-in by local communities, creation of project implementation units at the ministerial and local government level, and so on), and craft appropriate and timely corrective measures.

And, last but not least, you would also need the creation of a workable mechanism that would allow disbursements only to the government that are in full compliance with the rules of this Migration Compact. This means that if a government does not actively discourage migration, funding to its project would stop.

### **it will not work**

Now, anybody who knows anything at all about the challenges involved in designing and implementing even modest development projects in Africa would tell you that this horrendously complicated mechanism will never work as intended.

Creating a Master Plan with so many stakeholders involved would take years. Many projects agreed upon, however worthy, would make no real difference in creating economic opportunity, and therefore would not create a real incentive for poor people to stay home. Disbursements would be messy and untimely. There would be a lot of waste due to poor planning and execution. There would be additional waste due to the lack of proper monitoring. And of course endemic corruption would



guarantee that a significant portion of all these new money would end up elsewhere. Last but not least, whatever they pledged to do, most African governments will not be willing or able to stop migrants. They simply do not have the resources to do this.

### **A bad idea**

Anyway, you get the picture. This Migration Compact idea is a monumentally ill-advised plan. The fact that someone proposed it as a practical tool to address an endless migration crisis is bad enough. The fact that the EU is looking at it shows that in desperate times desperate people are willing to believe anything, including magic.

### **Endless migration wave**

Here is the thing. Europe is unfortunately on the receiving end of a massive secular migration. Poor Africans want to go to Europe in the hope of finding a better life. They'll keep coming. However, slow growth Europe, unable as it is to take care of its own citizens, simply does not have the additional resources to receive and assimilate these illiterate masses. And yet, it has no solutions.

Having no solutions its leaders are inclined to debate and may be even approve the crazy dreams of a hapless Italian Prime Minister in charge of a country in which even garbage collection is often an insurmountable challenge.

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**Italian            Prime            Minister**

# Talking Nonsense

**WASHINGTON** – Yes, there is something to be said about optimistic political leaders who inspire their people to hang on and do the impossible, even when things do not look so good. Sometimes convincing leadership can perform miracles. Think of Winston Churchill during WWII, or Ronald Reagan in the 1980s.

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

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

## **Laughable**

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

## **How The Economist sees it**

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

*“The south [of Italy] grew more slowly than the north before the financial crisis. But the main source of the divergence has been the south’s disastrous performance since then: its*

economy contracted almost twice as fast as the north's in 2008-13—by 13% compared with 7%. The Mezzogiorno—eight southern regions including the islands of Sardinia and Sicily—has suffered sustained economic contraction for the past seven years. Unicredit, Italy's biggest bank, expects it to continue. [...]"

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

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

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

And let us not dwell on the dislocation and additional problems created by the tens of thousands of poor African immigrants who land in the South of Italy every year. They

cause huge frictions, while straining modest resources. And, by the way, youth unemployment in the South reaches 60% in some regions.

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

### **Stupid statements**

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

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

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

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

I am not sure why the Italian Prime Minister said this. But I find it remarkable that nobody called him on this. Nobody pointed out how preposterous all this is. No media comments.

No requests for clarifications as to how this magic “restart” will materialize itself.

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# The Dream Of A Modern Saudi Arabia

**WASHINGTON** – Bloomberg Businessweek placed Saudi Arabia’s Deputy Crown Prince Mohammed bin Salman on its cover (April 25 – May 1) underneath a caption that says he is “*preparing Saudi Arabia for the end of oil*”. The lengthy cover story is all about this energetic young Prince who –all alone– is determined to spearhead a series of bold initiatives and reforms aimed at re-engineering a country whose vast richness come from gigantic oil revenues, and not the skills of its citizens. Of course, being the son of the King helps a bit in what is still a top-down, absolute monarchy.

## **Plan to diversify the economy**

The long article explains how the Deputy Crown Prince plans to diversify the economy. He wants to start selling shares of Saudi Aramco, probably the single largest oil company in the world. He would then invest the proceeds in a number of global companies. After this diversification, in the future Saudi Arabia’s economic fortunes will be less tied to the ups and downs of oil prices.

## **No more subsidies**

At a different level, the Prince wants to cut back the vast web of subsidies provided by the Royal Family to almost every Saudi citizens. But this may be a bit tricky. It is an open secret that direct or indirect payments to millions of people

are the means through which the Saudi government keeps a lid on Saudi society. In a region marred by unrest and civil wars, not much anti-government unrest in Saudi Arabia, since almost every citizen gets a regular check from the government.

### **Problem: no real middle class**

Well, so far so good. Except for one thing. Even assuming that all these reforms will work, at best Saudi Arabia can become more efficient. But it simply cannot become a modern society the way we understand it. For the very simple reason that Saudi Arabia does not have basic political freedoms and a modern middle class that can act as the engine of self-sustaining growth.

Here is the simple truth. Except for vast amounts of easy to extract and therefore highly profitable oil, Saudi Arabia does not have a real economy. Saudi Arabia does not have a sizable educated middle class with a fair number of entrepreneurs engaged in profitable, innovative businesses.

### **Monarchy controls oil**

Saudi Arabia is an oil Kingdom (second largest crude reserves in the world) essentially "owned" by a mostly parasitical elite. This elite, (the extended Royal Family), controls all the oil wealth. The same leadership distributes some of the oil revenue proceeds to the rest of the country, in many cases via bogus government jobs that produce no value. It is fair to say that most Saudis do not do any real work. In the Kingdom real labor is provided by foreign workers.

### **No modern middle class**

Now, given this picture, I submit that unless these fundamentals are drastically transformed it is essentially impossible to re-engineer the Saudi society. Capitalistic economies succeed mostly because of the existence of basic political freedoms and because of a solid, entrepreneurial

middle class. By that I mean large numbers of reasonably well-educated, driven individuals who engage in money-making enterprises. Their activities are supported by bankers, lawyers, accountants, marketers, public relations professionals and what not.

In other words, modern competitive economies do not exist without a vibrant middle class that can produce at least some capable entrepreneurs. These entrepreneurs understand the value of innovation. They understand competition within a rules based system fairly managed by an independent judiciary that can act as a reliable referee in case of disputes.

### **Oil is the only productive sector**

Well, guess what, none of this exists in Saudi Arabia. And I sincerely doubt that any of this can be created –essentially out of nothing– by an energetic Crown Prince eager to modernize a rent based economy in which, with the exceptions of the few skilled people who are in charge of the highly profitable energy sector, nobody has done anything even remotely approaching real, productive work for decades.

### **Rules based democracy**

You want modernity? Well, then you need a rules based democracy in which people really understand and agree upon the proper balance between private and public, in which all players agree that the private sector is the driver of economic growth, while all economic actors appreciate the need to have and follow clear rules. You also need a government that is efficient, open, transparent, and fully accountable. Finally, you need basic freedoms, including laws that guarantee freedom of expression, and therefore truly free media.

### **Tinkering is possible; but no transformation**

I see none of this in Saudi Arabia. Despite formidable

constraints, I can see that some tinkering is definitely possible within the existing environment. If his reforms work, Prince Mohammed may be able to make the existing system less wasteful, less corrupt, and less dependent on the price of oil. And this is a good thing.

But he cannot create a brand new country and a new Saudi society. And without these two prerequisites in place, there will be no modern country.

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## **China Worries Fostered By Unreliable Government Data**

**WASHINGTON** – What's going on in the Chinese economy? Nobody knows, really. We get bits and pieces; but not the complete picture. There is a real estate glut in the secondary cities. There has been slow growth. We know that imports and exports are down. We know of massive over capacity in some basic industrial sectors, especially those that support construction and infrastructure (cement, steel and copper).

### **Ponzi Scheme?**

But we do not know the whole story. There is no open debate on the economy, or policy choices, let alone a clear depiction of the actual state of troubles sectors. In fact, independent reporting on the economy and financial markets is expressly prohibited.

And precisely because nobody knows, when something strange happens, like the recent Shanghai stock market mini crashes,



(that now amount to a significant correction), at the very start of the new year, many analysts fear the worst.

The truly scary (still hypothetical) scenario is that China has now become a gigantic “Potemkin Village”, a Ponzi scheme, a make-believe place of fake growth based mostly on unsustainable levels of debt. Just like in other Ponzi schemes, for a while everything looks great, but then it all comes crashing down.

### **Pessimistic picture**

Here is how The Wall Street Journal sees it:

*“[It is] more likely that Beijing will continue to prop up growth, steering more capital to money-losing companies, unneeded infrastructure and debt servicing, depriving the economy of productive investment and leading to the sort of protracted malaise seen in Japan in recent decades. But China is less prosperous than Japan.”*

*“Some state firms remain in business despite massive debt, several years of loss-making operations and a weak business model—Chinese officials have dubbed them “zombie” companies. Earlier this month, during a visit to the northern industrial city of Taiyuan, Mr. Li railed at the drag of “zombie” companies, according to a government account. He said they should be denied loans to reduce excess supply in the steel and coal industries”.*

Not a flattering picture. This WSJ piece talks about money-losing state owned companies, costly but unneeded infrastructure, zombie companies, increasing levels of debt, and a lot more. This is nasty stuff. But is this just a crazy exaggeration? Maybe.

### **Unreliable data**

However, the fact is that the dark scenarios and the extra

worry about China are due in large part to an opaque system that produces dubious, and mostly self-serving information. We simply do not have all the facts. Therefore, it is much harder to understand what's really going on.

And here is at least one key root problem about China. In large part we do not know what's really going on because we cannot trust official Chinese economic statistics.

It is an almost universally acknowledged fact that Beijing releases only optimistic, doctored economic data. In other words, "they cook the books". Their data on GDP growth, productivity, unemployment is fake.

### **Big lies?**

What we do not know is how deep these lies go. Are they doing just a little "air brushing", some minor embellishments? Or are we talking about massive data fraud? We simply do not know.

And precisely because we do not have a vetted, reliable baseline regarding GDP growth, inflation, unemployment, productivity, manufacturing growth and more, when something really strange and unusual occurs, like the sudden and deep Shanghai Stock Market losses, some are inclined to think the worst.

### **No transparency**

Well, is China's government going to become transparent any time soon? Don't count on it. Don't count on a privileged Communist Party oligarchy that owes its unchallenged supremacy to its reputation of infallibility to show poor data revealing that the leadership is delivering below plan these days. They will never do this.

Given all this, we are left with a lot of questions. We know that China is slowing down, but we do not know how much. We

know that there is a lot of bad debt, but we do not know at what point this becomes truly toxic. We know that most State Owned Enterprises, SOEs, do not perform well. However, we do not know whether this is a manageable problem or a crisis. We know about huge environmental problems caused by past unchecked growth, but we do not know at what point grass-roots protests about severe pollution may morph into organized political opposition.

### **Not a market economy**

One thing we do know. Despite all the incredible changes, and despite its ability to lift hundreds of millions out of poverty, China has not completed its transition to market economy status.

In a real market economy it is assumed that the government publishes accurate economic data in a timely fashion. It is also assumed that the private sector leads development, while all publicly traded companies publish balance sheets audited by third parties with reputable credentials. Finally, it is assumed that independent media freely report on economic issues.

None of this exists in China. *I repeat: "none of this".*

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## **China's Economic Slide And Its Political Repercussions**

**WASHINGTON** – The big 7% Shanghai stock market loss right at the start of the new year is surprising. It should not have happened. Indeed, we know that last year the Chinese government spent a small fortune (about \$ 138 billion) in a

major and highly publicized effort aimed at propping up share prices.

### **Major intervention**

After a mid summer major sell-off, Chinese brokerage houses were forced by Beijing to buy and hold stocks. Short selling was stopped. Other market-supporting measures were taken. And, sure enough, thanks to this massive state-sponsored intervention, the Shanghai stock market stabilized and regained some altitude.

Of course, this “recovery” is preposterous, for it has nothing to do with market fundamentals. But, after these well publicized large interventions, at least some investors kept their stocks with the confidence that the government somehow would keep prices stable. (And we call *this* a market economy?)

### **Why the sell off?**

Well, given all that, then why the New Year’s 7% sell off? With all the protections and props put in place last year, this was not supposed to happen.

Well, chances are that many in China are beginning to understand that the national economy, while not in crisis, is probably in far worse shape than advertised.

Chinese officials talk confidently of a progressive, smooth transformation from capital investments and exports to services and stronger domestic consumption. They tell China and the world that they are expertly leading this transition that will result in a better economy, with stronger foundations.

### **Manufacturing slow down, or crisis?**

Well, it appears instead that the manufacturing sector is not just being “reorganized”. It is in fact in truly bad shape. There is massive, in fact colossal over capacity in almost all

industries that was created by the stimulus launched to fend off the impact of the 2008 global financial crisis. In a real capitalistic economy, over capacity would be eliminated by painful but necessary plant closings, and massive lay-offs.

But this is China. Closing thousands of factories would be an admission of real problems, perhaps failure. Not to mention the social unrest that could be created by massive unemployment. Therefore, it cannot be done.

Money losing (many of them state-owned) industries will keep going. But this means extending cheap credit to them via state-owned banks. And this means a lot of bad debt piling up, while the state-owned enterprises keep losing money without any prospects of any turn around.

### **Decline, not a crisis**

It is hard to gauge the depth of this industrial decline. But it is serious. On the plus side, we know that China has trillions of dollars in reserves. Therefore there will be no "China collapse". Holes, even big ones, will be plugged.

But it looks as if China has lost altitude, probably for good. This means that the actual rate of GDP growth is closer to 5% or less, rather than 6.9% that the government claims.

### **Just an ordinary rate of growth**

This means that after its incredible thirty year ride, China's rejoins the ranks of middle of the road, middle-income countries. True, hundreds of millions are now out of poverty. And this is a real achievement.

However, it came at a very heavy price, as the positively toxic air in many large northern Chinese cities demonstrates. The environmental damage caused by unchecked development is colossal. The negative public health implications enormous.

### **Political impact?**



# Reliable Statistics Agency

**WASHINGTON** – Newly elected Argentine President Mauricio Macri wasted no time to create a new, pro-growth business climate. He immediately abolished foreign exchange controls, and took other measures to inspire confidence among business leaders. The era of price controls, exports controls, and other types of government mandated economic manipulation is over.

## **Produce reliable statistics**

Obviously this is not enough to turn a battered Argentine economy around. But it is a start. At the very least, from now on business people will respond to real market incentives, and not to government orders and threatened sanctions.

Interestingly enough, one of the key early targets of Macri's reform campaign is Indec, the national statistic agency. And why is that? Because under President Cristina Fernandez Indec had become an instrument of state power. Far from gathering and publishing real economic data, Indec was ordered to publish only sanitized figures that would show a prosperous economy, low inflation, and so on.

We know now that Indec managers who refused to publish false data were harassed, humiliated and fired. The others got the message and complied with government wishes.

## **Independent agency**

Now President Macri stated the goal to recreate independence, professionalism and credibility at Indec. And for good reasons. In a modern, market driven capitalistic economy business people, workers and policy makers as a minimum have to be able to rely on real data. Real facts about economic trends will influence critical decisions about investments, hiring workers, buying and selling assets.

## **A bigger story**

That said, the Argentine example of exposed manipulation for political purposes tells us a bigger story. Certainly the former Peronist government is not an isolated case. We can rest assured that all dictatorship and authoritarian states, from China to Russia, publish doctored economic data. And they do this for exactly the same reasons that drove the Peronists in Argentina. They want “positive facts” that show how successful their enlightened policies really are.

## **Routine manipulation**

And even when negative trends cannot be hidden, (witness Russia and China today), at least the extent of a down turn can be minimized. For these reasons, we can rest assured that all statistics about GDP growth, per capita GDP, industrial output, unemployment, income growth, and more produced by authoritarian governments are false or at least distorted.

## **Passive Western media**

And yet Western media in most cases report official data released by these governments without any commentary, this way implicitly endorsing the truthfulness of these doctored figures.

For instance we constantly read that China’s slowdown has reduced GDP growth to 6.9% in 2015. Well, the calculations produced by most Western private economic forecasting companies indicate that real GDP growth is much lower: probably between 4% and 6%. This is a huge difference. And yet in most cases this discrepancy is not reported by Western media. They usually quote only the official figures.

Translation: because of their monopoly on official information gathering and distribution, the autocracies still win. Thanks to Western media passivity, their propaganda becomes reliable information.



## **The critical importance of real data**

True capitalism needs a lot of things in order to succeed. But for sure those who operate in the market place as a minimum need to know what's going on. If they are fed distorted or completely false data, they cannot make intelligent business decisions. The same applies to policy-makers.

## **Defend integrity, expose manipulation**

So, here are two lessons. *Number one*: in a true market-oriented democracy the independence and professionalism of all public entities that produce official economic statistics has to be upheld and protected. *Number two*: all official economic data produced by autocratic governments has to be openly dismissed by Western media as self-serving propaganda.

De facto dictatorships should not be allowed to get away with lies.

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# **How Much Unemployment in China?**

**WASHINGTON** – The WSJ just had a front page story on China, focusing on factory closings, jobs losses, strikes and workers protests. However, it is very difficult to place all this context. Unfortunately, there is no reliable official Chinese data on unemployment, bankruptcies and industrial actions.

## **Official statistics**

Indeed, Chinese official statistics indicate that the unemployment rate in China is always the same: between 4.1% and 4.3%. Of course, this is impossible.

But why would it be important to know more? Well, because growing unemployment, if this is indeed the case, combined with workers' protests after factories closings, is the social –and potentially political– consequence of China's economic slow down.

### **New jobs in services?**

If the slow down is moderate and gradual –this is the official line coming from the Beijing political leadership– and if it is indeed true that China is successfully shifting from manufacturing to services, then its vast labor market will have time to adjust. Laid off factory workers may be able to find good or even better employment opportunities elsewhere.

***But if the contraction in manufacturing is fast and severe, then the labor market cannot adjust, and this may create new problems. Citing various studies, the WSJ indicates that between 2014 and 2015 the number of labor related protests and strikes has doubled in China. If true, this is a remarkable development.***

For the moment, the issue of labor protests seems to be contained. There are no politically explosive situations. But if this trend continues, if there are more and more public protests related to plant closings and jobs losses, then it becomes more complicated. In other words, what may begin as an economic issue will become a political problem.

### **Unlucky migrant workers**

The WSJ goes into some detail on Chinese joblessness by telling the stories of unlucky Chinese migrant workers who left a life of poverty in rural areas and got factory jobs in cities. This change was definitely an improvement for them

and literally tens of millions of others just like them.

But now many factories have shut down. These migrant workers are jobless. They cannot go back to villages where there is no opportunity. They are poor and frustrated. On occasion they stage public demonstrations.

Again, how many factories have closed nationwide? We do not know, because there are no official statistics on this. (We know however that at least 1/3 of all the factories owned by Hong Kong companies in the adjacent Guangdong region in main land China have shut down).

### **How many jobless workers?**

So, here is the politically relevant question. How many migrant workers are jobless and potentially desperate? Are the protests staged here and there just local events of no real consequence? Or do they represent a trend?

In other words, what if China's economic slow down is worse than we are told by Beijing? Will unemployment levels grow to a point in which this will become a political issue?

### **Unemployment trending up?**

We really do not know. While unofficial statistics indicate that the real unemployment rate in China is probably closer to 10%, (as opposed to the official 4% to 4.3%), this does not tell us much. What would be really important to know is how it is trending. Is it going higher, at a fast clip, or is it stable or going down?

We have no idea. But it is hard to believe that China will be able to maintain its present level of employment while the overall economy slows down, construction is down, manufacturing is down, and exports are down.

More protests ahead?

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# Argentina Chose Mauricio Macri, A Pro-Business Leader

**WASHINGTON** – After 12 years of semi-deranged left wing populism managed by Cristina Fernandez de Kirchner, the political heir of Peron's tradition, Argentina decided to sober up. Contrary to expectations and many polls, Daniel Scioli, outgoing Buenos Aires Province Governor and designated successor to Fernandez, did not make it. As he did not get a majority in the first round, he was forced into a second round by Mauricio Macri, the Mayor of Buenos Aires and the founder of the "Let's Change" opposition coalition.

## **Macri won**

Since he was leading after the first vote, Scioli could have won. But instead Macri finished ahead, by a good margin, (more than 52% of the vote).

This is a major political and hopefully economic transformation in one of Latin America's largest economies. Macri is a free market conservative who intends to do away with the crazy policies of the Peronists, including currency controls and the creation of a bloated public sector used almost entirely to give jobs to political supporters.

## **Difficult job for the new President**

Will Macri succeed? Will he unleash private enterprise, create jobs and attract more foreign investors? I should hope so. But it will be extremely difficult. Argentina has been mismanaged

for several years. And right now it is in a bad spot. The commodities boom is over. Revenue from exports has dwindled. Inflation is rampant. People look for US dollars in the black market.

### **It will take time**

And it is to be expected that the voters' good will towards Macri will not last very long. People who voted for change are impatient and they expect quick results.

Understandably, they want jobs, higher salaries, the end of inflation, and more. Certainly Macri can put an end to the ongoing international litigation about some aspects of the Argentine debt default (December 26, 2001) that have prevented Argentina to fully access international financial markets.

A pro-business government in Buenos Aires will attract many more foreign investors. And Macri can start work aimed at improving public administration. After all he got a pretty good training as the Mayor of Buenos Aires, Argentina's largest city.

Therefore, the prospects for an improved economy are good. However, it will take a long time before the average Argentine voter will see results. Structural reforms aimed at fixing old, systemic problems cannot be improvised. It will take time.

### **Tell the truth**

Let's hope that President Macri will be able to tell the truth about the arduous road ahead and retain at the same time the confidence of the people who just elected him.

There is no doubt that he wants to be a pro-business reformer. The question is whether he will have the time to do what needs to be done while keeping a restless nation behind him.

I wish him well.

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# Japanese Women Still Excluded From Management Positions

**WASHINGTON** – One of the key promises of “Abenomics”, the far-reaching economic reforms package put forth by Prime Minister Shinzo Abe, was to shake up Japan, so that it would shed its time-honored but inefficient traditions, and become a more dynamic society. An important element of the “Abenomics” plan was to incentivize a much stronger participation of women in the Japanese work force.

## **Cash rewards for companies that promote women**

To this end, a year ago the government launched a scheme that offers cash payments to small firms that would promote women to management positions. Well, a year after its launch, the program received just one applications.

Yes, just one.

Government officials argue that may be the scheme was presented in difficult to understand technical language, and this is why it has been ignored by small firms managers.

## **Women at the top still not welcome**

*May be. But most likely the truth is that the Japanese business world is still not ready for a new era in which a large number of women are in executive positions dealing with men as peers. And so here we see the negative effects of outmoded but entrenched cultural prejudice on economic dynamism and eventually improved performance.*

## **Rich but stagnating society**

By most accounts Japan is still a very rich society. (The number three economy in the world, after the US and China). But it has been stagnating for decades. Despite world leadership positions in some key tech sectors, Japan is stuck. Deflation, low productivity and an astounding public debt, now above 240% of GDP, prevent growth. Add to this depressing mix a (terminal?) fertility collapse that combined with long living seniors is slowly transforming Japan into a large geriatric ward.

### **Strengthen the economy?**

For sure, adding the contribution of women to the national economy would be beneficial, especially if combined with generous child care assistance programs that would help working women who want to have a career and a family.

But this is not happening. Notwithstanding some progress, according to a recent [FT](#) report, Japan has one of the lowest ratios of women in executive positions among all OECD countries.

With good intentions, Prime Minister Abe wanted to pull down these gender barriers. Hence the government scheme that would reward companies that promote women, or train them for management positions.

But there are no takers.

The government indicated that this will change now that the application procedures for the cash bonuses have been simplified.

### **Entrenched culture prevents growth**

I would not be too sure of that. The sad truth is that Abenomics failed. The currency has been devalued. Therefore, some exporters are doing a lot better. But overall debt is still unsustainable.

Much worse, the old habits and traditions that now make Japan brittle and structurally inefficient still prevail. The inability to create new career paths for professional women is just one illustration of a change averse, sclerotic society.