America's Economy: Stagnation and Inequality, A Bad Mix

WASHINGTON – Capitalism is still by far the best economic system we know. But it is not as good as we would like it to be. Here in America we are in the middle of what Tyler Cowen appropriately named "The Great Stagnation".

No innovation

Indeed, beyond the still vibrant IT sector, we seem to have lost the ability to innovate. There are no ground breaking inventions, no real "game changers" in power generation, civil aviation, biotech, agribusiness, and so on, that open up entire new sectors.

Stagnation also means little or no productivity growth, and that means thin margins for many industries. And technological changes, to the extent that they exist, usually have a negative effect on mundane functions, (and that means jobs), that can be easily replaced by automation.

Little growth, low wages

Yes, the economy grows; but just a little. There are good news on employment. We have just added almost 300,000 jobs in April. But they are mostly low paying jobs. There are millions of Americans who would love to trade their current part-time jobs with full-time employment. The middle class is barely treading water. Millions of Americans are actually doing worse now than 10 or 20 years ago.

Growing inequality

At the same time, whatever new wealth is produced, it ends up in the hands of fewer and fewer people. So, here we have it. Very little economic growth and growing socio-economic

disparities.

The US is becoming a bit like Brazil and other Latin American countries. Modest growth, huge inequality and a shrinking middle class.

No good answers

These are really major issues. And nobody has a good answer. How do we reduce inequality without punitive actions against those who do better or very well? How can we help the shrinking middle class without creating a gigantic and ultimately unaffordable welfare state? And –most critical issue– how do we recreate the magic of broad based innovation? As I said, nobody really knows, for sure.

Retreaded political ideas

But politicians are forced by the circumstances to come up with answers. Confronted with this phenomenon of lower incomes for the middle class, while those at the top have become fabulously wealthy, the left simply retrenched to familiar ground. This growing inequality –its leaders say– is unjust and immoral. The state should do more to help those at the bottom. And you finance these needed social safety nets by taxing the rich who are taking more than fair share anyway.

Redistribution

This approach may make some people feel better. But in the long run it is self-defeating. No public policy founded on redistribution ever managed to give any real impulse to growth. The rich will hide their wealth whenever they can and/or move to another country if they have the opportunity. Those who cannot escape will lose their motivation to invest and expand. If things are bad today, you can rest assured that they will be worse tomorrow.

Free-market capitalism will work its magic

That said, the orthodox pro-capitalist have no new insights either. The idea that, if you leave the system alone –that means deregulation, lower taxes– it will take care of itself, looks at best a bit naive, at worst utterly disingenuous. While one should not tinker with innovation by having politicians picking winners and losers and by subsidizing this or that, are there ways in which public policy can stimulate innovation and expand opportunity?

Expanding opportunity

Is there anything that can be done to give a good, if not excellent, public education to millions of poor kids who are stuck in mediocre or failing public schools? These kids are part of our future human capital reservoir. If we let them grow up with no education, they will be able to do little for themselves and even less for society.

These lean times should stimulate new, constructive ideas. But they do not. The left thinks in terms of redistribution financed via higher taxes imposed on the rich. The right still thinks in terms of pure free market capitalism whereby the "invisible hand" will take care of everything.

Immediate handouts seem better

These stale recipes will not work. Sadly, in this unimaginative political landscape it is likely that those on the left who promise a free lunch to people who are really hungry will get more attention.

The millions of Americans who are not doing well are more inclined to listen to the politicians who offer immediate relief. Paraphrasing the old story, for most people in need receiving a fish now seems more appealing than enrolling in a course that will teach them how to fish.

The point is that we shall soon run out of fish.

China's Government Manipulating Official Statistics?

WASHINGTON – A few days ago a major US newspaper had yet another story on China's economic slowdown. Yes, China is still growing at a 7.4% pace. This is much less than before; but still very impressive if compared with more mature economies that cannot even get to 2%. However, many economists are worried because longer term projections would indicate even slower growth in China for the rest of 2014 and 2015.

The slow down

So far, nothing remarkable. The Chinese government talks openly about a moderate slow down. The International Monetary Fund is also projecting somewhat slower growth. We know all this, even though experts may differ on the long-term implications of this slow down.

But what if the slow down were in fact much more significant than we are told? Well, this would open up a different debate on China's future as a world economic giant. Hence the relevance of an additional part of the same news item. Indeed, the article mentioned above also added that, according to different projections made by serious private sectors economic forecasters, China real economic growth is in fact much smaller.

No, it is not around 7.5% . It is in fact only 6%, or may be even less.

Cooking the books?

Got that? The Chinese government says 7.5%. But the real figures say 6%. This is no rounding error. And the implications are clear. If GDP growth is only 6%, this would indicate a far more significant, almost dramatic, slow down. The article did not comment on this discrepancy.

So, which is which? We do not know. But, assuming for a moment that the private sector company is correct, there is only one conclusion that can be drawn here: ***"the Chinese government routinely cooks the books, because it is scared of the negative political repercussions on the leadership of disappointing economic data "***. In other words, official economic statistics are (routinely?) embellished in order to make the country –and therefore its leadership– look far better than what it actually is.

Everybody does it?

Many can react to this with a yawn:

"So what? What else is new here? Every government puts a spin on numbers in order to make itself look good. China is no different".

I am afraid it is not so. It is certainly true that all governments are guilty of spin. Everybody tries to put whatever numbers there are in the best light. And certainly we know that most official projections on future growth, future employment, future disposable income, and what not tend to be inflated, as they are invariably based on best case scenarios that very often do not materialize.

Spin and false numbers are two different things

But there is a huge difference between interpreting official numbers in a politically convenient way, while making overly optimistic predictions, and cooking the numbers on past performance.

We can expect the US government to come up with unrealistic predictions on future economic growth because this puts the incumbent administration in a better light. This happens all the time.

We trust official numbers

But we do not expect the US government to intentionally produce false official data on growth that has actually occurred. And here we are not talking about rounding errors or small discrepancies due to the use of different methodologies. Here we are talking about adding 1.5% to GDP growth figures.

Is China a "normal" country?

Well, I have no way of evaluating whether the economic growth numbers for China produced by private forecasters are the real ones, or not.

However, if they are right and therefore we have to conclude that the Beijing government willfully manipulates the GDP growth numbers it releases to the public, then we are still a long way away from the day in which China, notwithstanding all its progress, can be considered a normal country.

Ukrainian Prime Minister Yatsenyuk Both Defiant And Conciliatory In A Speech At The Atlantic Council

By Paolo von Schirach

March 12, 2014

WASHINGTON – The Western world seems to be united in its support for the embattled (and truly broke) Ukraine. Regarding the unprovoked Russian invasion of the Crimean peninsula, The G 7 issued a statement indicating that territorial changes in the Ukraine arrived at without following the proper constitutional process will not be recognized: "*Any such referendum* [on the secession of the Crimea] *will have no legal effect*". The EU, on its part, also condemned the Russian military occupation and Moscow's moves aimed at the annexation of the Crimea.

Obama's support

President Obama added his open support when he received at the White House Arseniy Yatsenyuk, the Ukrainian Prime Minister, on March 12, just days prior to the planned referendum on joining Russia to be held on March 16 in the Crimea now under Russian military occupation (in violation of the Ukrainian constitution). So, the message to Putin is clear: "*We, Europe and America, stand firmly with the new government in Kiev. What Russia has done is unacceptable. Moscow has to order its troops to go back to their barracks".*

Prime Minister Yatsenyuk at the Atlantic Council

The young (39 years old) and affable Prime Minister Yatsenyuk, speaking at a packed event hosted by the Atlantic Council, a prestigious, non partizan Washington foreign policy think tank, talked confidently about all the support his country has received.

And yet, the general tone in the West, and even in the words articulated by the Prime Minister, is not bellicose. Yatsenyuk opened his remarks at the Atlantic Council referring to the Russians as past and future "partners". He repeatedly indicated that this unprecedented crisis created by the invasion should be resolved through dialogue and diplomacy. He

pointed out that the Ukrainian government is eager to work on new laws and regulations that will further enhance the autonomy of the (mostly Russian speaking) Crimea. He pledged that there is and there will be no discrimination in the Ukraine against the large Russian minority.

Autonomy to the Crimea

In other words, he *almost* said (anyway this is what I read between the lines) that the Ukraine is willing to give the Crimea *virtual* (even though not legal) independence. (Any formal secession could be arrived at only by following a prescribed constitutional process).

Yatsenyuk did everything he could in his remarks at the Atlantic Council to reassure the Russian government in Moscow, the Russians in the Crimea and in the rest of the Ukraine that they have nothing to fear. The government in Kiev does not and will not discriminate against anybody.

Which is to say that if indeed the Russians have intervened militarily because of a genuine concern about the welfare of the Russians in the Crimea, *there is really no issue*. The Ukrainians are committed to protecting all citizens equally, regardless of ethnicity.

The Russians can get reassurances

If the Russians have indeed acted in good faith, out of fear about the fate of their brethren in the Ukraine, then they should seize this opportunity and start a dialogue with Kiev aimed at spelling out how the Russians in the Crimea and elsewhere in the Ukraine will be protected by the new government.

If this were indeed the real issue, then it could be addressed and solved, since the Ukrainians, according to the Prime Minister, are willing to concede (almost) *everything* when it comes to additional autonomy to the Crimea. Yatsenyuk pointed

out that this would not require a major effort, as there was no violence or discrimination against ethnic Russians in the Crimea prior to the Russian military occupation.

The alleged persecution of Russians is just an excuse

The problem is that Putin used the alleged persecution of ethnic Russians in the Ukraine as a convenient excuse. I doubt that he believes any of what he said publicly to justify Russia's military intervention. The fact is that for his purposes of power consolidation and reaffirmation at home, seizing the Crimea after having lost (politically) the Ukraine seemed the clever thing to do. This notion of "saving" oppressed Russians unjustly separated from the Motherland has a certain ring among Russian nationalists, and so this was a politically astute move. In Russia and among most Russians, Putin now looks very good.

But Putin is now in a bind abroad. The West is against all this. There is no way that an open land grab that violates key principles of international law, along with a multilateral treaty that guarantees Ukrainian sovereignty co-signed by Russia, can be ignored. Berlin, London and Washington simply cannot continue business as usual with Moscow.

What will the West do?

That said, it is unclear to me, despite the declared support for the Ukraine, what exactly does the West plan to do. Are we ready to go to the next level: ***namely serious economic sanctions against Russia?*** We certainly could, starting with the seizure of bank accounts and properties owned by the Russian oligarchs (most of them friends of Putin) who have stashed their loot in London and Geneva and who bought luxury homes in Paris or the Riviera.

Sanctions, anybody?

We could really hit Russia where it hurts. And let's remember

that Russia does not have a lot of staying power. It has a relatively weak economy that is almost totally dependent on the revenue provided by selling oil and gas abroad.

Of course, there are also clear European vulnerabilities. The Russians know that Europe depends on Russia's gas. Therefore, if Europe freezes economic relations with Russia, and gas stops flowing west, what will happen in Germany or Poland? How will they keep the lights on without Russian gas? No easy answer for this, as there is no immediate alternative to Russian gas. This energy dependence makes it very unlikely that Germany, Sweden or Bulgaria are prepared to enforce really tough economic sanctions against Russia.

In the US the picture is only marginally better. (By the way, we have all the gas we need here at home). President Obama, notwithstanding his recent show of support, has no special interest in prolonging a foreign crisis that most Americans do not even begin to understand, just a few months before the November congressional elections in which his party already stands to lose a lot of seats.

Putin's calculations

All in all, my sense is that the Russian "Crimea Gamble" included the calculation that there would be no Western united front against Russia. If this is so, Putin may really believe that he will get away with this unprecedented land grab.

I would love to be wrong on this, but I suspect that Putin's assessment is correct. There will be a split within the West. If Putin is right, in the end he will prevail. He is a bully willing to take risks. The "peace-loving" Europeans are not in the same league.

Western verbal support

For the moment, everybody is saying the right things. But when it comes to ***"action"*** I suspect the music will change –a lot.

The poor Ukrainians will realize that they are pretty much on their own on the Crimea.

They will get (some) money from the EU, the US and the IMF to stabilize the economy, and more help down the line for structural fiscal and institutional reforms. But nobody is going to engage in serious, prolonged actions –let alone military actions– against Russia, in order to restore law and order in the Crimea.

Without real (as opposed to verbal) support, the Kiev government will have to settle. It is obvious that the Ukraine cannot afford to be in a state of permanent crisis with Russia. There are just too many intertwined interests, too many relationships. Eventually some face-saving formula regarding the final status of the Crimea will be devised.

The world will nod and we shall all move on.

Financial Aid To The Ukraine? Great Idea But Huge Costs

By Paolo von Schirach

March 10, 2014

WASHINGTON – A few days ago, I argued in a related piece that it is hard to believe how Ukraine can be considered by either Russia or the West as a coveted prize in this emerging new version of an East-West confrontation. The country is vast, (almost the size of Texas), and it is home of a fairly large population, (somewhere around 45 million). Other than that, however, Ukraine is a real mess. It is poorly organized, very

corrupt and essentially broke. Indeed, just to get things back together, we are talking about a $35 billion bill. I assume that includes all the unpaid natural gas bills that Ukraine owes Russia's Gazprom.

Save the Ukraine?

And yet, notwithstanding this economic train wreck, now the talk is about the (semi-broke) West bravely stepping up to the plate in order to "save" Ukraine. Indeed, if I understand correctly the still hazy plans articulated by US Secretary of State John Kerry and some European policy-makers, we are in for a lot more than just an emergency financial rescue operation.

We are talking about a long-term commitment to turn the Ukraine around.

We are talking a major, multi-year assistance package, (including money, tools, technical expertise), aimed at helping the new leaders of the courageous Maidan demonstrators in planning and then implementing major reforms. The goal is nothing less than a reborn Ukraine that would prove to the world (and of course to its Russian neighbors) that a messed up, post-Soviet Republic can become a viable, modern country by adopting best practices when it comes to ensuring basic freedoms via good governance and the adoption of sound economic management. In a nutshell: if we are serious about this, we are talking years and years of sustained work, and tens of billions of dollars.

This is going to be expensive

Turning the Ukraine around is of course a great idea. The problem is that, even assuming good will and not too much negative Russian interference, (you can count on Moscow's attempts at sabotaging pro-Western policies), this is going to

be difficult and very, very costly.

Therefore, Western leaders should make this very clear. For instance, I am not sure that US voters, worried about unemployment, stagnant wages and massive student loans debt burdening millions of young workers are that keen on pouring billions of dollars into the Ukraine mess.

Let’s try

That said, I do hope that America and Europe, with the support of the IMF and others, will try this. If the Ukraine succeeds, if it becomes like Poland, a former Communist country that successfully embraced Western values, this would strengthen Europe and America. Furthermore, it would show the world that our model works. Yes, a well-functioning democracy is the foundation for sustainable prosperity.

Nation building? Again?

Look, I realize that here in the US any undertaking that even remotely resembles *“nation building*” evokes the truly bad experiences of Afghanistan and Iraq. And for very good reasons. Lacking judgment and even elementary common sense, the Bush administration and to a lesser extent the Obama administration poured tax payers’ money into costly and generally ill-advised development assistance projects aimed at these two countries. The US “Grand Strategy” at the time of the Bush administration was to crush dangerous tyrants and autocrats, have free elections so that the people would finally have a say, and then help the new, democratically elected policy-makers rebuild their countries following the tried and tested Western model. And so, thanks to America, there would be genuine freedoms, market economies, no more corruption, gender equality –and a lot more. Yes, people would vote, children would get immunizations, girls would go to school. A New World.

Nice and noble ideas. But it could not be done. Not because the aims were bad, but because there was a gigantic disconnect between the lofty goals on one side and the relatively small resources allocated, plus the (almost insane) belief that much could be done in a relatively short period of time on the other.

It could not be done

Simply put, you cannot have gigantic social and economic transformations –premised on new values being genuinely embraced by millions– in a matter of a few years. At the time of the US military occupation in 2001, Afghanistan was a semi-destroyed country with almost no viable economic activities. Thanks to the Taliban, it lived virtually in the Middle Ages. It was disconnected from the rest of world.

The very fact that some people in Washington embraced the notion of a turbo-charged modernization program as a viable proposition is baffling. And that approach, mind you, was developed before the rebirth of the Taliban-led insurgency made everything a lot more difficult.

Ukraine is different

Well, if we fast forward to today's Ukraine with the still fresh memories of the Afghan and Iraqi failures in our minds, the idea of starting all over along the same path looks really unpalatable. And for very good reasons.

The huge difference, though, is that the Ukraine, while in truly bad shape, is a semi-modern country. It has educated people and some of the building blocks to make things work. Therefore we can assume that our chances of success would be a lot higher. And, again, let's keep in mind that helping to build a viable society in a vast country at Europe's immediate periphery in the long-term would help peace and stability in

the Continent.

Uncertain mission, but worth pursuing

That said, if America and Europe are serious about this undertaking, we are talking about tens of billions of dollars over a number of years. Beyond the immediate financial crunch, the Ukraine will need investments and help to modernize its industries, its infrastructure, its governance, its education systems, and what not. And, let’s not forget that this noble attempt may fail. If the country will not abandon its deeply rooted culture of corruption nothing much can be done.

Still, even keeping in mind the lessons of Afghanistan and Iraq, and the uncertainties embedded in any undertaking of this magnitude, the Ukraine is a far better place. And the stakes for the West are arguably much higher.

Vladimir Putin’s dream is to bring major pieces of the old Soviet Union back into the fold. But he has nothing good to offer. Beyond oil and gas, Russia is not a leader in anything. Whereas Europe and America can offer a new path to democracy and prosperity (via investments, technology transfers and trade) to the Ukrainian people.

And ultimately it is in our own self-interest to demonstrate that our values and our systems really work. This is the best lesson that we can offer to all the people who suffer under autocratic regimes, in Russia and elsewhere:

Democracy is the right choice, and it is really good for you.

With Or Without A Major Crisis In The Ukraine, Putin Determines The Agenda

By Paolo von Schirach

Related piece:

http://schirachreport.com/index.php/2014/03/03/ukraine-crisis-end-game-putin-gets-keep-crimea/

March 4, 2014

WASHINGTON – What is truly worrisome about the ongoing Ukrainian crisis is that Putin sets the stage and the tempo. A startled and frankly frightened world is on edge after Putin invaded the Crimea because he got mad after his strategy to get the Ukraine back into Russian orbit failed. Instead of saying: "*You get out, Mr. Putin, or else*", the West muttered: "*Oh Brother, what is he going to do next*?" Well, calm down. After a few days of ominous silence, Putin finally talked, saying mildly reassuring things. Relax, Russia is not going to invade the Ukraine. And the West is relieved. "*Thank God, he is going to be nice, after all. Oh Boy, this was a close call*".

Putin determines the agenda

The upshot here is that, one way or the other, Putin is in command. The timid and disorganized West at best is in a reactive mode. Where is America's leadership? Where is the European Union? Where is NATO? No united front. Oblique and generally innocuous statements in Europe. Big words with no chance of an organized follow on in Washington. This is the sad spectacle.

And look who is winning: Russia. A rather sorry-looking "has

been", a country masquerading as great power only thanks to the considerable cash flow provided by oil and gas exports. This otherwise semi-developed petro-state gets to determine the mood in Europe and in America. (Consider this: even with all its oil and gas revenue, Russia per capita GDP is only $ 18,000 a year. This places it at number 77 in a descending world scale, below semi-bankrupt Argentina and just a few notches ahead of Botswana. Not exactly economic giants. In contrast, the US per capita GDP is $ 52,000 a year. The US is number 13 in the same world ranking. And do keep in mind that the spots at the very top are occupied by special cases like Qatar, Singapore and Luxembourg).

The West has a lot more wealth

This is crazy. A semi impoverished state with a third-rate economy determines world events. It should be quite different. The West, with its power founded on real wealth creation made possible by free institutions, should dominate. And we certainly have the resources. The combined GDP of the US and the European Union is more than US $ 35 trillion, compared with Russia's mere US $ 2 trillion! However, instead of using intellingently our considerable wealth, we allow the neighborhood bully to determine whether we can feel at peace or under threat.

This is a bad situation. Sane people would call it intolerable.

Bringing Russia into the West

And remember that the whole point of bringing Russia into the G 7 Club (thus creating the G 8) was to make post-Soviet Russia feel welcome and at ease in the West. Ditto for its belated entry into the World Trade Organization, WTO. The idea was that a democratic Russia, willing to play by the rules, had only to gain from a closer association with the West. And what did we get as a result? The invasion of Georgia

in 2008, and now the invasion of the Crimea.

An authoritarian regime

Instead of learning from the Western experience, Putin created his own semi-authoritarian state. For all practical purposes, he re-nationalized Russia's vast energy sector, while he created a climate of open intimidation against any domestic opposition. And now he proved that he is capable of truly crazy things (Crimea) when he gets mad, as in this case caused by the blistering political defeat he just suffered in the Ukraine. With no apparent fear of any consequences, Putin invaded the Crimea, and then he threatened all out war against Kiev. And he did all this, in open breach of many established international law principles, essentially with impunity. Who is going to resist him? Nobody.

A post Cold War order?

In fact, stock markets sink when he makes threats, and they rally when he says a few conciliatory things. Therefore Putin is the modern tyrant who holds sway and whose mood changes we all must fear. In fact, as he is moody, all the more reasons to be extra nice to him, in order to avoid provoking another temper tantrum.

Is this our idea of the post Cold War international political order? Is this the end result of the carefully crafted "reset" with Russia smartly engineered during Obama's first term, (and executed, I might add, by then Secretary of State Hillary Clinton)?

Putin will keep the Crimea

That said, even though we may have a welcome de-escalation regarding the Ukraine, as I predicted, (*see link above to a related piece*), there is no sign that Putin is about to relinquish his grip on the Crimean peninsula. The region is now under total Russian control. I believe that, as soon as

things calm down a bit, Russia will force a referendum whose outcome will clearly indicate that the Russians in the Crimea want a higher degree of "autonomy" in the context of a loose federation with the Ukraine. This will be *de facto* independence and *de facto* Russian control over the Crimea.

Is this the way to make constitutional changes?

In this case, the facts on the ground favor Russia. Most Crimeans are ethnic Russians. And probably they do not mind Russian domination. Therefore, my sense is that, as long as there will be no formal breaches of basic international law principles (such as an outright annexation) the world will acquiesce. That said, even though the Russians in the Crimea may indeed prefer greater autonomy, and do not mind a closer association with Russia, this is certainly not the way to put forward a constitutional change agenda.

This way of doing things, with a clear military threat in the background, sets a bad precedent. And this is not good. Not good at all.

Chinese Experts Say That China Needs A Lot More Natural Gas – Not Renewables

By Paolo von Schirach

February 17, 2014

WASHINGTON – In the often schizoid US national debate on energy issues the "good and enlightened people", (those who would like us to stop using carbon based fuels

immediately), frequently point out that China is way ahead of America. China, we are told, is investing massively in renewable energy, most notably solar. You see, the real point is that the wise Chinese technocratic leaders, capable as they are to serenely contemplate "the big picture", figured out long ago that their vast nation needs to get out of carbon. The conclusion is that the Chinese are wise and smart. We are not.

Bad carbon based energy

Largely because of the evil works of the oil and gas lobby, we keep focusing on the outmoded, wrong formulas –fracking being the latest. Indeed, by developing this (sinister?) source of natural gas contained in shale formations we continue our perverse dependence on carbon, while we pollute our precious water supplies and create untold dislocations across rural America.

What is really happening in China

Well, the real picture is quite different. China's state TV, CCTV, reports that in order to curb stratospheric levels of pollution, officials in the Hebei Province, (a large area surrounding Beijing and now officially the most polluted province in China), had to resort to the actual closing down or destruction of 8,347 industrial plants producing cement and glass, among other heavy polluters.

An expert from an official research agency, interviewed by CCTV, indicated that reducing horrible levels of smog will be very, very tough.

For one thing, he stated, if the province wants to move to renewable energy, making anything there is going to be much more expensive. This will be very tough for business, he pointed out. Furthermore, the general public will be hit by higher utility bills. So, there you have it. Renewable energy costs a lot more and makes it harder for industry to stay

competitive.

China needs natural gas

And so, what is the way out? Well, the expert said that China needs to increase its supplies of “natural gas” and “nuclear power”.

Got that? “Natural gas” and “nuclear power”. Not a word uttered by this presumably enlightened Chinese expert about solar and wind. And why not? Not because they are bad. It is because, to date, they are still too expensive.

So, here in America our incredible natural gas bonanza is demonized by the “good experts” as more of the same bad stuff, while they invoke the healing power of renewables supposedly pushed forward by the smart Chinese technocrats. But it turns out that in China the experts say that they would love to have access to a lot more natural gas, so that they could reduce their reliance of dirty coal.

Renewable energy has a future

The day of renewable energy no doubt will come. But we are not there yet. The American do gooders should look at China’s environmental disasters and the lack –today– of cost-effective renewable energy solutions. After that, they should look back at America and consider how lucky we are. Thanks to fracking and horizontal drilling –American home-grown technologies– we are now the largest producer of natural gas in the world.

Because of this abundance of domestic, cheap and relatively clean energy we can retire old, high polluting, coal-fired plants without any adverse economic effects.

What do you know: our natural gas is very cheap and it is much cleaner than coal.

And, yes, as a result of this shift from coal to gas for power generation we have cut our greenhouse gases emissions. China

is indeed investing heavily in solar energy. But, thanks to a huge number of high polluting coal-fired plants that cannot be shut down, as there is no economically viable alternative, millions of wise Chinese live in cities that are virtual gas chambers.

Certainly, we in America have a long way to go in our quest for affordable, clean energy; but –thanks to our natural gas revolution– we are much farther along.

Democracy Is More Than Free Elections

By Paolo von Schirach

February 15, 2014

WASHINGTON – In America many, including well-educated people, believe that "democracy" is really about having a constitution that guarantees individual rights and free elections through which "the people" can freely express their preferences without fear of persecution. Nothing wrong with this list. The problem is that these are minimal, necessary preconditions. Fulfilling them does not guarantee a well-functioning democracy.

Rational debates

Real democracy is a lot more complicated. Democracy is about the proven ability to engage in fact-based, rational debates on what is necessary for the common good. Yes, "fact-based" and "rational" discourse. Sounds obvious and self-evident. But it is not. The fact is that an inordinate number of

citizens are prone to “believe” in stuff that has no or little connection with reality. The list is long: “socialism”, “the welfare state”, “religion as the foundation of political values”, “nationalism”, and so on.

“Idealists” are not superior

And indeed, the dominant culture encourages this disconnect. We call these mildly deranged or totally deranged individuals “idealists”, this way creating the completely distorted notion that being prisoners of fantasies and therefore disconnected from reality is not a shortcoming. It is actually an attribute that confers superior morality.

Informed citizens

The Founding Fathers of America, in various ways understood and acknowledged that self-government was premised on a society made up of reasonably well-informed people who would tend to act rationally when dealing with matters pertaining to the common good. They acknowledged “passions” and the dangers of “factions”. But, even though they recognized that a form of government whose survival was founded on the intelligence and realism of the people was not at all a sure thing, overall they optimistically believed that realism, aided and fostered by the spreading of new knowledge through education, could and would prevail.

Ideologies are the enemies

Well, fast forward to our times and the issues are exactly the same. The success of modern democracies is still premised on the existence of pragmatic realism. Without this key ingredient there is the dominance of ideologies, fantasies, and dreams. (Those who are not prisoners of ideologies often opt for cynical manipulation that inevitably leads to corruption). Sadly, elected officials who act to fulfil any of these dreams end up wasting enormous resources, meanwhile inflicting great pain without accomplishing much. Just look at

what has been done in the name of “socialism”, in the Soviet Union, China or Cuba. And, at a different but equally pernicious level, look at the ruinous impact on human creativity of social democratic, egalitarian ideals in Western Europe.

Focusing on “what works”

In the final analysis, democracy –that is effective, successful self-government– is premised on an educated, indeed fairly sophisticated populace that will choose capable and ethical pragmatists as elected leaders. These leaders will engage in debates; but not in stupid ideological confrontations. In the end these leaders will opt for evidence-based solutions. They will enact what “works”, keeping in mind the desire to maximize the common good.

Sadly, if we look at the world around us, from the ruins of the Arab Spring, to rebellions in the Ukraine and Venezuela or populism in Thailand, we see that these societies are very far from achieving the fundamental preconditions for successful self-government.

Old democracies

And even if we look at mature democracies, like Europe and America, there is cause for major worries. Prisoners of their self-defeating egalitarian ideologies that discourage innovation and enterprise, the Europeans societies are in decline, slowly committing suicide. On the other side of the Atlantic, American politics are now dominated by rather stupid ideological battles, characterized by the almost comical demonization of one’s political opponents.

Education will lead to virtue

Thomas Jefferson and Benjamin Franklin were self-made intellectuals who believed that education would lead people to acquire greater knowledge. It was assumed at the time (that

was the “Century of Light”) that a better understanding of the world and of nature would lead most men to become more virtuous, and therefore better citizens.

And so, it is not totally accidental that both Jefferson and Franklin sponsored the creation of universities. Whereas, today’s politicians inspire the creation of Super PACs aimed at fomenting hatred against their adversaries.

I prefer the good old days of universities aimed at discovering and teaching the new knowledge that will make us more virtuous. Without education and virtue democracies will not survive, let alone prosper.

Matteo Renzi To Lead Italy Out Of The Swamp Of Terminal Decline?

By Paolo von Schirach

February 13, 2014

WASHINGTON – And so Italy is getting a new Prime Minister. Matteo Renzi, head of the Partito Democratico, will replace the incumbent, Enrico Letta, also of the same party, because now, as party leader, he believes that it is up to him to lead the nation as well.

Party Leader and now Prime Minister

In principle this sounds reasonable. Matteo Renzi went through

an open and transparent primary process within the Partito Democratico just a few months ago (December 2013) from which he emerged as the clear winner, outdistancing other contenders by a large margin. Indeed, he got an impressive 67.6% of the votes cast.

Given Italian political practice, it is entirely reasonable that the triumphant leader of the biggest party within a ruling coalition would also aspire to become the Prime Minister. With some grumbling, Enrico Letta recognized this reality by resigning. And so, the boss of his party gets the top job, (even though he was not elected by the nation, but only by his fellow party members). Fair enough.

Modest chances of success

That said, the notion that an energetic, good-looking new party leader –Matteo Renzi– now Prime Minister, will engineer the radical transformation Italy badly needs is not just a dream, it is a laughable proposition. And this is not about Renzi's leadership and vision. He may have it. This is about Italy.

Sadly, the country is semi-comatose. It takes a heroic level of optimism to believe that a clear-headed young leader –assuming Renzi is all this– will get the country out of the swamp, rekindle innovation, investments and enterprise and re-generate hope and enthusiasm.

Terminal decline

Italy has been losing ground for about 10 years. The global recession simply made things worse. The national debt is now at 133% of GDP. Its unemployment rate is at 12%. Youth unemployment is at 40%. Most alarmingly, the best and the brightest leave, or have already left the country, seeking better opportunities elsewhere.

Beyond fashion, wine, olive oil and Ferrari luxury vehicles,

Italy has no leadership position in anything. No major players in high-tech and electronics, only a second or third tier player in aerospace. Worst of all, Italian companies do not invest much in R&D, nor are there any significant public sector funds allocated to this critical area. And, please, do not forget organized crime: Mafia, Camorra and 'Ndrangheta being just the best known branches. Finally, in case this is not enough, Italy is one of the most corrupt countries in the western world, with dismal positions in the universally respected Doing Business rankings compiled each year by the World Bank.

Fertility crisis

Beyond that, consider the fertility rate collapse, (1.4 children per woman). This well consolidated trend indicates that Italy will soon be a geriatric ward. Lots of old people who get pensions and medical care, with very few active people supporting them.

You want more? Tens of thousands of desperate illegal immigrants land in Italy every year, coming mostly from the poor Maghreb and sub-Saharan Africa. And, with due respect, these are not the equivalent of the bright, highly educated PhD. holders coming to America from India and China who then create successful start-ups in Silicon Valley.

How can anyone do well trying to run Italy?

Newly minted Prime Minister Matteo Renzi may have vision, and he may turn out to be a passionate national leader. I wish him well. But at least on the basis of what we know, there is no reason for enthusiasm. Please note that, keeping up with a well established, if pernicious, Italian political tradition, Renzi is another full-time political operative.

In plain language: he never run anything in the real world. He never had a real private sector job. He rose fast from local politician to national leader. But this is all within a

political party. This is not about his ability to run anything in the hard world of industry, competition and globalization. His current job is Mayor of Florence, a second or third tier Italian city of 370,000 people who stopped producing anything interesting about 500 years ago. Yes, it has been a long time since the days of Michelangelo.

Party functionary

So, who is Matteo Renzi? A party functionary who got to the top leadership because he is a good politician, at least within the context of his own party. Does this mean that he understands modern capitalism, supply chains, the role of IT, competitiveness and globalization? And what about the urgent need to drastically reform gigantic entitlements, invest in education and strategies to attract precious foreign investments?

Does he get all this? Do the people around him get all this? I hope he does. I hope they do. But I doubt it.

Mission Impossible

Look, governing a large post-industrial democracy is very difficult, even when things are going well. Trying to get Italy out of its historic decline will take more than speeches and bold slogans. ***It will take a credible, sustainable action plan that has the long-term and sincere buy-in of most key constituencies: capital, labor, the now dispirited young, public servants, retirees.***

I wish Matteo Renzi best of luck. I mean it sincerely. But this is “Mission Impossible”.

How Israeli Natural Gas May Help Solve The Cyprus Problem

By Paolo von Schirach

February 11, 2014

WASHINGTON – The perennially stalled negotiations between Turkish and Greek Cypriots about the future of the *de facto* divided Island may get new impetus from an unexpected "ally". The indirect cause of this possible new development is the new geopolitical environment created by vast reserves of Israeli natural gas.

Israeli gas to Turkey

Indeed, abundant, off-shore Israeli natural gas is likely to soften recent Turkish-Israeli political and ideological animosities for the simple reason that Turkey would really like to increase and at the same time diversify its natural gas imports, now totally dependent on Iran and Russia. This Israeli natural gas, (developed in part by Noble Energy, a US company), would help economically troubled Turkey. But any gas pipeline to Turkey would have to go through Greek-Cypriot waters. Hence the added incentive to find ways to come to a deal that will resolve the dispute between Greeks and Turks in Cyprus that began way back in 1974 when Turkey, (fearing for the fate of its brethren in Northern Cyprus), invaded the northern part of the island, this way displacing tens of thousands of Greek Cypriots.

Incentive for finding a solution for Cyprus

Well, while the old animosities and suspicions still linger, Turkey has now a stronger interest in resolving this issue. And not just Turkey. The Greek Cypriots see the added value of becoming a transit route for precious Israeli natural gas.

And, last but least there are hopes to find additional gas in the waters of Cyprus.

Self-interest also in the interest of a settlement?

Assuming a best case scenario, all players have now a renewed interest in accommodation. Turkey needs Israeli gas, and so it needs a deal with the Greek Cypriots. The Greek Cypriots see the advantages of their strategic geographic position as a transit point for Israeli gas exports to Turkey. Both Greek and Turkish Cypriots would benefit from additional natural gas discoveries around the island.

Well, assuming rational behavior, it would appear that –for a change– the discovery and exploitation of important natural resources in a troubled region may help towards the resolution of old conflicts in another.

Usually it works exactly the other way around.

Italy Cradle Of The Arts? Yes, And Today's Center Of Corruption – The Worst In Europe

By Paolo von Schirach

February 5, 2014

WASHINGTON – The Financial Times reports that Italian authorities have filed some kind of suit against Standard & Poor's and other credit rating agencies because, apparently,

when they downgraded Italian debt they failed to take into account the vast patrimony of Italian art and history that –as everybody knows– is at the foundation of Italy's wealth. Sounds ridiculous? Yes, it is ridiculous. And in fact S&P called the legal action "frivolous and without merit".

Center of culture and corruption

But here is an additional argument for S&P. They could legitimately claim that Italy's impressive record as a center of art and culture is outclassed by the more recent and equally striking record as the unchallenged center of European corruption.

The worst EU country

Indeed, as the EU recently indicated, Italy –all by itself– is responsible for 50% of all corruption occurring within the EU, a Union of 28 countries. Congratulations. You want more details? 201 city councils dissolved because of corrupt activities, 28 of them under suspicion of Mafia infiltration. The Mafia has penetrated northern regions such as Lombardia and Emilia. And how about law-makers? Well, 30 members of the Italian parliament are under investigation for corruption.

Hopeless?

And what do the Italians think about all this? 97% of people polled recently indicated that corruption is everywhere in Italy. 88% declared that it is impossible to get ahead (find a job, get permits, etc.) without the help of a push delivered by someone well-connected. 42% are convinced that open illegality is an everyday occurrence in Italy. There you have it: a supposedly modern, industrial society in which illegal activities are the norm, where corruption is rampant and where you cannot get ahead without the help of illegal pressures. Not bad.

Corruption affects credit ratings more than past glories

Now, let’s put all this together. How does a stratospheric level of corruption blend with Italy’s glorious past as a cradle of culture and the arts? Sadly, corruption wins. Simply because it is happening now. Italy’s glorious past is, indeed, past; even though there is still a large patrimony of what was produced centuries ago.

However, the bribes, the corrupt office holders, all the embezzlement, the dominance of organized crime, and what not are happening today. S&P could argue that such a country, whatever its glorious past, does not inspire much confidence within credit markets.

Hence the lowered credit ratings.