

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

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

## **Bad deal for America**

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

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

## **What does this mean?**

That said, from a practical standpoint, America's exit, at least in the short term, will not amount to any worsening of the global climate. Indeed, the Paris Accord, if all goes well, promises only modest progress on lowering the temperature of the world, and only after many years. And this will happen only if we assume that all the other participants

will actually do what they promised to do in terms of enacting new policies aimed at lowering their consumption of fossil fuels, this way reducing greenhouse gases emissions. Do keep in mind that the Paris Accord has no enforcement mechanism. The commitments made by the signatories are purely voluntary. In the case of China, the world's biggest polluter, Beijing is theoretically bound to implement new policies several years from now.

## **Political consequences**

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

## **U.S. no longer leading**

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

## **Anti-everything Trump**

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

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

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

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

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

### **Political symbolism**

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

### **No gain**

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

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

### **Trump is talking to his base**

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

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

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

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

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## Terrorism Is Not An Existential Threat

**WASHINGTON** – Sadly, there has been another terror attack. This time it took place in Munich, one of Germany's most important cities. Here is my take on this tragedy. It is alright for the news media to report the facts. What is not alright, in fact down right insane, is for every news channel to provide endless coverage of the event that quickly turns into wild speculation in the absence of hard facts.

**Obsessive coverage**

Indeed, all the networks kept the topic on the air by creating an endless loop in which there was no real news. The same skimpy facts were repeated again and again, in an obsessive fashion. In an equally obsessive fashion, viewers were treated with endless reruns of the same footage that showed scared people in Munich running away.

### **Uninformed commentary now part of the news**

And it got a lot worse. In order to keep viewers interested, the news editors laced these non-reports from Munich with interviews with “experts” who knew absolutely nothing about the evolving situation in Germany. But supposedly they are “terrorism experts” who can opine on what is going on, even though they are totally in the dark regarding the key facts. As this “coverage” unfolded, nobody knew anything about the Munich shooter. Was he a German? Was he Middle Eastern? Is this about ISIL and jihad? Is this the work of extreme right militants? Or is it about a mentally disturbed person with no political agenda?

### **Ignorance is OK**

***But none of this matters. And so you could see on various TV channels a parade of retired U.S. Generals who were asked to offer their (supposedly insightful) opinion about an ongoing police action aimed at capturing a shooter in a German shopping mall about which they knew absolutely nothing. As if their military background would allow them to know what was happening and why.***

And then add to the experts mix retired CIA and FBI agents, think tank people, and assorted others. One thing is clear. None of these people knew anything whatsoever about what happened in Munich. But this does not matter. Speculation, sometimes totally irresponsible, by experts is now considered an integral part of news coverage.

And it got really crazy. “Let’s assume that these are ISIL

*inspired terrorists*”, said one. *“Well, in this case, this means that...blah, blah, blah”*. This is how the news media transformed a sad event whose causes were unknown (and that is very limited in scope) into yet another chapter of an unfolding global war waged by Terror against us that does not exist.

### **A global war that does not exist**

Yes, the media want you to believe that this Munich attack must be part of a general war waged by Islamic fanatics against the West. Another terror attack signals that we are dealing with a ferocious enemy, determined to totally destroy us. And then the really stupid questions follow: *“In your opinion, what should governments do to keep us totally safe?”* As if there were an intelligent, cogent answer to such a broad question.

### **Terrorism is real**

Terrorism is unfortunately real. Yes, innocent people across the world are being killed, and many more are potentially vulnerable. This is true. But by amplifying the news coverage of all these attacks the news media creates the false impression that there are thousands and thousands of terrorists ready to jump on us. They describe all this as an existential, truly overwhelming threat; when it is not.

A total of a few hundred people killed over a few months period across many countries is serious business. But these killings do not amount to an ongoing massive slaughter. By comparison, during WWI thousands of soldiers were killed in just a few hours in one of the many battles that were fought almost daily, over a number of years. Again, thousands of people get killed every year in America by criminals. But, somehow these deaths are not as important.

### **No perspective**

I am not saying that terror-related killings should be ignored because they are not large enough to deserve attention. I am saying however that they should be looked at in perspective. Unless we see a real change in the momentum of these terror operations showing us that there is both willingness and operational ability to attack all Western (and other) countries from all angles on a regular basis, these terror attacks are not about to destroy our civilization. Of course we should deploy all our intelligence and police resources to deal with this threat. This is serious business. But we should leave its handling to law enforcement agencies and not panic.

### **World not coming to an end**

However, this is not what the media tell us. Indeed, by providing truly over the top, excessive coverage and by allowing the wildest speculations about *“what other terrible things will happen next”* to be mixed with incessant news coverage the media give the public the impression that, on account of “Global Terrorism”, the world may be coming to an end.

This is just not true. Allowing this perception to be created by exaggerated coverage the media are creating fear, if not panic when we need perspective and calm. This is truly irresponsible. This distortion amounts to a huge disservice to Western societies which rely on the news media for balanced accounts in order to gain a reasonably accurate understanding about what is going on in the world.

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**[German Voters Fear Difficult](#)**

# To Assimilate Immigrants

**WASHINGTON** – German Chancellor Angela Merkel and her political allies just took a big hit in three states elections from voters seemingly upset with her open door policy that will allow very large numbers of Syrians to be accepted into Germany as refugees.

## **Elections setback**

The CDU (Merkel's party) suffered major losses. The political map in the three German States that just held elections has been changed, quite dramatically. The openly anti-immigrant Alternative for Germany party has done quite well, especially in poorer Saxony-Anhalt, where unemployment is higher than in the rest of Germany.

## **Anti immigrant revolt?**

So, is this sign of a brewing Europe-wide anti immigrant wave that will crush all the established political forces that are still trying to find a balance between humanitarian aspirations and popular concerns about having too many immigrants?

Hard to say. As the German vote shows, the anti-immigrant sentiment is strong; but not yet overwhelming. The AfD political victories in Germany are noticeable but not stunning. Despite this political setback, Angela Merkel and her coalition are still very much in control in Berlin. And as many opinion polls indicate, her immigration policies still enjoy wide approval.

## **Fear**

That said, we are seeing that lots of voters (in Germany and elsewhere in Europe) now are truly afraid that their countries soon enough will be unrecognizable, because of the impact of



too many immigrants from distant lands with completely different customs and religions. This is a bit far-fetched. Europe is not about to be “taken over” by Arab asylum seekers, or more simply by large numbers of economic immigrants from Africa and the Middle East.

***Not today, that is.***

**Something needs to be done**

***Which is to say that, while the mostly unchecked immigration problem is still somewhat manageable today, unless something really serious is done –quickly– to heavily restrict immigration from Africa and the Middle East, in a few years Europe will be indeed unrecognizable.***

**Focus on Syria**

Let’s clarify this. Right now the media focus is almost entirely on the millions of Syrian refugees driven out of their semi-destroyed country by a bloody and most destructive civil war. Given the focus on Syria, people in Germany and in the rest of Europe may be led to believe that, once peace returns to Syria, this immigration emergency will be over.

May be so regarding Syria. However, the point here is that Syria is only the most noticeable and tragic component of a slow but relentless secular migration from Africa and the Middle East into Europe.

**It started decades ago**

This phenomenon started decades ago. Every year hundreds of thousands or more sail from North Africa to Italy, Greece or Spain. Some of them have been driven away by conflicts. But most of them are economic migrants.

They have been told that life in Europe is much better. And, in any event, in most instances these poor people are leaving behind a life of never-ending poverty, hardships and lack of

opportunity. To them Europe represents hope. Then why not go there?

And they have big hopes, based on good stories. The Europeans are generous. In Europe refugees get shelter, food, medical attention, schools for their children. True or not, these dreams of material improvements available in Europe are strong enough to motivate people to begin long, dangerous and often costly journeys that will lead them to this Promised Land.

### **Nothing to do with Syria**

My simple point is that the hundred of thousands who have been landing for years and years in Southern Italy, after having sailed from North Africa on overcrowded crafts, have absolutely nothing to do with the Syrian crisis. They have been coming into Europe for decades, driven by poverty, way before Syria had become an issue.

And they will continue to come long after the Syrian crisis will have been forgotten. This wave will not stop by itself. It may lose impetus only if at some point in the future African countries will be able to offer to all or most of their citizens attractive economic and education opportunities. At this time, despite higher rates of growth in some African countries, most of them cannot.

### **The migration into Europe will not stop**

***To put all this together, the acute immigration crisis caused by the Syrian civil war eventually will come to an end. But the secular wave of migration from Africa and the Middle East to Europe will continue. Day after day, large crafts full of Africans seeking a better life will continue to land in Sicily and other Italian smaller islands.***

And these thousands upon thousands who taken together have already become many millions will keep fanning out across Europe.

## **Time to take action**

Therefore, while today's fears of a "take over of Europe by immigrants" may be excessive, the European anti immigrant political forces have a very valid point. Unless the political leaders do something right now to stop this steady inflow, soon enough most of their countries will be unrecognizable.

And those who would conclude that this is just racism should consider the hard realities. Integrating hundreds of thousands of immigrants who keep coming and coming is difficult as a matter of course. But in the case of these immigrants mostly from very poor countries it is a lot more complicated.

## **Integration is difficult**

These are not highly educated Indians with Ph.Ds in computer science. We are talking about integrating mostly illiterate village people, with little or no knowledge about modern societies, and no skills. Add to this the fact that they come from vastly different cultures, with different (and in some cases incompatible) customs and religions, and anybody should understand that integrating them is and will be extremely complicated, and very costly. While racism may play a role in fueling anti immigrant feelings, the truth is that many Europeans are really afraid.

## **Real fear**

They fear that they will have to coexist indefinitely with large, non assimilated alien communities of new immigrants who settle at the margins of their societies.

And this is a very unsettling prospect.

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# There Is No European Identity

**WASHINGTON** – For the outside world, the current political debate within Great Britain about staying in the European Union, EU, or leaving, depending on the outcome of a June referendum, looks like arcane stuff, and probably not that interesting. Another strange internal European thing that foreigners, and Americans in particular, do not understand much, and frankly do not care that much about.

## **What difference does it make?**

In the end, what difference does it make to America if Britain, a much diminished second rate power, belongs or does not belong to an assorted group of medium, mediocre, and poor European countries tied together by a complicated web of trade agreements?

Well, it probably does not make a huge difference to Americans.

## **Failure of the “Idea of Europe”**

But this issue matters in Europe. And I am not referring here to the ripple effects of a British Exit, or “Brexit”, when it comes to trade between the UK and the rest of the EU, or the possible consequences on the City of London as a key global financial center, should Britain begin to operate outside EU banking and securities rules.

***No, I am referring to something else. I am referring to this. The very fact that Britain is openly debating whether or not it is good for the country to stay in the European Union attest to the failure of the “Idea of Europe”.***

## **The unfulfilled promise of a “European Union”**

The very denomination “European Union” suggests a relevant and powerful new entity that is and will be involved in a lot more than agricultural subsidies and regulating the allowable size and shape of vegetables.

True, from the other side of the Atlantic, the EU looks mostly like an over complicated, and rather cumbersome arrangement among under performing economies, run by bureaucrats who seem intent on regulating everything.

### **A Big Project**

But, in Europe, the expression “European Union” is supposed to have a strong meaning. In Europe, at least for some, the European Union is an unfolding “Big Project”. It is the plan to progressively unify almost 30 countries, eventually creating a United European Super State, (or something close to that), so that the new entity would be much more relevant than the sum of its individual parts, (the member states).

And this Big Project supposedly is the pull factor attracting so many applicants. The EU is the future; and they want to be part of it.

Well, this is the official, or semi-official narrative.

### **Lack of shared strategies**

In practice, the picture is far less attractive. Cohesion and solidarity, let alone unity of purpose among members, is rather low. Getting to an agreement on practically anything within the EU involves an immensely laborious process aimed at reaching a consensus among almost 30 governments.

And when the focus is on major policy choices, common strategies, the EU members find watered down unity at the lowest possible common denominator. In simple terms, this means that whatever the EU declares, nobody listens to it,

because it is usually just empty rhetoric.

Right now the EU is trying, with little success, to forge a common policy to face a major refugee and immigration crisis triggered in part by the civil war in Syria. It is obvious that there is very little common ground among member states.

Furthermore, there is no discernible European foreign policy; let alone security policies based on a genuine consensus on external threats and appropriate countermeasures. Threat perception in Portugal is not the same as threat perception in Greece or Poland.

### **Europe is not irrelevant**

Do not get me wrong. I am not suggesting that the EU is inconsequential across the board. On matters of global trade, anti-trust, financial arrangements, and a lot more the EU is very consequential. And for foreign investors and exporters into the EU, the harmonization of rules within the EU, plus the existence of a pan-European market where the same norms are applied across almost 30 countries, from Finland to Croatia, is a major advantage.

### **No European Identity**

Still, all this notwithstanding, the EU failed in its ultimate goal: the creation of a genuine "European Identity" that successfully replaced or will soon replace national identities. If this shift had been accomplished, then the issue of Britain leaving Europe would have never come up. Nobody would want to leave a new Super State that all citizens strongly identify with and that brought about so many advantages to all its members.

### **What will Britain do?**

And yet, the debate about leaving the EU is going on in Great Britain. In June there will be a referendum that will allow

voters to settle this issue. My hunch is that eventually the British people will decide to stay in the EU.

Still, the very fact that no one dares to predict the outcome of this referendum is an indication that Britain is deeply divided on an issue that should have been settled decades ago. Other countries that are not planning any "In or Out" vote are also deeply divided on whether EU membership is a good thing or not. (Think of Poland, Denmark, Greece, and to a lesser extent France and Italy).

### **EU will survive; but it will stay weak**

Here is the thing. With or without Britain, the complex inter-governmental arrangements that make up the European Union will survive.

But Europe will continue to be a rather weak hybrid in which some components of national sovereignty have been delegated to EU functionaries in Brussels, while others remain under the control of national political authorities. All these competing authorities and jurisdictions created a recipe for confusion and weakness.

With or without quarrelsome Britain, forget about a strong Federal Europe. And, most of all, forget about a strong Europe playing a decisive role in world affairs. If the Europeans do not believe that much in Europe, why should the rest of the world take the EU seriously?

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# Maersk Warning About Global Slow Down – Recession In the US?

**WASHINGTON** – Maersk, (based in Denmark) is the largest shipping conglomerate in the world. Their business is to transport every day tens of thousands of containers from exporters to importers around the world. The company just announced losses for 2015. Just a temporary setback? Well, apparently not. Maersk ascribes this setback to shrinking global trade volumes. Their profits are way down because a much weaker world economy generates much less shipping of goods.

## **The worst since 2008**

*Maersk's CEO is quoted by the WSJ saying that the conglomerate is facing a "massive deterioration", adding that this is the worst they have seen since the onset of the Great Recession of 2008. Got that? We are back to a 2008-like scenario. I suggest that this is really bad.*

And Maersk believes that this weak trade flows trend will continue in 2016. We should pay close attention to what Maersk managers say. Global shipping volumes are a very good proxy for world economic health. 95% of all manufactured goods are transported via containers that get to destination thanks to global shipping companies like Maersk.

## **Less activity in ports world-wide**

Maersk is not alone in predicting bad times. DP World, a very large Dubai based port facilities management company, with operations in 70 terminals in practically every continent, chimed in, indicating that their business (handling the containers moved by Maersk and other shipping companies) is



down, significantly. And the IMF confirms this pessimism about a global economy that run out of steam. They have lowered their forecasts for both growth and international trade flows.

So, here we go. The big companies that handle global trade are hurting. Their business is down because the world economy is slowing down, at a rapid pace. They are worried.

### **Weak economies**

And why is that? Because the day of reckoning is finally getting close. The jig is up. For several years we have lived in a fools' paradise created by easy money created by central banks that caused asset price inflation in developed countries, and too much easy credit in emerging markets. Underlying economic conditions all over were rather weak, but everything looked good because of the artificial froth created by monetary easing.

### **Central banks to the rescue**

Until recently, when stock market worldwide showed signs of weakness, investors simply waited for central banks in the US, the EU, UK, and Japan to come to the rescue. And they were never disappointed. Trying to boost sagging economies, central bankers would launch, or relaunch, monetary easing, and zero per cent interest.

They would ladle quantitative easing, or QE. If it wasn't enough, they would ladle some more. When that did not do the trick, they went further. Some of them (Japan's Central Bank just joined the group) stopped paying interest to commercial banks parking their funds with them.

### **More of everything**

And when even that proved to be insufficient, some of them started charging interest on deposits as a way to force banks to lend more in order to induce more growth. (Even Janet

Yellen, the Chairwoman of the US Fed, just declared during a congressional testimony that negative interest rates could be looked at here in the US as a policy option, in some scenarios).

All these gimmicks produced some results. But nothing stellar. With all this gigantic monetary stimulus, the US has been growing at a modest 2%. Europe, at roughly 1%, has done much worse. Still, notwithstanding meager results, the international financial community seemed to be comfortable.

As long as the central banks seemed to be in control, busy doing one thing or another to prop up markets and keep stock markets reasonably buoyant, (regardless of the weak underlying economic fundamentals), it all looked promising.

### **Artificial valuations**

Except that everybody, unless totally insane, must have known that nothing was right. Here is the thing. The extravagantly long season of monetary easing did not do much to grow the economies. But zero interest rates pushed cash from savings into stocks, therefore artificially boosting stock prices.

This cannot go on for ever.

***Therefore, investors paying high prices for inflated assets must know that these high valuations were and are artificial. What happens when the central banks cannot provide any more monetary easing?***

### **Governments have done nothing**

It is true that central banks intervened so heavily mostly because governments did practically nothing. Sadly, in most western countries there has been no serious attempt to launch new pro-market, pro-growth, pro-investments policies. And it is obvious that, without a business friendly policy environment, there will be fewer investments, less innovation,

less enterprise, fewer new companies, and fewer new jobs. And this means no growth, or lackluster growth.

But policy-makers, paralyzed by their ideological blinders that privilege spending on social issues as opposed of investments in future growth, sat on their hands.

It is true that central bankers, at least in the US and in the EU, pleaded with governments. They wanted action, real reforms that would free up resources, favor enterprise and therefore new growth. They did say that they could not manage the economies all on their own. But nobody listened, and almost nothing happened.

### **No reforms in the US**

In the US nothing has been done about reforming entitlement spending (Social Security, Medicare and Medicaid) and a horrendously complicated, burdensome federal tax system that discourages business creation. On the contrary, instead of reducing regulations, the US government keeps adding more, this way suffocating enterprises with unnecessary mandates.

In Europe, if anything, it is even worse. In Japan, Prime Minister Shinzo Abe back in December 2010 announced “Abenomics” a major reform plan consisting of “three arrows”: fiscal stimulus, monetary easing and structural reforms. Well, thanks to a subservient Bank of Japan, he got the monetary easing. But the rest –especially the structural reforms– did not happen. Abe simply could not deliver. Japan continues to stagnate.

### **Central banks keep easing**

So, confronted with systemically weak economies, and no help from policy-makers, the central banks tried to provide more oxygen via monetary stimulus. And it worked; but only a little. However, in so doing, the central banks created unprecedented asset price distortions and misdirected the

allocation of capital. Trying to buy some time, they created a gigantic mess.

### **Nervous investors**

And now investors are very uneasy. They are on the lookout for any signs that may indicate the imminent collapse of this house of cards. They know that China, the most astonishing example of fake growth almost entirely financed (since the 2008 Great Recession) by unprecedented levels of new debt, is doing poorly. How poorly? Well, we do not know, because we cannot trust Chinese economic statistics. But global investors know that something really bad is brewing there. There is massive industrial over capacity, and no new demand. There is capital flight. For how long can the Chinese Government keep so many virtually bankrupt companies open? Not for ever.

And the same investors know and fear the cascading effects of the China retreat, some of them already unfolding, (and captured by Maersk's warning on world trade flows deterioration). Indeed, South Korea, Thailand, Japan, Indonesia, Australia and others are closely tied to the Chinese economy. Many of their companies are part of China's supply chains. So, as China goes down, they follow. This means a broader contraction.

### **Commodities down**

And then you have all the commodities producing countries, also hurt badly by China's slow down. This would be bad enough as it is. But it is made a lot worse by the fact that the rapid growth of many sectors (not just commodities) in emerging markets was debt-financed. Now that business is down, and profits have disappeared, where is the money to pay back the loans? These companies are going down, while their fall causes losses in the financial sector. This means more negative ripple effects.

So, here is the picture. Stock markets are over valued.

Commodities producing countries are in bad shape because of lack of demand from China and over supply. There is too much bad debt.

### **Too much debt**

Now, is this another September 2008 in the making? Who knows really. It is clear that no major economy is in high gear. On top of that, at least some highly indebted companies will be unable to make it. There are nasty rumors of troubled European banks with too many non performing loans on their books. Now they are abandoned by investors who fear the worst.

In China, at least for now, the losses are disguised through heavy-handed interventions by the state. But what about elsewhere? In the US, for instance, many of the companies that participated in the now defunct shale oil boom borrowed heavily to finance their operations. Because of the oil price collapse, now many of them will go under. This already hurt producers, contractors, suppliers and vendors, not to mention tens of thousands of high paying jobs lost. And you have to add the banks that financed the energy boom to the list. More broadly, the global financial system is exposed to a lot of non recoverable loans in emerging markets.

### **Bad news**

***So, there you have it. The global economic slow down is here to stay, according to Maersk and others. I would trust them. It is their core business to properly understand trends in trade flows.***

Commodities prices are not going to rebound. Mining multinationals from Glencore to BHP Billiton to Vale are in bad shape. China got a massive indigestion and stopped buying. Brazil is in a recession. Russia is doing poorly because of low oil prices. Europe is fragile. And there is a lot of bad debt in distressed emerging countries.

## **US cannot insulate itself**

It is true that in this rather gloomy context the US is not doing so badly. We have some growth, (a bit more than 2%), and unemployment is way down, (4.9%). The point is that the US is not strong enough to be able to insulate itself from these global currents. While the American economy is less dependent on foreign trade, many large US companies are tied to world markets. (Think about Caterpillar, or General Electric). If they suffer because of lost foreign sales, there will be ripple effects. At some point America as a whole will also feel the pain.

And if this happens while investors lose confidence in the Fed's ability to keep propping up markets with some more tricks, then all bets are off. At that point expect a mad rush for the exit.

Right now a US recession seems a very distant possibility. But may be it is a lot closer than we think.

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## **Immigrants No Longer Welcome in Europe**

**WASHINGTON** – Predictably, the European refugee problem has turned into a major Europe-wide political crisis. Anti-immigrant, far right political forces are gaining strength, prompted by widespread illegal behavior displayed by many immigrants.

**It used to be about logistics**

Here is the thing. Until not too long ago, when it came to massive immigration from Africa and the Middle East the major focus and concern for most European policy-makers was on logistics and budgets. How many new immigrants can Europe accommodate every month? How many shelters are there? What about paying for food, clothing, medical care, education? And what kind of jobs can communities across Europe create for these often illiterate new comers?

## **Xenophobia**

But now, while all these “practical issues” still matter, we have to add open xenophobia. Yes, most Europeans do not want these immigrants.

In a way, it is not surprising that among millions of new arrivals there are some criminals and some would be –or real– radicals and terrorists. Of course, the trouble makers are not the majority. But there have been and there are enough nasty daily occurrences of immigrant law breakers to give a bad name to all immigrants/refugees/asylum seekers.

Every time an Arab or African immigrant is arrested because of theft or violent acts, this fosters an atmosphere of fear and alarm. In many localities, and sometimes entire countries, now the prevailing sentiment is that *all* the new arrivals are bad people, or at least dangerous.

The highly publicized New Year’s Eve attacks by immigrants, some of them recent refugees, against a very large number of German women in Cologne, and in other German cities, are now considered hard evidence that all immigrants are criminals and rapists.

In Italy a small group of young kids was taken hostage for a short while by Muslim immigrants who put the boys in a line and asked them in a menacing way: “*Do you believe in God or Allah?*” While a weapon was fired in the air, no violence followed. Still, this sounds like material lifted from some

ISIL internet propaganda video.

Throughout Europe, every day there are reports of attacks against immigrants. Shelters for immigrants are often set on fire.

### **Unprepared Europe**

The problem is that Europe is not equipped materially and psychologically to welcome millions of poor people with vastly different cultural backgrounds. They are mostly Muslim. Many of them come from a region in which there is a great deal of political violence and terrorism inspired by radical Islam.

Of course, the recent Paris large-scale terror attacks seems to confirm what most people fear: *“All Muslim immigrants are dangerous. We do not want them. They should be sent back”*.

### **Send them back?**

But this is impossible. Europe does not have and will not have both the will power and the practical ability to kick everybody out. We are talking about millions of people. And it will also be extremely difficult to close the door to all new immigrants. Desperate (and opportunistic) people are coming in, they will keep coming in. Some of them have traveled long distances on foot. The “civilized” Europeans simply do not know how to stand firm and prevent them from getting in.

It is probably true that most refugees are genuine. They are poor and desperate people seeking a better life. But the criminals and would be terrorists among them created the now prevailing negative perception.

I’m afraid this cannot be fixed. And European leaders are in a bind. They cannot be at the same time humanitarians, and really strict on law and order. The current refugee problem, now mixed with the unsolved issues created by vast and not assimilated older immigrant communities, has become too big.



**Europe will be changed by this wave, in a bad way**

Expect the mess caused by these chaotic waves to continue and to get worse. And here is a simple, if sad, prediction.

*Europe will be changed by the enormous numbers of Muslim refugees. Not the other way around. The refugees will not be assimilated. They will transform Europe. And quite frankly this is not going to be an improvement, simply because what they bring is not a refined culture. "Multiculturalism" sounds really nice. Yes, provided that you can have a productive encounter among developed cultures. And this is absolutely not the case right now.*

**Traditional cultures with outmoded values**

What these mostly illiterate or semi-literate refugees bring along with them is at best a traditional rural culture of old, outmoded values (including medieval ideas about the role of women in society, and full justification for "honor killing").

Sadly, the days of refined Arab scholarship ended many, many centuries ago.

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## **Saudi Arabia's Goal: Hurt Iran**

**WASHINGTON** – A few days ago I argued that Saudi Arabia is imposing rock bottom oil prices through over production in order to damage Iran. Subsequent developments confirm this. In Saudi Arabia there is now a confluence of anti-Shiite moves at home, culminating in the recent execution of Nimr al-Nimr, a prominent Saudi Shia cleric, (an act of open provocation vis-

a-vis Shia Iran), and openly anti-Iranian attitudes and policies.

### **Low oil prices, steal Iranian customers**

The Saudis aim to mix anti-Shia religious animosity with their ability to keep oil prices low, this way hurting oil-dependent and relatively poorer Iran. Indeed, beyond its “pump as much as you can” policy inaugurated more than a year ago, now Saudi Arabia is openly trying to steal business from Iran. Knowing that with the forthcoming easing of sanctions (the outcome of the nuclear deal) Iran will be once again allowed to sell oil to its old European customers, (Spain and Italy are on top of the list of old pre-sanctions buyers of Iranian oil), Saudi Arabia just announced extra discounts to European oil consumers. Obviously they want to sway them, so that they will not resume business with Iran, their old supplier, once the sanction are lifted.

So, here is the strategy. Keep oil prices low, so that Iran, even when allowed to sell more oil, gains as little as possible. At the same time steal old Iranian customers through heavy discounts. Clearly Saudi Arabia wants to hurt Iran economically using its ability to keep oil prices down as its weapon.

### **Will it work?**

Assuming that this is indeed the Saudi end game, can the plan be executed until it reaches its objective of seriously damaging Iran? I am not so sure. To begin with, by forcing the entire OPEC cartel to tighten its belt (member countries produce about 30% of the entire world oil supply) Saudi Arabia is not winning any new friends.

And certainly oil at around \$ 30 a barrel is hurting Moscow very badly. Russia is not an OPEC member, but it is a giant oil exporter, and it desperately needs high oil revenues just to stay afloat.

## **Pressures**

Which is to say that there will be pressures –direct and indirect– to force Saudi Arabia to change this course that is ruining many oil-producing countries –big and small.

Besides, how much damage will low oil prices inflict on Iran? Moderate? Severe? My hunch is that, even in a worst case scenario, this is not a mortal blow for Iran.

## **Saudi Arabia hurting itself**

In the meantime, however, while Saudi Arabia is trying to strangle Iran economically, it is also creating huge problems for itself. Saudi policy aimed at depressing prices through its own over production (now at 10.4 million barrels a day), have caused an unprecedented fiscal shortfall.

With sharply diminished oil revenue, in 2015 Saudi Arabia run a huge budget deficit of almost \$ 100 billion, equal to more than 20% of GDP. In order to finance it, the Saudi rulers had to dip into their cash reserves, (in excess of \$ 700 billion) while issuing bonds at the same time.

## **How long more?**

So, far so good. Saudi Arabia still has ample funds that can be used to re-balance public accounts. But this game cannot go on for ever. At some point (about 5 years according to many analysts) the ample cash cushion will be gone, and this low oil prices policy will have to stop. Saudi Arabia can impose a change of course very easily. Simply by cutting its own production, it can eliminate the oil glut that depressed world prices for crude.

However, what if at that point Iran, while damaged, is still alive and kicking? What if the economic punishment inflicted by the Saudis failed to kill the Ayatollahs (alleged) hegemonic dreams? Then this would have been for nothing.

## **Western consumers (and car makers) are doing well**

At the moment, the only net beneficiaries of this almost suicidal oil policy are hundreds of millions of Western and Asian consumers. Almost nobody in Germany, Japan or the US objects to rock bottom gasoline prices. (Of course, in the US the once vibrant energy sector led by the fracking revolution now is bleeding. But America as a whole is still a net oil importer. Most sectors gain from low energy prices. Take Detroit, for instance. US car manufacturers had a stellar year in 2015, almost entirely because low gasoline prices enticed millions of people to buy new cars).

## **Clever strategists at the helm?**

So, here is the question. Is Saudi Arabia run by clever people who have properly calculated risks and rewards of this new “low prices” oil policy? Or is this just reckless behavior?

Is this a super smart Machiavellian strategy, or the brain child of untutored leaders who believe they can bend rivals at will, when in fact they cannot?

I suspect the latter.

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## **EU Money To Stop African Migrants?**

**WASHINGTON** – The EU-Africa Summit just held in Malta was supposed to lead to some kind of understanding between African countries and Europe on how to stop or at least reduce the endless flow of illegal economic migrants from Africa. Thousands of people sail across the Mediterranean, every day,

in search of a better future in Europe. Many of them drown while trying.

### **Nothing done in Malta**

Needless to say, nothing was accomplished. And it is easy to see why. The African countries have neither the interest nor the capability to stop their (desperate?) citizens from migrating to Europe.

In fact they have an interest in having more of their own people in Europe. These migrants, once they get some work, send money back home. And this large remittances flow allows many of their poor relatives back home to survive. Indeed, this migration created the equivalent of economic welfare programs indirectly funded by European employers.

Therefore, forget about convincing African government about stemming the flow. They now have a vested interest in keeping this economic migration, (and the ensuing revenue stream), going.

That said, even if they really wanted to stop this migration, African leaders do not have the resources, the police forces, or anything akin to them, to stop people from going away.

### **European Trust Fund to stop migration?**

Hard to believe that the EU leaders do not know this. Be that as it may, the Malta meeting was held. And the highlight of the gathering is the EU offer to African leaders of a brand new European Trust Fund of about US \$ 1.9 billion. This money will be used to implement poverty reduction measures.

This brilliant initiative is based on the idea that if the Africans were not so poor, they would stay home; and so they would not engage in perilous journeys to Europe with the goal of resettling there.

**A couple of dollars per person will not do**

Yes, of course, in principle this is true.

However, meaningful African economic development may take another 20 to 30 years. If anybody thinks that this Trust Fund will make any tangible difference, they should have their heads examined.

US \$ 1.9 billion sounds like a lot. But Africa has 1.1 billion people, (2013 figures), many of them poor, or very poor. (Two billion divided by 1 billion means two dollars per person). This is a drop in the ocean. Besides, how will this Fund be administered? What kind of projects will be financed? What guarantees do EU leaders have that this money will be spent wisely?

All in all, this is a really stupid idea that will not affect the migration picture in any meaningful way.

### **The poor are mobile**

Here is the harsh reality. In this era of globalization, the poor in Africa “know”, or are led to believe, that there are greener pastures elsewhere. They see themselves trapped in a cycle of perpetual poverty in their own slowly developing countries. (Others are driven away by conflict and destruction in the Middle East or civil war in Libya).

However, now, for the first time in their history, millions of Africa's poor believe they have a choice. They can emigrate. And so they are willing to take a huge chance and travel to Europe, in most instances paying large fees to traffickers who arrange their travel. This is true of all African economic migrants.

People from Syria, Afghanistan, or Eritrea are a different case. They escape from war, destruction, or tyranny. But, whatever their individual motivations, all these people want to go to Europe because it is within geographic reach, and because they believe that somehow, once there, they can have a

fresh start in a more hospitable environment. Right or wrong, it does not matter. This is what they believe, and this belief motivates them.

### **Can Europe make room for more Africans?**

In principle, a 28 member strong European Union could make room for a few million immigrants. But this is not what most Europeans believe. The Europeans are hurting. Some EU economies do poorly, some of them barely have a pulse. The general perception is that countries with high levels of unemployment (12.5% in Italy, above 20% in Spain and Greece) simply cannot afford to welcome hundreds of thousands (overtime millions) of destitute, needy, and illiterate economic migrants.

It is obvious that these people first of all need housing, clothing, food, medical care, and schools. Where is the money to take care of them? On top of that, many if not most of them are Muslim. Which is to say that you have to add religious and cultural differences to the issues negatively affecting rapid integration into the new societies.

If you are an average European looking at all this, you conclude that allowing more immigration is not a positive development likely to benefit Europe. Therefore, you protest loudly. At the next elections you are more likely to vote for a party with a strong anti-immigrant platform.

### **They keep coming**

Bottom line, here is the thing. This seemingly endless migration problem from Africa (and war-torn Middle East) to Europe has no solution. Indeed, short of placing machine guns on the beaches of Sicily, with clear orders to shoot to kill all migrants landing there –and this will never happen, for obvious reasons– there is no way to end this flow of the poor trying to escape poverty. The attraction represented by “rich” Europe is too strong.

The desperate migrants “know” that, once they get to Europe, they are “safe”. Somehow, they will be taken care of. And, after that, some economic prospect, some kind of work, will materialize.

Offering Africa a couple of billion dollars hoping that this would help reduce the volume of this migration crisis is an idea born out of insanity, despair or sheer stupidity. Take your pick.

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## Thanks To The Central Banks, The Equity Bubble Is Getting Bigger

**WASHINGTON** – Imagine this. There are lots of chronically sick patients in the hospital. Many of them are deteriorating rapidly. The right therapies cannot be administered because of absurd delays caused by infighting within the Ministry of Health.

### **Give them morphine**

The physicians in charge of the hospital know what is needed to take care of the patients. But they have no resources. The only thing they have got is morphine, lots of it.

Well, since we cannot cure the patients, at least let's alleviate their severe pain. “Morphine for everybody!” orders the Director of the hospital. “But sir, this is no cure”, argues a young doctor. “What do we do when the effect of morphine wears off?”, he asks. “Well, we will give them some more. We have ample supply”, replies the Director.



## **Quantitative Easing is morphine**

This may be a far-fetched analogy, but here it is. The patients are the sick economies in Europe, Japan, the US and now –in a major way– China. The Ministry of Health are the Governments incapable of tackling the structural issues of lack of productive investments, labor market rigidity and high public spending. The hospital Director are the Central Bankers. And the morphine is an ample supply is Quantitative Easing, (QE).

## **Central Bank left alone to manage the economies**

The Western economies are really sick. There is too much leverage, low productivity, too much private debt and out of control public spending. But Governments do essentially nothing about any of this. They are paralyzed by ideological disputes and bogus arguments about austerity and income redistribution. The only institutions that can do “something” are the Central Banks. They have no real “cure” for any of this. But they can provide temporary relief by keeping interest rates close to zero, (here is the morphine, in the form of QE), thereby giving everybody the illusion that the situation, while difficult, is manageable. The patients are still very sick. But (thanks to ample doses of QE-morphine) they feel no pain; and so they are led to believe that they have been cured.

## **More QE, it is still party time!**

This is totally absurd. But this is exactly what is happening. The European Central Bank, after having launched its own QE a while ago, just declared that the Eurozone economies need some more monetary easing. The Central Bank in China just announced some more easy money measures, in a country, mind you, that accumulated a monstrous amount of debt (much of it bad debt) in just a few years.

Watching all this unfold, Wall Street correctly concluded that

in this environment where everybody is injecting even more liquidity there is no way that the US Federal Reserve will go against this powerful current and raise interest rates in 2015. With US rates still near zero, it still makes sense to put money in equities, since everything else will give you no financial reward.

Investors got the message. "It is still party time!" And so, Wall Street shot up on Thursday. The Dow Jones added 300 points. There was further growth on Friday. Has this optimism about equities got anything to do with the real economy? Not really.

### **Perverse incentives**

This is yet another Fed-induced rally. (By indirectly signalling that it will not raise rates in 2015, the Fed gave the green light). Needless to say, this is madness. Equity prices in developed economies now are largely disconnected from the fundamentals.

Even worse, thanks to QE governments in highly indebted countries, from Europe to the US, are under no pressure to reform their public finances, because they can keep borrowing at very low interest, this way creating and sustaining the insane delusion that more and more debt is a good way to finance chronic over spending.

### **Commodities took a dive**

In the meantime, though, emerging countries whose commodities fueled the crazy debt-driven Chinese construction investments binge are feeling the pain. As China could not sustain its own truly over sized madness, it stop buying stuff.

Therefore, commodity prices collapsed. As a result, Brazil, Australia, South Africa, Chile, Argentina, Zambia, and many others are suffering, in a major way. They built their budgets with the unwarranted assumption that commodity prices would

stay in the stratosphere for ever. Now they have to go back to the drawing board.

In the meantime, their semi-impooverished people have no extra cash to buy new things, while their currencies are worth a lot less. This penury will further depress exports from industrial countries, this way further reinforcing the global downward spiral.

### **No incentives to engage in serious reforms**

So, here is the picture. The global economy is doing poorly, in large part because of minimal growth in the debt-burdened West where Governments still spend money on unaffordable entitlements instead of creating a business friendly environment that will encourage private investments in wealth-creating innovation.

Most emerging markets are in recession or close to it.

But at least in Europe, Japan, the US (and now China) the real extent of the problem is disguised. Developed countries enjoy a drug-induced financial markets buoyancy (QE is morphine) because the Central Banks keep pumping in liquidity, this way allowing the stock market bubbles to continue.

### **Another big bubble**

This is a gimmick. A dangerous gimmick. At some point it will have to stop. I am not sure when. But it cannot go on for ever. I do not even want to think about what will happen when this gigantic bubble will explode.

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# In Italy High Unemployment Is Good News

**WASHINGTON** – If you really, really insist on finding the proverbial “silver lining” in rather depressing news, here is a headline for you. We find it in the Italian daily La Repubblica, as the title for a recent story about unemployment in Italy: *“Work, confidence returns, inactive people numbers are down”*.

## **Things looking better?**

Well, with such a promising headline you would expect to read that Italy has turned, or is turning, a corner. You would expect to read that hiring is more robust, and tragically high unemployment is finally going down.

No. Nothing of this sort. We read instead that *“Within an increase in overall unemployment [12.4% in July 2015] Istat [National Statistics Institute] reads positive signals that indicate a recovery. What moves the scale are inactive workers (those who do not have a job and who are not seeking one). Their number is down by 1.1%, to under 14 million. The ranks of the discouraged are also down, (-114,000 in one year), especially in the South, among young people aged between 15 and 34. On the other hand there are more people who are inactive (+77,000) because they are pursuing some kind of education.”*

## **Bad news is good news**

Got the picture? The number of the chronically unemployed is now just a bit under 14 million, because there has been a 1.1% decrease. This clearly means that things are looking really positive.

Well, it takes a really heroic level of optimism to say that “*confidence is back*” in a country with 12.4% unemployment, and 14 million of long term unemployed. (By the way, the unemployment rate is 44% for young people. It used to be 28% in 2011). Italy looks bad even compared to the still uninspiring unemployment rate within the rest of the Eurozone: 10.9%.

### **No sense of reality?**

So, why do main stream media like La Repubblica try to disguise an ongoing national tragedy into a “*confidence returns*” story?

Have they lost any connection with reality? Or, in truth, in this new world of drastically diminished expectations, a 1.1% decrease among the long term unemployed, within a context of massive unemployment, is in fact good news?

### **This story exemplifies “decline”**

This being the case, I would take this news story about unemployment as a clear example that describes what “decline” is:

***You are in it, and you do not even know it.***

You are so used to a “New Normal” of a worsening economy, and lower standards of living, that you forgot how things should be.

From this perspective of diminished expectations, a story that at the very best could be construed as a faint ray of hope is indeed good news.