Fight Inequality With Improved Public Education

WASHINGTON – In the course of a popular national radio show, an important journalist declared that “the Big Issue” that Americans will have to contend with in 2016 is how to reduce “inequality” through public policy measures. The respected quarterly journal Foreign Affairs agrees, and it goes one step further. The cover story of its current issue is “*Inequality*“. And inside one can read several articles focusing on inequality from every possible angle: global, regional and domestic.

Ideological parochialism

This is really amazing. This is the triumph of ideological parochialism over reality. The very term “inequality” assumes that there is a preordained, presumably mandatory level of equality that we are all supposed to comply with. Veering away from the golden middle is unjust, unethical, and immoral. In fact it should probably be illegal.

This is profoundly wrong and terribly misleading. There is no such thing as a “proper balance” between rich and poor, between the income of those at the top and those at the bottom of any society. There is no formula that can correctly assess when someone has “enough” and when enough gets to be “too much”, or “too little” for that matter. These are all political notions, based on personal ideological preferences and biases. There is no healthy “natural equilibrium” that we should all strive for and then comply with.

And, more to the point, “inequality” is not a problem to be solved. It is instead a symptom: the result of complex dynamics that go well beyond the simplistic notion of an unfair allocation of national wealth.

Real inequality

Of course, we can talk *ad nauseam* about specific cases in which inequality was or is the direct result of a political set up. In the Soviet Union only party elites had access to education, good jobs and perks. In today's China, notwithstanding a vibrant private sector, the Communist Party senior leaders enjoy immense advantages that cannot even be dreamed about by the average citizen. In apartheid South Africa only Whites could aspire to have anything. In other societies small elites by mixing force, intimidation and cunning (Cuba, Venezuela, Burma, Saudi Arabia are good examples) have managed to control almost everything, while the majority of the people is left with crumbs.

But these are extreme examples of politically or ideologically sanctioned inequality. This is not the rule in most Western countries, and certainly not in America. In the West laws apply to everybody, while discrimination is forbidden. We have open markets in which everybody can compete. Besides, there is accountability, transparency, an independent judiciary, and social mobility. Inequality does indeed exist; but in most cases not because someone gamed the system.

People feel squeezed

That said, I am not surprised that "inequality" is getting so much attention right now in America and in Europe. Most people in western countries are squeezed. While some segments of society, most of them made out of people working in the financial or high-tech sectors, are doing extremely well, most of the others are not. This builds resentments and a great deal of conspiracy theories in which many villains are featured.

The illusion of "social justice"

But here is the thing. While it is legitimate to question what value if any is added by people and companies who charge enormous fees for manipulating existing wealth without creating anything new, it is silly to believe that if their excessive wealth were taken away from them and redistributed through taxation, welfare programs, or other public policy mechanisms, we would all be better off. The fact is that this is a dangerous illusion. Redistribution is a social justice policy with temporary and very modest results. It is "feel good" stuff that will not even begin to attack the roots of inequality.

The point is that the growing inequality we are experiencing in America is largely the effect of other problems. It is the byproduct of systemic changes mostly beyond our control. Which is to say that it is wrong to believe that you are not doing so well only because someone else (more powerful and more influential) gamed the system and got all the goodies.

Millions of new Asian workers changed the global labor market dynamics

Here is the story. For the past 20 years, the American middle class (a broad definition that includes factory workers with generous union wages and other perks) has been hammered by the ill effects of globalization.

All of as sudden, (beginning circa 1990), an enormous addition to the global work force, mostly due to literally hundreds of millions of better educated Asians willing and able to perform many jobs at a fraction of what it costs in America, meant the loss of millions of manufacturing jobs in the US (we call this "outsourcing") and the squeezing of wages for those lucky enough to retain their employment.

Technology eliminated jobs

At the same time, rapid technological progress also hurt the old middle and lower middle class. Robots replaced and will keep replacing people in factories, while most routine white-collar office functions are and will be increasingly performed by intelligent machines.

Those who do well

In very simple terms, this means that in this new world those who design, produce, manage and service the high-tech machines, the value chains and supply chains connected to them, and the software on which they run are doing well, while all the others are not. If you are a lead engineer at Boeing or Intel you are fine. You work for a market leader with state of the art technology and a global presence. If you work at the local small tool and die factory, you are on shaky ground. You do not make anything unique, and Chinese competitors are coming in with cheaper products.

Disappearing jobs

The grim reality is that if today you are working in any sector that is challenged by better robotics or new IT applications your job is in jeopardy. You are probably only one step away from unemployment. This being the case, you have no bargaining power with your employer. You are lucky to have a job. Forget about wage increases or additional benefits.

And so you, along with millions of others, have the sinking feeling to be stuck in a dead end job, or falling behind; while few people at the top of market leaders are doing very well.

Some are doing well

Indeed, those who started or invested in high-tech companies that fuel this enormous technological and economic transformation make millions or even billions, while the shrinking old work force has only known jobs losses and wage stagnation for the past 20 or 30 years.

In addition, it is clear that only those who have a good or superior command of the new technologies and how they relate to the unfolding “knowledge economy” have an opportunity to do well, or very well. Their skills are in high demand.

At the opposite end, a factory floor worker is a small, fungible cog that can be replaced or eliminated at a moment’s notice. Same thing for an accountant who performs back office repetitive functions.

Negative global trends

While this is not the entire story, it is clear that increased inequality in advanced western countries is mostly due to the negative effects of globalization and rapid technological change that resulted in automation. There is unfortunately an overabundance of “old-fashioned” semi skilled or skilled labor, while robots reduced the number of necessary factory jobs. Furthermore, those who do not have the education to climb up to the next skills level in this more complex environment are stuck or, much worse, they fall behind.

This being the case, politicians who point at inequality as the big issue to be resolved by taxing the rich a lot more are deceiving themselves and the voters. Inequality is mostly the result of these global trends that cannot be stopped, let alone reversed.

Well, then what can we do? How can we reverse the impoverishment of the working class and what used to be a large and thriving middle class? There is no easy answer.

Focus on quality public education

Still, as a minimum, we must address the quality and focus of American public education. It is obvious that in a high-tech world only those who master the new technologies will thrive.

Leaving aside for the moment the adult population, let’s think of the next generation and its prospects. If you are an inner city minority kid attending today a mediocre or bad public school, your chances of “making it” in this ultra competitive economy are practically zero.

If you are not fully literate, let alone skilled in computers, and IT and therefore capable to manage sophisticated equipment, you cannot aspire to get any of the good jobs. You are condemned to compete –you and millions of others– for low skills, low pay jobs in basic services. Yes, you can become a janitor, a landscape worker, a store clerk, a bus boy or a waiter. But even assuming that you are lucky and get one of these jobs, there is no chance that they will become rungs on your upward mobility ladder. You have no ladder.

Since you have no higher education, no high-tech skills, and no chance to go to college in order to acquire engineering, business or management skills, you are stuck.

Better education, less inequality

So, at the very minimum our society should seriously work to drastically improve the quality of public education. Sadly, in this ultra-competitive global economy in which only the well-educated have a chance the seeds of future, stubborn inequality are planted in bad schools serving poor children.

Demanding a mandatory higher minimum wage is a silly feel-good remedy. Uneducated people are paid little because they add little value. By creating politically mandated higher wages we improve their conditions only by a little, while hurting some low margin businesses that can survive only because of low labor costs.

New sectors?

All right, is that all? No, for sure there is more. It is quite possible that new technologies will open up new sectors and possibly new employment opportunities. Which sectors? I have no idea. At some point politicians were talking about millions and millions of new jobs to be created by the green economy. Well, this has not happened, yet.

High-tech jobs only for skilled workers

Still, whatever the new economic sectors that will be generated by scientific and technological progress, it is obvious that only those who have the appropriate math and science education and the additional high-tech skills that will enable them to manage complex machinery and programs will have a seat at the table.

Yes, these highly competent individuals will have jobs and promotion opportunities. And they will make a lot more money.

But all the others will not.

Not a conspiracy

Politicians who argue today that growing inequality is a moral outrage and obviously the outcome of a rigged game are delusional. In truth, the game is occasionally rigged. Yes, some sectors of the economy get preferential treatment. Some corporations should not get subsidies and should pay more taxes.

But this global technological and workforce tsunami has not been concocted in Washington by a few clever lobbyists. This is the product of globalization and of the current direction of technological progress.

Give tools

Instead of promising to fight inequality by taxing the rich, political leaders should work to give to as many people as possible, especially young people moving their first steps into society, the best intellectual tools to compete in this new world.

Good or excellent public education (including re-training for adults) will not provide a complete remedy against inequality.

But for sure without it we shall make no progress. Uneducated people cannot compete. They will remain poor and marginalized.

Walking in Lusaka

LUSAKA (Zambia) – I was walking in a nice area, with beautiful Jacaranda trees, now almost in full bloom, lining the streets. In this part of Lusaka you can find some of the best hotels, plus the local offices of many international organizations. The Word Bank is here, plus the International Monetary Fund, The International Finance Corporation, and the African Development Bank.

These days, one glitch is represented by frequent power cuts, due to limited production capacity caused by a persistent drought. (Zambia depends in a significant way on hydro power generation. Low water levels in the dams mean less electricity production).

As I got to a busy intersection, I realized that the traffic lights were not working, most likely
due to a power cut. This presented a real problem. Even without a functioning traffic light, cars were zipping by at high speed.

I looked around and saw a young woman in the same predicament. She was also reviewing the situation. I concluded that it would be wise to follow her lead. “She is local”, I thought. “She understands the traffic, and how drivers react to pedestrians crossing the street”. Sure enough, during a short lull in the incoming traffic, the young lady started crossing. And I followed her.

When we safely got to the other side, I looked at her and I commented that I was lucky to have had the opportunity to follow her. In reply, she said something polite.

But then, in a simple and direct way she said to me: "You know, you are the very first white person I have ever talked to in my life". "Really?", I commented in disbelief. "And what do you do? What is your name?", I asked. "I work as a marketing specialist for a firm in the Cairo Road. My name is Mary".

Mary spoke clearly, in a nice way, in very good English. I was a little confused. "How is it possible that she never interacted with any white foreigners?", I reflected. There are several Europeans, Americans and Asians in Lusaka. Some actually live here, some come for business, or tourism. Others work in Lusaka as diplomats, or aid workers.

Well, may be an explanation is that "globalization" is still work in progress. Below a rather thin veneer of increased connectivity, we –Africans, Europeans, American, Asians– are not yet part of "One World". There are plenty of interactions, of course. But we have not reached critical mass.

No doubt, the process is unfolding; but we are not there yet. Well, I just hope that we can move faster.

And I am sure that as the level and quality of international connections improves open-minded people like Mary will see that this process creates new and interesting opportunities.

[In Mexico Large Gap Between Developed and Under Developed Regions]

WASHINGTON – I recently wrote about the absurd news item regarding 2.3 million applicants for 368 entry level civil service jobs in Uttar Pradesh, a very populous and very poor Indian state.

Grotesque gap

The grotesque gap between the number of low skills and low pay jobs and the avalanche of applications, many of them made by people with university degrees, is illustrative of enduring lack of opportunity and gigantic backwardness in a country often cited as an example of success in the struggle against under development.

Yes, India has many important companies, some of them quite competitive in the global market place, (Tata, Reliance, Wipro, and Infosys, among others). But the grim reality is that there are still hundreds of millions who struggle, trapped in perpetual poverty. And part of the reason lies in antiquated institutions and absurdly complicated bureaucratic rules and overlapping jurisdictions that suffocate business and prevent development.

What about Mexico?

Well, what about Mexico, another promising middle-income developing country? If we use the same yardstick of number of applications per job opening, Mexico is doing a lot better, but not great.

The Economist reports, (*Of cars and carts*, September 19, 2015), that German automaker Audi is recruiting workers for a brand new plant that will be built in San Jose Chiapa, in the state of Puebla. So far, the company received about 100,000 applications for 3,800 jobs.

Obviously this shows that there are many more jobs seekers than available openings. Even though the gap is not as monstrous as in the Indian case, it is still way too large. Far too many Mexicans need decent jobs.

Not taking off

But why is it so? Why is it that Mexico, notwithstanding its significant progress and the advantages created by free trade agreements with the United States (NAFTA) and many other countries, cannot "take off", as a country?

There are many theories, but one seems to dominate. The main reason is that millions of Mexicans are still prisoners of an outmoded, traditional, and very conservative mind set. Small companies born in the informal sector do not want to graduate to the formal economy in which, along with tax obligations, they would also gain access to commercial credit and other tools that would favor expansion.

For ever informal, for ever small

They prefer to stay informal and small. And this means that they will never be part of the globalized economy. At best, they are and will continue to be small domestic players. As The Economist story reports, there is plenty of anecdotal evidence that illustrates this mind set. For instance, the windfall of a successful business transaction usually is spent on a big *fiesta*, as opposed to having any plans for reinvesting profits in the purchase of new equipment and hiring more workers.

Two societies

The picture that we get is of two very distinct societies.

There are the “globalized” Mexicans who have a good education and are plugged into the international economy and trade. They do well. They are and stay up to date. They understand business strategies, along with the need to plan and invest in modernization.

And then, next to them but a universe apart, millions of others who are not connected to this world. These Mexicans do not know and do not understand modernity and its dynamics, in large part because they lack the education that would allow them to access it.

Hard work is not enough

And so here is the broader lesson to be drawn from this story about Mexico and its sharp contrasts. Economic success today is only in part the result of hard work. It is mostly about smart work. It is about having or not having a real understanding of where you and your enterprise are situated within a country now plugged into the global economy. It is about understanding technologies and markets, about optimizing the use of capital, and about choosing the most cost-effective tools.

And there is more. In order to thrive, you need to be situated within a modern eco-system. You need modern infrastructure, reliable logistics and –most important of all– rule of law.

Islands of modernity

If the eco-system exists, but only in patches here and there like in Mexico, then you will have islands of impressive modernity surrounded by an ocean of backwardness.

100,000 applicants for 3,800 factory jobs in the state of Puebla is a symptom of this enduring gap.

Italy's Bad Growth Numbers Described As Good

WASHINGTON – When drastically reduced expectations become the *"New Normal"* lousy economic numbers in Western countries become acceptable, and miserable growth is actually cause for celebration. Here is an example. I watched via the internet a recorded staff meeting at La Repubblica, one of Italy's most prestigious newspapers.

Good news

When it came to discussing economic issues, the journalist in charge was happy to report good news to his colleagues. Indeed, in the second quarter of 2015 the Italian economy grew a bit more than expected. Therefore it is likely that the projected 0.7% GDP growth for 2015 will be achieved. (Never mind that part of this pitiful growth is due to public investments, while private sector investments actually declined).

The broader context

Got that? On track for 0.7% growth –may be. And this is the stellar Italian economic achievement coming after 3 straight years of recession. More broadly, please note that Italy's GDP is stuck at the pre-2008 recession levels. And do not forget the staggering 12.5% unemployment rate, (with peaks of 40% when it comes to jobless young people in the South). Add to this the perennial cancer of organized crime (Mafia, Camorra, and N'drangheta are just the best known "brands") that has successfully expanded from its native south to the rest of the country.

But –hey– we are on track for 0.7% GDP growth. That's great news!

***Focus Economics* take**

Well, if you want a real analysis, here is how *Focus Economics* describes Italy's economy:

"Italy suffers from political instability, economic stagnation and lack of structural reforms. Prior to the 2008 financial crisis, the country was already idling in low gear. In fact, Italy grew an average of 1.2% between 2001 and 2007. The global crisis had a deteriorating effect on the already fragile Italian economy. In 2009, the economy suffered a hefty 5.5% contraction—the strongest GDP drop in decades. Since then, Italy has shown no clear trend of recovery. In fact, in 2012 and 2013 the economy recorded contractions of 2.4% and 1.8% respectively".

"Going forward, the Italian economy faces a number of important challenges, one of which is unemployment. The unemployment rate has increased constantly in the last seven years. In 2013, it reached 12.5%, which is the highest level on record. The stubbornly high unemployment rate highlights the weaknesses of the Italian labor market and growing global competition. Another challenge is presented by the difficult status of the country's public finances. In 2013, Italy was the second biggest debtor in the Eurozone and the fifth largest worldwide".

The real picture

So, here is the real picture: highest unemployment on record, high debt, years of recession, lack of global competitiveness and now feeble growth. This is the "real story" regarding the Italian economy.

But for those who cover day-to-day events for a respectable newspaper a projected 0.7% GDP growth, after 3 years of recession, is good news.

Once again, welcome to the *"New Normal"* of low standards and zero expectations.

US Hit By Global Slow Down

WASHINGTON – Will US stocks recover? Or are they headed even lower? The optimists tell us that Wall Street panicked in the last few days. Forget about China. The fundamentals of the US economy are solid. There is no reason to liquidate stocks. Therefore:*"Be smart. Buy the dip!"*

Over valued stocks

This is almost unbelievable. We all know that US stocks are over valued because of an unprecedented stretch of zero interest rates decreed years ago, at the time of the financial crisis, by the US Federal Reserve. As traditional savings accounts became non viable, most people went into stocks, therefore inflating valuations. We know that. Besides, we also know that many major companies, instead of investing in additional capacity, have been busy buying their own stocks. Obviously this provided extra support. However, it is clear that IBM and others cannot inflate their share price for ever by propping up their stocks in this way.

Modest GDP growth

More broadly, there is an obvious disconnect between modest US GDP growth (about 2% a year) and stellar stocks valuations. And this modest growth is not going to improve. The Congressional Budget Office (CBO) just revised down its own optimistic projections for 2015. According to the CBO, the US economy will not grow at 2.9%. Most likely the rate is going to be only 2%. Well, that is 30% less than estimated only a few months ago. So, no improvements.

All this should be enough to tell us that a major stock market correction was indeed in order. In fact, whatever the daily gyrations, probably we are not quite done with that.

China: worse than you think

That said, if we look at the global economy, there is reason to be even more pessimistic. First of all, the China story. Well, it looks that it is much worse than it appears. For starters, for the first time major business media are openly saying what many have been suspecting all along. The Chinese authorities falsify their growth statistics. China says that it is growing at 7% a year. Well, make that 5%, or even less, according to many analysts. This is no mere detail. This tells us that China's problems are most likely bigger and deeper.

And since most of China's growth comes from fixed investments, especially in construction, a major slow down of this gigantic engine has and will have an enormous negative ripple effect across the global economy.

Excess capacity

Consider this. In the 1990s China steel production was about 100 million tons a year. Today it is 1.1 billion tons! However, because of the slow down, this capacity represents double its current demand. That's more than 500 million tons over capacity!

And what is the effect of this rise and fall of production on world iron ore prices? Iron ore used to be $ 30 a ton in 2008. Thanks to China's demand, it went up to $ 200 a ton. Now it is down to $ 100.

This means that major producers made huge investments to increase their capacity, counting on continuing Chinese demand. Well, now they are in big trouble. BHP Billiton, a world mining giant, just announced its worst results in 12 years. Profits are down 86% .

End of the BRICS

So, thanks to China, commodity prices are down, way down, hurting many producers across the globe. To make matters worse, commodities happen to be abundant in poorly managed emerging countries. So, falling economic fortunes have to be added to garden variety mismanagement, incompetence, corruption, and political crises.

Mix this nasty brew and you see that all the famed BRICS are out of luck, (India is probably the only partial exception). China aside, Brazil is in very poor shape, while there are mass protest against President Dilma Rousseff. Under performing South Africa just announced a GDP contraction. Russia has been hit by the double blow of low oil prices, and economic sanctions due to the Ukraine crisis.

Dismal prospects almost everywhere

You want more? Abenomics failed in Japan. The economy is anemic at best, and there is no plan to diminish the burden of a monumental public debt. Saudi Arabia will run huge deficits because of lost revenue due to low oil prices. Turkey is in political turmoil, while its economy is sputtering.

Almost the entire Arab World is in chaos, with civil war in Libya, ISIL in Iraq, and self-destruction in Syria. Europe is barely treading water. Its southern periphery is and will continue to be in bad shape. France is doing poorly. Coming into the Western Hemisphere, Canada is also suffering because of low oil prices.

US to be affected by the global economy

Given this rather uninspiring world scenario, the idea that the US will continue to do well because of our "good fundamentals" is just crazy. First of all, our fundamentals are rather weak. Secondly, we live and operate in a global economy.

Because of its insane investments binge, China used to drive growth. Now it is dragging a good portion of the world economy down. And there are no other locomotives of comparable size.

The idea that America can keep chugging along all by itself, even if at a modest rate, while the rest of the world is losing speed or worse is a complete fantasy.

Asia's Slowdown Will Affect America's Growth

WASHINGTON – Can America count on buoyant global demand to drive more US exports, and therefore more sustained growth at home? Not really. Here is an item from the WSJ, (April 22, 2015): *"Growth across Asia is slowing despite rate cuts as consumers and businesses focus on repaying heavy debts".*

Yes, you got it. Led by China, Asia until yesterday was touted as the world's economy locomotive. But it seems that the Asians are also maxed out: too much debt impedes more investments and more consumption.

Indeed, another related headline is about Ford motor company trying to keep its market share of the once exploding Chinese automotive market while facing the headwinds of slower demand for new cars. Sure enough, the Chinese car market is still growing. But it has lost altitude. Forget about 16% rates of growth. Therefore Ford and GM are facing fewer sales in China.

Tough times for America

What does all this mean for America? It means that our unimpressive recovery (2.4%) may soon come to an end. US domestic demand is not growing, in part due to high levels of consumer debt that inhibit more purchases, and in part due to income stagnation.

If we add to this uninspiring scenario an Asian economic slowdown, it is really hard to see where the new growth will be coming from.

Tough times ahead.

Advice To Europe: Deregulate And Cut The Red Tape

WASHINGTON – Well known Wall Street financier Steven Rattner stated the obvious about Europe's lack of competitiveness and what to do about it in a NYT op-ed (*Europe's Anti-Business Stance*, January 29, 2015). Europe's problem, he says, is not about making the right choice between *"stimulus*" and *"austerity".*

Not competitive Europe

The problem is that Europe is no longer competitive. The real problem is in stratified laws, ruled and customs that make it very difficult for enterprises to thrive. *"Archaic restrictions on hiring and firing workers* –writes Rattner– *flawed energy policies and kilometers of red tape that can make even starting a business difficult –just to name a few–*

have combined to damage the Continent's ability to compete in increasingly global markets".

Centrist advice

So, there you have it. Red tape, rigid labor markets, and more. This is the problem. And, in case you are wondering, this is coming from a practitioner who worked for Barack Obama at the time of the General Motors bailout. In other words Rattner represents a centrist point of view, not some kind of far right, ultra free market extremism.

Yes, as he says, a stratification of bad policies, to which we should add the exaggerated power of trade unions, have created an anti-business and therefore anti-growth economic environment. This is the problem; and this is what needs to be addressed and resolved, if Europe wants to get out of this trend leading to economic decline.

QE is the wrong remedy

Given all this, continues Rattner, the recent European Central Bank (ECB) decision to start its own Quantitative Easing (QE) policy *"amounts to reaching into a medicine cabinet when the patient needs open-heart surgery".*

Got that? The patient –Europe– needs the equivalent of open heart surgery, and instead the ECB is ladling more easy money, as if this were the appropriate cure for profoundly non-competitive economies.

Change policies

Indeed, what is the point of QE in Europe now? With real interest rate at zero across Europe, how much lower can they get? Europe's problem is not that obtaining financing is too expensive, the problem is that there very few investments in activities that will create wealth and employment.

"*Europe needs to become more competitive in global markets*", continues Rattner. *“That can be achieved only by a variety of policy changes, such as keeping top tax rates at sensible levels and regulatory reforms that would give companies more freedom to manage their businesses as they see fit, including, when necessary, closing plants and reducing head counts”.*

Unheard of

Can you believe that? Companies need freedom to operate, including the freedom to hire and fire employees. And taxes should be reasonable.

Unheard of.

And yet this almost banal advice comes from Steven Rattner, a centrist who used to work for the Obama administration, not exactly a nest of right-wing reactionaries.

However, the very fact that what Rattner, a reasonable practitioner, suggest has little chance of being enacted in France and Italy, let alone Greece shows the profound disconnect between what many Europeans believe to be sensible economic policies and what it takes in the real world to generate growth, wealth and jobs.

Socialism is alive and well

The sad conclusion is that, while the communist parties have lost their appeal in Europe, destructive socialist ideas are alive and well. To the extent that silly egalitarianism dominates, while profit-making activities are demonized, there is no way for Europe to come back.

For sure the ECB “medicine” is not going to solve deep-seated problems that are not even acknowledged by most policy-makers.

[Syriza Victory Is Not A Solution For Greece]

WASHINGTON – As expected, Alexis Tsipras and his Leftist Syriza party won the Greek elections for a new parliament. After having struck a coalition agreement with the much smaller Independent Greeks (Anel) party, Syriza has a clear majority. Tsipras is now the new Prime Minister.

Voters choose

Fine. Voters get to choose their leaders. What is not at all clear is what will come next. Syriza campaign was all about rejecting the EU-imposed austerity packages that Greece was forced to accept in exchange for a gigantic $ 270 billion (240 billion Euro) bailout package put together by the EU, the European Central Bank, and the International Monetary Fund, (the "troika").

Not without cause, Tsipras and his allies complained loudly that austerity alone will not give Greece a chance to regain its strength and chart a course back to economic growth.

Austerity alone will not do

All right. Austerity alone is bad medicine. But then what is the right mix? This is not at all clear. For the moment we can expect that the new Greek leadership will try to renegotiate the terms of the bailout packages in order to get more flexibility and therefore more breathing room.

And they may get this from Brussels. Or at least some of it. But the real test for a leftist, populist political force is to concoct a credible, sustainable economic growth plan.

And I doubt that Syriza has even the slightest idea of how to do this.

Which way to economic growth ?

If this or any other Greek government could convince German Chancellor Angela Merkel, the ECB, the EU and the IMF that less austerity would allow Athens to launch a successful economic growth strategy, they would all support a renegotiation. After all, if the Greek economy starts growing again, the chances of Greece actually paying back its debt improve.

No real changes

The problem is that the Greeks most likely will pocket concessions from their creditors and then prove unable to change the country's economic fundamentals.

Unfortunately in Greece there is a bad combination of strong trade unions that usually push for protecting the status quo, entrenched special interests, crony capitalism, corruption and lack of venture capital that will support new enterprises. In good times, this means economic stagnation. In bad times (and these are horrible times) this means decline.

If the Greeks now believe that by changing government they have voted themselves out of debt and into prosperity, they will soon realize that it is not so.

No More Start-Ups In America

WASHINGTON – There is an almost unquestioned belief that America is the land of entrepreneurs. This is "start-up" country. Anybody with a good idea, if armed with enthusiasm and persistence, is likely to get results. The assumption is that America loves young people going into business. The system helps. It is easy to get started. Relatively easy to get funding. Plenty of venture capitalists willing to buy into a promising venture.

Young entrepreneurs

And we have many good examples, from Bill Gates (Microsoft), to Mark Zuckerberg (Facebook), that demonstrate how brilliant innovators can go from zero to building enormous business empires, becoming fabulously rich in a relatively short period of time.

Well, while these are real examples, there are not as many as there used to be. The broader picture is far less inspiring. Indeed, survey after survey indicate that in America the number of new businesses has been declining. The established American firms are old. The number of newly hatched companies is very small. The number of people employed by them is negligible.

No more start-ups

As Holman Jenkins put it in the WSJ *("Secular Stagnation" and the Cheap Burger*, January 24-25 2015), *"Our new business formations are the lowest in 35 years, more like Europe that the US. According to Gallup, companies are dying faster that new ones are being born".*

Got that? the lowest in 35 years.

Yes, we still have Silicon Valley (Thank God!) and other high-tech centers in Texas, Massachusetts and elsewhere. America is still the world leader in information technology, and one of the best in biotechnology.

But the famed, irrepressible entrepreneurial spirit that led people in their twenties (in some cases) to drop out of school in order to get started on their (sometimes) revolutionary projects as soon as possible is not what it used to be.

What is happening?

The data supporting this conclusion of fewer and fewer start-ups is out there, and it is not challenged.

What is not clear is why this is happening.

Less enthusiasm for technology? Fewer young people drawn to business? Too risky to set up your own company? Better career opportunities if one chooses to work for an established big company? Lack of financing?

Who knows really.

However, we can say that gradually the old pro-business eco-system that enabled and supported entrepreneurship has been damaged.

Too many obstacles

Indeed, over time, running a business in America has become more onerous and more complicated. Taxes are high. Indeed, America has the highest corporate tax rate in the developed world. (Sure enough, large companies manage to pay much less; but only because of sophisticated tax avoidance arrangements that require small armies of accountants and tax lawyers).

Onerous compliance

Besides, a thicket of rules and regulations (from safety standards, to environmental impact, to corporate governance, book-keeping, and mandatory disclosures) requires companies to dedicate a lot of resources to administrative matters, just to make sure that they comply and do not get into trouble with regulators.

And then there are permits and licences that must be obtained to have the legal authorization to do almost anything. And finally now the Affordable Care Act (Obamacare) creates new and costly medical insurance burdens for some employers.

There can be other reasons. But it is intuitively obvious that if you make it more complicated to start and operate a new business, you will end up having fewer people trying to set one up.

America's advantage

America's true economic advantage used to be in the optimistic dynamism of its people. This used to be the "can do" country. Yes, this used to be the land in which "creative destruction" took place every day.

It takes a certain mind set to challenge the status quo with new technologies, new systems, and new modalities. It is obvious that the new destroys the old, including the companies that run it, and all the jobs they created.

But this is the only way to move ahead. Successful new companies create new sectors and new jobs.

Remove barriers

If all of a sudden we become timid, because trying the new looks too complicated or too risky, as a country we are done. In this new, fiercely competitive global economy, the future belongs to the fearless innovators.

I do not believe that public policy can breed innovators. But for sure policy-makers should not create unnecessary bureaucratic obstacles for anybody who would like to try to be one.

Fiscal Stimulus Does Not Work –Yet We Keep Applying It

WASHINGTON – *"If economic troubles are approaching, put together a big stimulus package".* This is the universally accepted prevention/remedy therapy to save any country from the storms of recession or the chills of stagnation.

A good idea?

In principle it sounds like a good idea. If demand is falling, the government will create it through major public spending programs, (infrastructure is a big favorite), and by injecting more liquidity into the financial sector, this way encouraging banks to lend more money.

Well, guess what, it does not work.

Malinvestment

In most cases the money spent by governments becomes *"malinvestment".* Many new loans become bad loans because, in the rush to promote more economic activities, undeserving, sub par projects get funded. So, when the dust settles, precious capital has been wasted, growth has not increased, while deficits and debt have grown.

If you want a more detailed account of this sad tale of dashed expectations, read *How Spending Sapped the Global Recovery*, an interesting WSJ op-ed piece, (January, 16, 2015), by Ruchir Sharma, head of emerging markets at Morgan Stanley Investment Management.

China's stimulus did not work

For instance, China, in order to forestall any major contamination spreading from the devastating 2009 US financial crisis, launched a mega stimulus program (12% of GDP)to protect its economy. The problem is that these new funds have often been poorly allocated.

State banks gave money to badly managed State Owned Enterprises, (SOEs). This led, (among other things), to the creation of massive overcapacity in the steel industry that was beefed up in order to produce the material needed to fuel an absurd construction spree.

And now, after all that spending, empty apartment buildings, under-utilized airports and half-occupied shopping malls dotting many Chinese cities provide painful evidence of bad allocation of capital. In the meantime, China did not manage to avoid an economic slow down.

The spectacular failure of China's stimulus plan should serve as a lesson.

But no. We learn nothing.

We learn nothing

Confronted with stalled economies and frozen political systems that are incapable of promoting the creation of new competitive enterprises, unimaginative government go back to the same, tried and discredited Keynesian medicine: *more stimulus.*

Abenomics in Japan did not work. But wait, politically victorious Prime Minister Shinzo Abe has the magic powder. How about a brand new $ 29 billion stimulus program? Yes, it sounds like a great idea. In a country with a debt to GDP ratio of 240%, creating more debt seems like a good way to grow out of debt.

And what about Europe? Same story. In this scenario the savior is going to the European Central Bank. The ECB will do the heavy lifting, by buying bonds, this way supposedly revving up the financial sector, by making it easier for (often semi-comatose) European corporations to obtain new commercial loans.

It is amazing how we keep doing the same old stuff, even when the evidence shows that it does not work.

Real growth

Real growth in mature economies is about R&D that produces commercially viable innovation. In time, innovation will translate into increased workers' productivity and growing standards of living. Of course, we all want economic, fiscal and monetary policies that will not create obstacles to the growth of new enterprises.

But here we have instead the childish belief that propitious monetary and fiscal policies –by themselves– will create innovation and vigorous enterprises. It would be nice if it worked this way. But it does not. Capitalism requires real entrepreneurs. And no, financial manipulations and government mandated investments do not produce solid, wealth-generating corporations.

As Agustin Carstens, the President of Mexicos' Central Bank, told Sharma, (the author of the WSJ piece referenced above), *"fiscal and monetary policy cannot create growth".*

Indeed, they cannot.

Overall, stimulative policies most of the time amount to bad allocation of capital and malinvestment, higher deficits and a larger debt.