

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.

Greece: Anti-Austerity Tsipras Will Implement Austerity

WASHINGTON – The sovereign people of Greece, in their wisdom, just decided to give another chance to Alexis Tsipras and his Syriza-led government. And what is the political mandate?

New mandate for Syriza

Well, the new mandate is to implement the draconian austerity pact that Tsipras agreed to earlier on with Brussels. So, is Syriza now pro-austerity? Well, it did not use to be. In fact, it won an earlier election on a platform that strongly opposed most of the austerity measures agreed to by the previous New Democracy conservative government.

The story is complicated

Now, let see if we can clarify all this. Tsipras won a previous national elections with a pledge to renegotiate the entire austerity/loans package with the EU/ECB/IMF. The negotiations were difficult, in fact messy. In the end, Tsipras fired his Finance Minister, (apparently to please Brussels). The EU finally came up with a “take it or leave it” package, which included lots of painful stuff (spending cuts, smaller pension, etc.). Tsipras did not like this at all. He ordered a referendum on the package, inviting Greek citizens to vote “No”. The vote was held. The “No” people won –by a huge margin.

And then, what? Well, then Tsipras, after a lot of noise, accepted, yes, accepted, another huge rescue package –with even more onerous conditions for Greece than the one he urged his countrymen to vote against in the referendum.

Confusion

(Are you with me, so far?)

And who will implement this package on the Greek side? Aware of major dissent within his own Syriza ranks, Tsipras dissolved parliament and ordered new elections.

And what did the Greeks do? Did they vote Tsipras out of office, as he is manifestly guilty of having turned sides on the critical austerity issue? Again, please remember that the Greeks had previously voted for him precisely because he was the leader of the most strident anti-austerity party. Later

on, they followed his wishes and voted “No” on the referendum on the package that the evil EU wanted to impose on Greece.

Given all this, what did the Greeks do? They voted for Syriza, his party. And so Tsipras is again Prime Minister. Except that his program is now the opposite of the one that got him elected the first time.

Anti-austerity is now pro-austerity

So, here we go. The anti-austerity party is now pro-austerity. The Greeks were vehemently opposed to more fiscal pain when it was administered by a center right government. But now that even more brutal measures have been agreed to by a leftist government, the whole thing all of a sudden becomes acceptable.

This is a farce

If you think that this looks like the plot of a Hollywood farce, you are right.

In fact, it is a farce.

The entire Greek leadership is a farce. The EU leadership that actually believes to have “solved” the never-ending Greek crisis is a farce. And the Greeks who brought this calamity upon themselves are both actors and spectators in the same farce.

Unserious country

The only thing is that, in reality, while some aspects of this story are indeed comical, there will be real suffering in a hapless country run mostly by thieves, ideologues, and clueless amateurs.

FT: “Corbyn Is A Disastrous Choice”

WASHINGTON – Here is how The Financial Times sees the election of Jeremy Corbyn as the new leader of Britain’s Labour party: *“Jeremy Corbyn’s resounding election of the Labour party is a catastrophe for the British center-left...Under Mr. Corbyn, New Labour looks dead and buried and the party’s chances of returning to power remote at best...This is a bad day for Labour and worse for the country”*.

How did this happen?

Well, not much room for equivocation here. Bad leader. Bad choice. Bad for the country.

Well, having noted that, how could this happen in Britain, supposedly a mature, in fact sophisticated, democracy? How is it possible that supposedly mature adults would choose as the leader of the main opposition party a man who believes in really silly ideas like nationalisations, and in social justice achieved via income redistribution? Corbyn is also anti-American, while he would like to get the UK out of NATO. He speaks well of Hamas and Hezbollah, while he is an admirer of the late Hugo Chavez, Venezuela’s semi-dictator and the man who led the country into a real economic hell.

Indeed, how is this possible? We have seen other anti-establishment, extreme leaders and brand new parties (Syriza, Podemos) emerging in Europe. But mostly this has happened in really beat-up countries such as Greece or Spain. All in all, Britain, while not doing splendidly, is way ahead of Southern Europe.

Unhinged militants

So, why are Labour rank and file, those who elected Corbyn, so unhinged? Regardless of any consideration about the almost impossibility to win a future general election with such an extreme-left leader, why is it that so many British citizens believe that Mr. Corbyn's redistribution ideas are actually modern and appropriate?

Inequality above all

It is true that most capitalistic economies are facing wider and wider income gaps. Very few rich got very rich, the rest are barely getting by. Yes, this is true. And this is a real issue. But the idea that taking money away from the rich, while redistributing to the poor or semi-poor, will really help all British citizens to be more prosperous is a dream.

In fact, the main problem facing most mature democratic societies is low growth and a bloated and inefficient public sector. Lack of growth, not inequality is the main problem. We need to broaden the economic base and enhance participation. More people working.

Focus on growth, not inequality

Europe, America, Canada, Australia and many other countries need to understand that their leaders must do their very best to foster broad-based economic growth. This means improving access to education, flexible labor markets, deregulation, lower corporate taxes, incentives for entrepreneurs and innovators.

In essence, exactly the opposite of what Mr. Corbyn and his enthusiastic supporters advocate.

More And More Africans Flowing Into Europe

WASHINGTON – High minded European media chastise both EU governments and segments of public opinion for their myopic and ungenerous attitude regarding immigration.

There has to be room

The EU is a group of 28 countries with a total population now exceeding 500 million. Surely there must be some extra room for a few thousand refugees from the Middle East, North Africa and sub-Saharan Africa. EU member states inability to forge a workable policy consensus that would resolve a manageable problem is a bad indication.

After all, the same editorials intone, look at Turkey, Jordan and Lebanon. They have welcomed literally millions of Syrian refugees. If under resourced countries can do that, why is that bigger and more prosperous EU countries cannot do better with much, much smaller numbers of asylum seekers?

Not a self-contained issue

Yes, in principle these look like valid arguments. But they are not. They are not because they implicitly assume that this wave of migration from poor and conflict ridden countries to more prosperous Europe is a temporary phenomenon bound to end quite soon. In other words, this is presented by the media as a relatively manageable, self-contained issue; but it is not.

Indeed, while the number of “African Boat People” landing almost daily in Italy are not overwhelming, it is a constant flow: 500, 900, 1200 arrivals, almost every day. And this

migration of the poor towards somewhat better off countries is essentially unstoppable.

Africa is poor

Much is said about Africa finally coming of age, with promising growth and more opportunity. However, the Continent remains extremely poor. Most Africans still lack the very basics. They have no electricity, no clean water, bad housing, at best inadequate health care facilities. And let's not talk about education opportunities leading to good jobs and fulfilling careers. All this may come, eventually. But not now.

Add to this the perpetual political chaos in Libya and other North African countries, with consequent economic misery for millions. And to spice this up, consider the never-ending Syrian civil war, with Assad, ISIL, and assorted Syrian fighters fueling a horrible conflict that essentially destroyed the country, this way creating an immense refugee problem.

All these are the drivers of migration to Europe. It would take heroic optimism to believe that these are just temporary phenomena, coming soon to an end. Until the root causes of extreme poverty and conflict will be taken care of, this flow will go on, and on, for at least another decade, may be much longer.

Not just a few thousand people

So, let's clarify that the issue at hand is not just finding appropriate accommodation for a few thousand people landing in Sicily, or for the poor souls who are now camped in Calais, France, with the hope to be allowed to get to Great Britain. This is a vast population movement driven by poverty and wars, enabled by a variety of criminal gangs that take care of the travel arrangements.

Unless we can assume that soon enough Africa and the Middle East will offer education, economic opportunity, and security to all or most of their inhabitants, you can safely conclude that this slow but steady migration will continue.

Demographic changes

And, wait, there is more. This net inflow of poor, illiterate and mostly Muslim migrants has to be placed in the context of semi-impooverished Southern European countries that are the "port of entry" for the refugees. Greece, Italy and Spain are countries in economic decline. They have overstretched social welfare programs, under performing economies, and declining populations.

The net addition of even a few thousand Africans, month after month, simply makes a bad situation worse. These mostly unskilled and illiterate Africans cannot possibly add to the national economy in any meaningful way. In fact, they become recipients of public assistance, this way adding to already unsustainable costs.

More and more Africans in Southern Europe

Last but not least, in the context of stagnant or declining indigenous EU countries populations, these African and Middle Eastern immigrants will soon begin to alter the demographic picture. The Italians have one of the lowest fertility rates in Europe. The immigrants keep arriving. Those who settle in Italy on balance tend to have higher fertility rates. This means a rapidly growing immigrant population, both in absolute and relative terms.

If these new immigrants were educated, capable and willing to contribute to the societies that welcome them, this would be great. But unfortunately this is not the case.

Given all this, the widespread anti-immigrant sentiment, even if ineffective because it cannot stop the flow, is not that

difficult to understand.

The Enormous Value Of Subsidized Child Care

WASHINGTON – Most advanced countries are experiencing low or very low fertility rates. Anything below 2.1 children per woman signals population decline. In some cases the fertility collapse has reached truly alarming proportions.

Elderly Asia

The absolute worst is Singapore. With a fertility rate below 1 child per woman, this rich, well-managed city-state will soon be a country of very few old, or very old people. Within Asia, Japan and South Korea are also doing poorly, with around 1.4 children per woman. (In China, with a mandated “one child policy”, the state created the declining population problem).

Declining birth rates in Europe

In most of Europe, same story. Fertility rates are well below population replacement level. The steepest decline is in the East and in the South. Fertility rates in Italy and Greece are very close to Japan's.

France is the only bright exception. And, according to The Economist, (*Baby Love*, July 25, 2015), this has mostly to do with public policy. The French state subsidizes child care services.

Either children or a career

Here is the story. The main reason why women in developed

countries marry much later and have far fewer children is that many women who have entered the labor market are unable to successfully mix a job or career and motherhood. Not surprisingly, it is really difficult, in many cases impossible, to have both: a demanding job and children.

Therefore, as many women nowadays choose to have a career, this means fewer children. Of course, there may other reasons as well. But demanding work and children in many if not most cases tend to be mutually exclusive.

The result of women opting for work is fewer babies and declining populations. And declining populations create all sorts of problems. Among them: shrinking labor markets, and less economic dynamism.

Social security systems will have to be redesigned

In developed countries we have to add another major public policy problem. Most Western nations adopted retirement systems in which the active working population pays into the national fund that delivers financial assistance to the retirees. This system was conceived a long time ago. It was based on the assumption that there would always be a large active population that pays into the fund, while the number of retirees would always be relatively small. Therefore, the fund would always be solvent. Well, not so anymore.

Due to declining fertility rates, now there are fewer workers paying into the system; and tomorrow there will be an even smaller number. At the same time, there are more elderly people who live much longer lives on account of health care improvements. So you have very few active workers who are supposed to provide the funds necessary for the retirement and health care needs of more older people who live much longer, and therefore cost more. This system cannot work anymore as originally designed.

Let's follow the French example

Anyway, if we agree that falling birth rates create major problems, then let's do what France has done. Subsidize nurseries and other child care services. When women realize that society will pay for their child care, they will no longer be forced to choose between a career or motherhood. Knowing that there will be good and reliable child care facilities available to them at no cost, or at a nominal cost, they will be able to have both a career and children.

A worthy investment

Of course, taxpayers will have to absorb this significant new financial burden. But it will be worth it. There will be a great gain for society. Millions of women will be free to pursue job opportunities. Women who already work will not have to drop out in order to take care of their newborns. The economy will gain because of the added contributions coming from 50% of the population. And societies will be rejuvenated and enriched.

The alternative is to let this trend continue. Think of the consequences. Countries composed mostly of old people are not appealing markets; and they are unlikely to be or become great laboratories of innovation and forward-looking ideas.

Let's help women live productive and fulfilled lives; and they will help us all.

Steady Inflow Of Poor Immigrants A Huge Problem For

Italy

WASHINGTON – Compared to the chaos caused by floods of Syrian refugees trying to find shelter in Lebanon, Turkey or Jordan, the numbers of poor Africans, Arabs, Afghans, Syrians, and Kurds landing in Italy do not look so alarming. Syria's neighbors are facing literally millions of immigrants; Italy is getting tens of thousands.

Almost 90,000 this year

And if we place this influx in context, the numbers do not look that bad. Italy has a population of 61 million. In 2014 the official figures indicate that it welcomed about 60,000 refugees. In 2015 the numbers are higher (plus 40%). But we are still under 90,000. Therefore many observers can conclude that, while welcoming all these refugees is an issue, it is not a crisis.

Of course it is not a crisis. But it would be disingenuous to look at this year's numbers out of context.

The fact is that tens of thousands of poor, illiterate, unskilled immigrants keep coming every year into Italy, a country facing serious economic problems, with very limited resources. Italy can offer very little in terms of jobs, meaningful training and education to these refugees.

Shrinking population

Besides, Italy's population is slowly shrinking, while the numbers of elderly Italians in need of medical and social services keep growing. Indeed, Italy's fertility rate, at 1.42 children per woman, is one of the lowest in the world. (Italy is number 204 out of 224). More than 21% of the Italian population is over 65. (And do keep in mind that the fertility rate looks a bit better on account of recent immigrants who tend to have more children than the native population).

Besides, Italy has a very weak economy (growing now at less than 1%) with high unemployment (about 12.5%). This means no new jobs. Given these trends, the weight of recent immigrants who compete for already strained social services in a country in serious economic trouble becomes much more significant.

As I said, this is not a refugee crisis. But it is a progressive demographic transformation of the country, with mostly negative socio-economic consequences. Tens of thousands of refugees, year after year, soon enough become millions. And these are millions of people who cannot easily blend in. And this is the real problem.

In theory, adding immigrants to a country with a declining population can be a good thing. Yes, of course, provided that these immigrants have a modicum of education, (ideally a great education with marketable skills), and speak fluently the local language, so that they can be easily employed in growth sectors of the economy. (Think of the Indian computer scientists armed with Ph.Ds who start successful IT companies in Silicon Valley).

Immigrants do not add to the economy

Unfortunately, this is not the case when we look at the bulk of immigrants getting into Europe. (This is not just about Italy. Greece, Hungary, Spain, France, and other countries are facing the same problem).

These are mostly unskilled, illiterate and desperate people escaping from poverty and wars. They go to Europe with the founded expectation of finding shelter, food, and some medical care. If you just escaped from war-torn Syria, getting to Sicily is like landing in paradise.

Refugee problem will get worse

Clearly for Italy this steady influx of people seeking benefits rather than jobs (that are hard to find anyway) is a

big problem that is bound to get progressively bigger as time goes by. This steady inflow from North Africa and the Middle East is essentially unstoppable. And these hundreds of thousands, soon to be millions, of refugees are not adding to the already low quality pool of human capital.

As a result, hard to believe that Italy and the other EU countries will benefit from this kind of immigration.

Will The New Bailout Save Greece? Probably Not

WASHINGTON – After dire warnings about Greece falling into the abyss of bankruptcy and national ruin, guess what...the EU got them another rescue package. It is a tough deal. But it is a deal. Of course, this is not final. There are preconditions that need to met.

Preconditions

Before finalizing any arrangements leading to an additional, gigantic bail-out package, (it could go as high as \$ 96 billion), the Greek Parliament needs to perform the functional equivalent of public acts of contrition. They have to commit to change the pension system, raise more taxes, and other things. I assume that this is required by the (cruel?) EU creditors in order to show them that, this time, Greece is serious.

Unhappy Greeks

Well, all this is well and good, but only as far as the

politics of the EU and the Euro are concerned. Of course, the headline is that the Euro is safe because there will be no dreaded Grexit. The European stock markets are celebrating. Wall Street is also participating in the festivities.

But the reality is much different. Greece was, is and will continue to be an almost unmanageable economic mess. Beyond that, the prevailing sentiment among the Greeks is that their economic and fiscal crisis is really someone else's fault.

Believe it or not, the accepted narrative is that this misery has been imposed on Greece by the evil Germans who want to suck their blood. The delusional Greeks want to believe that while they were experiencing a totally manageable fiscal issue back in 2009, the Northern Europeans for whatever reasons used this crisis as an opportunity to humiliate Greece. They purposely destroyed Greek finances and economy by imposing impossible austerity measures.

We did not do this

There is very little awareness in Greece that, while the EU-ECB-IMF rescue packages may have been less than perfect, ultimately the problem rests in a hopelessly unproductive economy, with too many state workers, corruption and cronyism, that got deeper and deeper into debt.

Well, now the debt is horrendous and the conditions imposed by the creditors are as harsh as they can be. However, given the despondent state of mind of the Greek people, I really wonder if anything good can possibly come out of this emergency rescue package.

In the final analysis, any credible Greek recovery strategy has to focus on new investments, enterprise creation, attracting foreign investors and a lot more; so that little by little the economic wheels will start turning again.

Greece needs hope

But it is obvious that for any of this to happen the Greeks need at least one key ingredient: "hope". Yes, it is only hope that can create a measure of self-confidence.

The Greek society should be able to say: *"OK, we got ourselves into a really bad place. However, thanks to the latest rescue package, we have got a good chance of getting out of this. Therefore, it is definitely worth our while to get busy, get to work and start producing. If we do this consistently and professionally, in a few years we can get back on our feet. So, let's get moving"*.

Conspiracy theories

This is the spirit that Greece needs to come back from its latest near death experience. But I suspect that this is not the prevailing atmosphere in Athens and beyond. The Greeks were, are and will be very resentful. They resent the very countries and the institutions that are bailing them out, because –guess what– the additional credits come with strings attached!

Remember that in an empty gesture of defiance only a few days ago a large majority of Greeks voted against the previous rescue package, because they were told by Prime Minister Alexis Tsipras that it was too onerous. By voting "No", they were told, they would show the EU creditors how tough they are, and they would get a better deal.

Well, it did not work out that way. Now, it looks like they will have to live under terms that will be even more onerous. *(Congratulations Mr. Tsipras! The referendum was a really clever move! Any more bright ideas?)*

Defiance

Given this confusion bordering on delirium, you can rest assured that the most paranoid conspiracy theories already in circulation will dominate the future national debate on the

debt issue. The pundits will talk about humiliation, and about the need to re-establish national dignity through some acts of defiance, and other such nonsense.

Which is to say that many (if not most) Greeks will deal with this new situation in a bad spirit. They will not cooperate. Instead of focusing on work and investments, they will resist and fight against the austerity, just as they have done before. Only this time it will be worse, because the burden is much heavier.

Can we have a miracle?

Short of a real miracle that will transform the national consciousness, hard to believe that anything good will come out of this new "settlement" that settles nothing.

The bottom line is that Greece should have never been allowed to join the Euro. This was a fatal error. And now both the Greeks and the rest of the Eurozone members are paying the consequences.

Greek Crisis Aside, Most Of Europe Is In Decline

WASHINGTON – With all the excitement surrounding the Greek debt farce, (yes, it is mostly a farce), most observers are pretending not to notice that at least half of Europe is in a state that can only be called terminal economic stagnation, eventually leading to decline.

All is well

It is pathetic to watch pundits on TV telling us that, unlike

Greece, Spain and Italy have courageously embraced reforms and now –what do you know– they are doing a lot better.

Which is to say that if only the Greeks would follow the example of their enlightened Mediterranean neighbors, all of Europe would get back to prosperity.

Progress in Italy ?

Well, let's give a closer look at this praiseworthy progress. Here are the IMF macroeconomic projections on Italy. After a ritual acknowledgment of Italy's efforts to improve its fiscal outlook while reforming somewhat its labor markets, the IMF projects that in 2015 Italy's GDP will grow by 0.7%, its unemployment rate will be at 12.5%, while its national debt will be equal to 133.3% of GDP. Impressive, no?

By 2020 on account (we assume) of the impact of targeted reforms promoted by the no-nonsense Renzi government growth will be 1%, unemployment will be "down" to 10.7% and the national debt will be "only" 122.9% of GDP. Got that?

Growth that may be approaching 1% is actually impressive according to the analysts, while unemployment above 10% is swell, (not to mention that youth unemployment is about double that, while in the south of Italy it reaches 40%).

The new normal

Well, this is what passes for healthy recovery, these days. And this projection of course excludes recessions, downturns or other crises.

So, here is the picture of Europe painted by the experts. Greece is doing poorly because it is unwilling to recognize its serious predicament. But –hey– Italy is making real progress thanks to its smart leaders, while in Spain unemployment is rapidly going down. Really? The last time I checked unemployment in Spain was well above 23%, while youth

unemployment is “down” from 53% to 49%. This tragedy is in fact presented as good economic news. *Have we gone totally mad?*

Terminal decline

The truth is that, while Italy did not jump into the Greek abyss, it is a country in terminal decline. And so is Spain and Portugal; while stagnating France is flirting with the idea. And up north Finland is not doing well, while the Balkan EU countries do not give any reason for rejoicing. No, there will be no Croatia economic miracle. And do not hope that the Bulgarian economy can grow more than 0.9%

So, here is the real story. Greece is an almost comically extreme case; but a large chunk of Europe is essentially in decline. And why is that? Well, it is the compounded effect of statist policies, unaffordable entitlement programs and falling birth rates, combined with structural disincentives to investments in innovation, enterprise and ultimately growth.

Denial

What is worse is that this decline is denied. In fact, the experts tell us that because of intelligent pro-growth reforms and the beneficial effects of quantitative easing administered by the European Central Bank, Greece aside, things are mostly back to normal. Really?

When analysts tell you that all is well when Italy, a supposedly modern industrial country, is projected to grow at a 1% rate in 2020, that is 5 years after the implementation of intelligent reforms, while carrying a national debt that will stay well above 100% of GDP in eternity, then we have entered a new era, an era in which idiotic wishful thinking passes for sound judgment.

Whatever The Referendum Outcome, Greece Has No Recovery Strategy

WASHINGTON – The upcoming Greek referendum is mostly a reflection of political and policy confusion in a sorry country that chose Alexis Tsipras, an amateurish, leftwing populist, as its prime minister.

Confusion

Whichever side will win –those who do not want to accept the EU package or those who are willing to swallow the bitter pill by saying “yes”– it is not at all clear that after the vote there will be a clear path ahead for Greece.

Greece is bankrupt

Here is the thing. Greece is bankrupt. Its weak and unproductive economy cannot possibly generate enough wealth so that people can carry on with some hope of future standard of living improvement, while at the same having a reasonable plan to repay the country’s total outstanding debt. Simply stated, there is no way that Greece can pay all its debts exceeding now 300 billion Euro. Impossible.

So, how can they fix this? First of all they should fire all the incompetent and ideologically biased charlatans who are now supposedly running the government. Greece’s economic, fiscal and financial collapse is a serious problem that requires serious people in charge. Ultra leftist ideologues like Tsipras are colorful, and they make interesting headlines. But they are hopeless policy-makers.

A game plan

That said, at least in principle, it is very easy to conceive the basic components of a “turnaround” plan for Greece. First of all, one needs to understand the real economic potential of this perennially mismanaged country. It is foolish for creditors to keep demanding large payments from a society that cannot possibly generate them.

So, here is the trick. One needs to understand: 1) how much wealth the Greeks can produce, 2) how much must be retained at home so that the Greek people will have a modicum of prosperity that will allow them to regain a sense of purpose, 3) how much realistically the Greeks can pay back to their creditors, 4) and how much of the current outstanding debt will have to be forgiven, simply because it is impossible for Greece to repay all of it.

At the same time, wise policy-makers (let’s assume that they exist) will enact pro-growth reforms that over time will improve the country’s economic competitiveness. Much can be done in education, laws that will attract fresh foreign investments, fiscal reform, pension reform, labor markets reform.

Simple enough, in theory

As I said, at least in theory, in the end all this is all quite simple. Realistic, competent people on both sides (European creditors and Greek debtors) will strike a good balance between how much wealth the Greeks can produce, how much they need to keep in order to stay afloat and invest in the future, and how much needs to be set aside to satisfy its creditors.

Most likely the same wise people sitting at the table will conclude that realistically Greece cannot possibly repay all its debt. Well, then they must wisely decide what is possible, and forgive the rest.

Realistic pragmatists in charge?

Anyway, this is what should be done. But this assumes realistic pragmatists in charge. And this is not the case. Not even remotely so.

In the past, Europe has insisted on imposing self-defeating draconian austerity on a Greek government and society used to irresponsible profligacy. Too much austerity is recessionary. It makes it harder to kick-start a recovery.

The Greeks, on their part up to now, years after the crisis had exploded in 2009, have been unable to produce any credible economic recovery plan that includes savings, less public spending, and more investments in wealth-generating, productive sectors.

Still no plan

If this combination of incompetence, stupidity and ideological bias does not go away, then it will be the same scenario next week or next year, whatever the outcome of this referendum. Make no mistake: Greece is and will remain bankrupt. Worse yet, Greece has no credible plan, and with this hopeless Tsipras leadership most likely will continue to have no plan.

And this means that there will be no workable strategy that will be able to give its citizens any realistic expectation that a long period of belt-tightening and sacrifices will eventually yield a healthy economy and a modicum of prosperity.

The Real Trouble With The Euro

WASHINGTON – The media love financial crises. And now they have the deteriorating Greek situation to talk about. I have no idea about how this tragedy (or is it a farce?) will end up.

Flawed monetary project

But I believe that some simple considerations are in order. The whole “Euro Project” was poorly conceived. The notion that a new, effective monetary union would become some kind of “aggregator”, a powerful incentive to strengthen political and institutional ties among the EU countries that would join the monetary union, was profoundly misguided.

The mistake was in the belief that the goal of monetary union deep down was a political goal. A common currency was supposed to indicate the will to create a common political future among equal countries.

First the country, then the currency

Let me put it in plain language. First you create a new country –in this case a Federal Europe– and then you create a currency. But instead, when the Euro Project was discussed, many believed that a pan-European currency would help expedite the achievement of a political union among key EU members.

Quite frankly, a bad idea. I am not suggesting that, because of Greece, the Euro is doomed. What I am suggesting however is that, by allowing under performing countries (and that includes Italy, Spain and Portugal) to join the Euro, the EU financial authorities created new problems.

No policy harmonization

A common currency without a Federal Europe, that is without truly harmonized economic/tax/fiscal policies, created distortions. It should have been obvious that it is almost impossible to harmonize broad macro-economic policies among countries that have almost incompatible systems.

Northern Europe, (Scandinavian countries, Germany, The Netherlands, Austria, and a few others), on balance, is well-organized, fiscally responsible, innovative, and productive.

Southern Europe is not. Hence the discrepancies that were masked at first by the common currency, but then exploded when the Eurozone system came under severe stress after the 2008 financial crisis.

A problem, not a solution

In the end, this monetary union willed into place mostly for political reasons turned out to be a problem. Heavily indebted Southern European states had taken advantage of the Euro in order to borrow more at lower interest rates. Lenders trusted the Euro and so continued to finance profligacy. And so on, and so forth.

As we now know very well, Greece has become the extreme case. Greece is the worst performing Eurozone country. However, mostly for political reasons, it became an article of faith that Greece needed to be saved. It needed to be kept in the Euro. For a variety of reasons, the expulsion of a non performing, smallish country from a "sacrosanct" monetary union was deemed to be "impossible".

What's next? Not much

And quite frankly, even today, with failed negotiations on debt restructuring coupled with reforms, the upcoming Greek referendum on a "Yes" or "No" to the EU package, and more, it is not at all clear that Greece has to leave the monetary union.

You see, the prevailing European instinct is to patch things up. Find an eleventh hour compromise. Save the status quo. Maintain a semblance of order, even though all parties know that the unaddressed systemic problems fester under the surface.

Technocrats in charge

As indicated at the beginning, monetary union should have logically followed the implementation of a European Federation. A real federation would have been based on truly harmonized economic and fiscal policies among its members.

But the technocrats running Brussels really believed that the Euro would become the magic glue that would bind Europe together, no matter the glaring incompatibilities among systems that travel at different speed.

Italy just like Germany?

Well, as it turned out, the Euro worked out fine for some members; but not for all. However, this late in the game, whatever will be done about Greece, I doubt that EU policy-makers have the stomach to address the serious imbalances that separate, for instance, Italy from Germany.

If anybody believed that, by virtue of using the same currency, Italy would eventually become more like Germany, it is obvious that this did not happen. And it should be clear to all that it will not happen.