

Wanted: Credible Centrist Political Leaders

WASHINGTON – Recently, a Democratic party elected leader of national renown argued in a public forum that in order to regain lost momentum and credibility with the American voters the Democrats have to redefine themselves as the party of economic growth and inclusiveness.

Common sense messages

At a national event focused on the future of U.S. small businesses, a Republican national leader claimed that America's greatness rests on its foundations as an opportunity society in which people can advance because of a rules based system that recognizes and rewards merit.

John Hickenlooper, the Governor of Colorado, a successful state chief executive, stated that through collaboration between Republican and Democrats we can find workable compromises on the future of the US health care system, and other national priorities.

Well, what do I make of all this? Very simple. These statements made by credible centrists in both parties raise the hope that it may be possible, even in this incredibly poisoned political climate, to rally millions of Americans, hopefully a majority, around the basic ideas of an optimistic country in which policy-makers promote economic growth, while upward mobility is based on genuine merit; and nobody is excluded or kept from advancing because of social class, gender, race, or anything else. In fact, the opposite –equal opportunity for all- is embraced by all.

And this must include quality education, the best foundation of future success in life, available to everyone; while bridges are built across every divide, and doors are wide open

to all who are willing to make an effort.

It is an old idea

This idea of America as a level playing field and fair rules used to be a shared vision embraced by most. Indeed, it was the belief that America offered genuine opportunity that attracted millions of immigrants who wanted to create in America a better life for themselves. It is about time to re-propose this vision in a manner that can be shared by today's Americans –Democrats and Republicans.

Indeed, who could object to public policies that promote economic growth, social advancement based on merit, while all citizens have genuine access to quality education, careers and consequently a good seat at the table?

Lost hope

Of course, the last few years have told us an entirely different story. It is a story of lost hope, deep disappointment, and resentment. A story of popular distrust in the honesty and abilities of most elected leaders. A story of exaggerated promises not kept.

This has created an emotional anti-government rebellion on the right, ("*Washington is a rotten place*") and the triumph of policy agendas on the left which advocate economic and social re-balancing achieved through redistribution by taking (ill-gotten gains) from the few ultra rich and giving to the rest of society. All this will be wisely designed and orchestrated by government, through taxation and subsidies.

Despondent America

The outcome of all this is not pretty. The unexpected outcome of the November 2016 presidential elections is evidence of the widespread feeling of deep despair. Indeed, according to millions who voted for Donald Trump mostly because he is not a

professional politician, “the system” failed –period. Its failure is so deep that it is not worth salvaging. In fact, it should be dismantled. Millions of Americans feel deeply alienated.

Paradoxically, notwithstanding continuous economic growth and lower unemployment since the end of the Great Recession in 2010, rightly or wrongly millions of Americans who used to be part of a self-confident middle class now are and feel poorer and left behind. At the same time, millions of young people feel hopeless facing a world of diminished opportunities, while laboring under the crushing weight of absurdly large student debts.

There is a way out

That said, I sense that there is a way out of this. Difficult, yes; but not impossible. Yes, America needs house cleaning. It needs fresh faces not tainted by the old ways of doing business.

The unimaginative political elites still populating Washington, DC have survived by over promising everything to everybody, while pretending to pay for all the goodies they offered to various (of course deserving) constituencies, knowing full well that the only way to finance all this public largess (unaffordable entitlements) was and is to borrow more and more, this way getting the country deeper and deeper into debt. Sadly, the Washington elites have no real economic growth strategy, while their policies aimed at buying votes through entitlements funded by public money and more and more borrowing are driving America towards the abyss of insolvency.

Credible people who will tell the truth

Most Americans have common sense. However, they need credible new leaders who will tell the unvarnished truth about the dangers of systemic and growing fiscal imbalances, (i.e we have to agree on a sensible plan to reform all major federal

entitlement programs, by far our biggest fiscal problem), while pointing the only way to get out of this ditch: economic policies (think tax reform and smart deregulation affecting business activities) that will promote a more robust economic growth in a genuinely open and inclusive society. An inclusive society in which elected leaders are committed to destroying all artificial barriers to entry, while opening new avenues of opportunity to all.

President Donald Trump, a new leader who is not carrying the baggage of the distrusted establishment politicians, could lead the way in shaping a new American political conversation. As his presidency is just getting started, it is impossible to say whether he will engage in this effort or not. We should all hope that he will. This would benefit the country and him.

Impossible?

Well, in the end all this sounds too lofty, in fact unrealistic. Yes, this is an appeal to an admittedly mythologized idea of an America “where anything is possible as long as you work hard and play by the rules” which (truth be told) never fully existed in the way many refer to it.

And then there is the huge problem of yanking benefits away from millions (deserving or undeserving, it does not matter) who got used to getting them. *“Come on...get real. Nobody gets elected by promising less, let alone by promising to cut existing benefits. And we in Washington just do not know how to deliver stronger economic growth. We only know how to distribute subsidies”.*

The way ahead

And yet, if we do not want to see America follow Europe on the path of historic decline, it is imperative to make real progress on these two related fronts:

1) restore fiscal sanity by reforming all the major

entitlement programs

2) genuinely and forcefully promote economic growth and real opportunity for all

The alternative is political chaos, the de-legitimization of our institutions, and rapid economic decline.

Some elected leaders of both parties know this. I just hope that their common sense message will be heard, understood and embraced.

China To Become Green Super Power?

WASHINGTON – Many Western environmentalists and commentators openly praise China for its declared energy policy objective of turning itself into a truly “*Green Super Power*”. They claim that, unlike Trump’s America, (ignorant and backward), China (smart and forward-looking) truly understands the threat of global warming, and is actually doing something very serious about it.

Hundreds of billions for green power projects

Indeed China has committed hundreds of billions of dollars to renewable energy projects. It is leading the world in massive investments in wind and solar projects, with more to come.

Contrast that with heretic America now led by a President who believes and publicly affirms that global warming is nothing but a hoax. Indeed, instead of leading the way in renewable energy investments, President Trump’s America promises to revive (dirty, high emissions) coal production, while he just

signed executive orders that will re-start two major oil pipeline projects that had been blocked by President Barack Obama, at least in part because of environmental concerns.

Responsible China

So, there you go. Communist China's leaders are acting as responsible stewards of our Planet Earth, while democratic America is the prisoner of anti-science bizarre bigotry that ignores "the facts" about green house gases and global warming, and the dire consequences of disastrous energy policies still based on fossil fuels that will end up cooking the world.

The truth is more complicated

Well, this is how the critics of American policies would like to frame the argument. But the truth is far more complex. It is indeed true that China is investing very substantial amounts in green energy projects. But it is also true that renewables are and will continue to be a small fraction of China's power generation capacity. The fact is that China relies today and will continue to rely in the future mostly on coal –yes, old-fashioned dirty coal– to produce about 66% of its electricity.

In contrast, if you look at the current mix, U.S. electricity generation is on balance far greener.

Green America?

In the U.S. coal is now used for only 33% of power generation, a much lower proportion than China's, (50% less, in fact). On account of the shale gas revolution that made natural gas abundant and cheap, America now relies on low emissions natural gas for 33% of electrical generation capacity. This percentage is destined to increase, mostly at the expense of dirty coal. While this transformation is driven by market factors, as opposed to government green policies, the added

bonus here is that natural gas is a much more environmentally friendly fossil fuel.

If you add 20% of power generation produced by nuclear and 6% from hydro, (an old-fashioned source of renewable energy), the picture is not that disastrous.

Less coal, more natural gas

While the contribution from other renewables is still rather small in America –solar represents only 0.6% of total power generation capacity, while wind is a still a modest 4.7%– the fact remains that America relies on coal for only 33% of its power generation, while China uses this dirty fuel for almost 70% of its total electricity generation.

So, looking at the numbers, (to date at least), America is far greener than China.

The truth is that coal-fired plants are and will continue to be for years to come the major electricity producers in China. Even at current levels of new investments in renewables, it will be a long time before China becomes green in a meaningful sense.

Biomass

In the meantime, if we break down China's renewable energy mix, we see that (if we exclude hydro) by far the biggest percentage is represented by biomass. As noted by Bjorn Lomborg in a recent op-ed piece published in The Wall Street Journal (A "Green Leap Forward" in China? What a Load of Biomass, February 5, 2017):

"It is peculiar–though unsurprising given the sensibilities of Western environmentalists–that those who celebrate China's "Green Leap Forward" almost always focus on wind and solar technology. By far the largest source of renewable energy used in China is traditional biomass–that is, people burning

charcoal, firewood and dung, as China's poor do to stay warm. Biomass is the biggest source of killer air pollution in the world."

Health concerns

As biomass energy production entails burning animal dung, wood and charcoal, this type of fuel is hardly green, because of the fumes and soot produced by its combustion. If you consider that in China biomass is used for home heating and cooking mostly by the rural poor, this means that the fumes released by these "green fuels" cause a variety of respiratory diseases to vulnerable, low income people.

It will take a long time

So, what is really going on here? It is true that China is committed to increasing the percentage of its electricity generation provided by clean solar and wind. In absolute numbers, China's renewable generation added capacity is truly impressive. However, as a percentage of the total (keep in mind that China has a population of 1.3 billion energy users), this contribution from renewables is and will continue to be rather modest.

Still reliant on coal

The fact is that major efforts in wind and solar notwithstanding, China still relies and will continue to rely on traditional dirty coal as the key component of its power generation mix for many years. In fact, while wind farms are built, China is adding more coal-fired generation.

It is therefore a misrepresentation to state that China is well on its way to becoming a "Green Super Power". While the intention may be there, it will be a long time before China will be able to rely mostly on renewables for its power generation needs.

Let the markets decide

The larger lesson here is that in the end it will be superior technology delivered at competitive prices that will tilt the power generation balance. When renewables will be really cost competitive without subsidies, then they will be adopted on a massive scale in China, in America and elsewhere.

Right now, at least in the West, the push for early adoption of still expensive technologies is not driven primarily by economic considerations. It is pushed forward by policy-makers through mandates, set asides and tax breaks created because of strong environmental concerns.

While this is understandable, we should not muddy the waters by arguing that if China can go all the way with renewables, so should America. China is doing something important. But, on close inspection, a lot less than what is stated by Western environmentalists.

The Tragedy Of The Uneducated Poor in America

WASHINGTON – Much has been said about the “crisis” of American public education. Indeed, if we look at the ranking of American high school kids compared to their peers in other developed countries, they do rather poorly in terms of academic achievement. In fact their performance is so bad that

one wonders how on earth can America be and stay a leader in sophisticated technologies, innovation and business creation since its young people seem to be chronic under achievers.

The truth about education

Well, here is the truth. The U.S. academic averages are bad. But the averages hide the fact that there is a new kind of segregation in America; and it is all about education opportunities.

The rich can pay for and get a good education for their children –public or private. The poor cannot. The children of the rich receive the instruction and the training that will open doors to good universities, and later on good or great careers. The children of the poor in most cases will go to bad schools –the only kind available in their chronically under served neighborhoods. Many of them will graduate with meaningless diplomas. Some will drop out of school and have absolutely nothing.

Therefore, it is incorrect to say that the American education system –in its entirety– is in crisis. Indeed, some of it is doing well, or very well. But some of it is in pitiful conditions. And it is the part serving the poor that skews the national averages.

The crisis is all about the poor

So here is the thing. The children of the rich and well to do are doing reasonably well, or well in school. In most cases, the chronic under performers are the poor and the minorities, (often times one and the same).

As Michael Petrilli and Brandon Wright put it in their article *America's Mediocre Test Scores*, ([EducationNext](#), Winter 2016), it is an established fact that the poor do much worse in school. And the problem is not that lack of income impairs their ability to learn. The problem is that poverty in America

very often comes along with homes where there is alcohol and drug abuse; or single parent households, child abuse, crime, and a lot more. In other words, poverty in many cases creates an environment that is truly toxic for young people who would need to concentrate on their studies.

“Why do kids from low-income families –write Petrilli and Wright– tend to score so much lower on average than their more-affluent peers? Is it something about poverty itself, that is, a lack of financial resources in the family? This is likely the case, as financial stress can create “toxic” conditions in the home and also make it difficult (if not impossible) for parents to afford the tutoring, educational games, summer camps, after school activities, and other educational experiences that middle-class and upper-middle-class students take for granted (and that almost surely boost their achievement).”

*“But it’s not just about money –they continue– Poverty is associated with a host of other social ills that have a negative impact on learning. **For instance, children in poverty are much more likely to be living in single-parent families headed by young, poorly educated mothers. Poverty is also associated with higher rates of alcoholism and other substance abuse in the home; greater incidence of child abuse and neglect; and heightened family involvement in the criminal justice system.** [Bold added]. All of these are well-known “risk factors” that are associated with lower test scores as well as with a greater likelihood of dropping out of high school.”*

Vicious cycle: poverty begets poverty

So, you get the picture. Children who live in poverty don’t do well in school. In part, this is due to the fact that at home there is no supporting system that encourages them to do their home work and do their best in school. Their parents are often uneducated. There are no books in the house. There are no

conducive after school activities. No theater, and no trips to the local museum. On top of that, most of the poor tend to be African-Americans or Latinos. Belonging to these ethnic minorities already places them at a disadvantage in a still racially divided society.

All in all, being a minority and poor is the kiss of death for most children when it comes to having a fair shot at a better life. For most of them, "upward mobility" is a dream.

To make it worse, public schools in poor neighborhoods tend to be of lower quality when compared to those in rich areas. Which is to say that in America today the family you are born to and the neighborhood you live in is probably the single best predictor of future academic proficiency and life time career and economic achievement.

Birth is destiny

Put it differently, just like in many poor countries, and just like in Europe prior to the industrial revolution and the diffusion of democracy, in today's America "birth is destiny". Where you are born and grow up and the income and level of education of your parents in most cases determine what you will become as an adult. This is truly horrible. This is America. As a society, we should be able to do better than this. Much better.

Charter Schools can help

This does not mean that all poor and minority children are totally neglected by their families. Indeed the whole Charter Schools movement, and its popularity, is about giving poor kids living in poor and under served neighborhoods –kids who otherwise can only enroll in mediocre or failing public schools– a choice. Not all Charter Schools are great. But many are by far better than what the public education system offers in poor neighborhoods.

At least some parents of poor children, quite often themselves people with little education, realize that a better education will give their children a shot at a better life. So much so that the best Charter Schools are literally under assault by low income and minority parents who desperately try to get their children enrolled. In order to give everybody equal chances, Charter Schools hold admission lotteries. If your number is drawn, you are the lucky one. You get in. For all the others there is the grim alternative of a mediocre or failing public school.

Winning the lottery

Now, think about it. This is America. Once upon a time “The Land of Opportunity”. And yet, in this enchanted place where –we are told– all people are truly free to be whatever they want to be, the future of a poor child depends –literally– on winning a lottery. The winners get to go to a good Charter School; a school with good teachers who will prepare them for a life of higher achievements: college, good training, and a good job.

A good education for every one

All the others, well all the others were just not lucky enough to get in. You see, they did not win the lottery.

This is a national disgrace. In the United States of America we should be able to offer all children, regardless of income, background or race, a good education; so that all of them would have the intellectual tools and skills to engage in our society, and have a shot at good lives in this fiercely competitive global economy.

Can U.S. Fight Insurgencies?

WASHINGTON – Under pressure, the Obama administration released the estimated number of civilians killed (unintentionally) in the course of U.S. drone strikes that have taken place in various theaters. Along with the figures came new guidance aimed at further reducing “collateral damage”, i.e. the killing of civilians in the course of U.S. air attacks via drones. (These attacks are always aimed at military targets).

Indeed, sometimes, civilians get killed accidentally due to their proximity to military targets. (There have also been a few cases in which civilians have been mistakenly targeted, because it was wrongly assumed, based on the information available at the time, that they were in fact enemy fighters).

Civilians killed by drone attacks

US Intelligence sources stated that 116 civilians were killed in the course of drone strikes aimed at hitting legitimate military targets in different theaters. This usually happens because enemy positions are located in the midst of populated areas.

President Obama stated that America, from now on, will do its very best to further reduce these numbers. Of course, several critics immediately argued that the real number of civilians killed is a lot higher. Besides, this total just announced excludes the death toll from operations in Iraq, Syria and Afghanistan.

This U.S. announcement could be just public relations; or it could be an oblique way to tell the world that from now on the U.S., while fighting elusive enemies on different fronts, will be more restrained. It will bomb less, with drones or conventional aircraft. Indeed, if this new guidance will take effect as stated, hard to bomb more enemy positions most often located in populated urban areas, when your goal is to further

reduce the chance of killing civilians.

Restrictive Rules of Engagement

Still, whatever the real numbers of civilians accidentally killed, the truth is that America's current "Rules of Engagement" are already extremely restrictive on when and where U.S. bombs can be legitimately used.

Drones strikes are usually planned on the basis of carefully sifted intelligence. "Dynamic" strikes that occur in the context of ongoing military operations however are also subject to complex procedures. Tactical Operations Centers need to authorize them, often only after having received the input of military lawyers who are standing by 24/7 and who are called upon to assess the legality of strikes, on the basis of the available intelligence regarding the situation on the ground.

Is the way to fight a war?

This way of fighting a war looks crazy. But these are the standard rules. Given all these restrictions on what targets can be bombed aimed at avoiding or at least reducing possible civilian casualties, quite often requested strikes are simply not authorized by the U.S. military authorities.

Well, then why do we have non combatants killed by U.S. bombs? Very simple. Al Qaeda, the Taliban and now ISIL do not follow the established laws of warfare. They routinely place their own assets (troops, ammunition, logistics) in the middle of densely populated areas. They deliberately use civilians as human shields. And the purpose of all this is obvious: to deter American attacks.

Civilian deaths become propaganda tools

And when some ISIL positions are indeed attacked and civilians are killed, then there is a huge publicity gain for the

insurgents. *“The blood thirsty Americans bomb indiscriminately, deliberately targeting women and children”.*

Needless to say, ISIL and others have a vested interest in inflating the numbers of civilians killed through drone or other U.S. air strikes. This is their own way of fighting the propaganda war, using the argument of American barbarity in order to recruit more people willing to fight and die for the cause.

Impossible to avoid civilian casualties

The fact is that, even with heroic efforts, it is impossible to avoid civilian casualties while fighting irregular forces that hide within populated areas. It is just impossible. Even with highly sophisticated satellites and other sensors that gather detailed images and provide real time data to those who operate drones, or to pilots of manned aircraft, it is just impossible for the U.S. military to neatly separate combatants who usually wear no uniforms from innocent civilians in populated areas.

No way to win

So, here is the bottom line. If Obama is serious about cutting the number of casualties going forward, then this means that America cannot realistically fight aggressively and win against insurgents who routinely hide in urban areas. Even today, without new restrictions in place on the use of air power, the effort to minimize collateral damage means relatively few air strikes, because many targets are deemed to be unlawful by the military lawyers, and therefore excluded.

More targets will be declared off-limits

If America wants to further diminish the likelihood of future civilian casualties while fighting insurgents, this means that an even larger number of possible military targets will be declared off-limits by the military lawyers, due to their

close proximity to civilian areas.

And here is the absurdity. This is no way to fight any war. As troubling as this is to our civilized conscience, it is just impossible to fight an insurgency that operates in cities and towns without causing some unwanted suffering.

If America wants to win against ISIL and other insurgents, it has to accept this fact: if you want to destroy enemy forces that hide in populated areas, you have to accept that civilians will also be killed.

Long, inconclusive conflicts

Otherwise, if avoiding civilian casualties is more important than destroying at least some enemy targets, let's prepare for an endless and inconclusive conflict with adversaries who do not play by the accepted rules of war.

With all the restrictions outlined above, and possibly more to come, the U.S. cannot fight properly; because Washington feels the pressure of a world public opinion that requires America to behave according to an impossible standard.

Public Assistance Is A Curse

WASHINGTON – *“Continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit”.*

Aid is bad for you

This is a pretty accurate description of the long-term

(unintended, we hope) consequences of well intentioned, government-funded economic welfare programs. Indeed, if all you do is to give aid for free, and with no time limit to needy people, you end up making them perpetual dependents.

Like it or not, by allowing disadvantaged people to get by without any personal effort, you kill their motivation to do their best to help themselves. Yes, if this is the substance of public assistance programs, relief becomes indeed a *"narcotic, a subtle destroyer of the human spirit"*.

Who said it?

Well, agree or disagree, it is interesting to find out who said this. An easy answer would be Ronald Reagan, the somewhat romantic champion of unfettered free market capitalism, the high priest of celebrated American values centered on self-reliance, and indomitable *"do-it-yourself"* spirit.

According to Reagan, Americans do not want aid. No, they want freedom; so that they can take care of themselves, relying on their own efforts.

FDR warning

But no. It was not Ronald Reagan who said this. Actually, it was President Franklin Delano Roosevelt. And he said this in 1935, when millions of impoverished Americans were still dealing with the devastating consequences of the Great Depression.

What? FDR, the Father of the New Deal, and of the beginnings of the U.S. Welfare State said that relief was a *"narcotic"*?

Yes, he did. Which is to say that in a more enlightened era, even those who created new public assistance programs in order to deal with emergency situations, understood that those programs should be limited in size and scope.

But already long ago we forgot FDR's warnings. Now nowadays

anybody aspiring to elected office will promise more and larger programs, for ever larger constituencies. And yes, whatever may be said officially, all voters are led to believe that the benefits will never stop. In fact, now the recipients assert that they are entitled to receiving them. Welfare and relief somehow have become new civil rights.

Bad policies inspired by political goals

And so politicians administer free benefits/narcotics, even though many of them know full well that these benefits are *"destroyers of the human spirit"*. In fact, this may be the main reason why they spread them around so lavishly. Giving away all sorts of free goodies may help them at election time. (*"If you re-elect me, there will be more programs, just for you"*).

However, because of these ill-advised policies the fabric of the American society will be progressively eroded. Large armies of people relying on some form of welfare cannot be expected to be productive citizens eager to face challenges.

More of the same

Yes, after decades of experimentation with ill-advised welfare programs which induce dependence, by now we should know that ***"continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit"***. Yes, all politicians should know this. And yet they continue promoting these policies and remedies.

I guess trying to get elected is a much more important goal than promoting the public good.

“The Economist” Mocking China

WASHINGTON – It is no surprise that The Economist’s cover this week is about China. The Shanghai Stock Market is almost in free fall, notwithstanding highly publicized state interventions (unthinkable in real market economies) to stabilize share prices. And we know about the zigzagging yuan, China’s currency, in the midst of what appears to be policy confusion at the Central Bank.

“Everything’s under control”

But what is interesting is that The Economist chose mockery, as opposed to a serious, even dramatic title, to depict the situation. The cover shows a drawing of a dragon with a totally terrified expression racing downhill (to nowhere), while a disheveled President Xi is struggling to stay in the saddle. The title says: *“Everything’s under control”*.

This is important. The Economist’s editors could have chosen a different cover to introduce a story of serious economic troubles in the world’s second largest economy. For instance: a picture of a stern looking President Xi, with a title saying something like: *“China in peril?”*.

Satire, not reverence

But no, they chose mockery instead to portray a deteriorating economic situation. Well, this may not be the most irreverent satire. But it is satire nonetheless.

And I think that this needs to be noted, because of the sharp contrast with the almost reverential tone of most China coverage that used to be the norm until recently.

In awe of China's leaders

Indeed, until not too long ago, most western media were almost in awe of China. After all, this was the country that had done the impossible: 30 years of uninterrupted growth. Imagine that: 10% a year added to GDP, year after year. No other country had done that.

The Chinese technocrats in charge of economic policies were depicted as all-knowing, super smart technocrats, armed with refined long-range strategies that we mere mortals could not even begin to comprehend, and the super human gift of infallibility.

Show the cracks

Well, now there seem to be huge cracks in the splendid Chinese economic edifice. The meteoric rise is over. In fact, more and more western business media openly say that most likely the real rate of growth in China is much lower than the still more than respectable 7% (if it were true) officially declared by Beijing.

Publish the bad news

There seems to be less reluctance to publish "the bad stuff" that at least indirectly contradicts official rosy numbers. For example: in 2015 there have been 2,774 unauthorized strikes in China. This is up from 1,379 in 2014, according to The Economist. These strikes (all of them illegal) are a sign of growing restlessness, possibly of major troubles brewing. And, by the way, the authoritative Caixin survey of the manufacturing sector just recorded the 26th consecutive month of decline.

Clueless leaders

Let's be clear. Nobody is suggesting that China is about to fall apart. But it is suggested, in fact declared, that

China's heroic days are over. It is also argued more or less openly that the Chinese leaders are sometimes clueless, especially when it comes to managing financial and monetary affairs. As The Economist put it in the same issue: "*The past six months have been hard on the reputation of China's economic managers. Their attempts to bring troublesome stock markets to heel border on slapstick*". "**Slapstick?**" Yes, this is comedy, not tragedy. Hilarious levels of gross incompetence.

And, finally it is taken for granted that the Chinese publish inflated growth statistics that nobody believes anymore.

Now it is alright to mock

Well, I think that when it becomes alright to make fun of completely humorless leaders who want to be taken very seriously all the time, then we enter a different dimension.

The cartoon message is that these stern looking people who want to appear in serene control of everything in truth do not know what they are doing, while they deliberately lie about the extent of their problems. Sure "*Everything's under control*" –they tell us– while the scared dragon races downhill, towards nothing.

Meaning: "*Sorry guys, we do not buy the old super-performing China story anymore*".

This hurts

I believe that this scared dragon cartoon on the cover of one of the most influential news magazines in the world hurts more than any title that would criticize the merit of specific economic choices.

This cover story does not say that China is pursuing wrong-headed policies. This funny cartoon says that this a bunch of clueless amateurs, clearly out of their depth.

I am sure that to be dismissed with a laugh hurts a lot more than to be criticized.

The China Myth is officially dead; and Thank God for that!

Why Self-Driving Cars? Upgrade Bus Networks Instead

WASHINGTON – The ongoing buzz about “driverless cars” is frankly bizarre. A great deal of money and effort is devoted to perfecting this futuristic technology. We know that Google and other high-tech companies are involved in this research. The latest news is that General Motors has entered a \$ 500 million partnership with Lyft to produce a robot vehicle that will drive itself. Eventually it will be used for ride-sharing.

The advantages

To some extent, I see the point of getting into a car that can safely take you anywhere. Instead of focusing on driving, while in the car, you are just a passenger. You can do work, you can safely make phone calls, or rest.

I can also understand how older or disabled people who can no longer drive but need to go places would find a self-driving vehicle to be the perfect solution to their daily mobility needs.

You are still stuck in traffic

That said, this is not a very good way to invest precious funds. And here is why. Suppose we get there. Suppose that there is some kind of breakthrough. Consumers will soon be

able to buy an affordable, safe, intelligent car that they do not need to drive. Fine.

Now imagine yourself in your new vehicle that drives you. You are in the middle of Los Angeles, or Cairo, or Paris, or Nairobi, at rush hour. Guess what, the car may drive you, but both the futuristic car and you are still stuck in horrible traffic. Sure, you are not as stressed as you used to be by bumper to bumper congestion, because the car does the driving. But you are still stuck in an endless traffic jam. Your daily commute still last hours. Your driverless car cannot fix any of that.

So, here is my point. All this focus on making cars smart is a poor allocation of scarce resources. The problem is not that cars are not smart enough.

The problem is that there are just too many cars on the road, in most large urban areas around the world.

As simple as that: just too many cars.

The car is a bad solution to mobility needs

The fact is that we are way past the point of diminishing returns when it comes to the usefulness of the automobile in all large urban areas, anywhere in the world. In most settings the car is the wrong answer to our need to move around at leisure, in comfort, and reasonably fast. There are just too many people with too many cars.

The answer to epic traffic jams and slow-moving traffic, often 24/7, is not to make the cars more intelligent. The answer is to get rid of cars in large urban settings and opt for smart mass transit solutions. (Obviously there are significant exceptions to this general rule that is aimed at large cities. People living in rural areas, in isolated communities, or remote farms need cars. And, of course, cars are necessary for road trips, long and short).

Bus Rapid Transit systems

While there may be several options available, at the moment the most cost-effective solution seems to be Bus Rapid Transit, BRT, systems.

“Come again? We are working on high-tech, intelligent cars and you are proposing buses?” Yes, I recognize that this does not sound terribly sophisticated. And in fact it is not. And, yes, in the roll-out phase this option can be very disruptive.

Dedicated lanes, fast buses

In most large cities, in order to create a BRT system you have to ban or at least restrict private cars. The new bus network becomes fast and efficient only if buses can have complete right of way via dedicated lanes not shared with other vehicles. And this means large areas where cars cannot travel.

Once we know that buses will be able to move freely without being stuck in traffic created by private vehicles, then BRT planners will be able to create the network with bus stops that become interchanges working just like subway stations. Passengers will buy their tickets before boarding. They will ride on a bus, exit at a stop that will also be an interchange, quickly board another bus if they need to, and get to their destination.

Just like a subway, minus the construction cost

in other words, you get all the advantages of an underground subway system, in terms of easy access and speed, minus the cost of digging tunnels and building stations. *In most countries, these costs are prohibitive.* And this is why most cities do not have subway systems. Or, if they have them, they are not large enough to serve the entire population. Hence the continued dominance of private cars.

So, the humble bus can take care of all urban transportation

needs? Yes, it can. But this assumes vision on the part of municipal leaders. They have to be able to sell to their citizens the vision of people moving around quickly and efficiently using surface public transportation that works exactly as a subway system. They have to convince them that it will be user-friendly, and efficient.

It works

Well, does this work? Has it been tried before? The answer is yes. And it works. It all started back in 1974 in the city of Curitiba, Brazil. The very first BRT system was the result of years of experimentation by urban planners. And then the model spread throughout Latin America. In 2000 Bogotá, the capital of Colombia, launched its own TransMilenio BRT system.

And now you have similar solutions in Brisbane, Australia; Stockholm, Sweden; Cape Town, South Africa; Ottawa, Canada; and many more cities around the world.

Political impediments

The only reason why BRT systems have not been adopted more widely by other large cities is that municipal leaders do not want to deal with the unavoidable skepticism and probable resistance of millions of drivers who may not believe that the new BRT system will work as advertised.

So, this is mostly a political rather than a technical impediment. Meanwhile, however, millions of people spend hours and hours in traffic jams created by the shared, but totally mistaken, belief that the private vehicle is still the most cost-effective and most efficient way to address personal mobility needs.

Getting there, fast

So, back to driverless cars. Would you rather have a high-tech car that drives you, but can do nothing to avoid traffic

congestion and an endless daily commute, or would you rather get where you need to go by low tech bus that gets you there fast, thanks to a seamless and efficient network?

Republican Voters Want Change, Forget About Experience

WASHINGTON – Yes, Donald Trump is still the number one preference among likely Republican primaries voters. And the rich New York real estate developer is followed by retired neurosurgeon Ben Carson. If you put them together, these two outsiders *who never held any public office prior to their candidacy for the Republican nomination* get almost 50% of the stated preferences of probable Republican primaries voters. Astonishing, but true.

Trump for President

And yet, we do know that Trump is at best a clever, media conscious populist who appeals to the raw emotions of lower middle class and working class Whites, an important but declining component of the national electorate.

His policy proposals are a mix of nationalism, protectionism, and grandstanding. With Trump as President –he tells everybody– we shall win again. We shall get really tough with China, Japan and Mexico, countries that steal our jobs.

We shall also engage in a massive deportation effort aimed at getting rid of all the 11 or 12 million illegal immigrants currently residing in America. We shall build a wall at the

border with Mexico, and we shall force the Mexican Government to pay for it.

Populism sells

Yes, to be charitable, none of this is doable. Most of it is just hot air. And yet a large segment of the potential voters love it. And they love the fact that Trump shoots from the hip. He rambles, he says amazingly crude things. But he says all this with vigor and conviction.

And he always reminds his audiences that he is not a traditional politician. The pros are weak, unimaginative, and stupid. He is very rich, and therefore smart. And he is his own man. He does not need funding from special interests.

Anyway, whatever the experienced Washington pundits may say, the package sells. Trump is ahead.

Not enough to get elected

Of course, the caveat is that Trump is favored by a significant but narrow segment of the Republican voters. While lower middle class White people are important, they are not even close to being a national majority. In today's America they constitute an important voting block, but not big enough to get anybody elected.

And so, while Trump consistently polls around 28% or even 30% among Republicans he does not go beyond that ceiling. And it is obvious that 30% or even 40% of GOP primaries votes, while they may get Trump the Republican nomination, are simply not enough to win the national election in November 2016.

Carson is even worse

Anyway, if Trump at number one is a bizarre leading candidate, Ben Carson at number two is an even more improbable would-be President. Carson has a compelling personal story. He was born Black and poor; and yet through personal effort and

perseverance he got a good education and he became a famed neurosurgeon.

This is a great American story, very appealing. And yet in the give and take of debates and interviews Carson has demonstrated to know almost nothing about major public policy issues. The man is obviously intelligent. But he is completely untutored. He cannot handle a serious conversation about the Middle East, or US fiscal policy. And yet at least 20% or more of would be Republican voters would pick him because he is likable, and because he looks honest.

Have the Republicans gone mad?

What's going on here? Why select weird candidates who have no chance to win a national election? Have the Republicans gone mad? Yes, something like that.

Look, I do understand the yearning for change. Clearly there is deep frustration with unimaginative establishment politicians. There is a widespread perception that America is stuck; and yet the people we've been sending to Washington are not doing anything about it.

New faces

Hence the desire to look elsewhere: new faces, fresh ideas. Yes, except that Donald Trump and Ben Carson, while undoubtedly new, are also spectacularly unsuitable and inexperienced. Trump promises impossible or truly bad policies. Carson has no idea about most of the issues, let alone putting together a policy platform to deal with them, and a team that will execute.

If you want to dig deeper into this baffling picture, take a look at the highlights of a recent Washington Post poll. What motivates Republican voters to select their favorite? 52% replied that they picked the candidate who will bring needed change to Washington. (OK, so you get why Trump and Carson are

popular. Most certainly they will bring change). 28% replied that their choice is for the most honest among the candidates. (A very low percentage. This means that for most Republican voters bringing change is more important than personal integrity. Not a good thing).

Prior experience not needed

But it gets worse. Only 11% indicated that their choice is based on who has most experience. (And this explains why Jeb Bush and John Kasich are so far behind in the polls. They are proven and capable policy-makers. But right now very few voters care about real qualifications).

But wait, it gets even worse. Only 4% of potential Republican voters responded that they picked the candidate most likely to win against Hillary Clinton in the 2016 general election. In other words, almost zero consideration about which candidate can appeal to the (relatively narrow) Republican base but also to the millions of uncommitted voters who normally decide the outcome of a general election.

Change above all

Here we go. In picking the person likely to become a national candidate in a presidential election, experience and electability at this stage hardly matter at all. The GOP primary voters are inclined to pick really strange “change candidates” simply because they are fed up with the old party leaders.

Broadly speaking, in a democracy change is good. There is inherent danger when we create a class of perennially re-elected professional politicians who dominate the scene with their established biases and prejudices.

What kind of change?

Therefore, let's open up the field, by all means. Let's not go

for yet another member of the Bush dynasty. (Jeb would be the third President Bush, after George Senior, and George Junior).

But if the GOP idea of change is Ben Carson or Donald Trump, then the Republican Party is in real trouble.

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-impoverished 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.

David Stockman: China's Real Economic Figures Are Scary

WASHINGTON – Serious international economic and business media in the past used to quote official Chinese economic statistics indicating vigorous growth followed by even higher growth without any comments. But now something has changed.

Cooking the books

Without saying so directly, the same media imply that the Chinese Government makes up its numbers. A recent WSJ story –even though not prominently placed– pointed out that it is hard to believe that the Chinese economy really grew at a 6.9% rate when all the indicators about manufacturing, consumption, exports and imports are significantly down.

Yes, official statistics released by the Chinese Government do not add up. Or, to put it differently, if you read between the lines, the truth is that Chinese authorities routinely and willfully cook their books in order to prove that their worn out investment-led growth model still works wonders.

True enough, Beijing conceded a while back that the country is experiencing an economic slow down. But they added that it is not a major one, while the Government has everything under control.

5% or less

Well, several economists and forecasting firms believe instead that China's official GDP growth numbers are inflated by at least 2%, may be even more. Which is to say that the Middle Kingdom is growing, but at 5%, not at 6.9%. Besides, the slower growth numbers hide even deeper troubles, since growth is financed by massive amounts of debt.

End of an era

So, here is the thing: the Chinese economic miracle is over. What we see now is a (semi-desperate) political leadership that is trying to keep the wheels turning via some more debt-financed growth.

The implications of China's loss of momentum are enormous. From Australia to Brazil, from Chile to Zambia, emerging economies that were doing well because of the China-driven commodities boom are now suffering, some (like Brazil) in a major way. Likewise, Germany and others will export fewer high technology products to China.

Not under control

The Beijing cooked up notion (bought by many in the West) that the smart and wise Communist Party planners have all under control, while they steer the country away from investment-led growth to consumer-led growth, is a fantasy. China is in deep trouble, and we should be concerned.

In-depth analysis

For a deeper and detailed analysis of China's real economy, and what the end of its incredible growth era means for the rest of the world, I strongly recommend that you read a piece titled "*Red Swan Descending*" (reproduced below) by David Stockman, (Budget Director under Ronald Reagan). He wrote this on October 20 in his Contra Corner www.davidstockmanscontracorner.com

***Red Swan Descending* (by David Stockman)**

"The proverbial peddlers of Florida swampland can now move over. They can't hold a candle to the red suzerains of Beijing.

The latter had drawn a line in the sand at 7.0% GDP growth. Conveniently enough, the "consensus" estimate of so-

called street economists was pegged at 6.8% for Q3, thereby giving authorities one thin decimal point through which to thread a “beat” at 6.9%.

By golly they did it!

Even then, China’s Ministry of Truth had to fiddle down the GDP deflator to negative 0.5% (for the second time this year) in order to hit the bull’s eye. And that’s exactly the point.

No real world \$10 trillion economy plagued with all of the turmoil evident in China’s whipsawing trade data or its volatile real estate development sector or its faltering rust belt and commodity-based industries can possibly deliver absolutely stable GDP numbers to the exact decimal point quarter after quarter.

In fact, the odds that these reports represent anything other than propaganda are so overwhelmingly high that they perforce raise another more important question. Why does Wall Street and its servile financial press not issue a loud collective guffaw when they are released?

But no, the Wall Street Journal took it all very seriously, noting both the “beat” and China’s claim that the “miss” wasn’t a miss at all:

The better-than-expected result—a Wall Street Journal survey of 13 economists forecast a median 6.8% gain—is likely to renew debate over the accuracy of China’s growth statistics.....Speaking at an event to promote entrepreneurship in Beijing on Monday, Premier Li Keqiang said **“even though it was 6.9%, it is still a growth rate of around 7%.”**

Right. China’s #2 communist boss is out promoting the “enterprenurial spirit” while emitting central planning propaganda to the decimal point.

You might find the irony exceptionally rich, but there is a larger message. Namely, the true size of China's economy is unknowable to the nearest trillion or even several trillions. But that does not prevent most of Wall Street from taking seriously each and every word of China's self-evidently clueless statist rulers spouting growth rates to the decimal point. [Bold added]

In truth, Wall Street has become so intellectually addled from its addiction to central bank enabled gambling that it no longer has a clue about what really matters. That's why the next crash will come as an even greater surprise than the Lehman meltdown, and will be far more brutal and uncontrollable, as well.

Yet the evidence that a China-led crash is on its way is hiding in plain sight. And what is being blithely ignored is not merely the blatant inconsistencies in its economic numbers—such as the fact that electricity consumption has grown at only a 1.3% rate over the past year—or that its commerce with the outside world has shrunk drastically, with imports down by 23% and exports off by 3-6% in recent months.

Instead, the evidence that China is a slow-motion train wreck lies in the very consistency of its Beijing-cooked numbers. Apparently, no one has told its credit-happy rulers that printing precise amounts of new GDP quarter after quarter by issuing credit at double the rate of nominal income growth will eventually result in the mother of all deflationary collapses.

Stated differently, if the pattern of debt versus GDP shown below is pursued long enough, the world's greatest open air construction site will fall silent. Everything which can be built will have been delivered; any cash flow which can be encumbered with more debt will have been levered-up; any pretense that financial institutions are solvent will have

given way too soaring defaults; and the Wall Street delusion that the primitive central planners of red capitalism had an iron grip on China's runaway expansion will have been revealed as a snare and delusion.

Accordingly, the only thing that really counted in yesterday's release was that credit is still growing at nearly 12% or at 2X the 6.2% gain in nominal GDP. And as is also evident in the chart, this massive and aberrational debt versus income gap has been underway as far back as the eye can see.

Indeed, it goes all the way back to Mr. Deng's moment of enlightenment 25 years ago. That's when he discovered a printing press in the basement of the PBOC and concluded that communist party power might better be preserved by running these presses red-hot than by Mao's failed dictum that power descends from the white-hot barrel of a gun.

In any event, why in the world would anyone in their right mind think this crucial chart can be extended toward the right axis much longer. Assume 10 more years of 12% credit growth, for example, and China will have \$90 trillion of total debt or 50% more than the already staggering amount carried by the US economy. [Bold added]

At the same time and given that China's nominal GDP growth is descending in Gartman fashion from the upper left to the lower right, assume the very best outcome for nominal income. That is, posit that somehow China manages to achieve ten more years of this quarters' 6% nominal growth. So doing, you get a mere \$17 trillion of GDP.

Everywhere and always, however, **a 5X total leverage ratio** on an economy is a recipe for crushing deflation. In fact, it has never happened before in modern times except for Japan after 1990; and Japan at least had some semblance of functioning markets separate from the state and the rule of commercial law, contracts and bankruptcy.

By contrast, when China fully plunges into its inexorable deflationary spiral the rulers of red capitalism will have no choice except to resort to Mao's preferred instruments of rule—paddy wagons and machine guns—in order to quell an outraged citizenry. After all, Mr. Deng told China's newly ascendant capitalists that it is glorious to be rich, but did not explain that printing press prosperity ultimately results in a crack-up boom.

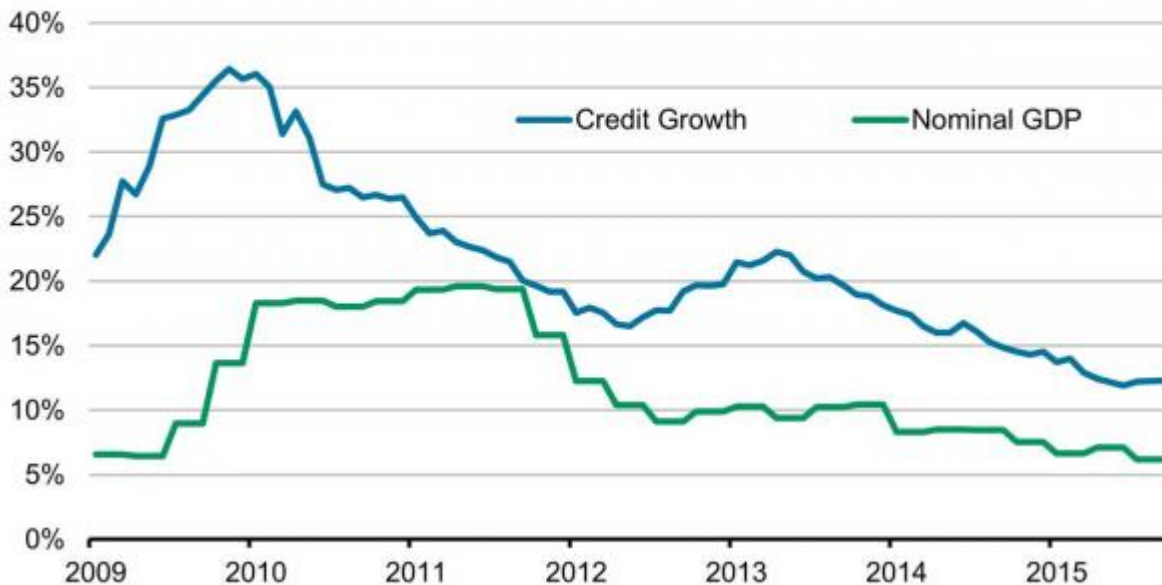
Stated differently, the recent 18-month rise and then overnight collapse of \$5 trillion of phony market cap in the Chinese stock market gave rise to utter panic and mindless expediency in Beijing, including a de facto bailout of billionaires. China's red rulers apparently feared that the 90 million angry stock market speculators would be no match for its 70 million party cadres—especially since most of the latter were foremost among the former.

Yet what will happen when China's hideously inflated real estate and land values succumb to the deflationary wringer? And hideous is not too strong a word: in many urban areas housing prices have reached 15-30X the median income.

Well, there are 65 million drastically over-priced, empty apartments in China because its rulers told speculators and the rising middle class that housing prices could never fall—that they were the next best thing to a piggy bank. Accordingly, the last phase of China's madcap construction boom is likely to be a manic spurt of prison building to accommodate the millions of irate citizens who are destined to experience China's turbo-charged version of 1929. [Bold added]

Debt Fueled, But Not Much Growth

China's economy is slowing, but it isn't deleveraging, as credit growth continues to expand faster than nominal GDP.



Source: CEIC, People's Bank of China, National Bureau of Statistics | THE WALL STREET JOURNAL.

The other number in the Q3 release that has been drastically misinterpreted is the reported 10.6% growth of fixed asset investment. Needless to say, this was described as "disappointing" when it is actually a screaming symptom of China's terminally deformed economy. If it had any hope of avoiding a crash landing, fixed investment in its fantastically overbuilt public facilities and industrial capacity would be sharply negative, not still growing in double digits.

Owing to the cardinal error embodied in Wall Street's self-serving rendition of Keynesian economics, however, China's fatal dependence on erecting economic white elephants and what amount to public pyramids in the form of unused airports, train stations, highways and bridges, is given hardly a passing nod. That's because it is assumed that some way or another China will make the transition to a services and consumption based economy just like the good old shop-till-they-drop US of A.

Let's see. When China finally stops its borrowing binge, these

putative shoppers will need to finance their purchases out of current incomes. Yet is not the overwhelming share of household income in China currently earned from the supply chain for fixed asset investment and construction and from the export of cheap goods to already saturated and debt-besotted DM markets? [Bold added]

Just consider the fantastical reality that China's 2 billion ton cement industry produced more in three years than did the US industry during the entire 20th century. When they finally stop building roads, apartments and factories, therefore, it is not just the cement kilns which will shutdown, but a whole network of gravel haulers, chemical plants, cement truck fleets, construction equipment suppliers, work site service vendors and much more reaching deep into the interstices of China's hothouse economy. [Bold added]

Likewise, when rebar and other construction steel demand collapses and the rest of the world throws up barriers to China's surging steel exports, as it surely will and is already doing, the ricochet effects on China massively overbuilt 1.1 billion ton steel industry will be far-reaching. The incomes of coal barons and blast furnaces workers alike have already taken a pasting, and the downward spiral is just getting started.

And wait until China's newly minted auto dealer lots become backed-up with unsold cars as far as the eye can see. Then its 25 million unit auto industry will tumble into a depression unlike anything since 1929 when Detroit's production plunged from 6 million cars/year to less than 2 million.

All of those suddenly unemployed auto, steel, rubber, glass, upholstery etc. workers did, in fact, economically "drop". But it wasn't from an excess of shopping!

In short, the affliction of Keynesian economics brought many

ills to the modern world, but repeal of Say's Law was not among them. You can have a one-time credit party, but when it inevitably ends, consumption spending defaults to that which can be financed from current incomes. Consumption is the consequence of production and income, not its cause.

Yet crack-up booms eventually destroy the bloated and unsustainable incomes generated in the raw materials, capital goods and consumer durable sectors during the boom phase. Accordingly, even the red suzerains of Beijing can not get from here to there. The phantom incomes that resulted from paving nearly half of the Asian continent occupied by 20% of the world's population must inevitably shrink, meaning that China's consumption and service spending will falter, too.

Stated differently, China's red capitalism is the new black swan. There is nothing rational, stable or sustainable about it. Moreover, the consequence of its pending collapse will be literally earth shattering.

That's because in recent years it has accounted for a lot more than the one-third of global GDP growth conventionally cited. The latter is just a measure of border-to-border economic statistics.

But the second and third order effects are equally large. From the bowels of Australia's iron ore mines to the top of Dubai's pointless 100 story office towers, the entire warp and woof of the global economy has been distorted and bloated by the central bank money printing spree of the last two decades, led by the red credit machines of Beijing. Everywhere economies have succumbed to over-building, over-consumption, over-financialization and endless dangerous, unstable speculation.

So forget the cleanest dirty shirt meme or the preposterous Wall Street nostrum that the US economy has been "decoupled" from the rest of the world. That's unadulterated hogwash, and

its means that the stock market and risk assets are heading for a thundering crash."