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.

First Comes Growth Then New Jobs

WASHINGTON – Every day I walk by a giant banner hanging from the U.S. Chamber of Commerce imposing building in Washington, DC., located near the White House. The banner says: *"Jobs & Growth"*. On the face of it, nothing wrong with this statement. Of course we all want to have more jobs and more growth. if both things happen, we shall all be better off as a nation.

Jobs and Growth

So, we all agree. Still, the way in which the proposition is phrased reveals a profound error which, I believe has been purposely introduced in this "Jobs & Growth" slogan purely for political reasons.

Let me explain. Of course we want "Jobs and Growth". But in the real world the two elements are sequenced exactly in reverse order. First you have economic growth, and then, because of additional demand and additional capital becoming available thanks to higher growth, companies can create more jobs.

First growth and then Jobs

In the real economy, real jobs do not just happen because someone wants to. In the real economy new jobs are justified by new demand usually tied to an expanding economy, i.e. *the* *new jobs come along because of higher growth.*

But the U.S. Chamber of Commerce, (whose motto is, by the way, “The Spirit of Enterprise” and not “The Spirit of Jobs Creation”), chose to put “Jobs” first on its gigantic banner, even though this is illogical and untrue. And why did they do this? Because this is the politically correct phrasing.

In our distorted world the social benefits of higher growth –new jobs– have to come first, before growth itself. And so, “jobs creation” becomes a political imperative, somehow disconnected from the economic fundamentals –new growth– that should instead be at the foundation of new jobs.

Politically correct

And so the U.S. Chamber of Commerce, this bastion of free market capitalism and rugged enterprise, has now joined the herd of the politically correct who have to tell you that their primary policy goal is of course to have better social outcomes –more jobs– irrespective of the economic fundamentals.

In the USSR everybody had a job

Well, unless we all forgot, in the good old Soviet Union there was full employment. Everybody had a job. Officially in the old Workers’ Paradise there was zero unemployment. And yet, as we all know, things did not go so well under Communist Party mandated full employment. And this was because most jobs were fake, unproductive jobs. Yes, you can create jobs. But, unless they are tied to real demand for more high quality products and services, they will add nothing to the economy, while salaries paid to unproductive workers will waste scarce resources.

Government jobs in Saudi Arabia

In our time, we have the example of Saudi Arabia, an oil rich country in which almost the entire population has a government job or subsidy. Most of these "workers" do practically nothing. But it is politically expedient for the Saudi government to burn cash (derived from its gigantic oil revenue) paying salaries for fake jobs. This is viewed as a way to keep the population reasonably happy, and therefore quiet.

Governments create fake jobs

Despite the gigantic failures of all socialist systems, in western societies politicians and interest groups routinely try to get on the good side of voters by proclaiming that before anything else they are committed to better social outcomes: i.e more jobs, whatever the underlying economic fundamentals.

And, in many cases, if the private sector fails to deliver this socially desirable outcome, the government will step in, creating fake (subsidized government) jobs that will make at least some people happy. Needless to say, unproductive jobs are a drain on society's resources. But who cares anyway? the goal is to create more employment, making more people happy.

Much to my surprise, a quick internet search proved that this U.S. Chamber political correctness about jobs first, growth later is by no means an isolated phenomenon. Variations on the "Jobs & Growth", with "Jobs" always placed first, are common place.

Deliberate efforts to place jobs ahead of growth

Interestingly enough, a major EU Commission initiative was promoted under the banner of "*Jobs, Growth and Investment*". Think of that: *Jobs* come first, while *Investments* come last. Really? Is this how things happen in the real world?

However, the second line of the title reversed the sequencing to its proper order. Indeed, the second line, said

“Stimulating investments for the purpose of jobs creation”. So, the first line (in big, bold letters) is the crowd pleaser: *“Jobs for everybody, folks! That’s what we are going to deliver”.* So jobs first then growth and then investments.

Mercifully, the language in the smaller print of the second line recreates the proper sequencing: first you need investments, investments lead to higher growth, and, yes, higher growth leads to more jobs. So, in the same headline two mutually exclusive propositions. This is the EU way to make everybody happy, I guess.

Interestingly enough, the World Bank convened a high level meeting to determine which comes first, jobs or growth. And I thought that the place was run by sophisticated economists. Well, in that meeting it was observed that, especially in emerging countries, quite often more growth does not create more jobs. And this is true.

Sometimes growth does not create jobs

Indeed, when I was working in Mozambique, many years ago, there was the case of a brand new large investment that led to the construction of Mozal, a state of the art aluminum smelter. For poor Mozambique this seemed a big deal. A new large smelter. Except that this large investment created practically no new jobs for a horribly poor country with massive unemployment. Which is to say that higher growth does not necessarily lead to more jobs, especially in poorer countries.

Still, while this is true, in most cases new “real” jobs are the result of higher growth. I fail to see how it can be possible to create more sustainable jobs without new growth. Who will create these new jobs not tied to increased demand? Where will the money necessary to pay salaries come from? How would a for profit private enterprise justify paying for new jobs divorced from real demand? jobs that cost money without producing any real value?

Political jobs

It cannot be that hard to come to the conclusion that jobs untied to objective economic circumstances are essentially political jobs. Therefore they are a gimmick. And if we want this gimmick to be the economic new policy, I cannot see how this can be a good thing.

Still, the large interest groups, including bastions of capitalism such as the US Chamber of Commerce, have to say the "right political thing", even though it is both false and misleading. However, in so doing, they help perpetuate a state of intellectual confusion among the general public.

Give me a job, now

Of course, if you are not an economist and you are told by supposedly smart people that it is perfectly possible to have jobs first and growth later, then you will demand that politicians will make jobs happen, now.

And if they don't, they will be punished at the next election. And this is how populism undermines capitalism, the only system that –with all its shortcomings– over time can deliver both: growth and jobs.

Regulations Kill Enterprise

WASHINGTON – Jim Tankersley reports in The Washington Post, (May 23, 2016), that "*The recovery from the Great Recession has seen a nationwide slowdown in the creation of new businesses, or start-ups. What growth has occurred has been largely confined to a handful of large and innovative* *areas, including Silicon Valley in California, New York City and parts of Texas, according to a new analysis of Census Bureau data by the Economic Innovation Group, a bipartisan research and advocacy organization."*

Death of the U.S. small company

Holman W. Jenkins writes in The Wall Street Journal (*Trump for Blow-Upper in Chief?*, May 21-22, 2016) that the Kauffman Foundation noted that there is a marked *"decline in small business entrepreneurship"* in America. Jenkins also cites a Brookings Institution report pointing out that business closures now exceed business starts in the U.S.

Well, what could be the reasons behind this rather ominous trend in what used to be the land of private enterprise? May be the cause of all this is in another fact cited by Jenkins in his WSJ piece. According to the Competitive Enterprise Institute, last year Congress passed 114 laws. But it issued 3,410 new regulations. These amounted to 80,260 pages in the Federal Registry, close to a historic record.

Regulations suffocate small enterprises

So, here is my simple theory. Whatever its intentions, the Obama administration in its effort to regulate and restrict almost every economic or commercial activity is slowly strangling U.S. enterprises, especially small and medium-sized companies that simply lack the resources to ensure compliance with this myriad of confusing federal rules. Please, do keep in mind that these companies are the true engines of the U.S. economy. These are the innovators and the jobs creators.

Killing capitalism

So, here is the thing. You do not need a proletarian or a social-democratic (Bernie Sanders-style) revolution to kill capitalism. A death by a thousands cuts inflicted by federal regulators will do just fine. It seems that government bureaucrats are quite capable of destroying capitalism on their own.

And so the most successful economic system ever devised in human history will wither and die not because of a popular uprising staged by the angry masses, but because of the suffocation caused by an avalanche of regulations that make it almost impossible for small businesses to stay viable and grow.

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, the 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.

Unhappy Americans Look for Culprits

WASHINGTON – The most visible impact of *"The Great Stagnation"* , (the title of Tyler Cowen's book provides a good definition for this uninspiring economic era), is that many Western societies, including America, have lost whatever confidence they had in the ability of elected representatives to deliver steady economic growth, and therefore more prosperity. Hence a peculiar mix of revulsion and cynicism towards the *“political establishment that failed”*, and at the same time completely unrealistic confidence –almost blind faith– in would-be new, non traditional leaders who promise cost-free, total transformation –first and foremost the overnight rebirth of slow-moving economies.

Politicians do not deliver the prosperity they promised

Regarding popular sentiments in the U.S., just look at the stunning outcome of a recent NBC/Wall Street Journal poll. Only 24% of all American polled indicated that the country is moving in the right direction, while 70% believe that we are headed the wrong way.

The problem is that most people, looking for the causes of an anemic economy, now believe that their own personal economic misfortunes are almost entirely attributable to the errors and/or misbehavior of corrupt or incompetent political leaders.

Hence the delusional hope, in many cases absolute certainty, that if we finally *“throw all the rascals out”*, and replace them with genuine fresh talent, all will be well. Sadly, here we have a combination of bad diagnosis and delusional faith in an impossible cure.

Lack of innovation, constrained opportunities

As Tyler Cowen explains in his book referenced above, the developed world is going through a bad patch of slow growth due lack of innovation. This means that there are very few new economic opportunities created by new technologies.

In the meantime, most Western societies, the U.S. included, are suffering because of the negative consequences of globalization. With hundreds of millions of Asians willing to work for far less money, millions of steady manufacturing and services jobs held by so many Americans migrated to Asia. No chance that these jobs will be coming back. I mean not a chance. Which is to say that anybody who promises to "bring our jobs back" is dreaming, or worse.

Who is guilty of all this?

Anyway, no matter what the real facts are, this is what millions of Americans believe. ***Number one:*** most U.S. voters have lost confidence in the political and policy-making process as we know it, mostly because "establishment politicians" are unable to deliver improved economic standards. ***Number two:*** large numbers of voters – large numbers; but not majorities– are willing to take a chance on untested would-be leaders (businessman Donald Trump on the right, and Senator Bernie Sanders on the left) because they are perceived to be "good outsiders", not tainted by the corrupt Washington establishment; even though one should note that, just like the old establishment politicians, both Trump and Sanders also promise great things at almost no cost. In fact, these brand new would-be Chief Executives promise much bigger and better things.

So, here we have a really bad combination of disgust about what exists and childish fantasies about what the next happy chapter is going to be. It is clear that there would be no *number two* (escapist fantasies about great, flawless leaders), without *number one* (excessive pessimism about the current political establishment).

Loss of confidence

Number one is serious business. Millions of Americans are now convinced that this country is run by an insiders' game rigged by the special interests who pay for the election of candidates. Once in office, these puppets do exactly as they are told by their paymasters. The accepted story is that the innocent American people are fooled by nice stories told at election time; and then they get just a few crumbs that fell from the table, because all the goodies go to the crooks who paid for the elections of their corrupt representatives.

Disgusted voters

While this is an exaggeration, there is unfortunately enough truth in this generalization, (think of the armies of Washington lobbyists, the "revolving door" always open for retired politicians who want to go into business, the PACs, the convenient tax exemptions), to generate and justify genuine disgust about the whole political process. And this is a real problem.

Let's not forget that the peaceful self-perpetuation of the American Republic rests on the assumption that most people believe and will continue to believe that we have a legitimate, ethical system that operates in a transparent way, and that this system is run mostly by law-abiding office holders.

People feel cheated

This is not the case anymore. People feel cheated because politicians dis not keep their promises. And there is some truth to this. Indeed, in order to get elected, most candidates for public office routinely promise that they will magically create millions of new jobs. But the honest truth is that elected officials at best can help create a more pro-business environment. No elected officials can create millions of jobs. Looking at our current predicament caused by aggressive Asian competition and lack of innovation, it should be clear that nobody can reverse new historic trends and major global shifts through legislation.

Politicians cannot fix this problem

No U.S. Senator, Governor or President can reverse the rise of Asia, with its hundreds of millions of low-cost workers who get millions of jobs outsourced from the U.S. simply because

Asian workers are happy with much lower salaries, and therefore are more cost competitive. By the same token, no U.S. President can prevent automation from killing hundreds of thousands of factory and now services jobs.

Promising the impossible is immoral. And yet all candidate do it, all the time. Voters believed those who in either party made the biggest promises. But now they do not believe them anymore, not because they understand the truth about *“The Great Stagnation”,* an epochal change that cannot be controlled, let alone reversed by elected officials; but because they believe that these politicians are personally responsible for their plight.

The accepted narrative is that the masses suffer because most U.S. politicians are in the pockets of the greedy 1% who want to grab everything. Unfortunately, most Americans do not really understand the true dynamics of globalization.

Rigged game

Most voters no longer believe in the establishment because now they are convinced that America is a rigged insiders’ game. According to the simplistic and yet generally accepted narrative, America is still very rich. The problem is that most of the wealth is stolen. Millions of Americans believe that Wall Street and major corporations are making huge gains by willfully sending jobs abroad, while all the cash goes to them, a tiny minority. Meanwhile, corrupt politicians paid by the special interests twist the system so that the greedy few will keep receiving even more, thanks to customized laws and tax provisions that favor the already ultra rich elites.

Throw everybody out

Contemplating this ghastly picture, the disgusted voters are not asking for reforms. No, they decided that the entire establishment needs to be junked. And so, in this most unusual presidential campaign, they turned their attention and hope to outsiders, with blind faith that, once elected, these new leaders will step forward and fix everything, quickly and painlessly.

The fact is that the outsiders, if anything, make even bigger and therefore far more preposterous promises. But millions of voters are willing to believe them, because they appear to be "sincere". Since they are outsiders, they are not tainted by Wall Street money, PACs, Washington lobbyists, and the dirty business of buying and selling votes. So, they must be real saviors.

There are no saviors

Well, they cannot be. And this is has nothing to do with their intentions. It has to do with the limited reach of any public policy. As indicated above, we are going through a bad patch that is only in some measure the result of poorly designed laws and regulations.

Washington cannot make productive innovation happen by legislative or regulatory fiat. Washington can and should promote and support a pro-growth, pro-innovation, pro-business environment. But even assuming that we did this tomorrow, this would be no guarantee of success. Eventual success is about the drive and the ingenuity of smart people who will come up with new technologies, new products and new services. This is a highly desirable outcome; but it cannot be mandated by law.

Aspiring "Political Saviors" cannot and will not deliver prosperity just because they say they will. Unfortunately, this simple common sense message will not be listened to by people yearning for a panacea.

The old guard is out

At this point, the infatuation is on, and the focus is and will stay on those who promise miracle cures. Sadly the traditional political forces are too discredited. Whatever sensible message about establishing a healthy distinction between realistic and unrealistic expectations they may put forward, they will not be believed.

And why? Well, because for decades they have been in the business of making exaggerated promises they knew they could not keep. For a long time they got away with over promising, because the economy was still growing. But now it isn't anymore, and so nobody believes them. Hence the rise of the Saviors.

[Hillary Clinton Will Ban Fracking -Less Energy For America]

WASHINGTON – When it comes to America's energy needs and viable alternatives to fossil fuels, it looks as if Democrats running for the White House live on another planet. Front runner Hillary Clinton recently declared that, as President, she would place so many restrictions on extracting oil and natural gas from shale formations using hydraulic fracturing, or fracking, that this will amount to a complete ban. Her opponent Bernie Sanders declared that he is totally against fracking.

The benefits of fracking

Indeed. And yet fracking has been one of the few pieces of real economic good news of the last decade. Thanks to fracking America doubled its oil production. This means importing less crude oil, and keeping billions of dollars at home, every day. And fracking used to produce natural gas means abundant supply and lower electricity prices.

But no, this is not good news. The Democrats are telling us that this energy revolution that increased supply and lowered prices is actually bad, because of the environmental impact of fracking. Well, this allegation, even though endlessly repeated by the green movement, is almost entirely baseless.

Fracking is safe

Of course there have been incidents of pollution deriving from poorly constructed wells and other sub standard practices. But there is no evidence of any systemic risk. If energy companies follow best practices and established industry standards, and most of them do, fracking is safe. And, by the way, this industry is regulated, and heavily monitored.

Environmental protection agencies at the state level keep an eye on it. At the federal level the Environmental Protection Agency, EPA –certainly no friend of oil and gas companies– reviewed the entire US fracking industry and could not come up with anything bad to say about it. Again, while the Obama EPA is certainly not in the pocket of the energy lobby, it could not come up with any justifications to restrict fracking, let alone banning it.

Renewable energy will become more important…

If we look at the broader world context, it is clear that fossil fuels, (and natural gas in particular), will continue to dominate as essential energy sources. It is true that the most recent energy outlook produced by the energy company BP clearly indicates that the renewable energy sector is rapidly growing. It is gaining a bigger share of total energy consumption. But it starts from a very low base. Therefore, even if it continues its impressive growth, it will take years before it will be able to displace fossil fuels.

…But oil and gas cannot be replaced

In the meantime, oil and gas will continue to dominate. In particular, natural gas share of total energy consumption will grow significantly. And –guess what– most of the new natural gas produced in the USA comes from fracking shale formations.

The very tangible economic benefits coming from new natural gas extracted via fracking are stable or lower electric rates, (natural gas is used mostly for electric power generation), and huge advantages for US petro-chemical industries that use natural gas as feed stock. Cheaper natural gas means lower costs, and therefore more competitive prices for finished products.

Therefore, all sane people know that until we shall have truly cost-effective alternatives to oil and gas the fracking revolution is and will continue to be a major asset for the US economy. It allowed America to become once again a major energy producer, with clear advantages for industry, US global competitiveness, and huge savings for millions of consumers in terms of lower energy bills.

Politics

So, why do Clinton and Sanders make such outlandish statements about banning or restricting fracking? Very simple. This is just politics. They both want to appeal to the Democratic Party far left where the greens and the pure environmentalists are strongly positioned. In order to get their precious votes, they need to assuage these ideologues with ritualistic anti hydrocarbon policy statements.

This makes no sense

And yet, if you think of it, all this is absolutely crazy. In the real world, for would be presidents of the USA –one of the largest oil and gas producers on this planet – to state that they will ban a significant component of the production of this vital source of energy should be dismissed as totally preposterous.

But no, nothing happens. Both Clinton and Sanders declared that they will ban fracking. And no one says anything. I wonder how will Democrats in North Dakota, Pennsylvania, Ohio, and Texas –all of them major energy producers– react to this nonsense.

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

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

The worst since 2008

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

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

Less activity in ports world-wide

Maersk is not alone in predicting bad times. DP World, a very large Dubai based port facilities management company, with operations in 70 terminals in practically every continent, chimed in, indicating that their business (handling the containers moved by Maersk and other shipping companies) is down, significantly. And the IMF confirms this pessimism about a global economy that run out of steam. They have lowered their forecasts for both growth and international trade flows.

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

Weak economies

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

Central banks to the rescue

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

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

More of everything

And when even that proved to be insufficient, some of them started charging interest on deposits as a way to force banks to lend more in order to induce more growth. (Even Janet Yellen, the Chairwoman of the US Fed, just declared during a congressional testimony that negative interest rates could be looked at here in the US as a policy option, in some scenarios).

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

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

Artificial valuations

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

This cannot go on for ever.

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

monetary easing?

Governments have done nothing

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

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

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

No reforms in the US

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

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

Central banks keep easing

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

Nervous investors

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

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

Commodities down

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

So, here is the picture. Stock markets are over valued. Commodities producing countries are in bad shape because of lack of demand from China and over supply. There is too much bad debt.

Too much debt

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

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

Bad news

So, there you have it. The global economic slow down is here to stay, according to Maersk and others. I would trust them.

It is their core business to properly understand trends in trade flows.

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

US cannot insulate itself

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

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

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

US GDP Down – Where Is The Consumer?

WASHINGTON – Was the low US 0.7 % GDP growth figure for the last quarter of 2015 just a glitch? (For the entire year the US economy grew at a semi-respectable 2.4%). Or is it a sign that the long, albeit anemic, recovery is running out of steam? May be the latter.

Consumer spending

The only positive element that allowed GDP to grow a little at the end of 2015 is some consumer spending growth, in particular a spectacular increase in car purchases, a trend that went on throughout the entire year. Well, this should be a good sign. Cars are big ticket items. Millions of new cars sold in 2015 means that millions of Americans have enough money to spend.

Yes, except that it is not so. Cars flew out of dealerships because easy credit was extended to practically anybody walking in. Easy financing terms, plus very cheap gasoline provided a huge incentive.

Buying on credit

The problem is that if modest GDP growth is mostly the result of millions of people buying stuff with money they do not have, pretty soon this game will be over. This time, as every other time, there is a limit as to how much people can borrow. And when that limit is reached, consumption will stagnate or collapse.

So, here is the thing. Decent 2.4% GDP growth in 2015, (even if we average it by including the 4th quarter sharp decline), largely driven to consumer spending is not a real indicator of economic health. And this is for the simple reason that this spending is not sustainable. You cannot have an almost stagnating economy, with stagnating wages, and higher consumer spending, all at the same time.

Union Pacific management is worried

At a different level, we hear the same concern from top management of Union Pacific, the biggest freight railroad in America.

They are pessimistic about the future of the US economy, because they see a lot less volume traveling on their railroad cars. All key sectors are down: coal, steel, agricultural products, industrial goods, and consumer products.

Where is the consumer?

"Where is the consumer?", they ask. And this is because they know very well that sustained consumer demand is ultimately what generates increased volumes of goods transported on their freight trains.

Well, if the people at Union Pacific are worried about flagging consumer demand, we should be worried too. Freight volumes are a very good proxy for the entire US economy.

So, *"Where is the consumer?"* The consumer, despite lower gasoline prices that theoretically act as a nice tax cut, is staying home. And he is staying home because he has already got too much debt.

Yes, there are many more jobs. Unemployment is down to 5%, the historic norm. And this is good.

Low paying jobs

However, most of these new jobs are low paying. And this means that many newly hired people, after they have used most of their low wages to pay for rent, utilities and other basic necessities, have very little discretionary income.

A family of four surviving on $ 25,000 or $ 30,000 a year does not have the extra money to splurge on flat screen TVs and smart phones.

Hence reduced volumes on Union Pacific, and a very disappointing 0.7% fourth quarter GDP growth number. Can this change in 2016? Yes, it can, provided an income boost.

New growth?

And where will that come from? It would have to come from significant growth in spending by people employed in new competitive sectors. People who earn good money.

Bar tenders, store clerks, janitors, gardeners and nursing assistants simply do not have the spending power to create significant new demand. And without new demand, (you have to look at weak domestic demand in context with declining foreign demand due to a global slow-down), it is hard to see what would generate higher GDP numbers next quarter.

Reduced volumes on freight trains

I have the feeling that Union Pacific, in response to declining freight volumes, pretty soon may have to idle at least some of its locomotives and railroad cars, this way contributing to a national economic retreat.

US Economy and Public

Finances Deteriorating – Candidates Talk About Something Else

WASHINGTON – While we wait with trepidation for the outcome of the Iowa caucuses that will finally begin to shape the race for the Democratic and Republican nominations, none of the candidates really care to discuss in any detail the actual conditions of America, both its economy and public finances.

On shaky ground

Let’s make this simple. The US economy is on shaky ground. A lot of the rather modest (2%) economic growth that we had since the end of the 2008 recession is due to free money doled out by the Federal Reserve for an absurdly long time.

Energy bust

And now, some of that growth is gone, for good. Thanks to Saudi Arabia and its all out oil production policy that depressed prices, the massive energy boom that America enjoyed until 2014 is over, killed by oil at $ 30 a barrel. More than 100,000 high paying jobs have vanished in about a year. More losses to come as more US energy companies go bankrupt, or have to retrench.

Easy credit

And what about the good news, like higher consumer spending? Well, the stunningly large 2015 car sales were financed almost entirely via easy credit extended to practically anybody walking into any dealership. (Some analysts talk openly about *“sub-prime auto loans”*). With these kinds of credit tricks it is easy to jack up GDP figures. The problem is that you cannot keep doing this for ever. When consumers who do not earn that much (their incomes have been stagnating for decades) have used up all their credit, then what? Is it just a coincidence that Wal-Mart is planning to close a large number of stores?

True, we have had significant employment growth. But most new jobs are low paying, and many of them are only part-time. Where will the new economic growth come from? From massive new consumption driven by store clerks and janitors who make $ 20,000 a year?

High dollar hurts exports

US exports have been hit and will be hit by a deteriorating global economy (this means less demand) and by a high dollar that makes Made in the USA products more expensive. For the moment, manufacturing output is relatively steady. However, thanks to automation, this sector will not create many new jobs.

Jittery markets

Are we headed towards a recession? Probably not any time soon. Still, with modest growth and declining corporate earnings, we are barely treading water. It would only take a bit of bad news (look at the Wall Street jitters anytime something strange comes out of China) to wipe out many of the newly created restaurant and hospitality jobs.

Of course, compared to weak Europe or Japan, let alone disaster zones Brazil or Russia, the US is doing much better. But this is not a robust, resilient economy built on the production of valuable goods that give America a strong competitive edge. Sure, we still have many IT giants. But there is only one Silicon Valley in America.

Fiscal picture getting worse

Sadly, we have to add to this a slowly deteriorating fiscal picture. With due credit to President Obama, it is true that after years of gigantic federal deficits that added massively to the national debt, more recently US public finances have improved –a great deal. the US Federal deficit is now down to less than 3% of GDP for 2015.

However, this will not last. A combination of increased discretionary spending and the higher costs of all key entitlement programs due to an aging population will cause an increase of the Federal budget deficit beginning in 2016. According to the Congressional Budget Office, a non partisan, research and analysis public body, the US Federal deficit will go from $ 439 billion in 2015 (2.5% of GDP) up to $ 544 in 2016, (2.9% of GDP).

The rising cost of entitlements

And any fair estimate of the increased costs of Social Security, Medicare and Medicaid –the largest Federal entitlement programs – indicates that year after year the deficit outlook will get progressively worse.

Entitlements will soon absorb 15% of GDP (now it is 13.1%). Higher deficits mean higher cost of debt service and the reduction of discretionary spending, including defense.

Obamacare does not pay for itself

And there is more. The just released numbers on Obamacare enrollment do not look good. The new people who signed up for medical insurance are mostly old and sick. The young and fit did not enroll in sufficient numbers. And this means higher costs for the system. Since most of the new, needy "patients" receive Federal subsidies to pay for their brand new medical insurance, soon enough Obamacare's extra costs will add to the deficit.

Not a catastrophe

For the time being these numbers, while worrisome, do not look catastrophic. And in fact they are not. But they indicate a bad trend of higher costs and higher deficits, notwithstanding higher tax revenue. And here why this is happening. As new births keep declining, while more and more Americans get older and live longer, the cost of well-meaning social programs designed in another era, (Social Security was designed in the 1930s), at a time in which retirees were expected to collect benefits only for a few years before they died, will keep growing.

Candidates do not talk about any of this

Given the above, it is obvious that entitlements reform should be on top of any serious candidate's list of policy priorities. But it is not. Sure, some of them have presented fiscal reform plans. But they are mostly attention grabbing tax cuts ideas. They fear that any serious talk of real reform amounting to benefits cuts for millions of Americans would amount to political suicide.

So, here is the thing. This elections year should be an opportunity to focus on the real issues affecting America: a fragile economy and deteriorating public finances due to entitlement programs no longer in line with current and future demographic trends.

No serious talk about policy

But no, the candidates do not talk about any of this. This year we have had a mixture of political theater, lunatic plans to redistribute wealth, populism and empty grandstanding. Between the crazy ideas pushed by socialist Bernie Sanders and Trump's bravado, mixed with his endless recitations of his good poll numbers, there is no room for seriously talking about anything.

A bizarre President or a weak one

As I said, Thank God America is not in a serious crisis. But we see a once vigorous society that is slowly deteriorating, while those who want to run the Republic peddle fantasies to people who just want to be duped. My hope is that this unusual political season that started as vaudeville will finally get serious. But I would not count on it.

Sadly, we will end up either with a bizarre president (Trump, Cruz or Sanders), or with a weak one (Clinton) who will do nothing to change course.

No More Startups In America

WASHINGTON – President Obama confidently declared to the Nation in his last State of the Union Address that the American economy is back. Under his administration the Great Recession of 2008 was contained, and then 14 million new jobs were created. The economy is growing at a healthy pace.

Not that good

Well, it is not that good. What we have had since 2009 is the worst economic recovery in modern American history. The average rate of growth used to be 3%; now it is 2%. A huge deterioration. And this decline occurred notwithstanding an unprecedented period of high federal spending (hence the debt explosion) and zero interest rates that were supposed to guarantee higher growth. Unemployment is down to 5%. But this is largely because far fewer people are active workers. Millions have dropped out. Labor participation is extremely low.

Add to this millions of people who have part-time jobs only because they cannot find full-time occupation and the picture turns dark. Most of the new jobs created by this economy are in low paying sectors: waiters, janitors, nursing assistants, store clerks.

What we have is a highly indebted, slow-growing American economy that at its best is able to create low paying services jobs. And the trouble is that the President and many others claim that this is good. We are doing fine. No, we are not. With this feeble growth, and this unprecedented level of debt we are well on our way to a slow but inevitable economic decline.

The "Land of Opportunity"

America used to be the "Land of Opportunity". By this I mean the country in which many wanted to be entrepreneurs because they knew they had a fair chance to succeed. The broader context –laws, regulations, contracts enforcement, patent protection, credit availability, taxation– was generally pro-business.

And then there was a huge continental size market populated by eager consumers. When Americans see something new, or better, or cheaper they will buy it. For all these reasons, many Americans who started new enterprises did well, while some did extraordinarily well.

In that era the "Self-Made Man" became the quintessential American icon. At the same time a symbol of success, and a role model for others aspiring to be business owners.

Old model not working anymore

Well, this old model is not working anymore. Sure, whatever may be happening to the US Stock Market in recent days, the American economy is still growing; certainly more than anemic Europe, or semi-moribund Japan. Employment is growing. The US Dollar is strong. But, compared to its historic average, America has been experiencing very slow growth, while the income of lower middle class and working class Americans has been stagnating for decades.

Low rate of investment

So, what is the problem? The problem is in a bad combination of higher taxes, suffocating regulations and Fed-induced perverse incentives that push large companies to issue more debt, instead of investing to expand operations.

The net result, as David Stockman points out in his Contra Corner, is that net investment in 2014 was only 2.3% of GDP. This is barely half the 4-5% average that prevailed in the high growth era of the 1950s and 1960s. And right now, Stockman notes, net investment is still below the 2007 levels.

Fewer new businesses created

And this disappointing investment data is confirmed by the declining number of new businesses being formed. The declining number of new enterprises is the red flag, the proverbial canary in the economic mine, indicating that a negative trend is now dominant.

Simply stated, new businesses, the proverbial startups, are the heart and soul of the American economy. Hard to think about future growth and dynamism if their numbers go down. But this is exactly what is happening.

As Daniel Henninger points out in a WSJ piece, the number of one year old businesses grew nicely from 550,000 in 1987 to 650,000 in 2006. But then they started going down.

The recession

Of course we have to factor the Great Recession of 2008 and 2009. Many companies, large and small folded. But the recession, however severe, ended. Since 2009 we have had many years of uninterrupted growth. Still, the number of new startups keeps declining. In his WSJ piece Henninger quotes data from the Kauffman Foundation. In 2012 there were only 400,000 new companies created in America.

And it gets worse. A 2014 Brookings Institution report, also quoted by Henninger, indicates that since 2008 every year there are more companies going out of business than new businesses created. This is a horrible trend.

What happened?

Now, we can debate the causes of all this. I cited bad monetary policies, high taxes, and a positively anti-business regulatory environment. Other talk about the crisis of innovation, (not enough of it to give life to new technologies and new companies that will produce them), “secular stagnation”, or whatever.

The pro-growth eco-system is gone

The fact is that, due to multiple factors, the legendary pro-growth American economic “eco-system” is no longer there. The old, easy to understand incentives to start a business and grow it are no longer there. In some sectors the regulatory thicket is almost impenetrable. As a result of all these new obstacles, fewer young people have the interest and the aspiration to become entrepreneurs.

This is a major problem. Whatever may happen in Wall Street in the next few weeks, this entrepreneurship decline is a real, structural impediment to robust future growth. America has become a country in which debt-driven, slow growth is the new model.

Debt driven economy

Of course, until now financing operations through extremely low interest corporate bonds seemed extremely smart. Many companies got essentially free money. Yes, but it looks that this free money was used to fund current operations or stock repurchases. It has not been used to fuel new investments.

The fact that President Obama ignored all this in his State of the Union Address is a bad indication. Of course, he is defending his 7 years economic policy record.

But in so doing he is also telling America that this new era of slow growth, dangerously high levels of debt, under employment, declining entrepreneurship and lack of innovation is actually alright.

And, no, it is not alright. This is a road to economic and societal decline.

A new mandate

Let’s hope that a new President will have the mandate to shake up the system. We need aggressive deregulation, lower corporate taxes, and a genuine pro-business policy environment.

We need risk takers who once again feel that it makes sense to start a business in America, without having to worry all the time about inspections and compliance with obscure rules that most people do not even understand.