



OFF THE NEWS

Ugly European Facts

“Just after Greece joined the European Union in 1981, it was just a little more efficient than Ireland. Over the next thirty years, though, Ireland’s productivity soared to match Germany’s while Greece’s trajectory was more like that of Turkey, a neighbor that didn’t join the EU.”

—*Bloomberg*

“Germany’s unit labor costs have fallen 19.5 percent, relative to its trading partners, since the end of 1998—leaving the rest of the eurozone in the dust.”

—Alan Blinder, *Wall Street Journal*

“In the United States, three of the top ten companies by market capitalization are technology companies founded in the last half-century: Apple, Microsoft and Google. In Europe, there are none among the top ten.”

—*New York Times*

Ugly China Facts

“This is a bubble of epic proportions. In twelve months, Chinese stock markets rose enough to create \$6.5 trillion of value. It’s hard to picture, but that’s a stunning amount of money. It’s the equivalent of about 70 percent of China’s GDP in 2013, and about 40 percent of the total value of the New York Stock Exchange. It’s enough to pay off Greece’s debt twenty times over, circle the Earth 250 times with \$100 bills, or build forty-three International Space Stations.”

—*Washington Post*

“The Shanghai Composite Index has jumped 122 percent in the past twelve months, but retail sales increased just 10 percent year on year in May and April, the slowest rate of growth in five years. The reason? At the most, one in fifteen Chinese trade stocks, compared with more than half of Americans.”

—*Wall Street Journal*

“China’s financial system is not competitive. At its heart are state-owned banks, whose assets presently comprise about 95 percent of formal banking assets. It is wishful, at best, to think state banks engage in commercial competition with each other.”

—*Barron’s*



Spot-welding robots at the BMW plant in Leipzig, Germany.

Ugly World Facts

“In every rich country except Israel the total fertility rate (a measure of births per woman) is below 2.1—the level required to keep the population stable. In Japan it is 1.4.”

—*The Economist*

“The productivity slump is worldwide. So says a new report from the Organization for Economic Cooperation and Development. The study compared the annual growth rates for labor productivity in thirty-two countries for two periods, 1995–2004 and 2004–2013. Every country but one (Spain) had slower productivity growth in the second decade than in the first. Some examples: Canada, from 1.3 percent to 0.6 percent; France, from 1.5 percent to 0.6 percent; Germany, from 1.5 percent to 0.8 percent; Japan, from 1.8 percent to 0.9 percent. (In this comparison, the United States went from 2.2 percent to 1.0 percent.)”

—Robert Samuelson,
Washington Post

“The number for the category of jobs mostly performed by part-time freelancers or part-time independent contractors, according to Economic Modeling Specialists Intl., a labor market analytics firm, grew to thirty-two million from just over twenty million between 2001 and 2014, rising to almost 18 percent of all jobs.”

—*New York Times*

TO THE EDITOR:

Your trip down memory lane to the Dolder Grand in the Spring 2015 *TIE* reminded me of several incidents while I was chief economist of the National Security Council. My time was dominated by two issues: developing the economic part of the strategic plan that won the Cold War (my book on the matter will be published this year) and the LDC debt crisis.

The crisis didn't begin in Latin America, but later it became centered there. It was very clear to me that more liquidity must make matters worse, like trying to put out a fire with gasoline. In this, I was supported by several in the Reagan Administration, notably Council of Economic Advisers chair Marty Feldstein. Marty set up a meeting with the president and I attended to give the national security aspect of collapsing economies around the world. The president, as always, listened carefully and asked good questions, but the Treasury Department predictably pooh-pooed the whole matter. Now Europe is making the same mistake with Greece, validating the old saying, “No one learns anything from history except that no one learns anything from history.”

I and two colleagues, authorized by the National Security Advisor, presented a plan for debt relief to a CSIS meeting in 1982. The plan involved a new instrument which we called “exchange participation notes.” The idea became widely discussed, and *The Economist* mentioned it in an article entitled “Bailey bonds.” Later, David Mulford, then assistant Treasury secretary for international affairs, mentioned the concept to Secretary Nicholas Brady, who adopted something similar, and the rest is history.

Here's another reminiscence. Mexico was about to default, which would have decimated the markets, and in August of 1982 sent a delegation to Washington to see what could be done. I was on the U.S. delegation. Treasury Secretary Regan was on vacation, so Deputy Secretary Tim McNamar presided. Inexplicably, Fed Chairman Paul Volcker was not invited, but he stalked the halls warning all and sundry during breaks that doom impended.

One aspect of the proposed workout was that the United States would pre-purchase Mexican oil, but the sides couldn't agree on the interest rate to be applied to the advanced funds. To my astonishment, this issue almost caused the talks to fail. The Mexicans returned to their hotel to pack up for home. Using my investment banking background, I told my colleagues that all they had to do was agree to the optimal rate the Mexicans wanted, while adding additional “fees” which brought the rate up to what we wanted. State Department delegation member Richard McCormack rushed to the hotel, brought the Mexicans back to the Treasury building, and the deal was signed.

Incidentally, it was a very hot August and the air conditioning at Treasury wasn't working. I strongly recommend some such arrangement to prevent endless talks such as the Greece negotiations. Rapid agreement or failure guaranteed.

—Norman Bailey