
CASE STUDIES

“Case Studies” presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

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UNDERSTANDING THE MIDDLE EAST

The Industrial Revolution was distinguished by the introduction of machines. Their purpose was to give the worker new sources of energy beyond what his own body was able to supply. The first source of energy for the machines was water, the second coal and the third oil. Electricity provided new ways to couple these sources to the individual worker.

The unpleasant countries are the countries with big public sectors—big armies, big prisons, etc. But then why would countries choose to have a big public sector? They don't. The countries with big public sectors are the countries with failed private sectors.

When countries are growing too fast, the machines never catch up with the work force. If there aren't enough machines, the role of voluntary, mutually beneficial private-sector transactions is too small—and the role of government, hence the role of force, is too large—which is why the leaders of such countries are called dictators.

The result, in such countries, is chronic unemployment. The people who get the available jobs get training, experience, contacts. The people who don't fall farther and farther behind. Do the latter people blame their problems on the fact that they dropped out of school, that they have problems with authority, that they don't take directions well? Or do they blame the racial prejudices of the employers who refused to hire them? Chronic unemployment is an economic problem that leads to anger and violence.

But if a country's fertility rate is too high the machines will never catch up with the babies. A country can reduce its birth rate, as Western Europe or China has done. What is less clear is that the US can impose a new birthrate on a country, that we can change its customs. It is probably easier to impose democracy than to do that.

Here is a list of countries with unstable governments that have impressively high growth rates.

Population Growth Rates.

Country	2009 population in millions	1999 population in millions	10 year ratio of 2009/1999	1 year equivalent
Afghanistan	28.15	20.04	1.40	1.035
Algeria	34.90	30.07	1.16	1.015
Bahrain	0.79	0.64	1.23	1.021
Egypt	83.00	68.86	1.21	1.019
Ethiopia	82.83	63.79	1.30	1.026
Iran	74.20	66.04	1.12	1.012
Iraq	30.75	23.14	1.29	1.026
Jordan	6.32	4.75	1.33	1.029
Kuwait	2.99	2.10	1.42	1.036
Lebanon	4.22	3.72	1.13	1.013
Libya	5.24	6.42	1.19	1.017
Morocco	31.99	28.48	1.12	1.012
Oman	2.85	2.36	1.21	1.019
Pakistan	180.81	144.52	1.25	1.023
Qatar	1.41	0.59	2.39	1.091
Syria	21.91	16.09	1.36	1.031
Tunisia	10.27	9.36	1.097	1.009
Yemen	23.58	17.66	1.34	1.029

Questions

Isn't the main difference between rich countries and poor countries the level of investment?

Isn't that difference an appropriate concern for policy makers?

What happens to unemployment when the machines can't keep up with population growth?

What is the effect on the chronically unemployed worker?

How do poor countries solve their machine problem?

What will happen to the Arab countries if they introduce democracy?

Keynesians worry about a shortage of demand. Do they need to distinguish between a shortage of demand and a shortage of machines?

Can foreign investment change the future rate at which a country adds machines?

If you were a rich foreign investor, would you choose to invest in violent countries?

What can we learn from the Arab countries?