

The New American Recovery

WASHINGTON – “Have we touched bottom yet”? “Green shoots for the US economy”? These and similar questions popping up in the business media whenever there are some stirrings here and there are justified by our entrenched habit to think within the old logic of recovery-recession-recovery that used to part of the accepted “business cycle” conventional wisdom. All recessions –we have always been told–must end. And thus, at some point, we are bound to have the good old fashioned and always dependable recovery; with new investments, new sales, new employment, followed by more money floating around, thus more spending, and the resumption of our upward march to more growth and prosperity. Right?

No. This time it will not happen this way. Because we are comparatively much poorer and have thus fewer options. Remember that we got into this epic mess mostly because, as a nation, we believed in our fantasies of endless sources of wealth divorced from our real productive capacities. Until the dream lasted we spent and spent an imaginary wealth, while in fact we were burning all our savings, eating our capital, our future income and then some at a fantastic speed. The end of the recession will reveal a weaker, somewhat withered and still incredibly debt burdened US economy. The good news is that this is not a terminal illness. Relative impoverishment and decline of once leading sectors can be reversed. But this requires resolve, clarity of purpose and determination.

Which is to say that we can come back, yes. But this will require a convincing long term, hard nosed transformational strategy aimed at seriously upgrading skills, the rate of innovation and the quality of productive assets. It will also require a serious overhaul of public spending, both in terms of its quantity and composition. We cannot continue to accumulate debt, mostly because of the dynamics of entitlement

spending and assume that this will have no consequences. New competitiveness strategies have been discussed and debated; but as a nation we have yet to recognize their urgency and we have yet to enthusiastically embrace them. The more we delay action, the longer it will take to see positive change.

If we do not take meaningful action, the American economy will not come back roaring. It will come back; no doubt; but weaker, and comparatively poorer on account of the severity of the damage inflicted. For a long time we spent lavishly with borrowed money and we invested little in human capital (education) and in innovation –the only key to future growth. So, today we have huge debts, a semi-destroyed services sector and not an awful lot that can be used as a strong base to rebuild and expand. Look, for example, at the severe beating taken by General Electric, in many ways still one of the best managed global industrial conglomerates, revered as the paragon of good planning and good management.

For at least a decade, we Americans lived in a dream world in which we thought that we were far more affluent than we actually were, even though we did not produce an amount of wealth that would support that level of spending. A huge chunk of that spending was financed through borrowing, justified by the delusion that appreciating fixed assets (our homes) would generate the additional funds that we could happily spend. Then the bubble burst and we know what happened. But this is not the worst part of the story.

The really bad part is that, as the ill effects of this gigantic hangover dissipate, looking at what is left within the wreckage of failed banks and withered retailers, we discover that we have comparatively few internationally competitive economic sectors capable of generating the genuine, real new wealth that will be necessary to rebalance our books and –longer term– keep us competitive with the rest of the world. Which is to say that, while we were busy

inflating a huge retail and services sector catering to unsustainable levels of consumer spending, we neglected the real stuff: education, technology, innovation, new sources of energy and all what is needed to nurture and support it. Let's say this clearly. We shall come out of this mess. But, unless we embark in a serious long term national effort, everything else being equal, we shall come out as a much poorer, debt ridden, less competitive America.

Indeed, as the spending party was going on, as we were buying (mostly imported) stuff with money that we had not earned, we let our school standards go south, thus cheating millions of young Americans who thought they were receiving an education; while we made them ineligible to get the good jobs that, in ordinary times, will be generated by the new knowledge economy. As a nation, we spent comparatively less on R&D; while we allowed the continuing, dramatic deterioration of our infrastructure, the basic supporting system of all modern economies. In the meantime the Federal Government increased its spending thus significantly adding to our national debt. Fate had it that at the same time we also had the terrorist attacks of 2001 followed by a couple of expensive wars. While affordable in ordinary times, the cost of prolonged military engagement is clearly a further drain on resources, resulting in net additions to the debt.

To be great again America needs more than a feeble cyclical recovery that, under present circumstances, will leave behind millions of Americans previously employed in service jobs that will never come back. These people will continue to be unemployed or underemployed for many years. They shall be a dead weight on the economy and society. And beyond the macroeconomic impact we have the personal tragedies caused by severe dislocation magnified by the lack of real alternatives.

In order to lay the foundations of new prosperity, America needs a new strategy. It needs a serious, multi-year effort

(at least 10 years, probably more, of sustained investments) aimed at reconstituting its human capital through serious secondary school and University reform efforts, its R&D base, its enterprises and the ecosystem on which modern enterprises depend on in order to properly conduct business. As a minimum this should include: truly high speed internet that is at least as good as South Korea's, redoubled efforts in ICT, nanotechnology, robotics, biotech. Then it needs modernized ports that cut down container handling time and thus cost, good freight railways nodes, a new air traffic control system, a real energy plan, (can we do better than the corn based ethanol hoax?); not to mention billions and billions of dollars necessary to completely refurbish and upgrade the national network of highways and bridges that is literally collapsing before us, as we have done so little to maintain it in the last 40 years. All this will cost big money, of course, and we are already deeply in debt. But I think that most Americans, if told the whole story, would be more willing to accept debt generated to modernize the country, as opposed to debt generated to finance consumption.

Yes, at some point this year we shall touch bottom and the recovery will start. But it will not be the same as before. This deep recession is forcing us to take stock of an economy that, while (thankfully) still state of the art in some strategic sectors, is full of holes. Put it differently, the crisis and near death of the once mighty automobile sector was certainly not driven by Wall Street or by sub prime mortgages. But it may not be an accident that Detroit's extraordinary level of management myopia and incompetence (known to the insiders for decades) was fully exposed to all only when the Potemkin Village of a reasonably prosperous America around it collapsed. It is certainly true that the crash of the US economy made things much worse for General Motors and the others. But what is truly extraordinary is that when Detroit's leaders first came to Washington to ask for money in the Fall of 2008 they told law-makers with a straight face that theirs

was a short term cash flow problem; that they had a good plan; that it was all under control. It is really worrisome that even then nobody saw (or wanted to publicly say) how badly run these companies were. It took a general worsening of the recession in 2009 to fully expose the damage and let the world finally see the appallingly bad conditions of these companies. Before their collapse, the line was that they had been unfortunately caught in the general downdraft caused by the recession, just like everybody else. Sure, all auto manufacturers around the world are in trouble; but not all of them got into this tempest already sinking under the weight of hundreds of billions of dollars of debt that could not be wished away. Toyota may not do so well; but it did not go belly up.

Leaving aside the unraveling of the whole financial system and the likelihood that its total collapse might have caused national ruin, the almost banal truth is that this is an economic crisis caused by stupendously overextended leveraging and consumer spending, sustained by lines of credit that in ordinary circumstances should not have been made available. Until the consumer believed that he could keep going, the cash registers of America were happily ringing. The wheels were turning and everybody was making money –or so it seemed. But it was a gigantic delusion, as the money spent at an extraordinary rate was mostly borrowed, with inflated home equity as the only collateral.

Now, what we have to face is that this was not about occasional excess here and there by some irresponsible people. This was a national disease that came to a halt only because credit stopped flowing. And we know the cascading effects. Mortgages not paid. Properties foreclosed. Home prices collapsing. And the simple fact that people with no cash and no credit cannot buy. Thus, all of a sudden, no more spending and the ensuing recession that will be much more painful because it will take much longer (even for the reasonably

lucky ones) to get out of an extraordinary level of debt.

Sure, not all Americans are deeply in debt. Some are responsible and did not accept all the credit card offers or the home equity lines of credit cascading in their mail boxes. Some homes are paid for and thus not in danger of foreclosure. Growing unemployment notwithstanding, most people still have a job. But caution: all property values are affected by a declining market. Besides, many employed people are forced to work less and thus make less. Many are part time employees under duress. They used to have full time jobs and are now forced to be part time and this means less money in their pockets. And even the employed people have suffered portfolio losses given the collapse of the stock market. So, even the comparatively better off are not spending as they used to. Do not count on them to restart the consumer led binge.

And the impact on the economy of the millions of the worse off Americans deeply in debt will be huge for years to come. To the extent that most of them have understood the lesson and so are now willing to start paying off their debts and with difficulty begin reconstituting some savings, we can kiss good bye to a recovery driven by old fashioned, vigorous American consumer spending.

Drastic consumer spending cuts are bound to have profound consequences. Most Americans used to be employed in the services sector. And a big chunk of it was consumption or about consumption. It was retail, restaurants, entertainment, hotels, travel, package tours and all that went with it: the real estate, the suppliers and vendors, the brochure designers, the IT service providers and of course the armies of sales persons, accountants, managers, clerks, bus boys, janitors and landscape workers that supported it. It is very difficult to think that these millions of jobs lost because of deep cuts in consumer spending will come back, because poorer Americans will not be able to spend that much in the future.

And we have not seen the end of the ripple effects of this disaster. As everybody is poorer, state and local governments have much less tax revenue, thus no cash. Hence staff cuts, while state budgets deficits go higher. Only three states, that is right, just three, are projecting budget surpluses for both 2009 and 2010: Montana, North Dakota and Wyoming. Good for them, of course. But small consolation for the rest of America, where most people live. Even if we leave aside the rather extraordinary case of California and its 26 billion deficit and the consequent insolvency that forced the state government to issue IOUs instead of real money, the fiscal crisis affecting all states simply adds to the mix of factors dragging down the economy. Leaving aside the real hardships caused by cuts in services, (cuts in education spending right at the time in which we need it most), we have the hundreds of thousands of state employees who suffer salary cuts or lose their jobs thus contributing to the overall decline of consumer spending.

Given all this, if our hope is in the "green shoots", in the rebound that is supposedly built in every business cycle of growth-recession-growth, we may have to wait a very, very long time. The lucky ones, that is those who still have equity in their homes and a job have to cut back because their 401ks have shrunk, while they need to pay off their huge credit card debt and their home equity lines. They are still going to be consumers, of course. But they will consume much less and in cheaper places. Hence the buoyant business for Wal-Mart and McDonalds. Down market is the place to go for large segments of the middle class who mistakenly believed for quite a long while that they had become rich, even though their incomes did not say so.

But this is the good news. That is this is about the segment of population that has enough resources left to climb out of the hole and overtime regain some solvency. And what about all the others? The millions of often not especially skilled

unemployed who have lost their home and have a pile of debt? Can they come back? Some undoubtedly will. Never underestimate American resilience and ingenuity.

But millions more will not. They have been swept away by the end of bubble financed spending and they have no place to go to. And we know that retraining and personal professional reinvention is very difficult even in good times, while growing sectors like health care have a limited absorption capacity. Not all sale clerks can be recycled as nurse assistants.

This being the picture, if we agree that a cyclical recovery can repair only a part of the damage, with the net impact of millions of Americans impoverished and virtually out of the game, then we need something more drastic. America needs huge investments in productive sectors and basic retooling. But, for the moment, we do not see an agreement on a broad, truly understood and nationally embraced growth strategy, founded on education and innovation.

President Barak Obama seemed to have arrived in Washington swinging. He had the dream team of the brightest minds who had the big ideas and the new, bold, long term strategies. But, as we all know, governing in a still fractured and ideologically divided democracy is not easy. And things turned out to be worse than anticipated. The recession is worse than they thought. Unemployment is higher than they forecast. The national debt is growing more than they anticipated. The financial crisis absorbed a lot of energy, and then there was the GM and Chrysler bankruptcy, and so on. But now –whatever the reasons behind the choice of priorities–the focus is on social initiatives, such as health care reform. Whatever its merit, and it does have merit, health care reform inevitably will end up costing more than planned, with fewer savings than now forecast. And spending greater than anticipated, as in most large scale social services reforms aimed at expanding reach, is practically inevitable, even with the best of

intentions.

Health care reform is laudable as it is about improving social conditions, (and consequently the economic conditions of many); but in the short and medium term, even if we (optimistically) assume that there will be savings for the national medical bills down the line, it will do almost nothing to improve American competitiveness.

In the meantime, the other legs of the stool: education reform, and a vibrant, aggressive new high tech and energy policy that may be able to spur both a reconstitution of human capital and US competitiveness do not get sufficient support. There is support; but not the dramatic, "national effort" type of support that would convey the unmistakable decision of a nation bent on rebuilding a competitive economy.

It is true that, all things being equal, we want a private sector-led renaissance. So, it is up to the private sector to do its job. But it is also true that the private sector has taken heavy knocks and suffers shortness of breath right now. Besides, even in good times, the private sector operates within a system of public policy incentives created by government. The Obama administration came along with Big Plans for the economy. But, beyond putting fires out, and this was a necessary precondition, we have not seen the Big Plans in action as yet.

And let us not forget that, even before Obama, the government, contrary to popular belief, always played a significant role in shaping our economic future. Indeed, here in America, the "Sanctuary of Private Enterprise", government, through its enormous procurement, regulation, taxation policies and so on had a huge impact on the economy. Washington can decide to support more or less basic science and R&D in diverse fields with impressive consequences. Let us not forget that the NASA led July 1969 moon landing that we are rightfully celebrating now, on its forty year anniversary, was a gigantic "public

works project" that employed at some point hundreds of thousands of people, supported by hundreds of billions of (today's) tax payers dollars. The US government led this effort.

Going forward, the network of the Department of Energy National Laboratories, (Los Alamos, Sandia, Lawrence Livermore, Oak Ridge and others), can have more or fewer resources to spur innovation and cross pollinate with universities and corporations. The same applies to NIH, (National Institutes of Health), NIST, (National Institute of Standards and Technology), run by the Department of Commerce, and the National Science Foundation. Likewise, if the Pentagon decides to support jet fuel made from renewable resources, this policy change, by itself, would create the biggest single customer for some new technologies. Ditto for decisions by federal agencies (and state governments, if they followed Washington's lead) to switch their vehicles fleets to natural gas or to retrofit all their buildings in order to make them energy efficient. True, some of this is being discussed, planned and even done, as we speak.

But only some of it. Piecemeal. We do not have large, clearly articulated, recognizable national goals, themselves part of some sort of a "National Competitiveness Strategy", by necessity led by Washington, that we can all sign on to and that may be able to energize the major retooling that America has to undergo in order to be competitive, prosperous and -most of all- in order to be reaffirmed once again as the choice destination of innovators and entrepreneurs from all over the world who see America as the fertile ground for their ideas and their industry.

President Barak Obama has a tough job; tougher than most of his predecessors. But he was elected because he was the candidate that wanted to discard the old ways; the candidate who truly understood the urgency of radically new approaches. Only a few months into his job, President Obama still enjoys a

huge reservoir of favorable public sentiment. It is time for him to spell out the vision that will help America go back and do what it does best: create opportunity for most and a superior environment for innovators and entrepreneurs. Otherwise, the recovery produced by the “green shoots” will be feeble and America as a whole will be diminished.

Unhealthy America

WASHINGTON – There is a consensus now that something needs to be done about health care in America. And Congress is busy concocting some type of reform aimed at both containing cost and extending coverage. However, it is really hard to think of a health care reform formula that would magically make the system cheaper and truly accessible to all, while guaranteeing to all users the highest quality of service. In fact it is impossible, unless the whole concept of “health” is radically transformed from a system that provides to the insured *almost unlimited availability of resources to fix problems after they have manifested* to a system aimed at keeping people healthy so that interventions and related costs are significantly reduced.

As things stand today, the system is horribly expensive, (absorbing about 16 per cent of GDP), while it does not provide any meaningful level of guidance and education to Americans so that they shall cultivate healthy life style habits, thus reducing the need for medical interventions. Arguably, the increasingly unhealthy habits of Americans have put additional strain on a system aimed at providing more rather than less service to the sick. Large scale drug and alcohol abuse are egregious examples of truly unhealthy habits of millions. But the explosion of health care costs is also

due to the medical consequences of the staggering growth of obesity, now a veritable national epidemic. A recent study estimates that the cost of obesity related conditions adds close to 150 billion to the national health care bill.

The fact is that we lack cogent programs aimed at telling people to eat well and exercise not just because it is the fad of the day but for the simple reason that proper nutrition and exercise are key to having a longer and more enjoyable life. So, we do not educate. But, perversely, the health care system gets into high gear after the fact, when the often avoidable damage is done. When the overweight person goes to the doctor who finds high cholesterol, or may be diabetes, then the same doctor is happy to prescribe cholesterol lowering drugs, or insulin treatments, to the delight of the drug manufacturing companies, who sell them in massive quantities, given the huge dimensions of the problem.

So, the unaware –and increasingly unhealthy– American is fundamentally “a profit center” for health care providers who thrive by multiplying actions and interventions on sick people. While trying to avoid caricature, as there are doctors who truly care about the well being of their patients and are willing to spend time educating them on preventable diseases, the following is fundamentally true: the more unhealthy the people, the better off the providers who, under the present system, benefit financially only when people are sick. The snag in all this is in the fact that, while the insured patient absorbs only a small portion of the financial cost of care and the doctor collects fees, someone –the insurance company–eventually has to pay the providers. If people are increasingly unhealthy and doctors keep prescribing this and that (as they must), then cost will keep going higher until it will bankrupt the nation. We already have the highest percentage of GDP absorbed by medical care in the world, while the per capita cost of all this amounts to roughly 7000 dollars for Americans; while on average it is about 3500

dollars in other developed countries. Given this huge cost disparity, either the other systems fail to take care of their people, or we must be doing something wrong. As it turns out, our not so stellar health statistics indicate that all this money spent here in America, surprisingly, produces mediocre results.

It would appear that reform blueprints being worked on right now do not really address any of this in a meaningful way. Sure enough, there are many good faith ideas aimed at containing cost, but no plan to seriously reformulate the system and do away with the perverse incentives that conspire to produce cost escalation. And yet, a health care system still based on private insurance cannot survive when the demands and related costs for service outpace the revenue generated by premiums. In America's case, as demand is outpacing revenue, premiums keep going up. At some point, either we find ways to reduce demand in a physiological fashion, that is by enabling more and more people to be and stay reasonably healthy, or, in order to avoid national bankruptcy, we shall have to mandate limitations on how much the system will deliver; imposing ceilings on how much can be provided –and this is the dreaded “rationing” of health care. Nobody is openly discussing the need to ration health care right now. But when it will become obvious that substantial cost containment is impossible, rationing will become unavoidable.

And so far we have described the situation for the lucky ones –the insured– those who are doing relatively well under the current system. For the uninsured, it is of course a nightmare. There is a gigantic barrier to obtaining coverage: cost of premium and/or pre-existing conditions. In America today If you cannot get insurance and you cannot afford service, you do not get it. End of story. True, there is the horribly expensive escape valve of emergency room health care provision that gives some relief, in some

instances, to some people. In this way we have some form of delivery to the poor or the financially strapped; but in the least efficient or cost effective manner.

Given all this, even without radical reform, we may be able to create a partial solution to the twin problems of escalating costs and extending coverage for the excluded. We can mandate/subsidize insurance for most, if not all who are currently uninsured. But, in order to contain overall cost, we shall have to resort to some form "rationing" –which is what is done in many other countries. While the very concept of rationing sounds horrible to patients used to choice, people in other countries manage to live with it, with results, in terms of health statistics, (as noted above), that are arguably much better than what we can produce here in America with all our emphasis on freedom of choice and unlimited usage. So, either we reward doctors for keeping people healthy, or we contain demand for services through the imposition of limits on services.

Anyway, let's review the scenario. When it comes to the insured, we know that the spiraling costs are caused at least in part by an increasingly unhealthy population; while the system places incentives on doing more rather than less for patients. And this includes millions who have more circulatory problems, hypertension and diabetes in large measure because they eat poorly and do not exercise. This increased demand for services inflates overall cost. This cost increase jacks up premiums. Employers who provide insurance feel the squeeze. Self-employed people who buy their own insurance gasp at the annual premium increases. But again, much of this could be avoided, or at least mitigated if we, as a nation would embrace a healthier life style.

Indeed, the Center for Disease Control estimates that 75% of health care spending is for "chronic diseases, such as obesity, heart disease and diabetes". Which is to say that much of what is spent is for treating self-inflicted maladies,

caused largely by unhealthy habits that can be modified, given proper education and guidance starting at an early age. But while generically “diet and exercise” are discussed, there is no large scale, national public education effort underway to drive home the simple point that people inflict serious health damage on themselves, while in the process they add to an already unaffordable national health bill.

Let’s stress this point again. The explosion of health care costs in America is due in large part to the combination of increase in unhealthy habits and to the health care system focus on treatment “after the fact”, that is fixing what is already broken, as opposed to promoting wellness, something that, in the aggregate, would reduce demand for services and thus cost. Within the current system, sick patients equal more revenue for all providers. Doctors get paid not “to look after the general well being of individuals”; but for doing things to them when they show up sick: diagnostics, therapies, procedures, surgeries. While the ethical standards of the providers do vary in terms of prescribing unnecessary procedures just to jack up the bill, it is obvious that there is a built-in financial incentive for doctors to do “more” rather than less. Likewise, there is a gigantic system of incentives created by the pharmaceutical industry so that people will use more and more drugs. They make a living making them and selling them and they count on a friendly health care system to favor the increase rather than the decrease of consumption.

Let’s put in simple terms: your drug company “wants you to be sick”, or, just as well, they want to convince you that a particular treatment will be good for you. Whether it really helps or not is immaterial, as long as you keep buying it, while the insurance company keeps paying for it. And so, tons of anti depressants are prescribed, while millions of children take medications for attention deficit disorders. Do these therapies really help? In many cases clearly they do not or

they produce minimal effects. But it does not matter. As long as the doctors keep prescribing these medications, someone is profiting.

But cost is of no or little immediate concern to the adequately insured patient who, at least in the short term, ends up paying only a small fraction of the treatment. Of course, we know that this almost unlimited usage increases overall cost and eventually it jacks up premiums for all, and so on. The experts are fully aware that this dynamic sets in motion an uncontrollable cost escalation that ultimately will make the whole system unsustainable and affordable.

But most people do not see the aggregate consequences of their individual overuse; especially when overuse is directed by trusted experts, the physicians. But the truth is that most doctors will be very happy to prescribe cholesterol lowering drugs; while really the best treatment *for the patient* would be cutting down the consumption of animal fat and increasing the level of physical activity. But why tell the patient about non medical ways to be healthy? The fact is that nobody in the health care system makes any money if I manage to lower my cholesterol through a healthy diet.

Then we have the separate but extremely troubling issue of the disproportionate resources allocated and related costs in delivering care to individuals at the end of their lives. Terminally ill patients, elderly patients with dementia as well as patients kept alive artificially weigh very heavily on the health care system and thus on the whole medical insurance apparatus, including the federally funded Medicare program and premiums paid by comparatively healthier people, even though the quality of life created through all this very expensive care is not that great, or, arguably, in many cases quite horrible.

But here we would enter the mine field of denial of treatment or euthanasia and of all the objectively complicated issues

related to who has/should have the authority to determine if and when "enough is enough" when it comes to devoting resources to citizens at the very end of their lives. For the time being we are unable to approach, let alone resolve this issue, as it is so profoundly tied to religious beliefs and to our collective aspiration of doggedly prolonging life, no matter what the cost, no matter how futile this may be, in terms of the actual results of these efforts.

But even if we carefully avoid the mine field of terminal care and its disproportionate cost, it is clear that the priorities on which we base our private insurance system are wrong. All other insurance systems are founded on the notion that most of the time the premiums paid by all would exceed the claims of some. The assumption is that, on average, claims will be rare. But health care in America is different, as there is an inherent difficulty in inducing the good behavior, (translating in better health), that would reduce demand for services and thus strain on the system.

Part of the disconnect is due to the fact that most of the time there is no immediate penalty for overuse. The insured person cannot fully appreciate the cost effectiveness of prescribed procedures, while the physician prescribes liberally, with full awareness that the insured patient will not object, because he/she does not pay most of the cost involved. By the same token, while the bad personal habits of the insured are in many instances at the root of growing demand for services, the insured does not appreciate that his/her behavior overburdens a system that will eventually collapse under the weight of excessive demand. And the doctor is not going to turn away a patient, even if guilty of bringing additional disease on himself via unhealthy life style. Person is sick: person needs treatment. And this includes thousands of hospital re-admissions due to the fact that patients failed to follow basic life style guidance received upon being discharged.

In other words, this is not car insurance, a system in which I know that I am somehow in control of the cost of my insurance. When it comes to driving, I know that my behavior can significantly affect my ability to get and keep coverage. I know that if I have a good driving record I get a low and may be reduced premium. Thus the system provides guidance and incentives so that through my behavior I shall minimize the level of risk to myself and my insurer. If I am a prudent driver, it is a win win situation: my premium stays low, while my insurance company makes a profit because I am not originating claims. Thus I want to avoid accidents, so that my coverage will remain low, while my insurer is thrilled to receive my premiums and no claims resulting from my driving. As a driver I have some degree of control on accidents. I do not speed, I do not drink and drive, I am careful and I take care of my vehicle so that it will respond well. Sure, accidents will happen regardless, (and that is the whole point of having insurance); but one can reduce or increase their likelihood through good or bad personal behavior that is in turn reflected in higher or lower cost of insurance.

But in health care insurance things do not work in the same way, as the correlation between personal behavior and demand for service is not that clear. People think that sickness is something that "happens" randomly, as opposed to a car accident that I caused because I was drunk.

I do not wish to exaggerate this focus on personal habits. Obviously, there are many medical conditions quite beyond personal control that will indeed happen even to those who follow the best wellness guidance. But here I am emphasizing the significant and growing percentage of medical care due to preventable, bad personal behavior. "Wellness" is not going to abolish disease, but it can reduce it and contain it, lessening thus the demand for health care services that we all end up paying for, one way or the other.

If we do not reduce demand for services via the improvement of health standards, the pool of insured will not adequately cover the cost of growing usage. As currently conceived, in the aggregate, the system has no built in self-correcting mechanisms. Let's say it again: American health care is not about promoting wellness and thus reduced demand for treatments.

The companies that make blood glucose testing equipment must be thrilled about the obesity epidemic and the consequent diabetes explosion in America. Are they willing to spend the equivalent of what they spend advertising their products to the growing population of diabetics on serious media campaigns illustrating that in many cases diabetes is avoidable or reversible, assuming that the individual understand and implements the needed changes in life style and eating habits? No way. The companies are quite happy with a growing flock of sick customers; so that they can sell more stuff to them. And the same can be said about the cholesterol drugs companies. Do we see their representatives distributing literature in front of restaurants and supermarkets warning people about the consequences of a bad diet?

On a different note, much has been said about the cost effectiveness that could be achieved by rationalizing the whole health care delivery architecture. With the aid of our quite developed, world class IT industry, we can massively introduce electronic record keeping, simplify billing and other administrative procedures, promote the best protocols and so on. This is doable; it should be done and significant savings will result.

But, if everything else stays the same, the system will remain slanted towards over-consumption, because the insured patient has no real incentive for not undergoing this or that when the doctor says he needs it and the out of pocket cost for the insured is tolerable; while the physician has every incentive in doing more rather than less –needed or unneeded as the

procedure may be.

And to this mix we have to add "defensive medicine". Doctors are afraid of being sued for malpractice. One way of avoiding this danger is in being overzealous, in order to be able to show, at a later date, that "I have done everything I possibly could to have the correct diagnosis and therapy".

There are other factors conspiring to keep the system as is, including the intangible, but psychologically important factor that the system as currently configured allows almost unlimited choice, reinforcing the notion that we have to keep health care delivery as is: open-ended in terms of what type of service can be obtained and at what amount. For the insured there is this comforting idea that, under the present system, they can go wherever they want, explore every possible therapy, consult with as many doctors as they want. This is important as a principle and in many cases, especially in very complicated hard to diagnose conditions, it offers the chance to eventually get it right. So, a health care system that allows the insured to go shopping for whatever the best approach may be is reassuring to many. And the politicians and the interest groups resisting change talk about this bond between patient and doctor that should not be affected by cost considerations (nobody should be there adjudicating when "enough is enough") or, much worse, health care delivery rationed through a quota system.

So, there you have it. The American system does not promote wellness; while it is fueled by perverse incentives that encourage or at least do not discourage over consumption and rising costs for all. Paradoxically, the consequences of all this are that many of the truly sick find it more difficult to get coverage; ensuring thus that many of the neediest are those who get the least. At the bottom of the pile, if you are poor and sick in America you are really out of luck. The uninsured sick are thus marginalized, with obvious consequences for their health, their finances and their real

chances in life. We know that a serious medical conditions is one of the main causes of financial ruin in America, and this should not be allowed to happen.

And we have not yet come to the worst part. The worst part is that enormous and growing national expenditures on health care deliver mediocre quality. If all this money would provide superior results, then we could argue that you really get what you paid for. But it is not so. More money does not buy better service. Collectively, even considering that we have 15 per cent of the population, (about 45 million people) who have no insurance, we Americans spend a larger proportion of GDP on health care than any other developed country. And yet, really adding insult to injury, our health statistics are not especially good.

Sure, we can point out the existence in America of state of the art medical facilities and leaders in research for new drugs. But the benefits of cutting edge new stuff, while real, do not percolate evenly throughout America. If you are rich or super rich you can have access to the very best. But, below that threshold, you get what is available. And what is available is both comparatively expensive and not at all excellent; with ensuing national health statistics that are not particularly enviable. And since the system, barring politically mandated changes, has no self-correcting mechanisms, the only thing that increases, year after year, is cost and thus premiums. So we have a bad combination of a system that is mediocre in terms of quality with growing and eventually unsustainable cost.

So a private sector led system does the opposite of what anything market driven is supposed to do. Why can't America do in health care what America is supposed to do best? Beat the competition by delivering more, better, cheaper and faster? Well, this is what we do with PCs and other components of information technology, a sector in which state of the art research combined with sophisticated manufacturing and

marketing allows America to best the competition by the constant improvement of quality accompanied by falling costs that are passed on to the consumers via reduced prices.

But we cannot follow this paradigm with health care, because of the medical insurance apparatus that we have created, whereby the practitioners thrive and prosper when people need or are made to believe they need more of everything, while little or no attention is paid to keeping people in good health, (in the same way in which people are encouraged to drive safely so that they get fewer accidents, thus costing less to the insurance providers). And, as someone eventually pays, there is not much of an incentive to expend a lot of energy trying to be truly cost effective.

This being the case, then we need to revolutionize the system in order to create completely different incentives.

Imagine for a moment the following fantasy. Doctors have a certain number of patients covered by insurance. At the end of the year the doctor receives a bonus related to how few of his patients have been sick. Given this incentive, his efforts would go in making sure that the insured people stay healthy, as opposed to taking care of them when they show up sick. Ideally in this system the doctor and all the other practitioners would want to promote wellness, including good diet and appropriate exercise, as they would be rewarded by having people in their care who are on balance healthier. OK, then someone would argue that this parameter would create the perverse incentive of not treating people who are really sick in order to show better numbers at the end of the cycle. Of course, this may happen. But the opposite, that is an incentive to overdo is what we are dealing with now; and there is no outrage. More tests, more therapies, more prescriptions, more surgeries translate into more money for the health care providers. On balance, there is no incentive to do less. And again, let us not forget that in the end we do not have a comparatively healthier population.

There has been talk in the past about changing the incentives system via the creation of medical saving accounts managed by the insured individual who will get to keep what they do not spend. In control of their own accounts, the patients would have a vested interest in scrutinizing the actions recommended by the doctor. Since I get to keep the health care money that I do not spend, as opposed to a health insurance premium that is lost whether I use the system or not, then I would have a vested interest in scrutinizing my doctor's recommendations. "Come on, doctor, this is really expensive –the cost conscious patient would say– do I really need this?" The point is that, while in principle the savings accounts do create incentives for moving cautiously, the reality is that the patient is a lay person who cannot second guess or challenge the doctor's advice on its merit. Sure, the patient can go shopping around for second or third opinions and get what may seem to be the best. But the cheapest option may not be the most medically sound after all. So, while I may want to keep more of my money, how do I evaluate the cost effectiveness of this or that therapy or the option of doing nothing? I am not an expert.

In all this huge mess featuring poor health statistics, runaway cost and millions of uninsured, the major policy initiative now on the table is about spending more money by increasing coverage to the uninsured, thereby attenuating the injustice of lack of access for millions of excluded Americans. Sure, the idea is to introduce cost saving mechanisms here and there. But there is no basic reform that would address the fundamentals. While the goal of this initiative promoted by the Obama administration is laudable, we can rest assured that its net financial impact will be more money to be spent on health. So, how do we balance the need to grant access to millions and the need to contain costs that are already out of control?

While nobody is saying it loudly, the only way to contain

cost, even assuming the introduction of electronic records and other cost saving measures now under review, is to limit access through some form of rationing. Rationing may make a lot of sense in certain instances of abuse and overuse; while it may have horrible consequences in others in which needed care will be denied on the basis of some abstract parameter. Who knows when the right balance will be struck, given the perplexing variety of cases and individual circumstances? Overall, rationing sounds bad, as it would deprive Americans of their perceived absolute freedom of choice. And so it will be fiercely opposed.

But the current freedom of choice may be a luxury that we can no longer afford. As currently conceived, without mandatory changes aimed at containing the cost and its rate of growth, pretty soon the health care system will bankrupt the country. So, at some point someone will have to rule that, even as we increase the number of people covered, reducing the level of benefits is really OK. As we cannot inspire or induce good habits that would lead to lower demand for medical services, somehow we shall have to mandate it.

The alternative to mandated rationing would be in truly and enthusiastically embracing wellness as a philosophy of life. This would be about pursuing a healthy life style at every level, not to save on our national health bill, but to live well. The fact is that we have astronomic health care costs, while at the same time Americans are frittering away their well being in grotesque ways. It is indeed nonsensical that the country that spends this inordinate amount on health care is the ideal market for drug cartels all over the world, given its high demand for illegal drugs. At the same time alcoholism is high; while obesity, with all its known medical consequences, has grown exponentially in the last decade, reaching epidemic proportions.

So, we have the paradox of nurturing in America some of the best health care facilities in the world; while at the same

time millions of Americans indulge in very unhealthy habits whose consequences cannot be contained or reversed by this super expensive health care system. If our focus is on cost control, then rationing health care is the only answer. The debate will be on the degree and level of rationing. But if we focus on wellness as a goal, then the perspective changes entirely. The doctor becomes an educator as well as a provider and not just "a mechanic" who fixes what is broken. The system will reward better health, as opposed to paying more for more procedures performed to the sick.

Our legendary American problem-solving ingenuity should be put to the test. But this may occur only if the leadership of the nation would tell the public two things. Number one, this system is really broken and not fixable. Number two, this is the wrong system, as it is not designed to properly address the real goal of having and sustaining a healthy population. This is a tall agenda, I admit it.

But the alternative is a mix of partial fixes whereby we shall end up concocting a formula that would include improved access to those who are excluded; while limiting usage for the others in order to avoid national bankruptcy. No doubt, extending access would represent an improvement from the standpoint of social justice, but this is hardly the best that we could do as a mature society.

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