

# Something Broken in America?

**WASHINGTON** – America may be in economic trouble right now; but one of the perceived core strengths of this country is that, compared to everybody else, we have made constant modernization, perpetual re-engineering and the striving for greater and greater efficiencies in all sectors into a science. We are world leaders in information technology and all its cascading applications. We have the best software companies. We have the business and management schools that teach aspiring leaders from all over the world the secrets of super efficiency. We are the leaders in computer manufacturing and the most popular internet search engines. We have Apple's iPhone and unmanned Predator aircraft maneuvered by a few techies in Nevada that can target bad guys in the mountains of Pakistan. We have some of the best R&D in biotech, pharmaceuticals and space technologies.

Well, may be we do; even though the pace of investing in innovation has slackened somewhat and others are catching up. But the ability to keep and maintain high standards of efficiency, whether reliant on state of the art technology, competent pros or both is not so unquestionable these days.

Take a few illustrative examples, unrelated, but chosen here because they happened recently, within a relatively short span of time.

## **Systemic failures**

A) We had a computer glitch within the Federal Aviation Administration, FAA, system that caused nationwide chaos in air traffic control, with flight delays piling up on delays for almost an entire day, disrupting air travel for more than half the nation.

B) Then there was the almost comical episode of the "lost" NorthWest flight. Well, the pilots, otherwise engaged, missed

the airport where they were supposed to land and carried on chatting for more than one hour, flying the aircraft God knows where. Worse yet, the air traffic control people on the ground, aware that something was wrong, could not get in contact with the flight crew for more than one hour.

C) More recently there is the story of Army Major Nidal Hasan. Of course, this grabbed headlines, given the tragedy of all those servicemen killed by him. The story, as presented so far, is whether or not the Army security apparatus should have been able to spot Hasan's dangerous dispositions on time and prevent him from killing soldiers. But, in my mind, the real story is that internal records indicate that Major Hasan, irrespective of his views on Islam or jihad, was a really bad doctor, according to the judgment of his superior officers, duly included in his file.

### **Bad doctor kept in the ranks**

The story, as reported by National Public Radio, among others, is that Major Hasan had a truly bad professional record. He did not show up on time. In fact, sometimes he did not show up at all. One of his superiors wanted him removed. But the story shows that, bad reports notwithstanding, all in his file, the system's inertia allowed a bad Army doctor who was performing poorly to be kept in the ranks –and in fact *to be promoted* to Major.

So, the system, and I am referring here to the “basic system”, the vaunted “armed forces meritocracy”, where you are supposed to perform according to a given standard, did not work. Hasan could not be axed and then, later on, he did what he did.

D) Last but not least, we have the recent episode of the uninvited couple who managed to sneak into the White House for the very first state dinner in honor of the visiting Indian Prime Minister. The story has been presented as some sort of prank engineered by a publicity hungry, clever couple. “Look

at this: how far are people willing to go in order to get attention...They got into the White House...Now they'll sell the story to the tabloids"...Etc. etc.

Except that this was not a United Way fund raiser. This is "The White House", theoretically one of the most secure fortresses in the world, protected by a small army of ultra trained Secret Service professionals whose job is to establish and keep layers of security and to check on anything and anybody, 24/7. Whereas, super security apparatus notwithstanding, an enterprising couple could just sweet talk their way in? And nobody noticed? So that they could go through layers of security and end up shaking hands with the President of the United States?

In the age of terrorism, post 9/11 and all that, this is an astonishing security failure, revealing a shocking degree of amateurism on the part of the supposedly super professional Secret Service.

### **Accepting lower standards**

Alright. So, what is the point of all this? The point is not that the "sky is falling"; but that something fundamental is not working well. We have systemic failure at various levels, revealing outmoded technologies and underperforming professionals who are not up to the demands of their jobs. What is worse, we do not see real public outcry.

Among policy makers it is old hat that we are saddled with FAA ancient equipment; and so it is not really a surprise that on occasion the system will crash, throwing half the country air traffic into chaos. But policy-makers look the other way and continue to under invest, allowing this dangerous situation to fester. Do we hear any protests? Likewise, we allow sloppy performance in the cases of supposedly skilled people who do not know their job or who cannot perform their job. And this includes the pilots who miss the airport, the air traffic

control people who fail to make contact with them and the Secret Service who cannot spot those who belong and those who do not from a list of VIPs invited to a state dinner at the White House.

### **Inability to be selective**

But the worst among these is the case of the inability of the “Army system” to get rid of an underperforming physician, because this instance reveals tolerance for “generic” under performance. By and large, unless something dramatic happens, as in the case of Major Hasan, many cases of tolerance for sloppy work are destined to remain hidden. This way mediocre or bad people stay on the job and get promoted; whereby silently lowering many standards –and nobody says anything.

### **How many more mediocre doctors?**

If Major Hasan had not had this outburst of insanity (whether tied to his self-radicalization as a lonely Jihadist, or not), he would have continued to serve as a sub par Army psychiatrist paid by all of us and nobody would have known any better. The question is: how many other Major Hasan equivalent are there within our vast system of public (and private, for that matter) services? Now we know about Hasan because of the scrutiny caused by the horrible event that he engineered. But, had he killed no one, he would continue to be a bad Army doctor, providing bad service to unaware servicemen and no one would know; while the system, supposedly geared towards weeding out the sub par people, would continue to tolerate him. And this means that, in an untold number of cases, we are tolerating mediocrity, underperformance and substandard service.

### **Low standards are the new normal**

Now, the point here is not to exaggerate and reach the gloomy conclusion that “nothing works in America”. Of course, many other things work and some work very well. But the point is

that in a complex, knowledge based, service focused, modern society whose claim to fame is a very high standard of performance across the board, a high standard, demanding as it is, should be the only acceptable norm. Whereas, we have come to accept sloppiness and underperformance as “part of life”, due to “human error”, or due to “lack of funds” that do not allow, for example, the modernization of an ancient air traffic control system.

And so, subtly and implicitly we have redefined our standards down. “Stuff happens”. “It is too bad”. But, look, don’t complain too much, most of the time things really work as intended”. Whereas, the truth is that now there is higher tolerance for failure. Indeed, these various instances of egregious bad performance do not seem to cause major public outcries.

### **We want to forget failures**

Even in extreme cases, we would rather forget, as in the instance of the confused and late response to natural disasters like Hurricane Katrina in 2005, an event that revealed horrendous gaps in our national preparedness for such calamities. Well, after the outcry, we brush it aside, in the same manner as we would like to forget a bad dream. So, after a while, nobody talks about it anymore, just as if it did not happen.

And yet, If lower standards become the implicitly accepted “new normal”, then we cannot be surprised when failures become more frequent and when we shall see others, motivated by higher standards, passing us by.

---

# America: Still No Energy Policy

WASHINGTON – A small news item in the briefs section of *The Wall Street Journal* ([Environment – Fuel-Efficient Auto Sales Up](#), Saturday-Sunday November 21-22, 2009), might give the impression that, regardless of the tiny space allocated, this is good news, an indicator of the kinds of shifts that we would like to see: such as consumers moving away from high consumption cars and buying fuel efficient vehicles. But it is not so. Even in this diminutive news item, the title is misleading, for the actual information indicates that the average consumption of the 2009 auto purchases is 21.1 miles per gallon, while the 2008 average was 21 miles per gallon. So, while technically this is an improvement, in truth it is a ridiculously small improvement, so much so that the news is relegated to a little blurb, even though with in an inappropriately upbeat title.

## Fuel efficiency?

And so, what is the big deal about this? Well, the big deal is that after a cosmic upheaval in oil prices and an economic crisis branded as the worst of the worst, while America, recession notwithstanding, continues to spend staggering amounts to import about 60 per cent of our oil, when we look at the actual sales of motor vehicles, puny as they may be, in this ravaged landscape, nothing has changed in terms of consumer predilections.

Whatever cars Americans do buy, they buy the same stuff they used to buy. OK, maybe one should not read too much into this. Maybe we should take into account the fact that in a severely depressed market like this one, with an epic collapse of auto sales, the people who actually buy are the better off and thus less concerned with fuel efficiency, because they have the

money to pay for gasoline, whatever the price.

But, even assuming that this is so, this is still truly bad news. What this means is that people have understood nothing about the need to radically transform the foundation of an economy that used to be based on cheap carbon and migrate as quickly as possible to other forms of energy; and that, while the path to a new green economy is long and complicated, a sensible intermediate step is to diminish consumption of the very expensive oil that we do not produce and have to import—something that can be achieved by choosing to purchase more fuel efficient vehicles, for the time being.

### **No energy policy and no compelling message**

Well, no. We are not doing it. We buy fewer cars because we are in debt and have no money. But those of us who have the cash, well, we do exactly as before. Because a new mind set has yet to emerge and become the new standard.

But if this so, then the whole national debate about energy, its staggering cost, the national security implications of this enormous dependence on imported oil, the threat of climate change, the promises of proliferating green technologies and so on, have not made much of a dent. When choosing to buy a new car, people buy what they used to buy before.

And this not because all these things have not been said. The issue is not about “saying” it. It is really about emphasis, making all this a national priority. It is about conveying to the public a real sense of urgency. There is no doubt that the Obama administration has said all the right words about energy conservation, about pushing renewable sources and about gearing up for the big changes necessary to face climate change threats. But it also true that this is clearly not a top national priority. It is all in there, within the laundry list. But not in a particularly prominent place.

## **Health care is the political priority**

Broadly speaking, the Obama administration reacted swiftly on economic emergency issues. But then, when it came to political *action*, as opposed to reaction, it consciously chose to invest heavily on social policy issues, pushing strongly for health care reform. So, we did the emergency and quite expensive stuff for the economy (bailouts, tons of cash to banks); but then, when it came to setting a new political agenda, Obama prioritized health care reform as administration policy item number one.

Now, there is merit in modernizing health care, even though I seriously doubt that, whatever the outcome, this reform will work as advertised, except for covering millions of people regrettably outside of the system. Whatever the outcome, the notion that we can cover more people, give choice, improve care and spend less in the aggregate is another Washington myth that many may desperately want to believe; but that will prove to be an impossibility, because it relies on too many pieces, including increased taxes and lower payments into the Medicare system, falling right into place at the right time. Inevitably, policy makers will discover at some point that certain savings will not be achieved and that certain costs were not accurately calculated. The bottom line is that, reform notwithstanding, the system is fatally geared to generate cost increases. The only way to seriously contain cost is to limit service and this called "rationed care", whatever the euphemism that may be devised some years down the line to justify it as sensible and scientifically sound.

## **We missed a whole year**

But, whatever the long term consequences of health care, and no matter what ridiculous claims are made now regarding the certain, positive impact on the economy of a more equitable and more efficient health care system, the truth is that the Obama administration during its first year in office has



invested most of its political capital on a *social* issue, while it has done almost nothing to seriously push America towards the new frontier of a new, more modern, technologically advanced post carbon economy, as an integral part of the economic renewal strategy that we desperately need. And this may prove to be a real mistake. A more equitable health system is a good thing to have. But when the country is half bankrupt, with no new strategy on the horizon, while competitiveness lags, long term what good does it do to the average citizen to have a more inclusive health system that may not be affordable?

### **Serious energy policies will have to wait**

As I said, if you look at the overall picture, administration officials can say that it is not so, that, regarding the push to a green economy, "it is all in there". And in fact it is. But it is literally pocket change. A little bit of money to support this and that. The right words said here and there. But nothing that resembles "A Plan". Nothing that would even remotely convey to America the conviction that it is indeed urgent and of vital importance to revitalize the foundations of an economy now geared towards decline, or, at the very least, stagnation; and that a strong push towards renewable energy technologies is one of the key ingredients to establish the basis for future success.

### **Other priorities**

Of course, at the very beginning of 2009, we had to deal with the financial crisis. And nobody faults President Obama for having neglected it. Federal aid was delivered, and in massive amounts. We have avoided the sinking of the SS United States. But the hull is full of holes, the engine room is damaged and the crew is despondent. We are afloat; and this is good; when utter disaster seemed to be a plausible scenario.

***But instead of sailing into the closest shipyard and deciding***

***to spend all we've got on a fundamental overhaul, we put a few patches here and there and decided that, for morale purposes, we wanted to give a salary increase to the crew and presents to all the scared passengers.***

This may look kind hearted in the short term. But, in the long term this does nothing to get us the super fast liner that we used to have and that we now need more than ever to stay in the race, never mind keeping our cherished world speed record. (If you were wondering, there was indeed an SS United States. It was the most wonderful liner of the age and it still holds the world speed record. You may still look at it, a sad looking rust bucket moored in Philadelphia).

### **Obama: social issues first**

Of course, governing is a tough balancing act, as there are always a number of totally legitimate priorities competing for scarce resources. President Obama, elected in large part on a message of more equitable redistribution of resources, made the expansion of health care coverage his main political and policy priority for year one. As America is the only developed democracy that leaves out of the system more than 15% of its citizens, this policy choice is not without merit, even though its purported magic impact, that is the miracle of giving more to everybody while paying less for it, is tragically misrepresented and oversold.

### **There is such a thing as being too late**

But, in so doing, "the opportunity cost" of focusing on health care is that we have wasted another year doing almost nothing truly worthwhile on renewable energy and the broader revitalization of the economy. (The take over of General Motors, while it may prove to be beneficial, was an *ad hoc* measure inspired by social and political concerns. It was not a clear move within a clearly articulated economic strategy). Not only we have not set a new course; but, pitifully, we have

not even been able to convince the few Americans who have the money to buy a new car to select a more fuel efficient model. And so: no policy, no guidance, no effective public policy education.

Let's hope that we can do better in 2010. Without exaggerating the importance of the economic decline clearly underway, after a certain point, there is such a thing as being too late.

---

## How to Win in Afghanistan

*"But we must never forget: This [war in Afghanistan] is not a war of choice. This is a war of necessity. Those who attacked America on 9/11 are plotting to do so again. If left unchecked, the Taliban insurgency will mean an even larger safe haven from which al Qaeda would plot to kill more Americans. So this is not only a war worth fighting. This is fundamental to the defense of our people"*

—US President Barack Obama, August 17, 2009

**WASHINGTON** – So, president Obama proclaimed at the same time the will to fight and moral superiority by declaring that the fight in Afghanistan is not a matter of predilection; but the “only” choice for the United States, forced on America by historic necessity . Literally, according to this narrative, this war has been imposed on us, always reluctant warriors, by an implacable enemy bent on destroying the US. More broadly, Afghanistan is the “Good War”, as opposed to the invasion of Iraq, the “Bad War” nonsensically waged by George Bush, the president called at times “delusional” by many of his political opponents. **The Good War**

So, Bush did the bad stuff. We are going to do the good stuff, the righteous stuff which is about the real enemy: the jihadists ensconced in the mountains

of Afghanistan and Pakistan. So, let's make it clear to the world –says the President– that our motives are unimpeachable. We “have to fight” the Taliban and al-Qaeda, because they are plotting more nefarious acts against America from those mountains between Afghanistan and Pakistan.

### **Crucial for US national security**

Based on how the President framed the issue, it is also clear that this conflict is only marginally about the suffering of the war-ravaged people in the region. This is about America's national security. While we may feel something for the plight of peoples subject to the brutality of the Taliban, quite frankly, if this were just an internal problem among tribes, with no real or potential international repercussions, such as another 9/11 plot, we would say a few pious things, exhort the parties to cease violence and then carry on with ordinary business.

But the President has declared that there is a thread that links Osama bin Laden, his followers, the Taliban and other assorted followers to an ongoing plot against America. And since the plotters have taken residence in that part of the world, we have to engage in this “war of necessity” until we shall dismantle the whole enterprise, so that it can no longer cause us any harm.

### **War of Necessity?**

Now, why would the President make such a huge, upfront commitment without anything whatsoever prompting him is unclear. Is it because, as some have suggested, that by declaring Afghanistan a “war of necessity” America automatically gains and gets to keep the moral high ground? So that the President can say to the American public and to the world: “What can I say, we did not want to do this. But, quite clearly it is a war of necessity. We had no choice?” This may be nice, if it were plausible and even remotely credible –let alone true. ***This one, as most other wars, is a war of choice. While it is true that al-Qaeda does represent an ongoing threat to America's security and interests worldwide, a huge military commitment in Afghanistan is by no means the only possible option.***

## **Why say this at all?**

Again, why did the President make such a sweeping, upfront commitment is difficult to understand. And frankly, it is even more difficult to understand in the light of more recent developments in October and November that reveal a potential case of “cold feet” about this “war of necessity”. The US Government has been engaged in a reassessment process, so lengthy now to indicate possible vacillation and some degree of ambivalence.

After the clear “call to arms”, there has been an inordinately long period of evaluation aimed at determining the most appropriate course of action, while a diverse menu of strategies and war plans, along with media leaks as to who is in favor of this and against that, have been presented. All in all this created the impression that the issue is not just about “how” to run the operation; but –far worse– confusion as to the real strategic objective.

## **Why we cannot win**

Let’s cut to the chase: the war in Afghanistan cannot be won within the most likely political constraints that will tie down any US administration. And this is different from stating that this war is not winnable as a matter of principle. It is not winnable because the President does not have a free hand. He does not have unlimited time and resources to conduct the fight.

## **Just like Rome, America does not have unlimited resources**

This war cannot be won for the same reasons why the late Roman Emperors could not indefinitely fight and hold back the Barbarians that were making more and more incursions into the Empire. Rome was exhausted. Up to a point it retained the advantage of disciplined, first class soldiers and superior technology, (by the standards of the time). What it did not have was infinite resources and the staying power of continuing the fight for ever, no matter what. And so, eventually the Barbarians burst through and destroyed a once mighty civilization.

## **Impossible to rebuild Afghanistan within a limited time**

Now, where is the analogy, as the Taliban are not in Canada, trying to invade America? The analogy is in the lack of resources and lack of staying power. A serious counterinsurgency in Afghanistan would require flooding the country with troops and calculating that it might take at least 10 or 15 years, perhaps longer, not just to fight the Taliban but to build a society with all its institutions, laws, legitimacy and a sustainable economy so that the Afghans would have a country to fight for and the instruments to do so. And the simple fact is that America has neither the stomach for such a lengthy and costly enterprise nor the money to finance it. Period. To think otherwise is engaging in dangerous fantasies.

### **Impossible to bring about "reform"**

To envisage a shorter time line for the accomplishment of the administration goals is fanciful. As it is fanciful to admonish newly reelected, (by default), President Hamid Karzai to get his act together, stop corruption and sweet deals with the War Lords. This is like imagining a talk with Gang Leaders in Los Angeles, telling them that if they shape up, then we may pardon them and offer them an appropriate place in society. Try that, and see what enthusiastic response you get.

### **Governance constraints will stay**

And this is not to imply that President Karzai is a gangster. He is not. He is the closest thing to the best leader that a primitive, tribal, extremely poor, under resourced society can offer. But he is what he is: and that is not particularly good. By the same token, the idea that, before we could make a final decision on an Afghan policy we had to wait for the elections results would imply that the results of elections conducted in such a place with that low level of literacy, of voter knowledge and sophistication would really make a difference.

OK. Let's be real. These days, who governs in Kabul makes a small difference. Sure, there can be different degrees of incompetence and corruption. But the underlying reality is of a horribly poor and mostly primitive medieval society, with a thin veneer of educated people and a mostly illiterate population with almost no economic prospects.

## **Afghanistan cannot be transformed within a reasonable time**

And we want to “fix” this country as a way to win the war against the Taliban? As I said, given unlimited resources, stomach for human losses and a large amount of money, it may be doable. But we know that none of these preconditions exist. And let me stress that the last pre-condition –money–is and will be a more and more pressing issue, given America’s fiscal predicament. America is deeply in debt. If we are serious about reducing it, we shall need to overhaul welfare spending, most likely reducing benefits to millions.

## **Difficult to justify the war in America**

And we think that we can cut funds to seniors and at the same time justify billions for a war that, 9/11 notwithstanding, is really remote from the daily preoccupations of ordinary people? Impossible. And beyond this huge obstacle, let us keep in mind that, even if the war were fully funded, the impatient American public will want to see results and the troops back home by Christmas, as they always do.

Long, protracted efforts, with each individual casualty announced every day in the newscasts are not popular, even if the President tried to inoculate himself from criticism by declaring this “a war of necessity”. He may have said it. What others actually believe will be an entirely different matter.

So, let us agree that whatever the president and his national security team may have in mind, assuming that it is predicated on more troops and a protracted commitment, will not work.

## **What is the alternative?**

So, what can work? Something that starts with the recognition that the power centers in Afghanistan are in the local communities, with the War Lords and other tribal leaders who have authority with the local people. Forget about Kabul. Try and get some deals with the War Lords and other local leaders. Give them tools, money, resources to make their people at least somewhat

better off and find ways to reconcile differences among them in order to minimize the danger of civil war. If the deal for the average villager is a choice between a powerful Taliban versus the discredited authority of a distant Kabul, the Taliban have an inherent advantage, because they “are there”; whereas the central government is distant, mostly incompetent and corrupt.

### **Realistic targets**

With this we give up any delusion to try and build a modern, democratic Afghanistan with a reasonably well function central government within a few years. And this is not out of cynicism; but out of realism. Afghanistan may eventually become a modern state. But this is an extremely ambitious objective, given the actual conditions on the ground, the lack of education, of resources and economic prospects.

### **The 2001 approach worked**

As for the possible success of a “minimalist” approach, let us not forget that the 2001 campaign against the Taliban was successfully engineered and conducted following a very similar strategy manned by only a handful of skilled CIA operatives, a sprinkle of Special Forces and –most of all–suitcases full of cash liberally distributed in order to gain the friendship of otherwise reluctant partners. True, there were targeted US bombings of Taliban positions and large amounts of equipment also dropped from the air.

But fundamentally this was a low profile, extremely low cost operation that did the job. The CIA had nurtured friendships in Afghanistan well before 9/11. It had gained credibility with relevant Afghan counterparts and it convinced people to fight. This strategy created a coalition, fragile as it was, that routed the Taliban. This was a stunning success. (It is unfortunate that the image of the CIA has been subsequently tarnished when it became the scapegoat for the horrible Iraq WMD intelligence debacle. The operation in Afghanistan was brilliant).

### **Nation building on the cheap does not work**



But then, after the defeat of the Taliban, we got involved in our own silly ideas of nation building –with no “real” money. So, we wanted to do big infrastructure projects, reconstruction, schools for girls, at the same time creating a viable central government. And all this was done poorly, halfheartedly, relying on incompetent consultants and with very little money.

I remember, in the months preceding the war in Iraq, Afghan officials coming to Washington, pleading, almost begging not to be abandoned. And we did abandon them, for all practical purposes. Of course, the main reason was that the Bush administration thought most superficially that Afghanistan was fixed, that it could subcontracted to the NATO Alliance and other assorted friends, while America was gearing up to the serious stuff: the take over of Iraq.

### **Afghanistan was forgotten**

And we know the rest. The half baked Afghanistan operation was put aside, and it slowly started simmering and stewing. Over time, the growing mix of confusion and bad governance gave a new opening to the Taliban. Relying also on sanctuary in Pakistan, the Taliban had the opportunity to regroup and to exploit a reasonably fertile recruiting ground, given the many poor and disaffected Afghans who felt no loyalty for a new government that delivered almost nothing to them. So the CIA strategy of making friends and staying with them was abandoned.

### **Nation building, once more?**

And now, at the end of 2009, after the abysmal failure of the nation building strategy in a country that is most inhospitable to the whole idea, we want to try this all over? It simply will not work. Not, as I said before, because it is inherently impossible, but because neither this President –nor any other US President for that matter– can retain the necessary political support to carry it out. Besides, let me repeat it: we are broke. Fighting a messy counterinsurgency that will cost billions is a luxury that nowadays we cannot afford –even if we put “war of necessity” on the invoice to the American public.

## **In the end: we can accomplish our goals**

And so, if we cannot do the Big Plan, what can we do in order to accomplish our primary objective of denying sanctuary to the Taliban? The goal of the Obama administration is to defang and rout the Taliban and al-Qaeda. This is a very good idea. The issue is what means can we pick to reach or at least to get closer to this worthwhile strategic objective. In 2001 the CIA found a low profile, relatively low cost strategy that proved to be quite successful.

I am not sure that we can pick the same old plan from the shelf and redo it all over. Too many things have happened since 2001. But it may be possible to re-engage the tribal leaders, to give them assistance, real tools, money and resources so that they will be motivated to defend their own people from the Taliban. We want to deny sanctuary to the Taliban in Afghanistan, so that it cannot be used as a launching pad for other operations against US interests. The tribal leaders can accomplish this objective, if they are sufficiently motivated. The plan of creating a viable, credible and popularly supported Afghan army and police force, themselves predicate on building up a credible and functioning central government, while theoretically possible, is far more difficult.

## **More modest goals**

So are we giving up on nation building and true democracy in Afghanistan? Yes, we are. At least for the time being. And not because we do not care. It is because it is too difficult and too onerous. Because it would take too long and because we cannot afford it. Is this cynical realism? It is realism alright. But not cynical.

And again, what is the alternative? The alternative is a dream of radical reform that would require a US open ended commitment that cannot be sustained. Reforming countries, rebuilding societies, all this sounds wonderful and surely there are plenty of dedicated people willing to throw themselves into the enterprise. But good will alone will not do it. In a

context as complicated and as primitive as Afghanistan, we have to scale down our reformist ambitions. If indeed the primary goal is to deny sanctuary and thus the ability to reorganize to the Taliban, there may other ways, as the successful 2001 campaign demonstrated.

---

# Out of the Crisis Through Innovation

By Paolo von Schirach

November 13, 2009

**WASHINGTON** – Recently I watched on TV an interesting and intelligent exchange between two luminaries on what the future will bring to the economic fortunes of the US. Still, and quite surprisingly to me, in all the detailed, erudite back and forth, laced with projections, variables, the role of China, what will the matter be with Europe, Japan and so forth, one key word –**innovation**– was never uttered let alone discussed by the two.

## No America without innovation

The idea that one can talk at great length about the fiscal and economic future of the now short of breath, battered US economy without any reference whatsoever to innovation –the key historic strength of the American economy– is truly baffling. While the current gigantic mess was caused by finance going crazy, the issue is not just about restoring the banking system. Looking into the future, even assuming a healthy, properly regulated financial system, the strength of America, ***its real strategic asset, rests in being number one in many if not most leading technologies.***

## **America's primacy rests on enterprise**

The US did not become the biggest, the most powerful, the most resilient and most flexible economy in the world by accident. While economic performance is due to a variety of factors that combine and mesh in often peculiar and unpredictable ways, clearly the US, in large measure, owes its primacy to its decisive lead in technological innovation and its related ability and talent to rapidly transform innovation into viable and commercially rewarding products.

## **Innovation is the foundation of economic might**

An interesting *The Wall Street Journal* article on the rebirth of tinkering in several engineering schools in the US, ([Tinkering Makes Comeback Amid Crisis](#), November 12, 2009), clarifies this key point. Indeed, after the 1950s, with the seminal work of MIT Nobel Prize winner, Robert Solow, it became apparent to mainstream economists that, while labor and capital accounted for about half of economic growth, *the other half was due to innovation.*

Indeed.

***This being the case, it may be possible to infer that US economic dominance was due in large part to huge investments in successful innovation, while its more feeble performance –if we take into account trends that developed well before the financial crisis– may be attributed to diminishing efforts in this key, strategic area.***

**The financial sector created this mess, fast innovation will help us out of it**

It is quite obvious that the current recession, the epic mortgage industry excesses, the overleveraging of banks, the collapse of Lehman Brothers and the crippling of AIG are not tied to the rate of technological innovation. This is true. But, being in the mess that we are now, after having nurtured

a consumption focused economy that was supposed to be financed by ever increasing real state valuations, how fast we get out of this mess will be determined in large measure by the rate and quality of innovation that the US economy will be able to produce and bring to fruition through successful commercialization.

### **Create opportunities**

Put it differently, we have now a deep recession whose length will depend in large part by the ability or inability to recycle elsewhere millions of people who used to be employed in tertiary sectors that were sustained only by excessively inflated consumer spending. But which other sectors can offer new opportunities, even assuming (and this is a huge assumption) appropriate skills and training for the people idled by the collapse of consumer spending?

Well, many argue that there are huge opportunities to launch new, large scale and profitable enterprises that will deliver "green technologies". This may be quite unrealistic, at least in terms of the scale of these new enterprise and hence their ability to absorb millions of unemployed Americans. Still, even if we accept the most optimistic scenario, the "green technologies", existing or experimental, are and will be the result of a large scale process centered on innovation and all that goes with it: the schools that teach, the students who learn and then become entrepreneurs, the business environment that is receptive to new ideas, the venture capitalists willing to bet on the success of humble start-ups, led by unknown would-be entrepreneurs.

### **Enter "Tinkering"**

The story described in the above referenced *The Wall Street Journal* article, notes that there is a new fervor within American engineering schools. Many student want to "tinker". They want to "do stuff"; "make new things". There is a

proliferation of outfits that essentially provide facilities with state of the art equipment that is made available to the aspiring inventors. Among such facilities: TechShop in Menlo Park, California, and NYC Resistor in Brooklyn.

### **It is affordable**

One of the key factors that allowed the proliferation of these laboratories that offer facilities for a fee is that a great deal of the basic high tech equipment that is necessary nowadays to design and make state of the art products has become much cheaper and thus affordable. We may not go back to the heroic times of men of genius who came up with new stuff at home, using very simple equipment. Still, we are also going away from the assumption that quality innovation requires huge and expensive facilities that only the major multinationals and/or National Laboratories (such as those run by the US Department of Energy) can fund and afford; thus restricting R&D to a very specific environment, automatically shutting off the many, otherwise creative, individuals who do not have access. And this is a good thing. So, we are “democratizing” access to the tools of the trade.

### **Traditional R&D: Going Down!**

And, it would seem, not a minute too early, for the trends in “established”, mainstream R&D are not looking good. While indeed in the 1980s and 1990s the temples of innovation cranked the good stuff out, unfortunately, these privileged locales for sophisticated R&D apparently lost quite a bit of steam since then. As mentioned in the above referenced article, US R&D spending grew by an average of 6% in the 1980s and 1990s; while it came down to only 2.6% annual growth between 2000 and 2007. Recent projections point to further shrinking in the years ahead. Barely a trickle of growth going forward. And this cannot be good.

### **Low R&D, bad news for the economy**

Now, if these trends amounting to severe cuts in spending for innovation are not transitory, long term this would spell disaster for the US economy. As a developed, high cost country, the US cannot compete with Asian manufacturers on cost. The China story is well known and it does not need to be rehashed here. So, the only way in which we can compete again, especially as we try and devise strategies that will get us not only out of this nasty recession but that will place us again on a path marked by robust, sustainable growth, is by promoting and commercializing innovation.

But this implies being first in many areas, or becoming the best among many competitors. Indeed, if we can be market leaders in clean energy technologies, then we may have the chance of having customers not just here at home but in the whole world, as all nations are trying to find strategies that will diminish the use, impact and cost of carbon based fuels.

### **America needs to invest in innovation now**

But the whole idea of a sustainable, green economy is based on the assumption that we already have an ongoing, large scale effort to get to those technologies. Whereas, if indeed the rate of investment in R&D has collapsed, as the data would indicate, long term we do not have a very good chance.

Now, this phenomenon of tinkering described in *The Wall Street Journal* story would appear to be a welcome "counter trend", a development pointing in the right direction. We have people, smart students, who have an appetite for innovation and who are using facilities that a decade ago could not provide the same quality and level of resources. And this is good –and it should be encouraged. Still, this interesting and increasingly popular trend cannot conceivably be enough to fill the investment gap created by the collapse of R&D run by the major corporations.

In the end, it is true that our current economic troubles have

been created by speculation, overleveraging and spectacular increases in the level of private debt. And it is true that the US, as a nation, has to be on a steady diet of lower consumption and increased savings, in order to improve the individual as well as the national balance sheets.

Fine.

### **America's advantage needs nurturing**

But, when the worst part of the crisis will be over, what will be the strategic drivers that will create "made in the USA" added value in this global economy? Obviously nobody knows for sure. But we can rest assured that without a robust level of investment in innovative, high value, new technologies we cannot regain much lost ground, let alone acquire new leadership positions. For the moment, with debt and all, we remain the largest world economy. But only for the moment.

If others invest and we do not, eventually they'll take the lead. The phenomenon of these "high tech workshops" that attract large numbers of new users is really promising. But this young talent and America as a whole need far bigger investments if we do not want to join the ranks of those who used to be great.

The Obama administration has established health care reform as its top priority for 2009. As we go into the new year, it may be good to consider that, while health is fundamental, you can be both healthy and comparatively poorer. It is certainly not beyond the reach of American ingenuity to deliver better health care to all citizens, while at the same time revamping the foundations of our distinctive wealth generating apparatus. Or is it?