

US: Waiting for the Green Economy

WASHINGTON – The old US economy will not come back; while the seeds of the much advertised new economy, based on alternative energy and green technologies, so far have been planted slowly and sparingly. Verdict: tough times for millions of Americans are here to stay. More broadly, a reduced US economy has consequences, none of them good. Our place as world leader in innovation is in question; while our ability to continue to be a Superpower is also in doubt. This special standing was buttressed by a level of economic strength that gave us the prerequisites to lead on international trade and finance, while it provided the cash necessary to finance an enormous and unequalled national security apparatus. No money: good bye to Superpower status.

A diminished US economy

The truth is that, unless something dramatic happens, our diminished economy will not grow enough to counter the negative drag of millions of involuntarily idled people. With a smaller productive base, for years to come we shall have to carry the dead weight of millions of unemployed and otherwise unemployable people. At the same time, our damaged public finances, stressed to the limit by our attempt to avert disaster, while spending money to lessen the pain of so many, will slow us down even further; at the same time undermining the credibility of our political leadership as competent fiscal stewards. While we really need to reverse course on public spending, doing so would entail throwing overboard millions who survive almost entirely on public largesse. Not a pretty picture.

Some good news

As we emerge from the wreckage of the real estate/financial industry/consumer excesses, (plus distracted regulators), bubble economy the picture is somewhat comforting in some areas; but mostly dispiriting. It is comforting to a degree, because we see that the economic enterprises that had some staying power are re-emerging from their near death experience. But they are doing well only after having adopted a serious diet that includes drastic personnel cuts, thus doing more with far fewer people; and after having invested in varying degrees in cost saving new IT and automation systems that allow them to be more efficient and do more with fewer people on payroll. The good news is that labor productivity is much higher, so you get more value for each hour worked by any of the floor workers and other employees.

Profits are good

Higher productivity is bound to have a positive reflection on net profits. Being more profitable, companies can stay afloat, repair their balance sheets and may be expand. From the standpoint of management, people actually employed and investors this is good. Resilient companies are competitive and have excellent opportunities to keep or expand their place in the global economy. But all this happened by shrinking the overall base of the US economy, and this includes the pool of active people. Hence massive unemployment.

Mostly bad news

All the others players who were functioning on very thin margins during the consumer and credit boom have gone under and are unlikely to get back, unless you are lucky enough to be General Motors, nicely fitting in the "too big to fail" category, and thus, epic mismanagement notwithstanding, deserving unprecedented government help. Not many of these.

In a very simple, perhaps simplistic way, this is the picture of the USA today. We have essentially created a two tier

country: and the two segments are unlikely to merge any time soon.

Tier one: tough survivors

In tier one, we have a streamlined, smaller but leaner and more efficient productive base, composed of all those who exploited every possible trick, technology or device that allows them to continue production, using less labor and/or more sophisticated, more numerically literate labor that can perform more complex tasks. It is true that much of this productivity spike is due to old fashioned overtime. Nothing especially fancy about it; and not a workable long term solution to meet demand needs. But it is also true that there has been and that progressively there will be more and more adoption of cost saving new technologies that will allow companies to perform better with fewer workers. Cisco, a leading provider of high tech solutions for business, is doing well.

Tier two: all the others

Tier two includes all those who have not managed to streamline. They are essentially either out of the game because they were part of (or fed on) the bubble economy, or are at the very margin because they did not or could not invest in innovation and productivity enhancement tools. And the destruction of so many businesses nationwide means economic devastation for millions of people who have lost their jobs because of this gigantic retrenchment and painful reorganization of the economy.

The unemployed: casualties of the massive retrenchment

Because of all this, try as they may, millions of unemployed will not find jobs. At the very least, they will not find their old jobs. In some cases, because their former employers have disappeared. In other cases, because the employers have successfully streamlined operations and thus can get by with

fewer workers. And finding new jobs in different sectors is hard, because these idled workers would need to acquire and master an entirely new set of sophisticated skills in order to meet the demand of the sectors that are actually hiring.

Retraining: good in principle, tough to do it well

Retraining, in principle, is a nice, commendable concept. In practice it is hard to do and it is even harder to match new trainees with employers who actually need those skills. Besides, quite frankly, many middle aged workers are just not up to it. They would like to find employment in the sectors they know. Not finding any, they become discouraged and they withdraw from the labor market.

Streamlining of the productive base: a good thing

From an abstract economic stand point this gigantic reorganization is fine. We want to have efficient producers who do rely on higher and higher productivity and who invest in IT solutions in order to stay ahead and do more with fewer workers. These efficient, productive corporations produce real wealth and sustain the whole economic fabric. We need healthy businesses as foundation of a productive economy.

Social devastation and hopelessness

But, in practice, this retooling and retrenching revolution entailed the shrinkage of the economic base. The dead wood was cut off. There are healthy survivors; but there are far fewer jobs than there were before the meltdown. The base of the vibrant, productive economy has become smaller. And this means massive social and economic dislocation for millions. This outcome feeds, among other things, the prolonged real estate crisis; still, (and who knows for how long more), a veritable wet blanket on the whole economy.

We know the story. People with no jobs do not pay their mortgages. They lose their homes. This adds to the already

massive inventory of foreclosed properties, while depressing overall prices, thus reducing the equity of all the other owners, thus feeding a widespread sense of anxiety which discourages consumption etc. etc. Obviously, unemployed people do not have discretionary money. They cannot buy things, thus slowing down a machinery until recently predicated on buoyant consumer spending.

Will more lending help?

This is the altogether uninspiring picture. True, enough, the ripple effects of the financial crisis include the virtual freezing of lending by local banks to small businesses. At least some of those who are denied credit, or who need to go through more and more hoops in order to get some, belong to the "good business" category. These would be companies with viable products. With new credit they could invest, expand and absorb at least some of the massive unemployment. The Government is trying to fix this, by providing incentives, guarantees and what not to small banks so that they will reopen the credit spigots, thus oxygenating the whole system.

No miracles in sight

But, more broadly, even with more normal business credit standards and more lending to otherwise reliable customers, it is unlikely that we could quickly go back to a more palatable 4 or 5% unemployment rate. Very unlikely. And this is because the aftermath of the crisis revealed that large swaths of the US economy were either marginally productive, or catering entirely to an unsustainable level of consumer spending. We know that that level of consumer spending will not come back, as people are trying to rebuild their near zero savings; so employment in those sectors will never go back to pre-recession levels. As for the sturdy survivors, the steady diet of efficiency related investments, strategic adoption of IT and automation means that, even with increased business volumes, they will not start hiring on a massive scale any

time soon.

Unemployment: here to stay

Which leaves us with the unpleasant reality that high level unemployment is here to stay. Millions of Americans will not get their old jobs back; nor are they well positioned to get any kind of new, decent income employment. Sure enough, through time tested gimmicks, such as expanding public sector jobs, it is possible to absorb at least some unemployment. But, long term, these remedial actions translate into a heavier tax burden and/or increased public sector deficits, (witness California or New York). More public debt will be the net outcome of policies aimed at supporting otherwise unnecessary workers and not much else.

New sectors coming to the rescue?

The only hope, if dim at this point, is in the substantial development of new economic sectors that may require significant numbers of workers. Assuming proper training, growing new industries may provide at least a partial solution to the massive unemployment problem. Much has been said about the new green economy, renewable energy and the like. But we do not see a lot of it; because the incentives to invest in it are not as significant as they should be.

Green economy? Not yet

A recent The Wall Street Journal report indicated that even in communities where one would assume a high degree of philosophical conviction and widespread eagerness about “embracing” and ultimately buying energy savings technologies, progress is minimal or unremarkable. People do not spend money to make their homes or businesses more energy efficient. They do not weatherize their dwellings. They do not buy more energy efficient appliances. They do not even buy fluorescent bulbs. And why not? Who knows exactly why. But a simple explanation is that the cost of conventional energy derived from fossil

fuels is still too low. Green sentiments aside, people do react only to very substantial price increases. Otherwise, they tend to do nothing or postpone decisions. And so, the vaunted new market for new green this and that, while potentially very significant, is not quite there yet.

We should tax carbon

So, for the new green economy to materialize, either we wait for higher prices, driven by the increasing global competition for finite carbon based fuels; or we engineer demand for alternative products by taxing carbon. This way the Government can speed up the process of adoption of new technologies. This would of course be extremely controversial, and it would have to be timed in an exquisitely competent manner. The critique against taxing carbon, (whatever the modality for achieving this goal), is that raising the price of energy would raise the cost of doing business and thus it would depress all economic activities. And this may be true if this change over were done abruptly. Not a welcome development, in times of crisis.

Difficult balance: how to tax carbon while introducing cost-effective alternatives

However, if higher carbon prices would go hand in hand with the introduction of cost effective alternatives, this shift would not be so disruptive. We could indeed create entirely new industries, while freeing ourselves from the straightjacket of dangerous and increasing dependence on imported carbon based products. The benefits deriving from this shift are manifold: new employment creation, improved balance of payment; improved national security; and the development of cost effective, environmentally friendly technologies that the whole world, not just the US, badly needs.

Is this ever going to happen? Who knows. And, even more

importantly, even assuming that the intent is there, who knows at what speed we shall be able to progress. In the meantime, sadly for them and sadly for the larger society, millions of redundant workers will stay idle.

Health care? Rhode Island says: Wellness

WASHINGTON – Have you ever heard of Governor Don Carcieri, Republican of Rhode Island? Well, if you have not, read on, because there are very good reasons why you should become acquainted with his administration's work on "wellness education", as opposed to issues pertaining to containing the cost of services related to health care delivery.

Unfortunately, right now the focus is entirely on the fate of the Obama health care reform plan and the abundant speculation on the political ramifications of victory or defeat on this signature issue for the President himself, for the now wary Democrats and for the re-emerging Republicans. Because of this, a revealing segment dedicated to health care issues, within the recent meeting in Washington of the National Governors Association, got no attention.

The "Rhode Island Revolution"

And it is really too bad because at least one Governor brought up the real fundamental problem pertaining to health in this forum featuring all his colleagues from around the USA. It is all well and good, said Governor Don Carcieri of Rhode Island, to talk about best practices and innovative ways to improve quality, while reducing cost of the delivery of health care. *But shouldn't we be talking also about how to intelligently*

reduce demand for health care services?

In other words, shouldn't we be focusing on ways, including prevention, broader health education, encouragement towards healthier life styles that would yield a healthier population thus preventing some illnesses, while delaying the onset of many others? Wouldn't this be a good way to deal with the health care crisis, by having overall healthier people, *thus reducing total demand for services and ultimately the size of the ensuing cost pressure?*

Talking with the experts

Governor Carcieri's questions, accompanied by examples of what his administration is doing in the general areas of the promotion of wellness in Rhode Island, including something called "Rewards for Wellness Program", took place in the context of a Q & A following two very thoughtful presentations to the assembled Governors by Dr. Jack Cochran of Kaiser Permanente and by Dr. Atul Gawande, Professor at Harvard and now media celebrity for his insightful ideas about, among others, surgery protocols that can save lives.

The two Doctors talked eloquently to the assembled Governors about rationalization and streamlining of systems, about increasing transparency, so that everybody knows what is being done in the context of delivery of health care, about egregious problems that should be avoided and best practices. But, being physicians, both of them talked mostly about issues pertaining to what should be done when they and their peers as care givers are called upon to provide care. All very important no doubt. *But the focus was entirely on how to improve on the "supply" of medical care.*

What is the role of "wellness education"?

This is all fine, said Carcieri in the discussion phase. But why is it that we do not focus equally on the "*demand*" side for medical care? If people are healthier and stay healthier

for a longer period of time, this is good for them personally, for their families and, as a significant added bonus, a healthier population is a welcome consequence with a positive impact on the financial burden of the health care delivery system; a system that we are desperately trying to make more cost-effective, while expanding its reach, by providing insurance to millions currently without insurance coverage. To put it simply: healthier people need less health care. They cost less. Focusing on how to contain cost, without ways to address in a meaningful way how to reduce demand, is really dealing with the wrong end of the issue, the consequences, (illness), rather than the contributing factors, (life style, behavior, etc.).

Just like fighting drugs, we focus on the consequences, not the causes

It is a bit like the drug addiction epidemic, I would add. Our focus is entirely on the (mostly criminal) consequences of addiction, (jailing offenders), and on how to improve drug interdiction, (beefing up police actions, the Drug Enforcement Agency, etc). But are we really trying to understand why is it that so many people are attracted to drugs and become addicts, thus fueling this gigantic criminal trade that we are desperately trying to stop? If we could understand what it is that causes demand for drugs and if we could miraculously drastically reduce interest in drugs, (that is the *demand side* of the equation), we would have solved a huge public health, treatment cost, law enforcement and incarceration problem, all at once.

What causes our health care crisis?

Fine, may be the two issues are quite separate and the comparison does not make a lot of sense. But the prevailing attitude on both issues is the same: *we focus on something only after it has become a huge problem with nasty financial and public policy consequences.* Just the same as with drugs,

we are focusing our attention on health care because of a cost explosion. As the problem seems to be cost, we are hoping that we can deal with cost as a self-contained issue. We are hoping that we can find ways to reduce it, therefore avoiding financial disaster. As with drug abuse, somehow we assume, implicitly at least, that the level of *demand* for health care services is fixed, (and in fact growing, given the larger and larger numbers of elderly citizens as a percentage of the total population).

Reduce demand for services: this is a good approach

But the Governor of tiny Rhode Island suggested that reduction of demand for services is at least equally important. Just as the First Lady defined the problem of children obesity as an issue that needs to be addressed by focusing on all the environmental and behavioral factors that influence attitudes and eventually lead to bad habits and obesity, following the same logic we should understand that, if people realized how important it is to learn and follow practices that allow them to stay healthy, this would be good for them and for this overstressed health care system.

The Doctors agree: wellness should be center stage

So, the Governor of a small state, certainly not a well known politician and chief executive on the national stage, made his observation to the assembled Governors. But this is not the end of the story. Much to my astonishment, as I was watching the proceedings thanks to C-SPAN, the two Doctors, replying to his comment, showed to be in perfect agreement.

Dr. Jack Cochran, in fact, added that, if we look at the whole continuum of what impinges upon health, the delivery of health care services counts for somewhere between 10 and 20%. *And the remaining 80%?* Oh well, some of it has to do with your DNA, that is with heredity. But quite a bit, added the Doctor, has to do with the quality of the general environment in which the

person lives, with habits and personal behavior. Dr. Atul Gawande indicated that he was in full agreement with this assessment of what is it that bears on wellness.

Health care is only about 20% of the problem!

So, two recognized, eminent medical authorities confirm that most of the issue is outside their immediate field of action. They, along with all the other practitioners and the whole system built to support them, (hospitals, nurses, administrator, pharmaceutical companies), cover only a small part of the problem.

Come again?

Only 20% of the problem rests with the delivery of health care services? OK, let's add some more, just to be conservative. Let's say it is 30% or even 40%. This would be still less than half. Is this not astonishing? Wouldn't this invite a reconsideration of what is it that we are trying to fix? Are we trying to ensure that people stay healthy; or are we concerned only with containing the cost of services when people who have adopted unhealthy life styles get sick? And if the latter is true, isn't this approach faulty?

Unfortunately, what is on the table now –good or bad as it may be– in terms of a health care reform plan, does not recognize the fact that the primary (not the only) issue is that we should focus on how to keep people away from doctors and hospitals, as opposed to laboring on solutions aimed at reducing the cost of your stay, once you are sick and have to be in the hospital. What is on the table right now focuses almost entirely on how to contain health care delivery cost.

Only 20%? But then we are not focusing on the remaining 80%

So, without any controversy, a Governor and two eminent medical authorities, with all the other Governors listening in, affirmed that the crux of the problem is really in

education on how to stay healthy; not in dealing with the problem (illness) after it has manifested itself. Now, in terms of the broader public policy implications, this is the equivalent of the discovery of electricity or any other epochal, truly transformative breakthrough, given the enormous cost (more than 15% of GDP) of health care services in the United States. This affirmation and recognition of what the real issue is, should be a game changer. You would expect people either to vehemently disagree or to say: "Oh Lord, and all this time we were focusing on something else. Let's go and change everything".

Well, oddly enough, that did not happen.

New, revolutionary truth affirmed, but no reaction

Astonishingly, after this recognition as to where the real problem is, nothing further was added. Nobody else, no other Governor had anything to say on this. This affirmation is the equivalent of saying in the XVII Century that it is the Earth that rotates around the Sun and not vice versa, as we used to believe. But it was greeted with quiet indifference by the otherwise keen audience of Governors.

Is it because they did not really understand what was said? Or is it because they are so used to look at the problem in terms of bills, Medicare and Medicaid budgets, numbers of practitioners and actuarial statistics, so that something like "wellness education" seems nice but hazy and thus probably not that important?

And yet, official science, via the two Doctors, endorsed the concept. Via the delivery of health care, we are dealing with 10 to 20% of the problem. The rest should be dealt with as well.

Intellectual inertia?

OK, let's be clear. Obviously we need health care facilities.

We need doctors and the best doctors at that. *But we should not start dealing with health only when it is gone, because of the onset of disease. We should do all we can to educate people on the “value” of health and thus on how to keep it, preserve it and maintain it for the longest time.*

We must change the objectives of medicine and its role in society

As Doctor Gawande said in a different context, until now we have paid doctors “more” if they do “more”, in terms of numbers of interventions (this is the prevailing “fee for service” approach for the payment of medical services). Now we should shift and understand that we should pay doctors “well” to do “well”, that is helping a person to stay well. Keeping a person healthy, so that he/she does not become “a patient” should be high on the list of what doctors do. Unfortunately as the system is currently conceived and organized it is not.

Notwithstanding the profound implications of what was said in the context of this meeting of the National Governors Association, Washington, (and everybody else, with the exception, apparently, of Rhode Island), is still focusing on the old stuff.

Will we ever learn?

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Real Education for All is America's Future

WASHINGTON – Just a few Republican electoral victories,

significant but not overwhelming, aside from the strong symbolism of Ted Kennedy's Senate seat abruptly changing hands, have engendered the perception that the Democrats are not just vulnerable; but truly rudderless and perhaps "finished". President Barack Obama, until recently believed to be all knowing and serenely poised to fix any and all of America's problems, one by one, with wise determination, now looks weak and almost powerless. And all this, mind you, in a political environment in which the Democrats still control "everything" in Washington.

New conservative confidence

Given this background, the annual gathering of the Conservatives in Washington, for CPAC, or Conservative Political Action Conference, was more boisterous and more self-confident than other such meetings. The smell of victory is in the air. Leaning a bit on over confidence, many leaders or would be leaders predicted that the Republicans will regain their lost majority in Congress after the November mid-term elections.

In all this, the real problem is that the Conservatives and the Republicans are attempting to ride a wave of an intense but still somewhat ill-defined national discontent, (witness the spontaneous combustion phenomenon of the "Tea Party Movement"), without having much to propose. Up to a point it is fine in politics to simply take advantage of the self-inflicted wounds of your own adversary: in this case the perceived statist over-reaching of the leftwing Democrats. But it would be nice to hear something new and different that would allow the opposition to rally public opinion around some new, forward looking and constructive ideas.

A new Republican agenda?

What is the "New Republican Agenda" for a weakened America, fully immersed in the global economy? What do they propose for

a once leading nation now in need to reinvent itself in order to maintain an economic leadership that used to be based on a superior ability to innovate and to competently bring state of the art innovation to market?

Much of this ability rested on a uniquely well designed innovation friendly “eco-system” and on a uniquely flexible society willing to bend, change and transform itself at superior speed, in order to meet the new challenges and opportunities of the day.

At Issue: “Freedom” versus “Equality”

But if these were the superior cultural assets of American society that in turn gave America the edge, many of them are now in question. In a well crafted address to the CPAC crowd, conservative columnist George Will correctly outlined the broad terms of a political values debate that may lead the US towards self-confidence or towards a passive welfare mindset. It is all about the tension between “Freedom” and “Equality”, he said. The pursuit of Equality by the Liberals, especially of equality of outcome, inevitably breeds a culture of entitlement that leads to dependency, eventually stifling the risk taking spirit, innovation and wealth creation. Larger and larger segments of the lives of Americans will depend on what is done and provided for them in Washington. George Will warned his audience that entitlements and dependence are mainly a spiritual poison that enfeebles people’s souls. But the consequences of a passive mindset are practical. Passivity creates a dull spirit that will inevitably weaken the spark of enterprise thus impeding innovation and damaging the economy.

The dangers of dependency

And this, while debatable, is not a totally preposterous argument; especially if we compare the purported virtue of the old fashioned American self-reliance with the widespread

collectivist mind set prevailing in Europe. The nanny state approach, with all its cushions and provisions, while shielding people from the consequences of misfortune, also blunts the appetite for risk taking. As a result, at best Europe is coasting. Do not look at Europe for courageous, risk taking enterprise. The rate of innovation is unremarkable; productivity is low.

America: the land of “Opportunity”?

This much is true. But, by embracing the opposite end of the spectrum, “Freedom”, we have to be careful about how we define it, as the meaning of Freedom changes quite a bit, depending on the larger context that truly determines how much Freedom can be enjoyed by how many. Indeed, at the center of the generally accepted American mythology and folklore about what makes this country “so great” is the heretofore semi-unchallenged creed that America is “the Country of Freedom *and Opportunity*”, as enshrined in the many uplifting Horatio Alger rags-to-riches stories. In fact, it is difficult to envisage what can be done with Freedom without real Opportunity. So the two are to viewed together. Supporting Freedom without consideration as to how much Opportunity there is, is not very meaningful; because in the end it is material circumstances that make it possible for the average person to take advantage of the Freedom guaranteed by society.

Opportunity: this is why immigrants come

Indeed the concept of “Access to Opportunity”, along with the fierce protection of Individual Liberties is what defines the uniqueness of the American experience. The accepted American belief has been and is that anybody, no matter how disadvantaged, no matter how lowly their station in life may be, if they are indeed armed with fortitude and persistence, they can achieve “anything”.

And indeed the iconography of so many self-made American

millionaires and now billionaires, at least some of them first generation immigrants, would seem to underscore the truthfulness of this basic belief. And, no doubt, this notion of America as the country of Opportunity where all things are possible was part of the irresistible magnetism that attracted and still attracts so many millions from all over the world. They want to come to America armed with the firm belief that only in America they may be able to realize their otherwise unachievable dreams.

Is the old belief in Opportunity just a myth?

So far so good. The problem is that, even assuming that this mythology was at least to some reasonable degree based on fact, it is no longer so. In other words, the boundless Opportunity that in principle at least seemed to be made available to anybody lucky enough to reach America's soil is now more than ever myth, at least for a sizable segment of this large society. And the consequences are huge. If indeed real Opportunity is no longer available to many if not most, then the promises of the rewards of Freedom ring hollow for the larger and larger numbers who, for all practical purposes, are excluded from the race.

Ending segregation was not the end of the story

In the past, as we know, we had an entire section of society, African-Americans, who were openly and deliberately excluded from real Opportunity through practices of racial discrimination enshrined in laws. After a long and hard struggle those patently unfair obstacles were removed. As of the late 1960s segregation was eliminated, at least as a matter of law; while discriminatory practices were made illegal. So, at least formally, if not entirely in the hearts of some people who may still harbor racist prejudice, that issue was resolved.

Today access to education is Opportunity

But far from being the happy ending, the elimination of legally sanctioned discrimination allowed the creation of a different kind of discrimination, less obvious –in as much as it is about allocation of scarce resources, rather than laws and statutes– but nonetheless pernicious, as it ends up reaffirming a *de facto* separation between those who are given a real chance and all the others. **“And the issue is education”**. Whatever the causes and no matter who may be to blame, the fact of the matter is that the consistent shortchanging of public education as a policy priority and consequently of resources allocated to it in practice created a two tier society: those who have the means to buy good (mostly private) education and all the others who depend on education as a deficient –and in many cases disgraceful– public service.

Public education: at the bottom of the heap

The latter group is shortchanged by myopic public policies that have placed the funding of quality education and the upholding of high standards in the delivery of education at the bottom of policy priorities. As a result, today education or lack thereof is the main, real, concrete variable that defines the content of “Opportunity”; thus giving or denying meaning to the otherwise unimpeachable value of Freedom. It is now more than ever clear that Freedom without Opportunity means very little, as those who have no access to quality education lack the basic tools to participate and thus they cannot even begin to exploit the chances that Freedom would otherwise offer. Freedom without education, that is without the real opportunities offered by a good education, means that today for large numbers of Americans **“birth is destiny”** –just like in a Third World country. It means that in XXI Century America the most significant variable that determines a person’s chances in life is the social environment in which they are born. If they are born poor, living in poor, underserved communities, with bad (and sometimes awful)

schools, they are likely to stay poor. A good education might provide the ladder to get out of poverty and build a better life. A bad or inadequate education will not do the trick. The child will be stuck there, without many good chances of personal and social advancement.

No education, no enjoyment of the promises of Freedom

It is great to affirm that in principle any American can go as far as his/her potential may take them. But we know that, objectively, unless all young Americans have true access to a meaningful education, those who do not have access are excluded from the potential benefits of a truly Free Society that now, more than ever before, rewards the educated, while punishing the uneducated by mercilessly relegating them to the very bottom of society. Precisely because we are living now in the midst of an unprecedented knowledge revolution, now education is the New Frontier. The ability to have it or not to have it for all practical purposes determines who may or may not have the material opportunity to enjoy the blessings of Freedom.

While in the past it was possible at least for some totally self-made people to overcome the odds and develop important, marketable skills on their own, nowadays, with the explosion of new, ever more complex knowledge, encompassing almost any field and sector, lack of real, substantive education really amounts to the *de facto* exclusion from all but the most menial employment opportunities.

Education creates options that define the content of Opportunity

As things are set up, it is clear that a poor family has very few options beyond accepting the kind of schools that are offered to their children by public institutions. And if the schools are lousy, the children will have an awful start that will create a huge disadvantage. A disadvantage so deep that

it may end up, rare exceptions notwithstanding, haunting the person for life. If you have little schooling and whatever schooling you get is inadequate, if you get a meaningless high school diploma, despite being functionally illiterate, what are your chances in life? What do you do with your Freedom? Preciously little; because freedom without Opportunity is hollow.

Remedial actions do not provide real solutions

Now, this does not justify, in my mind, resorting to mere *ex post facto* remedial action via social engineering and redistributive public policies favoring the poor. Giving more “stuff” to the excluded and the disadvantaged is a relief operation, just like helping the victims of a natural disaster. But it cannot be the only or main policy. What the disadvantaged really need is not more subsidies; but intellectual empowerment. And this will come only through the expansion of their own intellect, so that they will have the tools to join –with confidence– the race, and do their best in a complicated and highly competitive environment that rewards superior skills, while it ignores the plight of those not sufficiently well equipped to participate.

Education was on the President’s agenda

In fairness, President Barack Obama had placed education in a rather prominent place on his policy agenda at the beginning of his administration. And the innovative initiatives undertaken by his thoughtful Secretary of Education, Arne Duncan, deserve full attention and consideration. But it would appear that in this environment now so deeply poisoned by partisan bickering and lack of conviction displayed by the party in power, the key relevance of the fundamental issue of recreating, via education reform, the true Opportunity that makes Freedom meaningful, is lost. In the ugly cacophony that now passes for political debate in Washington not much attention is paid to this critical problem that, probably more

than any other, will shape America's future, its cohesion and eventually its place in the world.

Can we build a consensus on making education a national priority?

And yet, the issue of how to recreate true Opportunity in America via access to quality education, should not be a partisan priority. Who could be "against" education? Or do we really want a two tier society in which the rewards of Freedom are enjoyed by some; while the Government subsidizes those who did not have a chance, so that the consequences of their systemic disadvantage will be somehow alleviated by relief measures?

Do we want a divided society in which only some truly participate with the confidence of possessing valuable intellectual tools? Or do we want to augment confidence by giving more Opportunity to the many who are out of the game? The reply seems obvious. Not to mention the positive economic consequences that an altogether better society would bring about.

Societal decline is the heavy price of inaction

So, I am for Freedom and I do recognize that too many entitlements breed dependency; while blunting the risk taking spirit of enterprise that is at the foundation of much of this country's past and present successes. But I do believe that Freedom without reasonably widespread Opportunity for most if not all creates an inherently unfair society; while it plants the seeds of future cultural and social division. Division breeds envy and eventually social strife; not to mention the obvious fact that a society that does not take advantage of the possible contribution of most of its citizens is like a faulty engine. Other engines firing on all their cylinders will take the lead and America will fall behind.

Tea Party, Evan Bayh and Limited Government

WASHINGTON – Tea anybody? Well, it depends. Clearly some people like the basic, mildly insurrectionist, “too much Government”, ideas of the colorful Tea Party People. Still, I would not bet on the power of this grassroots movement to radically transform, as opposed to influencing, the future political agenda. Its focus on private sector growth, on restraining Government size and the associated mountain of debt, while it is basically sound, is still too narrow to allow this movement to become a full fledged political force and/or a third party. Its constituency of mostly middle aged, white people is not broad enough to morph at any time into a national force.

Tea Party Movement: Influential where it matters

However, this does not mean that the Tea Party people are irrelevant. In fact, just the opposite. Given the funny mechanics and arithmetic of America’s politics in which primaries are key contests where very few eligible voters actually participate, even modest numbers of determined activists, (such as the local Tea Party Chapter), can bring about huge, unexpected upsets. So, the Tea Party Movement, scattered and somewhat chaotic as it may be, can still be a very powerful factor in individual races, scaring candidates who are too left leaning and favoring those who may have more agreeable fiscally conservative credentials.

The fit with Sarah Palin

Former vice presidential candidate Sarah Palin, self-defined conservative outsider and key note speaker at the recent

national Tea Party gathering in Nashville seems to be a natural fit for the Movement. This fit, however, reinforces my doubts as to the eventual viability of this movement as a broad based national force. Sarah Palin may very well be very popular within a white, Middle America energized by home spun basic values of hard work, self reliance and faith in God. But beyond this natural constituency, she does not enjoy much favor. And this constituency, while large enough to lift her political popularity, may not be sufficient to propel anybody to national office.

What about the rest of America?

Indeed, America now includes many more and may be even larger and broader constituencies. These include mostly urban, unionized, blue collar workers, civil servants, teachers and the diverse (and growing) ethnic constituencies. In some sense, these are the Tea Party People "political enemies". These are the constituencies and the pressure groups that instinctively believe in public sector driven, "Big Government", solutions to their problems. They want more government jobs, more welfare, more aid, more public assistance, bigger pensions, subsidies and the like. Given the existing and projected demographics, I very much doubt that the Tea Party People, beyond their current moment in the limelight, can broaden their appeal, and convincingly sway the whole country, causing a radical political transformation towards another Ronald Reagan-like era of Small Government and Deregulation. Nonetheless, this movement is still broad enough and pugnacious enough not to be ignored. As it has appeal among so many independents, it should not be dismissed. Ultimately, while it may not be big enough to win the final ideological battle, this Movement may force a stalemate and a negotiated truce that would at least place serious limitations on any agenda that would cause further Government growth.

Listen to the message

Everybody should listen, even the Democratic Party. While the Democrats are traditionally –and now more than ever– the defenders of the weak and instinctively inclined to design programs aimed at correcting social injustice and inequality funded via public spending, they would be very unwise to dismiss the Tea Party People as retrograde unreconstructed semi-rural, backward looking folklore. These usually unaffiliated citizens are now very likely to vote and their anti-Government mood can be decisive in determining outcomes in swing states.

The debate about “Limited Government” is still alive in the US

But, beyond its impact on elections, is there more? Yes, we should take notice of the Tea Party People because this spontaneous uprising against Big Government is another reminder of the resilience in America of the old fashioned XIX Century Liberal concept of “Limited Government”. “Limited Government” used to be an important tenet, in fact almost an ideological cornerstone in all western democracies.

In Europe it is different

However, in Europe, except for the all too brief Margaret Thatcher 1980s “counterrevolution”, with its unrepentant frontal assault on Government run anything and the very powerful Trade Unions, the “Limited Government Model” is as good as dead. Europe is terminally wedded to more or less enhanced (and costly) versions of the welfare state. But in America, witness the Tea Party Movement, grown –let us keep in mind– outside of conventional conservative institutions, the issue is not entirely settled. There is still some measure of instinctive skepticism vis-à-vis Big Government solutions to anything.

Exit Senator Evan Bayh

And this skepticism goes beyond colorful movements. The recent announcement by Democratic Senator Evan Bayh of Indiana that,

high personal popularity notwithstanding, he does not intend to stand for re-election this November should be regarded by Democratic Party strategists as the proverbial canary in the mine. And this is because Bayh is a sober, fiscally conservative, centrist who concluded that it is impossible to get anything worthwhile done in Washington. And who holds almost absolute power in Washington? His own party, the Democrats.

Republicans are causing gridlock

Now, true enough, much of the responsibility for political gridlock in Washington can be assigned to the “NO, no, no, no...no to anything” Republicans. Far from behaving as the loyal opposition, the Republicans have decided that complete obstructionism and guerrilla warfare, down to using all sorts of parliamentary procedures and assorted gimmicks to block the confirmation of scores of would be members of the Obama executive, is the way to go. Banking on the perceived growing opposition to the Democrats’ agenda, most Congressional Republicans believe that a scorched earth approach is the most constructive political proposal they can come up with. And this is bad and truly disappointing; because the country needs a credible political alternative. Hard to see one emerging from this attitude of opportunistic, negative posturing.

Leftist Democrats?

However, it is also a fact that the Democrats are in power controlling everything: the White House, the House and the Senate –with huge majorities. While he did not publicly say so, it is quite possible that a mild mannered, fiscally conservative centrist like Evan Bayh does not feel at home within a group of Democratic law makers whose agenda is more left leaning than he can bear. In his political farewell speech, Bayh pointed out that he had enjoyed a very constructive relationship with the other Senator from Indiana, the Republican Richard Lugar. Now, it so happens that Lugar is

the mirror image of Bayh in the Republican Party. He is also a mild mannered, soft spoken centrist. The real message here is: centrist Democrats and Republicans (and, I would add, millions of independents) could agree on a Government agenda in which we prioritize private sector led growth; with Government intent on investing in national defense, some key infrastructure, basic research generally not pursued by the private sector and a limited welfare state, all prudently funded keeping in mind current and future fiscal solvency.

Any connection between moderate Democrats and the Tea Party people?

So, what's the connection between Senator Bayh's imminent retirement and the Tea Party emergence? Ostensibly none. But there may be some. The Tea Party people and Bayh's political philosophy reveal an aspiration to a model that is either in the center (Senator Bayh), or center right (Tea Party). Notwithstanding the immaturity and disappointing leadership provided by the current Republican opposition, there are noticeable signs indicating that in America there is a substantial "center" that favors "Limited Government".

The "Limited Government" debate is still not settled

While a full fledged welfare state that absorbs most of the national wealth (in the meantime substantially reducing the amount of capital available for future growth) may reflect an agreed upon political and social consensus in Europe, in America this issue has not been settled –not yet, at least. When we hear cries of alarm against unsustainable, run away deficits coming from both the Tea Party crowd and moderate Democrat Evan Bayh, we should listen, as this is an indication that different constituencies in America still believe that this country's focus should be on private sector led growth, rather than fiscally unwise Big Government Programs.

Free market capitalism out of favor

True, given the catastrophic debacle of 2008-2009, the once vibrant (and somewhat hubristic) private sector philosophy is now limping, as the actions of many of its self-anointed practitioners have led many to believe that private entrepreneurs and financial gangsters are one and the same. But they are not. Private enterprise thrives within a rules based system that provides genuine opportunity to the largest numbers of would be players. To note that the rules were not upheld –in a massive way and with catastrophic results– does not mean that private enterprise is conceptually bankrupt. Just as we can say with Winston Churchill that democracy is the worst political system, except for all the others; as imperfect and accident prone as free market capitalism may be, so far we have not managed to find anything better.

Americans for Limited Government?

The Tea Party People and colorful populist Sarah Palin give us a piece of this message. Senator Evan Bayh provides another modulation of the same theme. And I suspect that most Americans, deep down, share the same aspirations for a country in which the private sector creates wealth, while Government, entrusted with the provision of basic services, enables growth, rather than stifling it.

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Washington Cannot Invent Jobs

WASHINGTON – With John Maynard Keynes once again in the most favorite list, and in a prominent place, America started believing again not only in the virtuous, in fact infallible, power of public spending as a key tool to jump start an economy in a serious recession but also in the idea that

Washington has the ability, indeed “the duty”, to create jobs and thus a good living for millions of unemployed. According to this view, Washington, not the (failed) market, “creates economic opportunity”, and all the good jobs that come along with it.

This mistaken belief whereby “jobs” are somehow an independent variable that can and should be politically willed, regardless of circumstances and market conditions, would be bad enough in ordinary times. But now it is tantamount to someone being on drugs and believing that they can actually do what they fantasized about during their trip. If there is a time in which the Government, try as it may, cannot possibly create the millions of jobs people demand, it is the present one.

Government cannot create jobs, especially in this environment

Look at our almost unprecedented disaster. As a consequence of a horrible recession, we have historically high unemployment, (close to 10%, not counting the millions who have given up and thus are no longer counted, and the millions forced to reluctantly accept part time work, because there is nothing else available). While the basic American economy, although greatly diminished, is still somehow alive, the job market literally fell off the precipice. This is because the epic employment downturn is due to a dramatic, fundamental retrenchment and downsizing of an economy (and the employment that it created) that for several years had grown in large measure thanks to the steroids of crazy levels of consumer spending with money borrowed from imaginary home equity, itself fueled by a housing bubble. This is why the picture now is so different from past cycles of growth and recession. This is a historic retrenchment. The jobs tied to the sectors that catered to overspending are gone –for good. This is the main difference between this massive jobs loss and others caused by the more “normal” business cycle. Here chunks of pseudo-economic activities justified only by overspending have melted, never to come back again. Period.

The end of the consumer binge and its consequences

Indeed, from one day to the next, Americans discovered that, not only they are not rich, (housing values having collapsed); but that they are also deeply in debt. Being deeply in debt, millions of Americans can no longer happily spend as they used to, counting on drawing cash from ever increasing home equity to pay the bills. In fact many cannot spend at all. Some of them stopped the party because they have no jobs; and millions more, while lucky to be employed, because they have huge debts and they will need years to repair their domestic balance sheets. As consumer spending constitutes about two thirds of the US economy, the collapse of spending with the consequent collapse of all the economic activities fueled by that level of spending means that this rate of joblessness cannot be temporary.

We still want jobs

But if we insist with the silly belief that Washington can and should fix problem caused by what is in truth an epochal transformation of the basic components of the US economy and that it should do it fast, this popular wisdom translates into a real political calamity for those in power, in this case the Democrats. Indeed, as it is assumed that it is entirely within Washington's powers to create jobs in the wasteland caused by the total collapse of large swaths of an economy that existed only because it catered to excessive consumption, the inability to magically produce new employment appears to be governmental ineptitude. The perception of ineptitude in turn allows those who are left hanging to be upset with their leaders; in this case the Democrats who happen to be in charge during this rather horrible predicament.

The complicity of the experts

And the pundits fuel this misconception –that is the crazy idea that the government can and should create jobs– by

advocating more aggressive jobs creation programs; and by prognosticating that, unless President Barack Obama can bring down the unemployment level, his party will take a beating this November at the mid-term elections; while his own chances of re-election in 2012 would be greatly diminished.

So, the pundits who are in general sympathetic to the administration proclaim with passion that the White House has to do "more", indeed "whatever it takes" to allocate funds, invent programs and projects to create jobs. In other words, creating jobs is regarded as a "political imperative". As to the quality and sustainability of the jobs...well...who cares about that. This is about getting as far as the next election, this is about saving one's political skin. This has nothing to do with the real economy.

It is all a political game

By the same token, the political opponents, the Republicans, are salivating. They see an ongoing bad situation and gleefully proclaim that it is entirely the fault of the Democrats, the party in power, obviously incapable of fixing the problem. Their perspective is equally dimwitted and myopic. The worse the economy, the better their chances to regain political power. And the long term economic health of America? Oh well, that's for the economists to figure out....Here we do politics. (And we wonder parenthetically why is it that opinion poll after opinion poll now indicate that a majority of Americans have lost confidence in their government's competence and ability to take care of the people's business?)

Given the way in which the "experts" have framed the debate, we are reinforcing the totally misconceived and wrong belief that the White House "runs" the US economy, that President Barack Obama is the CEO of America Inc. and that we are right to judge his economic performance on key issues, such as his ability to create jobs.

What Government can and should do

True, enough, it is a fact that the Government has significant influence on the economy. What is wrong is to believe that the Government “runs the economy” and that it is entirely within its powers and its mandate to create viable economic activities where none could otherwise exist. In truth, the Government can create a policy environment that can make economic activities easier or more difficult. Through taxation, strong or light regulation, labor laws, laws on liability and tort, speedy or slow processing of permits and licenses, government –central, state and local– can create a more or less business friendly environment. This much is true. But meaningful economic activities have to have a self-sustaining base. And the jobs that they create have to be based on the profitability and hopefully the future expansion of the activity itself.

Washington can create a better environment for investments

Simply put, it is a true mental distortion to say that “we need jobs” and so Washington has to get busy creating them. Of course we need jobs. But first we need meaningful economic activities that, in turn, will generate jobs. First we must identify real opportunities; then we need the entrepreneurs who will exploit them, (hopefully within a public policy environment that will enable rather than impede business), and then we shall have, as a consequence, (assuming, and this a big assumption, the availability of the right mix of skills), more jobs. From this vantage point, job creation is a positive byproduct of a good economic environment in which viable and sustainable opportunities are exploited. So, we start with a money making proposition in mind. If this is successfully pursued and exploited, well, jobs will come along as a necessary consequence.

Make work does not work

But if we say that government has a sacred duty to create jobs, regardless of circumstances, because massive unemployment creates very negative social and political consequences, then jobs creation becomes a *political imperative* to be pursued irrespective of the underlying economic fundamentals. In so doing we divorce jobs from the creation of meaningful economic prospects. Mostly for political reasons, we want to push government to resort to gimmicks and magic in order to create jobs regardless as to their long term viability. While this is theoretically possible, the hard reality is that any "job" that is not tied to a productive activity eventually becomes a drain on scarce resources.

Make work

"Make work" schemes have been tried countless times. Sure enough there may be an immediate feel good effect. Idle people do something. They collect a pay check. They contribute to fuel consumption, thus helping other sectors of the economy by increasing demand for food, services and so on. But, in the end, if the jobs are not sustainable because the "make work" scheme is just that: "make work", then the whole thing will eventually unravel with the only net effect of having added to public expenditures in order to set up the whole money losing, misguided machinery.

The old sectors are not coming back

While it has many causes, including of course the credit crunch resulting from the massive financial upheaval that we are still slowly digesting, the problem of the unusually high level of unemployment in the US, and the almost unanimous forecasts that it is going to take quite a long time to reabsorb the millions of idled people, is directly tied to an economy on steroids that inflated demand for service jobs. These were jobs filled by people who were catering to the absurd levels of consumption of millions of Americans who were

happily piling up debt, spending all the money they thought they had and then some.

The party is over

Now we know that the party is over and that the consumer binge is gone. Simply stated, most people no longer have discretionary money. Furthermore, millions for years to come will be engaged in the painful effort of trying to repair their horribly damaged balance sheets. This means they will be forced to save in order to pay back the bill of the party that ended so badly in 2007-2008. This process will go on for quite a while. So, it is inconceivable that the jobs that were supporting the consumers craze will come back. The overgrown financial industry and all the hangers on that were feeding from the housing bubble will not regain the old size any time soon. Those jobs are gone. Likewise, retailers will stay anemic. Closed restaurants will not reopen and those that did not go under will adjust to a diminished traffic, thus doing with a smaller staff.

What can Washington do?

So, the grim picture before us consists of decimated sectors, (hence the massive layoffs), and would be consumers with little or no cash. How do you fix this? Well, the only way is to look at what may be other sectors that hold the promise of future growth. And so we talk about "green jobs" and renewable energy and the like. All this is good. And this is an area where public policy can do much more to create the appropriate enabling environment that improves market conditions for fresh investments and innovation that can become commercially viable. And this is a key area where Washington can be rightfully blamed for not doing its work properly. Not because Washington is not creating the jobs; but because, so far at least, it has failed to create the public policy environment that would convincingly signal to business that there is indeed real money to be made in alternative energy because, as

a nation, we have turned a page and we are now committed to a post-carbon economy.

Let's get serious about a post carbon economy

In fairness, there is a lot of stirring and buzz about this and that opportunity in the energy sector. But not enough. We cannot even put on the table a meaningful tax on gasoline or other carbon byproducts. And yet a real tax on gasoline would send the signal that it does make sense now to seriously invest, as opposed to dabbling, in alternative sources for transportation fuel.

Even in the best case it will take a long time

Anyway, let's make it clear that even a clever, well crafted green economy high tech plan –and we really need one– could not possibly produce fast, noticeable effects in terms of jobs creation so that all the Democrats will reap the political benefits come the mid term elections this November. These things do take time. But at least this would be a serious attempt to use public policy tools to signal to the markets that there is real opportunity in emerging sectors, so that real capital will be directed there.

Otherwise, the clamoring for “jobs” will be what it always is, an emotional, populist cry stemming from the belief that employment can be created by political fiat, regardless of economic fundamentals. For whatever it is worth, let us remember that in the old Soviet Union, technically speaking, there was full employment. The State took care of everybody. And we know how that story ended.

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Health Care: Wellness not Insurance Reform

WASHINGTON – Oddly enough, the initiative aimed at reversing children obesity in the US just presented by Mrs. Obama is the only health care related plan on the table that looks at the issue of “health” comprehensively, with the objective not just of “curing” a disease but of promoting good education that will have enhanced “wellness” as the outcome. Indeed, the objective is the well being of children across the board. Hence the need to look at everything that impinges on this goal: proper nutrition, ability to distinguish between healthy food and junk food, amount of sedentary time spent in front of the TV, amount of physical exercise, incentives or disincentives towards a healthy life coming from the family, schools and social interactions. The point made by the First Lady is quite simple. It takes long term, sustained action on all of these fronts, resulting in a serious course correction, in order to have healthier children as the end result. She also pointed out that healthy children growing to be healthy adults will need less medical care later on, as they will not be affected –at least not to a high degree– by diseases normally associated with unhealthy life styles.

Health Care at the beginning...

While the objective is huge and while the need to create and sustain a multi-pronged approach aimed at helping millions of children affected now by a veritable obesity epidemic, so that children will learn and maintain a healthy life is daunting, clearly this program contains the substance of what had been dreamed about while presenting the brand new “wellness approach” that was discussed in the early days of the Obama

administration. A “wellness” goal, not just health insurance reform, was supposed to be the real game changer, the necessary and indeed overdue reappraisal of the health care issue finally bringing to the light its real constituent parts. It was said then that we really wanted to change “the system”. No longer health care as the mere delivery of services to sick people; but a layered approach aimed at creating awareness of what it takes to be healthy and stay healthy in the different stages of life.

Nobody really said that this way we would abolish the need for medical treatments; but it was rightfully argued that people leading healthier lives, on balance, would need less medical remedies. Whereas a population of millions of Americans who eat poorly, who do not exercise and who are addicted to toxic substances are more likely to need more care, as their unhealthy life styles will make them more vulnerable to disease.

The revolutionary approach is gone

Simple stuff. Intuitively obvious. But what happened to this lofty, maybe ambitious but essentially correct approach? Who knows, really? It’s gone, essentially forgotten. Instead of talking about a revolution in the very concept of health care, we have narrowed the debate down to a discussion about medical care cost, and, even more narrowly to a debate on medical insurance availability, portability and cost. Not that these are unimportant points; but debating them without addressing the larger context of which they are essentially the byproduct, rather than the cause, is not that useful. Lacking a wellness goal as the real strategic game changer, (initially promised and then silently dropped), the health care reform package pushed by the Democrats, whatever its chances of passing, due to the added problem represented by the recent loss of a key Senate vote, is still a bad idea.

This reform package will not work

It is a bad idea because, despite the good intentions regarding covering millions of uninsured and increased affordability for millions of others, this reform package does not really address the truly perverse systemic flaws of a health care system that is set in motion only when (often preventable) issues have become medical problems to be fixed. On top this, the system is fatally geared to “overdo” in terms of quantity –and therefore cost– of services ordered by doctors to their patients. These systemic shortcomings, added to a population that is on average increasingly unhealthy because of widespread bad habits regarding nutrition and exercise affecting millions of Americans, provides the ideal formula for runaway health care costs.

Keep repairing a poorly maintained car

It’s like having a car that is left out in the cold, that never undergoes scheduled maintenance, not even oil changes. This car is more likely to develop problems that will need to be fixed by an auto mechanic. Of course, the auto mechanic will be delighted to observe that the owner does not take care of the vehicle. The worse the every day care, the more likely the need for more visits to the workshop, more fixing and more repairs. Does the auto mechanic have any economic interest in advising the car owner on basic principles of preventative maintenance? Probably not; as lack of good vehicle maintenance aimed at avoiding major breakdowns, while preserving a state of “good vehicle health” is the source of additional income for him. In addition, as the auto mechanic knows that the bill for his services is not paid directly by the car owner but by a “breakdown and repairs insurance policy”, he feels that he does not need to say anything to the ignorant car owner, so that he will keep coming back for more and more expensive repairs.

We fix only what is broken

In essence, this is the problem of US health care. It is

mostly “care after the fact”, with little or no concern about how to help people stay healthy, thus preventing or mitigating the impact of at least some types of diseases. Beyond that, the insurance system, as currently configured for those who are covered, shields the majority of the population from bearing the direct impact of the cost of procedures ordered by busy doctors.

The individual and/or his employer pay for insurance and the insurance takes care of the medical bills. So the “customer”, (just like the imaginary car owner who goes to the auto mechanic with insurance coverage), does not feel directly the financial impact of whatever the doctor may order. But a cost is nonetheless incurred. Eventually, when cumulatively the cost of all procedures, including all the unnecessary ones, covered by an insurer gets to be too high, the insurance company will jack up the insurance premium, to the dismay of the individual customer or the employer who provides the insurance itself.

True, the health care reform package currently on the table in some fashion tries to address the issue of what should be proper care, best practices, cost effective procedures for common medical issues, other measures aimed at diminishing administrative costs and the like. But, as currently conceived and presented, it does not really aim at transforming the fundamentals that conspire to have a system that overprescribes, while doing nothing to promote wellness for the general population.

The providers' interests

Cynically we could say that this is simply because the medical/pharmaceutical industries have an economic vested interest in having as many sick customers as possible. If we look at the issue in purely economic terms, right now the industry “wants” people to be sick; in as much as it is only sick people who need medications and procedures; while

comparatively healthier people need much less. In a health care system in which my doctor makes money only if I am sick, what is his financial incentive in keeping me healthy so that I can avoid sickness and the consequent costs (his gains) related to fixing it?

If we do not address head on these systemic flaws, regarding the lack of incentives to provide wellness education and the “fee for service” approach to medical care billing and payments, the only way to contain the cost is to ration one way or the other the amount (and thus the cost) of available care.

Yes, it is all about “wellness”

It has been said before; but it is worth repeating that the US needs a comprehensive approach to “wellness” aimed at vigorously encouraging and promoting healthy life styles. It is odd, in fact, almost incomprehensible how the US, the biggest economy on earth, with a variety of first rate medical research facilities, with developed educational and mass communication tools, cannot correct the mess caused by a fundamental lack of care regarding education about the fundamentals of a healthy life style. We have the knowledge, we produce the research; and yet we cannot apply it to ourselves?

Present system: lousy outcomes

And what is the end result? Very poor. We have the highest medical costs in the world, both in absolute terms and per capita and in the end America’s broad health statistics are mediocre to poor. Indeed, with all our incredible health care expenditures, if we look at life expectancy at birth, the US, the biggest economic power in the world, ranks at number 49 in the world; right between Portugal and Albania. So, this is what an aggregate spending of 16% of GDP, (and rising), on health care gets you: the life expectancy of Albania! And this

happens in the US. All the talent produced by the best business schools and top notch schools of public administration somehow has not managed to notice that, at the very least, this system is not cost effective.

Yes, there will be sickness; but less

It is obvious that healthier life styles, while certainly not enough to “abolish” sickness, can reduce it significantly and consequently reduce the economic weight of health care delivery. Let’s think for a moment at the explosion of cost related to the consequences of the obesity epidemic. Clearly this is only one part of a larger picture; but it is a significant part, worth hundreds of billions of dollars, year after year; because diseases like diabetes or hypertension are chronic and need continuous monitoring and treatment.

The tobacco experience

In the US we have spent years and considerable resources to fight tobacco head on, on the basis of the unquestionable knowledge that, on average, smoking is a significant health hazard. A hazard bad for the individual smoker, for the people subjected to the effects of smoke around them and bad for a health care system that is called upon to treat the consequences of the smoking habit. But, if this is so, it should also be obvious that, in a slightly different way, unhealthy food in the supermarkets, bad eating habits, lack of proper exercise, the widespread abuse of alcohol and/or other toxic substances contribute to the nurturing of a population more at risk of developing diseases.

Education can prevent disease

Given this dire picture, real reform would have to include a serious approach towards wellness education, while it would have to include a transformation of the financial remuneration for the medical profession, so that the perverse incentive of always doing “more”, because “more”, means more money for the

physicians, is abolished –once and for all. In a truly reformed world doctors should be a lot more than just “mechanics” who fix your body for a fee once you walk through their door because you need repairs. Doctors and nurses should be an integral part of a multi-pronged educational apparatus aimed at teaching and spreading good habits, so that people develop healthy life styles and thus stay healthy.

Let’s be clear, wellness education, physical exercise, good nutrition are not going to abolish diseases. There will be issues due to heredity; there will be cancer; there will be accidents; broken legs and worn joints in need of replacement. But we can safely bet that the volume of demand for health care services in terms of treatments will be reduced. With diminished demand and a different way to reward financially the medical profession, the economic pressure on the system, whether based on private insurance or on anything else, will be lessened.

A tall agenda

I do realize that, as ambitious as the Obama plan was and is, what I propose is far more ambitious and thus more complicated, with no immediate gains. The difference is that my approach attacks the problem at its roots; whereas what is on the table right now does not. What we have on the table is an honorable attempt to provide services to millions of people who are left out. But the notion that it can provide care without adding to the overall cost, not just now but in the years to come, is a fantasy. When it comes to these types of services, given the underlying, perverse “inflationary” incentives that will remain essentially untouched, the tendency will be for aggregate costs to go up and not down.

The First Lady gets it right

As noted at the beginning, strangely enough, the just announced First Lady initiative on child obesity, conceptually

at least, looks a lot more promising. True, we may agree that this is the “soft” side of health care. We may say that this is a worthwhile, noble cause fit for the First Lady. Something that can keep her busy and that can allow her to go around preaching a good Gospel of good habits, etc. People will listen, and will nod politely. The impact of all this in the end may be minimal; but there will be the satisfaction of being on the right side of the issue, with all the accrual of moral capital that this may bring along.

And yet, if we dream for a moment and we think that this initiative can have real traction, that it will be seriously endorsed by all the relevant stakeholders, thus rapidly changing habits and thus the basic conditions for millions of overweight and obese American children, *well, this initiative would be the closest thing to a real and comprehensive approach to wellness.*

This would be a real, meaningful contribution to making Americans healthy and thus, down the line, not so much in need for health care services necessary to fix the effects of a bad life style. If we could indeed imagine for a moment that, magically, in a short period of time, millions of overweight children could be “normal”, not just in terms of their weight, but also in terms of their fitness and all the habits that contribute to normal weight: such as healthy, nutritious food, plenty of fresh air and good exercise, we could safely assume that this would be a much healthier generation that will stay healthy for much longer and that overall would require comparatively less in terms of medical services.

Indeed.

Can we forge a new consensus on wellness?

But it would take a miracle to successfully sell this comprehensive approach to all the parties that have an interest in the health care reform debate. Right now, health

care has become a poisonous topic, likely to ignite partisan, acrimonious fights that go way beyond the merit of individual issues contained or not contained in the package. Right now, it is raw politics. To have President Barack Obama fail on this, means humiliating the Democrats and showing that the opposition has real teeth. So there. The health of the American people does not come into this perspective; not even as an afterthought.

And it may very well end up like this. A huge mess laced with posturing, animosity and wild allegations. In the meantime, we shall continue to limp along with a horribly inefficient, damaged and stupendously expensive system; while the overall health conditions of the average American, (unless you are a millionaire who can afford the 5 star treatments at the best private clinics), will not improve a bit. And this is really sad. We Americans are supposed to be pragmatic problem solvers.

What happened to Yankee ingenuity?