Wellness Will Take Care of US Health Costs

WASHINGTON – The US health care delivery system, as currently structured, is so horrendously expensive that over time it will bankrupt the country. On top of that, because of a lack of meaningful "upstream" efforts focusing on prevention and "*wellness education*" for the general public, this system, as expensive as it is, at best is capable of treating disease after its onset. So, a lot of money devoted to help people already in bad shape. And almost nothing to help prevent life style related diseases.

US health care amounts to an extremely inefficient, incomprehensible, (at least for the average citizen), hodgepodge resulting from lack of focus on prevention, perverse financial incentives for doctors to over prescribe unnecessary and, in some cases, evenharmful procedures, so that aggregate haelth costs are inflated; an unsustainable private insurance system; an equally unaffordable public care system, all nicely blended with progressively more and more unhealthy life styles mindlessly pursued by tens of millions of Americans who have not been taught that a combination of healthy nutrition, plus a modicum of physical exercise will yield in most cases better health and improved quality of life as a likely consequence.

Public policy: just mitigating the consequences of a bad system

Public policy tries to manage somehow this ill conceived system; but only timidly and without having laid out a clear strategy focused on "wellness" as the desired paradigm that could in turn be embraced by the larger population. The focus of the Obama administration in the long and divisive debate on health care reform was mostly on expanded access to health care, a worthy cause in a modern country in which millions of people do not have any form of health insurance. But the almost exclusive attention on availability, access and affordability of health care insurance when a person becomes sick overshadowed the critical issue of what should be done to drastically diminish aggregate demand (and thus the national cost) for health care services. The really crucial focus on healthy life style, (this is real prevention), as a key factor that will drive down demand (and thus aggregate cost) for health care services is missing. It is intuitively obvious that millions of people who lead unhealthy lives will develop more complications and thus they will need more health care.

Cutting Cost? Wishful thinking

So far, government attention has been on trying to pursue two parallel but in my opinion mutually exclusive objectives: **a)** increasing health care coverage; and **b)** attempting to lower cost for the system overall. The first one may be on track. The second? Well….who knows. Too early to tell. We shall see how the recent health reform package will be implemented over a number of years. For the moment, the stated goal to begin a process that will constrain health care costs remains a worthy aspiration, entrusted, however, mostlyto experimentations, reviews, analysis of best practices, etc. Well….good luck with the idea of saving real money with this approach.

Public health care spending: unsustainable

At a closely related level, no serious discussion about US fiscal policies and serious deficit reduction strategies can take place without mentioning the ballooning cost of the public portion of health care. As Lawrence Summers, Director of The National Economic Council at the White House, reminded a Washington audience just a few days ago, the public share of health care alone, (which is only one component of total national outlays), if left on its current spending trajectory, will keep growing so much that it will eventually gobble all federal revenue, leave nothing for other spending, and ultimately bankrupt the US.

Growing cost of health care considered inevitable

This is pretty serious stuff. And yet, whenever policy makers, including Summers, talk about overall health care costs they talk about them as a “given amount”, if anything inexorably poised towards unstoppable growth, impervious to any dynamic that may bring them down. In other words, policy makers say: “This is our current and projected cost for health care. This is the hard reality. We have a national agreement whereby government will bear a substantial part of this cost. Let’s see how we can manage to sustain this burden.” No serious investigation as to the factors that brought us here and whether or not they can be changed so that the upward spending curve will be modified.

No connection in public policy debates between life style and public health outcomes

Indeed, are these health care costs the equivalent of a law of physics, a natural phenomenon beyond our control? Not really. In fact, looking at the experience of other modern countries, we discover that there is something inherently wasteful with the system that we created to treat Americans. Strangely enough, in this country of science, innovation and legions of experts on diet, exercise, nutrition and any other possible fad about healthy living, it turns out that most people do not practice any of that. Most people live rather unhealthy lives.

They eat on balance mostly bad food and too much of it; and they do not exercise. When these bad habits lead to disease they go to see a doctor. Just like the FBI gets into the scene only after a crime had been committed, so doctors come into the scene to fix what is broken. No robust system in place to prevent at least some common diseases related to life style and thus prevent and avoid costly treatments, medication and procedures.

We spend massively and get poor results

To put all this together, America as a nation spends stupendous amounts of money, now above 15 per cent of our GDP, to treat diseases that in large part are preventable –in as much as these are ailments that millions of Americans brought upon themselves as a consequence of a very unhealthy diet and lack of physical exercise.

As a consequence of this blending between high cost of health care and high demand for services by people who are in bad health and therefore need disproportionately "more", we have this most remarkable American contrast of the highest health care bill in the world and at best mediocre health conditions for the general population.

Obesity epidemic

The explosion of obesity, with all its negative medical consequences for millions of Americans, including now an alarmingly high number of children, is only the most visible manifestation of this deterioration. So, the baffling issue is lots of money spent and mediocre results. Indeed, with all these fantastic sums of money and a huge percentage of national wealth spent on health, on average one third higher than what other rich countries spend, one would expect better outcomes. Not so. We have very little to show for the money devoted to health.

US life expectancy is close to Albania and Portugal, hardly case studies in health care systems excellence. Sure enough, the US has some of the most advanced health care facilities in the world. Fine. But this means only that, if you are very rich, you can get the best of what medicine can offer. Yet, this says nothing of what is available, on average, for the average citizen. And again, if the average citizen does not nurture his/her health, medications and procedures whatever their cost can only get so far.

So we have an odd combination between a system geared to spending more rather than being attentive to the cost-effectiveness of care and people who need much more than their peers in other modern countries simply because they do almost nothing to prevent otherwise preventable diseases.

Medical care: the problem of "fee for service"

The incredibly high level of spending in the US is due to the perversion of having a system almost entirely based on incentives to providers to do "more" of everything, necessary or unnecessary, as it may be, unfortunately combined with a population that has a high demand for health services. A recent, detailed AP story *("Overtreated: more medical care Is not always better"),* indicates that: "Anywhere from one fifth to one third of the tests and treatments we get are estimated to be unnecessary". Up to one third unnecessary? Can you imagine how many billions of dollars that is? Dr. Daniel Goodman, of the Dartmouth Institute for Health Policy, quoted in the same story, indicates that doctors may have good intentions. Yet:

"We also live in an environment where there are strong financial incentives to deliver certain types of care. We get

well paid for doing procedures. We get paid relatively poorly for spending time with patients and helping them make choices".

Got that? There are "incentives". "We get well paid for doing procedures". And many of them, it turns out are unnecessary of even harmful, (witness the exorbitant number of babies delivered by cesarean and the casual over prescription of antibiotics for almost anything). So, at least economically speaking, this set up has been paradise for all health care providers. As Dr. Goodman confirms, physicians get paid not for keeping you healthy but for fixing you when you are sick. And, in so doing, any sickness, deliberately or just by force of habit, gets to be milked for whatever it can yield in terms of procedures, surgeries, hospital charges and prescription medications.

From this we get the horrible yet inescapable conclusion that most doctors, as the system is currently conceived, (even allowing for the presence of at least some ethical persons within the medical profession), ***have no economic interest whatsoever in promoting healthy living.*** In fact, the more unhealthy the personal habits of millions of Americans, the more prosperous their medical practice will get. Sick people need medical care; healthy people do not. And doctors are not rewarded for keeping people in good health. But, in the end, as noted above, this trend will end up eating most of our national resources. Thus it is unsustainable.

Doctors as salaried workers with no personal incentive to over prescribe?

We know that there are practices in the US in which physicians are salaried workers whose personal financial gain is not tied to the number or cost of procedures that they recommend and that patients, knowing no better, accept. But, if we look at the “fee for service” prevailing standard in conjunction with a progressively more unhealthy population due to extremely bad personal and dietary habits, then the picture becomes something like a grotesquely hellish workshop. America’s health system is a money making machine predicated on the inexhaustible supply of “patients” provided in large part care of the consequences of bad eating habits kindly encouraged by the major food companies and fast food chains that constantly promote tasty but long term unhealthy stuff goobled up in industrial quantities by unaware people.

The “Western diet”

And let’s look at those habits. As Michael Pollan noted in his book “Food Rules, an Eater Manual”, we in the US have somehow perfected the worst possible model of unhealthy diet. The “Western Diet”, as Pollan calls it, consists primarily of highly processed foods, artificially enriched with sugar, other highly caloric sweeteners, fat and salt. Most of the food stuff Americans choose from when shopping at the supermarket or eating in any fast food franchise falls into this category of highly processed, highly caloric and not very nutritious items. Overtime, a diet made of predominantly processed food, consumed in large quantities because it is cheap and tasty, becomes a large factor in the onset of many otherwise totally preventable diseases: such as diabetes, certain types of cancer and circulatory problems, in turn causing heart attack and stroke, and many more.

American creative genius gave us junk food

Call it the outcome of our creative genius. Some people invented microchips, high performance jet engines, robots and internet applications. Others invented and refined alluring ways to feed us inexpensive sugar loaded sodas, bars, potato chips and other snacks consumed in industrial quantities by most people. The funny outcome is that, by inventing and successfully marketing a diet sold to the public on the basis that it consists mostly of cheap, easy to serve food, we have slowly poisoned ourselves. So, we have saved grocery money gorging on cheap snacks and fast food. In truth, purchasing better quality fresh food would cost more. But then, down the line, much more money is spent by the nation as a whole to treat chronic diet related diseases like diabetes that could have been prevented, with significant net gains for both the health of millions of Americans and the national pocket book.

We still need health care for normally occurring disease

This is not an attempt to oversimplify a complex health care picture. It is obvious that plain old "real" sickness does and will exist and that we have to do our best to meet the needs of those in need of health care. But surely there is a great deal that we should do to nurture healthy habits so that people will be on balance healthier. The difference between caring or not caring for our national wellness translates into a better or poorer quality of life for millions and literally hundreds of billions of dollars saved because millions will no longer need diabetes or high blood pressure treatment.

The medical consequences of bad diet

Again, according to the synthesis provided by Pollan at the beginning of his book on proper nutrition: "Virtually all of the obesity and type 2 diabetes, 80 per cent of the cardiovascular disease and more than a third of all cancers can be linked to this [Western] diet". Based on his research, Pollan also indicates that, according to existing studies, while the damage caused by bad diet manifests itself in otherwise preventable disease, if and when people have the opportunity to go back to a healthy diet based on vegetables, fruits grains and protein, their chances to keep their health grow significantly. "In one analysis –says Pollan–a typical American population that departed even modestly from the Western diet (and lifestyle) could reduce its chances of getting coronary heart disease by 80 per cent, its chances of type 2 diabetes by 90 per cent and its chances of colon cancer by 70 per cent". These are huge percentages.

Nutrition, wellness and lower medical bills

Well, I do not know whether the data collected by Pollan and provided in his book is totally correct. But even if it is somewhat exaggerated, this correlation between bad diet and disease has been noted and documented before. It is obvious that nutrition and life style should be front and center in any serious discussion about the promotion of wellness. And it is almost intuitively obvious that well crafted wellness regimes should keep people on balance healthier. And from this follows that healthy people will need a lot less medical care, thus causing huge savings and the shrinking of our national medical bills.

Unable to fashion a national wellness strategy

And yet, while these facts and their connections are known: **a)** a bad system of incentives to doctors so that they will over prescribe; **b)** the disconnect between wellness promotion and health care; **c)** the disconnect between healthy nutrition and wellness; somehow we have separate conversations for all these issues, as if they were discreet problems and not part of one important continuum which should be called***: "Understanding the value of being healthy, the habits to be cultivated to stay healthy, and the role that should be played by all health care providers to foster wellness for all, as opposed to treat disease after its onset".***

Disjointed information: no clear picture provided

For example, a recent, quite prominent, story in the "Personal Journal" section of "The Wall Street Journal" featured the health problem of deteriorating arteries and what that means in terms of the onset of heart disease and a variety of other circulatory problems. And yet in this story that describes in some detail diagnostics, while providing all sorts of other medical information, there is only brief and passing mention of the most obvious cause of arterial deterioration, i.e. bad nutrition and the consequent increase of cholesterol deposits in the arteries. No clear message coming out of this article saying*: "Well, this is the problem. Now, as of today, dear reader, you commit to change your diet and you will greatly improve the conditions of your arteries and your chances to live a longer and healthier life*". None of this. And this is just one example.

As in the article mentioned above, health care debates are mostly focused on issues related to health care delivery. Costs are examined separately, as they are deemed to be the stuff of health care economist and or/public policy specialists who have to figure how these costs fit into existing and future programs.

Nutrition information is mostly about being thin and beautiful not about being healthy

More broadly, there is no serious national debate about a better way to re-conceive the medical profession, its proper function and its just remuneration within a national "wellness program" aimed at preventing diseases, rather than just dealing with their consequences and costs. By the same token, nutrition, while a popular subject, is mostly featured in faddish diet discussions focusing on the fastest way to lose weight as an esthetic and not a wellness goal. Being fat is not chic. People in Hollywood are thin. But if you and millions of others do not care that much about being thin so that you can go to Hollywood; if you are not that keen to give up the pretzels and the beer in order to shed 20 or 30 pounds, and thus you have given up on the idea of looking like a movie celebrity, that is the end of that argument. Not much is being said about healthy food because it helps you stay healthy. And, yes, healthy food will also help you lose weight. But the key message should be that eating healthy stuff strengthens your health and not that weight loss should be pursued so that you can look beautiful.

Health care reform may be in place; but we are still unhealthy

And so, while the various dynamics –exponential growth of cost, "fee for service" incentives to over prescribe, bad diet and life style and their consequence on health–are known, somehow no one in a position of authority has bothered to put all this together under the banner of a positive "Wellness Strategy" for America.

President Obama takes pride in having signed into law his health care reform bill. But there is not much there about wellness. Until we get to the point of formulating and then, as a nation, embracing such a strategy, we shall continue to have half measure and timid steps, while people will lead unhealthy lives and medical costs will continue to rise. Not a very good prognosis.

Can Europe Make it?

WASHINGTON –

***"Mistah Kurtz, he dead".* (Joseph Conrad, Heart of Darkness).**

This famous line, right after a question in the title as to whether Europe can "make it" may appear as unequivocal answer that it cannot. There is something quite definitive about death. Well, not quite so, assuming that death of bad stuff can lead to new beginnings. In Conrad's story, the death of Kurtz is the death of a crazy dream. In the case of Europe (and not just Europe), the "crazy dream" to be laid to rest is the somewhat delirious idea that it is possible to spend forever more than what states can reasonably take in as revenue, borrowing the difference. If we do recognize that this is impossible, that, as someone said, "In the end what is not sustainable will not be sustained", then we have a chance to get back to reality, building on the simple yet cardinal notion that prosperity is based not on unfunded hand outs but on real economic growth, itself sustained by innovation and high productivity. The final demise of this insane notion that borrowing mismatched from actual wealth creation is a viable strategy is the "death" that should be recognized and, indeed, welcomed.

The dream of a free lunch lingers

But we shall never get there until we abandon the dead wrong yet uncrtically embraced notion of welfare whereby people can and indeed should receive ample benefits regardless of the actual amount of real wealth produced by a given society. As strange as it may sound, this amazingly distorted notion about entitlements, current fiscal crisis notwithstanding, is still quite popular. *In fact, because of the crisis, people, as they are hurting, expect to receive more, not less.* So, "Kurtz is dead"; but this fact has yet to be ackowledged. However, if we do not get past this critical milestone, it is hard to conceive how people, (irrespective of any notion of what social justice should be), can accept new policies based on the recognition that the limits on what one can expect as benefits are ultimately set by what society produces. Any residual illusion that the old ideas of untouchable entitlements disconnected from actual economic conditions are still viable will only get us into deeper trouble.

Big Crisis, Part Two

Be that as it may, the above reflections are prompted by the unfolding plot of “Big Economic Crisis, Part Two”, a plot quite unforseen a year ago, featuring Europe’s insolvency drama. We know “Part One”, featuring the USA, quite well. Starting in 2008, America had to deal with the devastating consequences of its very own brand of economic craziness, resting on the incredibly fantastic delusion of always appreciating assets against whose increasing value it should have been possible to borrow and borrow forever. And so it was. No point restating what happened when the real estate dream collapsed, with the serious risk of carrying almost everything along its ruinous fall.

Signs of life in America?

But now, in 2010, at least some pieces of America, notwithstanding the epic losses and the mountains of public debt created to shore up practically everything, (Fannie and Freddie, AIG, Citigroup, Bank of America, General Motors), while Lehman Brothers was allowed to sink, are showing new signs of life. The economy, from Intel to Caterpillar, is growing again and so is employment, albeit very slowly.

Corporations are investing, balance sheets are recovering and, most importantly, labor productivity is up, indicating an ability to react, to do more with less in order to regain markets and competitiveness. It is a mightily confusing, uneven picture of huge losses and some recovery, of astounding numbers of mortgage foreclosures with no real end in sight, and frightfully high long term unemployment, mixed however with areas in which we detect innovation and some optimism.

USA: a two tier economy with millions left out

The problem for America is not whether or not the country will recover. It will. The problem is that it is recovering and will recover in a very uneven manner, with millions of low skilled unemployed left behind, with scant opportunities to be brought back into the mainstream economy. How will they live? We have a serious risk that the America getting out of this recession will be like a patient coming out of a serious illness: luckily alive; but permanently impaired.

On top of that, (and a huge factor contributing to permanent disability), public debt, if its size is not reversed seriously and soon, will act as a gigantic brake, slowing everything down and quite possibly creating the preconditions for US terminal decline. Good Bye to “America as Number One”. How long can the US fight two wars in Iraq and Afghanistan, keep troops in Japan and South Korea and finance the biggest defense budget in the world with 1 trillion plus federal budget deficits as far as the eye can see? And it is not just defense. It is government sponsored R&D. It is investment in basic science; it is the National Institutes of Health and NASA, And fresh spending is badly needed for critical infrastructure upgrades, from a new air traffic control system to ports and bridges literally falling into pieces.

And the US debt now has two components: one is arising from recent counter cyclical spending aimed at softening the blow of this current crisis; but the other is systemic, deriving from the growing cost of existing entitlement programs, mostly dedicated to the elderly. Public health care costs alone, if left on the existing upward spending trajectory, in a few years will bankrupt America.

Hoping in a resurrection of Yankee ingenuity

But, all told, America, at least for now, has a fighting chance to engineer a come back, provided of course, that there will be a new consensus on what sustainable public spending should be. If that could be somehow taken care of, America's real chances rest in large part on still valuable assets, such as first class super universities, R&D clusters and world class innovation hubs. All of these are laced with an intangible yet perhaps even more valuable asset: a reservoir of dynamism and entrepreneurship, a "can do spirit" that, while less vibrant than in the past, is still kicking. True, Apple and Google alone cannot sustain America. But the fact that the IT companies continue to invest and innovate means that something is still working. Other sectors may follow suit. So, innovation, combined with a new political consensus as to what is a fair but sustainable entitlement system, may create the foundations for a healthy fresh start.

In Europe the recession hit alreday weakened countries

Whereas in Europe the overall picture is worse, because the crisis hit countries already weak on account of lack of innovation and new enterprise. Many countries, especially in Southern Europe, were limping along on a course of economic mediocrity and burdened by huge public expenditures to pay generous benefits for workers and retirees. And these expenditures were unfortunately matched by only modest growth and comparatively little innovation. These trends, already quite apparent before the "Big Recession", indicated thin margins and limited international competitiveness.

Lisbon Goals: dreams of High Tech were just delusions

The pitfalls of loss of competitiveness were not totally ignored by the Europeans. Indeed, there was a moment in which the EU elites declared the desire to seriously catch up and become respectable players in the high tech games. But The 2000 Lisbon Goals aimed at quickly recovering lost ground in high tech industries amounted to a dream whose failure had already been brought home way before this recession hit.

So, the 2008- 2009 catastrophe worsened a picture that was far from inspiring to begin with. The growth of public spending aimed at diminishing the impact of the recession exposed a dreadful picture of ever increasing public debt whose real measure nobody wanted to take, up to the point of practically falsifying budgets or engaging in creating accounting with the objective of making things look better than they were.

Sailing towards insolvency

But today, thanks to the Greek appetizer, now very familiar to all, we know the truth. Indeed Greece is an exceptionally bad example. But many other European countries, while not currently insolvent, are sailing toward insolvency. The ongoing debt trend is caused by the growing needs of very expensive welfare states that European countries in varying degrees are wedded to and is now reinforced by the additional imbalances caused by the recession. All these unfunded costs lumped together have caused unsustainable financial burdens.

Bad combination: high spending, weak economic base

And this alarming trend is worsened by relatively weak and not particularly dynamic economies not at all well poised to get off high debt any time soon through a stronger push towards growth. The now infamous “PIIGS” acronym (Portugal, Ireland, Italy, Greece and Spain) portrays societies that blended together expensive welfare systems, bloated public sectors and large inefficiencies, often laced with corruption. The pitfalls created by this toxic mix were wished away via a fatalistic idea that “somehow we shall find the money to pay for all this”. If this is the picture within the Eurozone, the UK, although on its own regarding the currency, is doing worse. Indeed: “There is no money”.

After Greece: a big firewall to fend off future crises

As we know, Europe, after months of confused debate about Greece, in the end, with additional help from the IMF, decided to create a major rescue package for Athens. Almost immediately thereafter, though, fearing contagion that might affect other weak countries, such as Portugal, the Europeans decided to set up a really big financial firewall in the amount of almost 1 trillion US dollars, aimed at telling markets that the Old Continent will be ready for the next contingency, should there be serious concerns about the solvency of this or that Eurozone member.

Well, fine as far as it goes. Better to have something prepared ahead of time, rather than repeating the already tried script of reacting a little bit to the current stage of the ballooning crisis, never giving observers any confidence that key decision-makers are even a little bit ahead of events. But what about fixing the causes of the possible insolvency?

Two systemic weaknesses: politcs and economics

This solvency crisis has exposed two real systemic weaknesses. The first one is a European monetary union without political union. The second one is the progressive erosion of Europe’s competitiveness within a global economy featuring now many dynamic Asian economies gobbling more and more market share. The two factors combined create a rather worrisome picture that spells decline as the only plausible outcome.

The Euro: in the beginning it worked

For many years the Euro overall worked rather well. That is until now. And now it may not be able to work as intended, because the assumptions of shared frugal and responsible behavior on the part of all 16 Eurozone members have proved to be unrealistic. It was said at the very beginning of this monetary adventure (1992) that precisely this present scenario at some point would unfold. Indeed, it was said by the pessimists that there would be a crisis or a trend coupled with a crisis that would cause at least some members to break the rules, run huge deficits and risk bankruptcy, without the option, such as it is, of devaluing their currency. In a word, the stringent rules that bound everybody to a regime of fiscal prudence were not credible. And, in fact, they have proved to be unenforceable and thus not credible. When things got rough, everybody broke them. And some in a major way, as the facts tell us.

Budgeting is more than just accounting: it is about political choices

How do you fix this mess? Many Europeans are talking now, in the middle of the tempest, about harmonization of fiscal policies. And this is in principle a good idea. But the problem is that fiscal policies are not just accounting exercises.

Budgeting is about setting national priorities, and it is therefore an eminently *political process*. And we should believe that now, all in one swoop, because of this potential economic and fiscal catastrophe, the Europeans will become wise, that they will come together and submit their budgets to peer review and drastically cut here and there according to the wishes of the others? I doubt it. Wisdom is not abundant. This could happen if any agreement on fiscal policies would be based on an overarching, truly shared, political union plan. In other words, fiscal pain in the name of a common good, a truly shared value, is different from frugality on its on. But there is no such agreed upon overarching European Master Plan.

No fiscal union without overarching political accord

And so it is going to be very difficult to sell politically fiscal frugality on its own merit, with full awareness that any serious austerity plan will cause a wave of political protest, (witness riots in Greece), on the part of those who are accustomed to getting a lot, while paying very little.

The idea that the Europeans will all of a sudden discover fiscal rectitude and frugality in the name of a common European good that no one really defined or approved is really fantastic. Serious fiscal harmonization implies some degree of political unification. The idea that it is possible to have sovereign states surrendering new critical chunks of sovereignty without an overarching and deeply shared political plan is a truly remarkable delusion.

Is there a new European path to growth?

And, even if that could be done, (Greece after all, because of its incredibly bad conditions, had to accept what is in practice an ultimatum implying loss of sovereignty in exchange for a liquidity life line that, by the way, in the end may or may not do the trick), what about the Old Continent's ability to produce new wealth? Not much light on this score. The European education systems, while good in many respects, and the general business "ecosystem" in the aggregate do not produce many innovators. Not too many European champions in new technologies. Labor costs are high, labor market flexibility is low, worker productivity is mediocre or low.

Can the welfare state model be reformed?

Welfare states designed to protect the needy and to give proportionately more to senior citizens cost too much, unless they can draw from extremely versatile and prosperous economies. But this is not the case in most European countries. On the contrary, the old paradigm whereby the currently employed population pays into the system the moneys handed over by the state to the retirees does not work anymore, because of lower fertility rates. Because of these demographic trends, nowadays there are fewer active people generating the revenue to be handed over to the retirees who are progressively becoming more numerous in absolute terms and as a percentage of the overall population. The old system is not working anymore. Yet, if cutting benefits is not an option, how does one generate the funds to pay for them? Until now more debt and more debt was the answer. Greece, Portugal, Spain, the UK and others warn that this is no longer an option. Then what?

Greece is the exception; but the others are not much better

In more extreme cases, such as Greece, if one combines these dynamics with a stupendous level of corruption and tax evasion that apparently everybody, (before the crisis), knew was prevalent, one gets the real measure of a problem. The Greek problem, although confined to a small country, may very well be intractable, possibly causing Greece, massive rescue plan notwithstanding, to exit the common currency, declare national bankruptcy and try hopefully to start all over.

But, while excess Greek style may still be the exception, the general trend from Spain to Britain is about weak economies and levels of public spending unmatched by revenue. And the problem is that the political price for cutting drastically this level of spending is perceived to be so high that no one is willing to try or even talk about it. The new Conservative-Liberal Democratic coalition in Britain declared that it will try. But we shall see whether they actually get to it, bravely facing the political backlash that will inevitably follow any meaningful cuts to entitlement programs and any other form of public largesse.

A reformulation of Europe? Rich in, poor at the margin?

In Europe, extremely high political and organizational hurdles, combined with relatively weak and uncompetitive economies, unfortunately created a very bad mix. It is quite possible for the most dynamic components of mostly Northern Europe to refashion a different type of Union in which more nimble members could reinforce each other. But, if this may ever happen, it may take years; including of course renegotiation of existing treaties and established practices. Possible but unlikely scenario.

Current mix unworkable

But if renegotiation of membership rules is out of the question, the current European Union, stretching from Sweden to Sicily, a Union that includes Germany and Bulgaria, Portugal and Finland makes it highly unlikely that this diverse group will forge a coherent way forward, institutionally and economically. And this is because this large group of countries lacks the internal political consensus and the shared vision to create an economic and fiscal road map that can and will be embraced by all and that will be practical for all. In the meantime, not much wealth left to do much of anything. As they used to say in Italy: "You cannot have a lavish wedding serving dried figs only". And that's pretty much what's in the pantry.

"There is no money": wake up call or surrender?

Outgoing UK treasury chief secretary Liam Byme, in a now famous note addressed to his successor, David Laws of the new Conservative-Liberal Democrat coalition, wrote:

"I'm afraid there is no money left. Kind regards and good luck". Or, (if you allow me an analogy with the quote at the top): *"Mistah Kurtz, he dead".*

End of the dream

Will this "no money" awareness prompt at least some Europeans to find ways to innovate and generate new wealth, or will they treat current penury as a permanent condition that indicates the end of any dream of long term prosperity, growth and international relevance for Europe?

BP Is not "Beyond Petroleum"

WASHINGTON – A few years ago, the oil multinational British Petroleum, more commonly known as BP, embarked in a clever public relations campaign aimed at differentiating itself from the generally accepted negative stereotype of the greedy, *we-shall-exploit-forever-and-damned-the-environment* oil company. They started an aggressive and sustained advertising campaign centered on the smart idea that "BP" does not stand for "British Petroleum". No –you see– it really stands for "Beyond Petroleum". So, the real BP story is that oil is in the past. We are "beyond" it and thus beyond all the bad stuff you associate with oil. Got that? This public relations campaign is ongoing.

Clever PR

So, BP is not just another oil company. No, it is an "energy company" that is diligently and enthusiastically investing huge sums into all possible solutions, new ideas and new technologies. In fact renewable, clean energy is all over, front and center in these ads. And so we have the new, definitely green, logo, suggesting a sun or a flower, all green and yellow. And we have the hip TV commercials in which keenly aware, obviously "with it", tech-literate, members of the public opine about lowering their carbon foot print, the best mix between fossil and non fossil fuels going forward, about biomass, wind power and more.

A different energy company

The goal was and is to sell to the public the idea that BP is different, modern, environmentally conscious and forward looking. In fact, BP is portrayed as a path breaker. Indeed, the one company that will design our environmentally friendly, safe energy future. The proverbial observer from outer space might conclude that BP is a diversified energy company that, yes, still has a bit of oil here and there; but a company that has moved "beyond" all that and that is intelligently charting a new post-carbon course.

The tragedy and its consequences

It would be in bad taste, I think, as we are witnessing this unfolding BP disaster in the Gulf of Mexico, subsequent to the explosion and sinking of the Transocean off shore oil platform working for BP, to laugh at BP's bad luck. Right now BP, as the company in charge of the project, is in the middle of a tragedy whose likely consequences and impact, on top of 11 lives already lost in the accident, might be a lot worse than those associated with other oil spills.

Morale of the story: do not pretend to be what you are not

However, be that as it may, there is still a cautionary tale in all this. Companies should not lie, obfuscate or pretend. They should avoid attempts at fake, public relations driven, image reinvention; trying to manipulate public opinion by selling smoke. BP is doing this, so that it can don the mantle of hip environmentalist, all geared towards renewable energy, so that people can love it. This is mostly fluff. BP is an oil and gas multinational corporation. It may indeed believe more than others in the need for a long term diversification of its product line. It may indeed have a commitment to corporate social responsibility, (CSR), and thus to worthy economic and social projects aimed at improving the lot of diverse communities around the world within which it operates. This is all fine and good.

Still an oil company

But BP is still an oil company that may get enmeshed in disasters such as this one in the Gulf of Mexico. A disaster that unfortunately brings home the fact that the oil business, as sophisticated and as technologically advanced as it has become, is still dangerous and accident prone. This reality affects all oil companies and oil services companies. And BP is now in the middle of a big problem that most likely will have long term, painful consequences.

A "Beyond Petroleum" company would not find itself in this disaster

However, if it had been –in truth and not just in TV ads– the future oriented, savvy "beyond petroleum" company that it wanted others to believe it is, BP would probably not be in the business of operating in an extremely difficult, dangerous and challenging environment of very deep waters, relying on technologies and systems that, as it turns out, are quite imperfect. If it were indeed the "Beyond Petroleum" company it wanted others to believe it is, BP would be busy with solar panels and wind farms. And these do not explode and sink in thousands of feet of water, releasing unknown quanties of oil. But we know the facts.

So, while we wish all involved in fixing this human and environmental disaster good luck and a speedy solution, I also wish that BP would drop the pretense of being "beyond" this and that and level with the public, by presenting itself for what it is: a major oil company; now unfortunately dealing with the consequences of being involved in its core business.

How Can Western Countries Get Out of Debt? Only By Paring Down Unsustainable Entitlement Programs – A New Social Contract

By Paolo von Schirach

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WASHINGTON – In the case of Greece's nasty fiscal debacle, everybody's focus has been mostly on assessing the unfolding drama. Will this Eurozone-IMF rescue package work? Or will it be the next one, until finally something that would stick is cobbled together? Will Greece precipitate into the bankruptcy abyss; and, if it will precipitate, will this ruinous fall bring about further havoc within the already strained fabric of European monetary cohesion?

A growing debt, not this year's deficit, is the issue

But, while not unreasonable, this focus on crisis management and related countermeasures takes all observers away from the real systemic problem which is not: "How to stem the hemorrhaging and thus bring down next year's deficit"; but instead is: "How to reverse the systemic, creeping growth of public debt". And the creeping debt crisis is by no means confined to Greece. It affects many advanced countries, in fact most of Europe and Japan, among others.

The real issue here is not about how to avoid another Greece; but about recognizing the urgency to reverse established –yet deeply toxic– public spending trends, so that huge and growing amounts of debt will no longer weigh so heavily on so many countries, eventually crippling their ability to invest and grow, since most resources are devoted to spending or to finance borrowing to be channelled into the same spending. But nobody will act to stop this spending and borrowing until there will be a new, truly shared societal consensus that indeed, however well intentioned they may be, large and growing welfare systems, now a common feature in most advanced societies, force a progressive resources diversion from investments to entitlement spending and debt service; thus crowding out and ultimately smothering new productive investments, new research, innovation and new growth.

British elections: candidates avoid details about spending cuts

However, as things stand now, while everybody wants to avoid Greece's fate, not many are prepared to take ***today*** the steps necessary to get out of a very similar course. Staying on this course does not guarantee becoming a basket case like Greece; but it does guarantee under performance, low growth and ultimately societal stagnation and possibly decline. And yet, as bad as all this is, getting out of this spending trap is politically dangerous, if not outright impossible.

Indeed, days before critical national elections in Britain, none of the leaders of the three main parties dared to articulate what they would do to cut the monstrous UK debt, in case the voters may not like what they hear and punish at the polls who may tell them the truth about losses of benefits. And so Britain, as The Financial Times recently commented, goes into a critical national election without any idea of what any debt reduction plan may be; with the negative political consequences that whoever will end up governing will have no clear electoral mandate to take the harsh measures that, one way or the other, will have to be taken. (Unless Britain decides to do nothing, thus setting the stage to become the next Greece).

Greece will be fixed, somehow

Greece's crisis eventually will get under control. Greece is, after all, a small country. Its problems, however dramatic and unprecedented for the Eurozone, are not unmanageable. ***But the issue of systemic growth of public debt in so many countries: Italy, Spain, Belgium, Britain, Portugal, Japan, and the US, among others, is a different story. The fact that higher and higher debt is eventually unsustainable is now blatantly obvious in Greece's case. But we do not seem ready to acknowledge that the same disease, albeit in a less acute phase, is everywhere.***

Between Greece and the other countries the difference is only about the speed of debt accumulation. All these countries are ailing. But many, for the moment, (and this includes the US), manage to mask the severity of the problem, thanks to the availability of sufficient credit that allows them to finance their chronic fiscal shortfalls.

The real lesson from the Greek crisis

Indeed, the real lesson from Greece is not about how to avoid Athens' extravagant level of recklessness –this is not that difficult. The real problem is how to get out of the far less obvious trap of creeping higher and higher debt levels that may or may not degenerate into a Greece-like crisis; but that are nonetheless very damaging, in as much as too much debt saps precious energy from the economy. ***Just like a parasite, without being necessarily lethal, severely weakens the body, debt damages society's fabric, even though it may not deal a mortal blow. The society somehow survives, just like the human body afflicted by the parasite; but it loses vitality, energy and dynamism.***

This is the real problem.

But since it is a problem that grows subtly and incrementally; it is relatively easy to ignore it or to explain it away, in the meantime readjusting goals and expectations down. The Minister of Finance of a leading European power just recently said in Washington that a 1.5% projected growth rate for his country is acceptable. Coming out of a severe recession, 1.5% is fine? Not for people who believe in the need to do all you can to nurture the economy. But if 1.5% is alright now, then may be next year 1% growth will also be acceptable. Lowering goals and thus expectations is not too difficult, apparently.

Debt is like "termites in the basement"

Everybody understands a crisis when we are already in it. But before getting to where Athens is today, there is a long journey featuring, among other things, increased levels of public spending unmatched by corresponding revenue and thus higher borrowing requirements as its key milestones. ***But the problem with an increased debt level is that its damage is slow and incremental; and so this damage does not manifest itself all of a sudden, as an immediate crisis***.

The crisis comes later, some time much later, once debt has piled up beyond some threshold that convinces some key players that it is too much. With that judgment, warranted or not, comes the creditors' mad rush to unload the bonds, now deemed to be junk, panic and thus the whole thing just falls apart, just as in the current case of Greece. But until debt can be financed with reasonable rates of interest, the process is fairly painless and thus it is easy to ignore its highly damaging and truly corrosive consequences, not just for public finances, but for the netire economic fabric.

As it has been observed: ***"Debt is not the wolf at the door; it is more like termites in the basement"***. So, growing debt levels are not an imminent, visible threat; but rather a subtle, invisible enemy that literally "eats its way into your home". If you do not catch it and eliminate it, it will destroy your property.

You can fix the immediate crisis without seriously addressing the debt problem

But if we look at Greece purely as a unique crisis, then we shall evaluate everything purely in terms of the success of a rescue package. If the EU-IMF 60 billion or 100 billion dollars rescue package over so many years comes along, Greece will not go belly up. Somehow, it will manage to cut spending, increase revenue collection, streamline public administration, at least to some degree. And so, everybody, (except the Greeks who will have to live through all this), will be happy. Crisis resolved, let's all go out and celebrate over dinner.

And yet the larger issue is not Greece's almost fantastic levels of both private and public irresponsibility. Historic evidence shows that crises brought about by extravagantly bad behavior can be dealt with and managed. However, the real systemic problem is not this year's or next year's deficit; but the long term fiscal trajectory created by excessive spending and insufficient revenue growth resulting in high debt. *The Wall Street Journal* of 1-2 May 2010, ("Athens Confronts Sisyphean Task in Austerity Program"), cites a revealing consideration from a report released by the Brussels based Centre for European Policy Studies: "The goal of the large fiscal adjustments is to make public finances sustainable. However….this goal was rarely achieved". In plain language, you may avert disaster; but this does not imply successful inoculation against the debt malady. So, in the end you may not die, but you will be chronically ill.

Ad why is that?

The roots of the debt problem are in the promises of the welfare state

In most western nations a key pillar of public policy is the firm belief that the state is supposed to take care of people.

And so, to this end, we have created entitlement programs, ever more complex and ever more onerous, largely based on the fantasy that somehow any level of spending is affordable, that there is enough revenue to finance education, health, pensions and assorted subsidies to more and more constituencies. Policy makers who know that this is not possible, for fear of alienating voters, instead of telling the truth, borrow the difference between what they promised and the actual revenue in hand. Hence growing debt.

But, since borrowing has some limits, policy-makers, as they focus on financing what is politically more important to them, that is social welfare programs, short change discretionary spending, cutting spending in all the sectors that do not have huge, clamoring constituencies. And so they cut defense spending, (now, on average it is about 1% of GDP in Europe and Japan); thus creating the foreign policy of the weak, grounded on crisis avoidance, rather than on meeting threats. And they cut capital investments in infrastructure and in research and development. In so doing, they keep their voters happy, thus gaining confidence that they can face the next election. In all this, there is no concern for the aggregate, long term consequences of a trend that, by privileging social spending while shortchanging investments, objectively weakens the economic foundations and the chances of future growth.

No more babies: welfare spending levels become unsustainable

But other parallel trends will make it harder and harder to sustain this act in the future. Until now, growing debt notwithstanding, it was possible to keep financing this onerous welfare system. Looking ahead, this is going to be more difficult. Indeed, most advanced societies are facing negative fertility rates: well below population replacement levels.

In simple language, this means fewer young tax payers and growing numbers of old people who depend on the state for various costly benefits. A growing number of elderly citizens –and they are those who receive the most in terms of welfare–will have to be supported by the shrinking revenue produced by a dwindling number of younger, active citizens. At some point the mismatch between too many old people receiving benefits and too few active young ones paying into the system will become unsustainable. Recurring to debt will no longer be enough to fix the gap between what has been promised and what is financially possible.

Too late to change course?

What will happen then? Who knows. But we can bet that at that point it will be way too late to reverse the cumulative effects of policies that for decades have privileged social spending over productive investments. Sure enough, some benefits will be curtailed, some may be eliminated altogether, in order to diminish the fiscal imbalance. But I very much doubt that it will be possible to bring before the public and then successfully implement a new public policy philosophy strongly grounded on the basic notion that by far the best way to ensure public welfare is to maintain and safeguard above all else the full functionality of a vibrant economic system; in as much as this is the only engine for wealth generation. If you want to distribute wealth, you have to produce it first.

Until people will be prisoners of the idea that welfare is a basic right and that we can think about how to pay for it later, we shall privilege distribution of benefits and shortchange policies aimed at keeping the economic engine going full force. It should be clear to all that in the end you have to produce some added value in order to be able to distribute it. But the established distortions that make welfare policies untouchable allow most people to overlook this rather basic consideration. And so, we keep on distributing benefits financing the expenditures via borrowed funds.

Strong focus on welfare means less attention for growth

The end game of insisting with these entitlement policies in societies that are becoming less productive, (because the money goes to finance these very entitlements), is that over time there will be less and less to distribute. These societies will be progressively more impoverished, while their standing in the world will be diminished. My hunch is that Europe as a whole is well on its way to economic and societal decline, while I do not see any significant new tendencies that would reverse course. Japan is not too far behind.

What will happen in the US?

In the US it is still a toss up. Certainly there are large, powerful, mostly urban, constituencies located in the large states on the two coasts that aspire to something close to the European model. There are others, witness the spontaneous, if boisterous, anti-government, anti-tax “Tea Party Movement” phenomenon, who instinctively abhor statism and the attendant welfare state public policy approach. Can America find a reasonable balance between maintaining some sort of public safety net and a focus on doing whatever is necessary to keep investments and innovation at the highest possible rate? As of now, because of the impact of the 2008-2009 recession, our debt is approaching European levels. We can retreat from this bad course and once again emphasize growth, while doing what it takes to keep this economy nimble and competitive. But this benign outcome is not a sure thing. The Obama administration repeatedly stated that high spending is a temporary counter cyclical remedy because of the horrible recession and that it will soon announce a convincing long term decifit and debt reduction strategy. And when will this be? Well…soon. Somehow, I think that we shall have to wait until at least after the November congressional elections. And, after the November elections, we shall be gearing up for the 2012 presidential elections. If, just like other governments, the Obama administration does not want to upset voters by announcing serious spending cuts, there are good chances that we shall not see any bold deficit and debt cutting strategy.

Will we learn anything from the wider debt story highlighted by the Greek crisis?

In the end, the Greek crisis is not an especially useful example of what to avoid, as Greece is clearly an extreme case, whose specific circumstances are not going to be easily replicated. Few other modern countries will accumulate so many distortions and so many inefficiencies.

But the Greek crisis did illuminate in some fashion the debt issue and the cumulative damage brought about by growing and growing public debt. ***Not as clear, by reading the copious commentary, is whether we are in agreement on the primary cause of structural debt: growing social spending out of sync with revenue.*** Will anybody, be it in London, Lisbon or Washington DC look at the nasty consequences embedded in spiraling debt and realize that it would be good to change course as fast as possible?