

Bowles-Simpson to America: Cut Spending Now

WASHINGTON – The American debt crisis is deep and real, requiring urgent measures. What is at stake here is not just our status as “Number One”. It is about the future viability of the US economy. It is about having any money left, after we paid staggering interest on a mountain of debt, for any productive investment. Simply put, we cannot pile up more debt and then hope to have anything left for spending on research, education, innovation and the growth of this society.

The Debt Commission co-chairs report

Erskine Bowles, (once president Bill Clinton’s chief of staff and a Democrat), and Alan Simpson, (formerly a Republican Senator from Wyoming), co-chairs of a presidential commission, officially known as “National Commission on Fiscal Responsibility and Reform”, charged with recommending practical solutions to cut our national debt, just repeated this truth, in case anybody missed it.

A few days ago, unveiling their basic deficit and debt reduction recommendations –recommendations that may or may not be endorsed by the other members of the Commission in the next few days– they both stated clearly to America that “*The Debt*” is a national emergency.

We are in an emergency

This emergency requires immediate action through “real” remedies, however politically unpopular they may be. In their judgment, reached after months of expert testimonies provided to their commission, we can no longer dance around the issue. This is not a passing crisis.

This is a systemic problem that grew over time, under

different administrations. (The lone exception was a brief period under President Bill Clinton in which the federal budget was actually balanced and some debt was paid back). We got into this mess because of excessive spending, (mostly but not only due to the growth of entitlements), which kept growing over decades. The only serious way out of this is to start cut spending now.

Courageous stand

Bowles and Simpson deserve both gratitude for their work and admiration for having political guts. They avoided the easy way out of a soggy report replete with platitudes and exhortations for future cuts; but vague on specifics and timetables. The two co-chairs came out in the open with a list of real proposals that demonstrates seriousness. Bottom, line: cut the debt by about 3.8 trillion, bringing annual deficits below 3%. How to achieve this? Via a mix consisting of 75 per cent in spending cuts and 25 per cent revenue increases. Part of the package is a sensible plan for tax reform that would essentially lower rates, while eliminating loophole and deductions.

No solutions without serious cuts

One may or may not like the mix they proposed which touches almost any area of Government, from the big entitlement programs to defense. But my hope is that, whatever your idea of a good mix may be, we all should agree that we need something like this: a serious plan that puts spending on a believable long term downward trend, through real program cuts across the board.

We may disagree on individual elements and perhaps on the timing of this and that. But we need a credible spending reduction plan that will signal to the Nation and to the world that America is dead serious about reversing this tide of debt. America, through the non partisan adoption of a real

national spending reduction plan, would finally show its determination to restore the Nation's fiscal strength and overall competitiveness.

No solution with half baked plans

But unfortunately, even though we just had elections largely focused on the Tea Party people key issue of the national debt, we are not all on board. And even many of those who claim to be on board, on close inspection, harbor delusional ideas as to real solutions to the problem.

Indeed there are still popular fantasies out there whereby we can cut the deficit by eliminating "waste, fraud and abuse" in the system; by eliminating earmarks; or by axing a couple of Federal Departments. The favorites usually include Energy and Education. The first because it is useless. And the second because Education is supposed to be a State and not a Federal responsibility.

Others would like to cut defense spending. Some because they believe that it is possible to spend less and more effectively. And some because they fundamentally disagree with current national security policies, including the ongoing (and costly) military operations in Iraq and Afghanistan.

And yet, all this is wishful thinking. Despite the appeal of some of these ideas, and whatever one may think about the wisdom of abolishing this or that agency, the truth is that none of this would amount to much in terms of real deficit and thus debt reduction. While cuts may help a lot, the real prize in this game is serious entitlement reform, simply because this is where most of the money goes. Any plan that does not include long term reductions in entitlement programs is not serious.

Stubborn refusal to look at reality

As we are so deep into this crisis, lack of clarity on the

actual dimensions of this issue of national urgency is a real problem. And this confusion appears in the many negative reactions to the Bowles-Simpson Plan. "Too extreme". "Dead on Arrival". "Unacceptable". You name it. And here you have on display the dilemma of American politics. Long on anti-spending rhetoric, when it appears politically expedient to be for fiscal rigor, short on the real guts to implement anything meaningful.

Irresponsible attitude

But this cavalier, indeed irresponsible, attitude is at least in part due to the wishful thinking whereby actually "doing something" on the budget is *optional*. *For the politically astute, as the deficit is controversial, you bring it up when there are no other big issues on the table and when the political winds are favorable.*

Which means never.

And this is the myopic attitude that got us here. We postponed action year after year, and we dug ourselves deeper and deeper into the hole. As Bowles and Simpson declared: we have no more margin. We have to take swift action now.

No enthusiastic endorsement for deep cuts

But their call to arms has not been met with much enthusiasm. In fact, looking at the reactions to their plan, we can even argue that Washington –trillions in yearly shortfalls and all–is still not ready for action. Indeed, going back a bit, the very fact that president Obama needed to appoint this "debt commission", as it became known, with Bowles and Simpson as co-chairs, is evidence of political cowardice, not just on the part of the president, but spread across the entire political establishment.

This commission, as most other similar Washington exercises, was a way to remove an unpleasant subject from the immediate

“to do” agenda, arguing that we shall have to wait until the commission report will be presented, thus kicking the can down the road a bit more. And then, of course, if we stay within tradition, the real mastery is in paying lip service to the report, once issued, while killing its substance.

The attitude that got us here

Regarding this particular debt issue, its root cause is that many professional politicians, the defenders of the pork barrel establishment, would really like to keep things as they are. Over many decades of expanded government, a new conventional wisdom developed whereby there is nothing to be gained in Washington politics by stopping the gravy train. Politicians get elected by giving things, not by taking them away.

Overspending became the rule

So, for decades spending beyond revenue was the name of the game and most policy makers tried to ignore its consequences. For this problem to be acknowledged we had to wait until the current extraordinary shortfalls caused by the financial and housing meltdown, whereby the deficit numbers –almost overnight–from already bad became truly staggering. It was only at the end of 2008 that we became accustomed to measuring annual deficits in trillions of dollars and no longer in hundreds of billions. But again, let us remember that 2008 did not create the crisis. It just made it a lot worse and thus more difficult to ignore. And yet, with all this, there is still no sense of a true emergency, truly shared by all stakeholders. How to explain this denial?

Easy to ignore the debt issue

In part it has to do with the nature of the problem. As someone put it, a mounting national debt is not **“the wolf at the door, it is more like termites in the basement”**. So, debt does not present itself as an immediate, obvious crisis

requiring immediate, swift countermeasures. Creeping debt is a hidden enemy that slowly eats your house; and you may not see the damage until it is too late. (Look at Greece, Ireland or Portugal as examples of countries that merrily walked into or pretty close to the abyss).

The US is a good debtor....

The point here is that it is politically easier to ignore or wish away a danger that has no immediate manifestation. And so it was. For many years the US Government managed to make up the growing difference between revenue and excessive spending through borrowing. And everybody would happily lend to the US. America is after all the biggest economy in the world, the issuer of the main reserve currency used around the world from Zambia to Bulgaria. The possibility of a US Treasury Bond default appeared so fantastic that it was ruled out. And so the US kept borrowing, getting deeper and deeper into debt.

Still, the impact, while silent, is noticeable. First of all, more and more current revenue needs to be used to pay more interest on the growing debt. By necessity, this means that debt servicing requirements crowd out other areas of spending, thus progressively constraining the scope of any public policy. For example, flush with cash, China can launch brand new, ambitious infrastructure programs, such as a new network of super fast trains. America cannot even maintain its existing roads and bridges, let alone build more, because there is no money. Yes, lack of modernization is one of the consequences of a growing debt.

...Well, "was" a good debtor

No point re-telling the whole tale of the spending explosion, (this started much earlier than the additional bout of extraordinary extra spending due to desperate actions aimed at countering the financial crisis). But, as the Bowles-Simpson Plan tells us, it is about time we came to the collective

realization that we are indeed in a deep crisis that threatens the very foundations of America's well being, the prosperity of its people and its standing in the world. If we continue on this path, there will be a time in which it will be hard to sell more US Bonds. And even if we find buyers, they will require to be paid a higher interest to compensate for a growing risk, just like in the case of Ireland or Portugal.

Easy to attack America these days

On America's deteriorating world standing, it is not entirely accidental that the policies of a weaker US have been openly and liberally criticized by almost anybody in international fora, including at the recent Seoul G 20. Taking potshots at a weakened giant, until yesterday revered or feared as the world only "Hyper power", seems like fun. And, as a weakened America is not scary, there is no retribution in being rude to Washington these days.

But if you think this new irreverent attitude is worrisome, imagine how ugly it is going to be when the national debt surpasses 100 per cent of GDP, (sooner than you think), forcing real cuts in R&D, in defense, in foreign aid and almost anything else, including –yes–Medicare and Social Security. Then it will be time to treat America as another has been. A country that had its moment and then blew it by over consuming, instead of investing in its future productive capacity.

What now?

Well, this being the case, what now? Bowles and Simpson put their ideas forward. Now they are trying to sell them to the rest of the members of their debt commission. And the outcome is not at all certain, as the commission's rules require at least 14 out of 18 votes to pass anything. Can they get at least 14 votes for their deficit/debt cutting blueprint? They are not sure.

Treacherous road ahead

But even assuming they can, this is hardly the end of the process. The Congress would have to consider the recommended measures and pass them in their entirety or at least in a form pretty close to the original, so that they can become a bill. And, after that, President Barack Obama will have to sign the bill into law. This is a long and arduous process, replete with obstacles. So, there are good chances that in the end the Bowles-Simpson Plan may be ignored, watered down to the point of becoming something else, and –even worse– that it will appear politically expedient to do essentially nothing for the time being, inevitably making the whole budget/debt debate contentious material for the upcoming 2012 presidential election.

President Obama can choose to lead

But here is an opportunity for President Barack Obama. However difficult this is, assuming that he believes –as he should– that this is indeed a national emergency, he could get in front of this issue and lead the Nation. He can endorse the Bowles-Simpson Plan, not its exact letter perhaps but its substance, including the belief, clearly baked into the Plan, that there is no real solution without serious, permanent spending cuts. Alternatively, he can wait this out, waiting to see how the process unfolds, then taking the path of least resistance, endorse the most politically palatable and thus –by definition– least significant package, promising to revisit the issue later on.

Horrible political risks

Of course, getting in front, taking real action would be politically very dangerous. Endorsing serious spending cuts, including welfare cuts, may cause a rebellion within the left of the Democratic Party that naively believes that money will have to keep coming from Washington, no matter what. And many

Republicans have an equivalent ideological antipathy for any tax increases that should be part of the total package.

Get in front, with no political cover

And yet real leadership would be in leading on the debt issue, without waiting for political cover coming from an (unlikely) broad endorsement of the serious but controversial Bowles-Simpson Plan. No doubt, bold action on the debt may cost Obama his re-election. But he said, did he not, that he would rather be a good one term president, rather than a wishy-washy two term president who managed to squeak in twice just by being politically astute, without doing anything truly meaningful. Well, Obama could make this the defining issue of his presidency and throw everything he's got into this battle for the restoration of America's fiscal and economic viability.

The consequences of timidity

Of course, taking the path of least resistance is also possible; but not without consequences. Does Obama want to be the leader of a semi-impooverished America in which Government can do almost nothing, as it will have virtually no discretionary money left? Or does he want to be remembered as the one who saw the danger, decided to tell the truth to the Nation and take action?

Erskine Bowles and Alan Simpson have come forward with a gutsy plan. Of course, as senior former policy makers with no ambitions for future public office, they can take political chances with a controversial proposal without a serious career downside. For the president of the United States the stakes are incomparably higher. Well, all the more reasons to show his true colors. As we used to say: "No Guts, No Glory". Or is this quintessential American motto no longer in fashion?

America Has Got Natural Gas!

WASHINGTON – A Recent, (November 14, 2010), segment of the popular CBS TV program *60 Minutes* was devoted to the discovery and exploitation of new US based natural “shale gas” deposits, until recently believed to be non recoverable, because gas was trapped in rock formations buried very deeply underneath the earth surface. Well, in recent years human ingenuity managed to overcome this huge technical obstacle. By drilling first vertically and then horizontally and by injecting water and other chemicals via a process known as “hydraulic fracturing”, energy companies can now extract and sell this gas.

Enormous gas reserves

But in all this the truly big news is that this “shale gas” deposits are enormous, covering a large percentage of the US, from Texas to California, with a major concentration in Pennsylvania, the state that harbors most of a huge deposit known within the industry as “Marcellus Shale”. ***Indeed recoverable shale gas, added to other known deposits, doubles US total gas reserves, making the US a giant producer by world standards, outclassing Russia. In an energy starved country, this should be good news.***

TV show did not highlight the strategic implications of a major energy find

And yet the

60 Minutes

piece did not even try to put all this in context, offering a serious reflection on the incredible strategic implications of this major discovery for America. Instead the piece focused

primarily on human interest “rags to riches” stories of poor farmers who made it big, just because their land happens to sit on all this gas. The piece went further, examining the environmental pitfalls, the accidents caused by exploration, the sneaky attitude of energy companies and so on.

While the story mentioned incredible data *indicating that the US has as much gas as Saudi Arabia has oil*, this earth shaking piece of information was offered in passing, buried in a story focusing mostly on a polemic between industry and environmentalists in which the only new real beneficiaries of these discoveries seem to be a few lucky farmers and not America as a whole.

Abundant gas changes the entire picture

This recent news program, along with fragmented information provided by other media, is a wasted opportunity to present this story of shale gas for what it is: **the most fundamental change in the US energy equation in many decades**. Consider the broader picture. America is slowly running out of oil. True, we have plenty of coal. But coal can be used only for power generation and not as transportation fuel; while natural gas can be used for both. Besides, coal is dirty and technologies aimed at making it clean are still in their infancy and quite expensive. Renewable energy, (wind, solar, bio-fuels), is important; but it is still mostly in the future. At the moment there is not much of it and it is not truly competitive without significant subsidies. Yes, we are seriously trying to introduce electric cars; but they are an expensive novelty that cannot possibly become dominant for a number of years. And electricity is still produced mostly with dirty coal.

Domestic gas: cheaper and cleaner than either oil or coal

And here we have the transformative news: we have natural gas, lots of it. In fact in enormous quantities and most of it is located in densely populated states. This means proximity to

markets and millions of users. And natural gas can be used for both power generation and for transportation. It is cleaner than coal and gasoline. And most of all, for a country that spends a fortune –about \$ 1 billion a day, every day–buying abroad 60 per cent of all the oil we consume, the ability to use domestically produced gas instead of gasoline made with imported oil is an incredible bonanza, a real help for a balance of trade perennially in the red; not to mention a way to diminish a serious strategic vulnerability caused by dependence on distant energy sources in proverbially unstable regions.

But, strangely enough, we do not hear much about any of this good news.

Is it because of the uncertainties and environmental concerns related to the new drilling technologies and the potential environmental damage that may be caused by this new way of getting gas to the surface? I have no problem believing that in this new gold rush there are plenty of unscrupulous energy companies that may indeed cause environmental damage in the pursuit of their economic interests. Still, given the magnitude of these reserves and their vast strategic implications, I am confident that the Government can lead –in fact should lead, starting now–by creating and enforcing strict safeguards aimed at protecting the environment and public health.

But, assuming that we can safely continue to exploit all this energy, what can all this gas do for America?

Well, here is the story.

What are the implications of these discoveries?

“I drive a converted Chevy Tahoe that runs on natural gas from my home, and I can assure you it feels great to refuel my vehicle at \$1.00 per gallon with a clean fuel that is made in America and creates American jobs. My goal is to make sure all

Americans one day have the opportunity to enjoy that same great feeling”.

Think of that: cleaner fuel for your tank at almost 70% less than gasoline! Well, these are the words of Chesapeake Energy CEO Aubrey McClendon. Chesapeake Energy, www.chk.com, is one of the largest natural gas producers in the United States. But is this notion of driving a natural gas fueled vehicle that can be refilled at about 1/3 of the cost of regular gasoline just hype to promote the company’s main product?

Well not so. Given the extent of US gas reserves, millions of vehicles, after appropriate retrofitting, could be fuelled by inexpensive, relatively clean, domestically produced natural gas.

America is the Saudi Arabia of natural gas

Indeed, as indicated, it is estimated that the known natural gas deposits, to which we added in recent years the enormous shale gas fields, are the equivalent in natural gas of the 200 billion barrels of Saudi Arabian oil. The US has now more gas than Russia. **At current rates of domestic consumption, America has gas supplies for about 200 years.**

Come again? 200 years of an energy source that translates into transportation fuel costing about 1/3 the pump price of gasoline? Yes. And gas pollutes a lot less than gasoline. And, let’s repeat it: ”

It is right here, in America

. It is not imported. And, to the extent that we start using it on a large scale, it will progressively displace millions of barrels of imported oil, with significant savings for a country that sends abroad about 1 billion a day to make up for its oil deficit”.

For some reasons, the positive implications of domestic gas

are not discussed

But what is most extraordinary in all this is that “Abundant Domestic US Gas” –as illustrated by the way

60 Minutes

covered the issue– is not a “Big Story”. Sure enough here and there in the business media there are news account of large deposits and increased investments in exploration. (Most recently Chevron joined the crowd by acquiring a company heavily invested in shale gas exploitation for an amount in excess of \$ 3 billion. The Chinese of CNOOC just bought 33% of a shale gas deposit in South Texas from Chesapeake for \$ 1 billion).

But so far at least nobody, starting with the US President, cared to put all this together and draw the obvious strategic implications of all this gas. **This is a “Game Changer”**. In energy starved America, a country that has missed several opportunities over recent decades to reduce its oil consumption and adopt more sober habits in terms of fuel efficient vehicles, now we have geological formations plus technological progress coming to the rescue. But all this is happening almost in silence.

What industry says about the road ahead: start by converting heavy trucks

Sure enough Chesapeake Energy and others have a strong vested interest in convincing you that US produced natural gas is the way to go. But their arguments appear to be credible. This is what the Chesapeake website says about starting a process leading to broader adoption of natural gas as the fuel of choice for transportation:

“The best way to begin breaking this foreign oil addiction is to endorse the NAT GAS Act (H.R. 1835 and S. 1408) now pending in Congress. For details on these bills, please visit

www.cngnow.com. These bills would gradually and efficiently introduce clean, American natural gas as the fuel of choice for heavy-, medium- and light-duty truck fleets in the U.S., replacing diesel refined from expensive foreign oil.

Once truck fleets have been converted to natural gas (in the form of liquefied natural gas, or “LNG”) and natural gas refueling pumps have been added to many of our nation’s truck stops, we can then begin converting passenger cars to natural gas (in the form of compressed natural gas, or “CNG”). This conversion process would save American consumers billions of dollars because natural gas is 70% cheaper than oil. Americans also would enjoy the added benefits of cleaner air and water and greater national security”.

So, there you have it. It is much cheaper than oil; it pollutes less; vehicles can be converted so that they can use it and –most importantly– it is produced here, at home. And, as it were, a huge amount of the new deposits are in Pennsylvania, that is right in the middle of the densely populated North Eastern United States, very close to major population centers and thus tens of millions of potential users.

Electricity generation is also very important

And this is not the whole story. There is also electricity generation. 22% of US electricity now comes from natural gas. It would be possible to augment that percentage, using the additional domestic supplies, while shutting down the worst, dirtiest coal fired plants; this way achieving an environmental improvement without diminishing total supply. As Chesapeake puts it:

“The only scalable, affordable alternative to burning dirty coal is to burn clean natural gas. And the best news is that it would be relatively easy to shut down the dirtiest 33% of America’s coal plants (better known at Chesapeake as the

“Filthy 100”) and replace their electrical output with natural gas-fired electricity. That is because coal plants generally run about 75% of the time while natural gas power plants only run about 25% of the time. The U.S. has enough natural gas to ramp up natural gas power plants to run at least 50% of the time so that we can decommission the Filthy 100.

Doing so would eliminate the following annual estimated pollution: 600 million tons of carbon dioxide (implicated in global warming concerns); 700,000 tons of nitrogen oxide (exacerbates respiratory and heart diseases); 1.5 million tons of sulfur dioxide (the main ingredient of acid rain); 19,000 tons of mercury (one of the deadliest toxins known to mankind, and nonexistent in natural gas); and millions of tons of particulates (which the American Lung Association says kill 24,000 Americans per year)”.

Environmental concerns

As mentioned above, the technological breakthroughs that allow the economic exploitation of all this “shale gas” that is “imprisoned” in rock formations consists in injecting underground water and other chemicals that break the rock the formation thus “liberating” the gas that can rise to the surface. Much of this still novel technology is controversial. There is legitimate concern about the large use of water and about what will happen to all this water pumped deeply underground, laced with chemicals and what not. Will there be contamination of the water table used for agriculture and human consumption? Will all this mad rush for shale gas eventually come back to hunt us?

Let the Government set the safety standards

The gas companies say that on balance there are no real environmental hazards involved. Well, let the Government, both Federal and State, set the public safety environmental standards that need to be adhered to. But unless it is proven

that the hazards are real and threatening the well being of communities across America, this is too big a find not to do our very best to bring it responsibly to fruition.

Again, giving for the moment the benefit of the doubt to industry, thus assuming that the exploitation of these vast natural gas reserves is safe, what is most astonishing is that nobody is articulating the incredibly large implications of the discoveries and how they alter favorably a domestic energy scenario characterized by lack of resources.

No major public policy announcement from Washington

And, even worse, we do not hear a strong voice from the White House making a major pronouncement in terms of energy policy. If indeed the smart way to incrementally switch to natural gas is by converting fleets of large trucks, the United States Government should lead the way, by announcing a program aimed at switching to gas its own fleets of heavy trucks and other suitable vehicles. This would be a powerful signal. **“This is indeed a Game Changer. We got it. And we are going to lead the way, encouraging all suitable end users to switch to this cheap, environmentally friendly, domestic resource”.**

If Washington gives the right signal, others, starting with State Governments and large truck fleet operators (think of Walmart, FedEx, and UPS) will follow suit.

Gas is not the ultimate solution, but it will help

Now, gas will not take care of America's energy needs forever. Long term, we shall have to find truly cost effective, non carbon sources. But, for the time being, with a 200 years supply of domestic natural gas that can replace imported oil, I believe that we have cause for celebration. If we have to rely on carbon for a while longer, let's use our own. It happens to be both cheaper and cleaner.

Time to give the good news and to redraw our national energy

plans on the basis of all this gas.

After The Elections: Divided America

WASHINGTON – Maybe we can call these mid-term elections the revolt of “Fly-Over-Country” against the coastal pro-big-government elites that have now occupied “Fort Washington”. “Fly-Over-Country” is the derisive name given by the jet setters who fly New York-Los Angeles back and forth to the rest of America in between the two coasts –a very large of the country that in their sophisticated judgment is clearly not worth a visit.

We can look at this vote both as a loud anti-Obama statement, (at least regarding results for the House), but also as the anti-elitist reaction of a Middle America usually treated with sufficiency and condescension by the enlightened, Ivy League-bred establishment; the self appointed arbiters and paladins of what is sensible, what is right and what should be done by Government, under the supervision of “smart leaders”, (and they are the best), for the benefit of all.

Tea Party Rebellion

When the spontaneous, raucous and at times bizarre Tea Party Movement emerged, the polished, liberal-intellectual establishment, at its most charitable, could say that the Tea Party activists are poor lost souls who, (being unfortunately ignorant and unsophisticated), really do not get the importance of far reaching public policies. According to the enlightened, the Tea Party people and other assorted paleo-conservatives hold archaic positions because they do not

understand that all the complex Government engineering crafted by the educated technocrats is really for the common good—including the misguided conservatives. And so, confronted with such ignorance, what is a good, well educated technocrat to do? Well, perhaps explain policy a bit better to these rather dense people anchored in folksy, outmoded ideas, such as those primitive principles whereby when you do not have money you do not spend it.

Unrepentant liberals

“And yet, all good efforts notwithstanding, look at that—lament the elites after November 2— the conservatives voted against us”. So, what do the elites make of these elections? Not much really, if anybody was hoping for introspective self-criticism. So far the narrative is that , as the vote unfortunately demonstrates, these retrograde country-folks still do not get it. On substance, the Democrats, looking at themselves in the mirror, conclude that they like every bit of what they see.

So, the issue is the general public that failed to understand. And in this cavalier analysis I detect an only tenuously veiled contempt for the unwashed, for these throngs of Mid-Western small town yahoos. This contempt, even if it is not shouted loudly, comes out. Before the elections, Obama himself opined that people in the midst of a crisis do not think clearly. (Translation: “They may vote against me; but only because they are not calmly reflecting on the issues”). And now, even after this drubbing at the polls, President Barack Obama, with ample portions of egg on his face after what amounts to a political repudiation of his agenda by a large part of America that had trusted him in 2008, tries to change the topic, asserting that this defeat shows him that he needs to improve how he communicates about his otherwise smart ideas. (See above). No word about what he may have done wrong in terms of policy. And no admission whatsoever that his opponents, after all, may have a point.

Well, the unsophisticated middle, prodded by the Tea Party enthusiasts, declared in these elections that they do not trust the liberal establishment. Indeed, it would appear that Obama's problem is really not about "how the message has been conveyed". ***It is the content of the message –Big Government–that is really at issue.***

Message to be fine tuned; but polices are correct

But regrettably we do not hear any of that in the early post elections commentary by leading Democrats. So much so that outgoing House Speaker Nancy Pelosi who became the symbol of Democratic overreach, electoral defeat notwithstanding, announced that, rather than stepping aside or retiring from politics, she is running for the position of Minority Leader of her party. Translation: she has done nothing wrong and she is ready to fight on against the Republican plague that is threatening all her achievements.

But the people of fly over country do not buy the commication gap theory. They intensely believe (at least for now) that all this Government activism and consequent debt takes the country in the wrong direction. The November 2 vote, while not a neat sweep, (think of California and New York as major exceptions), is unmistakably a "no" vote against the very notion of too much Government.

Anti-statist rebellion

But if this so, what are the wider implications of this vote? What happened is that Middle America felt, sensed, more than having actually digested it, that the United States was on its way to becoming something else, something that they do not like. America was turning into a European-like nanny state that needs more and more resources (our money) to be in charge of more and more sectors, eventually smothering enterprise and freedoms. And so there has been this reflexive, emotional reaction against perceived encroachments that appear

to engulf individuals and progressively choke them.

And so, small town, do-it-yourself, America rose up against the alleged policy wonk conspiracy. Of course, it did not help the purported conspirators, the Harvard educated cabal, that their economic recipes, admittedly concocted in the face of unprecedented economic ruin, were not working as advertised.

Liberal hubris

In fairness to them, in that mayhem who could have done much better? And yet it seems to me that, even giving them the benefit of the doubt, the Obama team technocrats fell largely on their own swords. They displayed smugness and an almost cocky self assuredness way back, at the time of the transition, after their November 2008 triumph. They were so eager to jump in and get started, to get into the fray, because they told one another and anybody around them that they “knew what needed to be done”. Oh boy, oh boy, these guys knew policy.

Things were more complicated

Well it turned out that, valiant efforts and good faith notwithstanding, they did not. At least not entirely. And so they made over optimistic prognostications, (stimulus will reduce unemployment to 8 per cent), falling into the oldest politician trap: *over promising*. And so, when the economy turned out to be a lot worse, it was easy to argue that they were wrong, that their stuff did not work. And when things did not improve after more than one year, it became progressively less credible to keep blaming George Bush. Fairly or not, after one year in the saddle, Middle America concluded that this was Obama’s recession and thus his to fix. And he could not.

All against Obama-care

But what really ignited the Tea Party rebellion that

eventually grew to national proportions was the perception of an unfolding sinister conspiracy, as evidenced by the Obama-care health plan. The feeling in the heartland was that Obama decided to throw into the fray the health reform package, at a time when most people thought that the real focus should be on the economy, for purely ideological reasons. Surely, the basic intent of increasing coverage to millions of uninsured was laudable. But, rightly or wrongly, the push for health care reform, at that particular time, appeared to be part of an ideological battle, rather than sensible policy. For the critics, it seemed to be born out of the desire to bend the health care sector to the will of Government.

Obama the “socialist”

And the fact that Obama fought so hard for this cause, in the end winning but only by the slimmest of margins, notwithstanding loud opposition, seemed to be a clear revelation of a statist, or may be even “socialistic” ideological bent. Again, this health care battle, let us not forget, was waged in the middle of a historic recession. So, the prevailing interpretation of the opposition was that, while the US was hurting economically, the President and his cohorts were busy re-engineering a huge chunk of America so that it would suit their own ideological biases.

Victory, but not across the board

Anyway, so Middle America rose up and it gave us the Tea Party Movement and thus the foot soldiers and the officers that led to the retaking of the House on November 2. Of course, the battle plan was hardly flawless and many races did not work out as planned. In the battle for the Senate, at least two very low hanging fruits, the seats in Nevada, (held by an unpopular incumbent Democrat, Majority Leader Harry Reid), and in Delaware were given away by foolishly selecting two truly unqualified Tea Party-backed candidates to run against the Democrats. And this clumsiness may give additional arguments

to those (including many main stream Republicans) who look with horror at this spontaneous Tea Party Insurrection as some kind of out of control County Fair taken over by a bunch of unhinged red necks.

The “Small Government” message

Whereas, messy bits and political errors notwithstanding, the deep, positive message coming from the Tea Party Movement is in the reaffirmation of an almost religious confidence in “can-do-America”, if it is only left alone by Government. According to this simple political philosophy, small Government, low taxation, sensible administration will create the appropriate environment for people to be once again productive wealth creators. Well, this may be a bit simplistic. But it is not so far off from a huge chunk of American tradition. America’s secret weapon, its “force multiplier”, is indeed its instinctive entrepreneurial spirit, a spirit that can be properly unleashed only in an enterprise friendly policy environment.

Tea Party and the legacy of the pioneer experience

Who knows why is it that this “leave-us-alone-so-that-we-can-do-stuff” theme resonates more in the heartland? Is it because these are the spiritual descendants of the pioneers, of the common folks who went West and lived the incredible adventure of the Frontier? The pioneers “had to be” self-reliant. There was no Government to help out in the Frontier. And may be this legacy somehow lives on in the lands they settled. May be this is why it is more cherished in the decidedly more Red middle of America, as opposed to the more distinctly Blue urban coastal areas.

America: split in two

Be that as it may, even if we appreciate the positive elements of the Tea Party insurrection, the results of these mid-term elections tend to support the conclusion that the

country is split in two, almost equal parts. There are two prevailing –and almost evenly balanced in terms of degree of popular support– political philosophies in America, largely born out of the qualitatively different social and economic experiences of the people who end up supporting them. These different experiences tend to be geographically localized, reflecting the different histories of different states. Due to the almost equal support in terms of votes, the country is divided almost in half and stuck, as neither side has enough national support to implement its vision.

Small town legacy

As indicated above, the mid-western, small town experience is qualitatively separate from the large city legacy. It draws from the vast XIX Century pioneer, Far West heritage that inspired a propensity for self-reliance. This instinct on individual or localized solutions translates into political models that favor small government.

Big city issues require different solutions

In the more populated coastal states, and especially in large cities, with all their people and fast paced economic activities created by the great industrialization of the early XX Century and the growth of mega corporations, there was a more fertile ground for creating bigger and more assertive public institutions that would act as economic shock absorbers, while keeping things together through various social policies. And thus, because of the numerical advantage of the working masses, most of the votes and thus political power went to the Democrats, the party that had developed a social justice message favoring the disadvantaged.

Democrats: more urban party

When in office, the Democrats rewarded their voters by providing for those who felt squeezed: the industrial workers, the laborers, the low wage civil servants and teachers, the

poor, the new, not quite sure footed, immigrants and later on the growing numbers of seniors depending on government welfare. And with the willingness to support so many constituencies came the expansion of the government services and the need to finance them, along with redistributive ideas that rationalized the need to take more from the better off.

Enduring split

So, while this may sound simplistic, conservative ideas are easier to sell in small town America, because of its stronger self-reliance heritage. Whereas in large cities where issues are more complex and where the needy are clustered and more numerous, they can find solace in supporting and being aided by the Democrats, as the party that “will do more for us”. And in large cities, as opposed to small town America, we also have had the flourishing of a liberal cultural establishment that is instinctively “progressive”, meaning favorable to new ideas aimed at improving society through social engineering. And, in general, most established media professions tend to attract people who think along “progressive” lines. And so here you have the basic ingredients of the Democratic coalition: wage earners, civil servants, seniors, single women, minorities, new immigrants and the “enlightened” intellectual elites.

2010 elections reflect the enduring divide

As I said, if we look at this 2010 post mid-term elections map, we see a validation of this analysis. The middle of the country is back to mostly Red. The two coasts, even with heavy losses for the Democrats, are still mostly Blue. The recent exception to this rather entrenched political geography was the 2008 Democratic sweep in which Barack Obama, improbable and certainly unusual Democratic standard bearer, charmed almost everybody and managed to carry traditionally non Democratic territory.

Country divided in almost equal parts

And so here is the issue. Even if we leave aside for the moment the current, deep economic slump and how it certainly influenced, (especially for independents), the strong anti incumbent mood and thus the vote against mostly incumbent Democrats, it seems that even after this blow suffered by the Democrats, we still have two, almost equal, juxtaposed societal models with their own uncompromising political philosophies and political vehicles.

Democrats: beaten but not vanquished

Again, let us consider that with all the anti-Obama tsunami, the Republicans won big in the House; but not in the Senate. True, they gained Governors and state houses; and these are strategic victories, in the light of the re-districting exercises that will soon take place. But this was not the obliteration of the Democrats. In the Senate, the Democrats, losses notwithstanding, kept the majority.

This is an important election; but, unless its impact can be deepened later on, for the moment it does not amount to a historic political re-alignment.

Rather, it is back to the pre-Obama *status quo ante*. In brief, this vote gives an important signal, indicating that Obama's real or perceived approach does not sit well now for millions of Americans who gave him a nod in 2008. But this is not a total, national repudiation of the Democratic Party.

Mutually exclusive models

Again, we still have two mutually exclusive models. The first is about self-reliance, small community, small government and local efforts. The second is about the need to protect large numbers of weak people through a variety of well meaning but

expensive and not always effective social programs.

The first model is based on the idea that people know best and that, if left alone, they will do great stuff.

The second model instead posits complex, (adversarial) social relations in which the powerful, if unchecked, tend to overwhelm the weak and so the weak need protection via social programs and a variety of safety nets. These complex programs need to be managed by highly educated, technocratic elites. By intellectual disposition, the technocrats subscribe to the basic tenets of the welfare state and are happy to work for it. They are its officers, its theologians and its political supporters.

Both models have merit, up to a point

The fact is that –to a degree– both models are correct as they appear to suit the realities that initially created and validated them.

However, and here is the problem, when they place themselves as absolutes, as one size fits all for the whole of the United States, both visions show their intrinsic limitations. There is no one ideologically “pure” and yet viable one size fits all for the whole of America.

Impossible to construe a clear “mandate”

But in the rhetoric of post election bombast, we already see the winners attempting to interpret the result as a clear and unanimous message repudiating Obama and the Democrats. “The America people have spoken”. Yes, many have spoken against Obama; but not all of them. Many did speak; yet they did so in significant but not overwhelming numbers.

Besides, this composite coalition was effective as an anti-Obama force. It is not equally clear as to what they collectively stand for. Small government sounds like a good

idea. Different story when we start talking about real cuts for real programs that currently benefit many.

The Democrats are still there

In the end, the Republicans won and they won big. But the Democratic Party, with all its "bad ideas", is still there. Wounded but hardly dead. The Republicans regained the majority in the House. But the Democrats, (most likely led by the familiar Nancy Pelosi, in her new role as Minority Leader), are still there, ready for a rematch in two years. It would be foolish to conclude that this vote marks the end of their political fortunes. And, even though the Democrats have been a bit lucky in the Senate vote, including two seats regained by very slim majorities, this vote, while a powerful reaffirmation that a semi-comatose Republican Party can spring back to life, does not put an end to the opponents political fortunes and to the ongoing ideological struggle.

If the ideological standard bearers are the interpreters of these elections, not much room for future political compromise

Still, if the only interpreters of the events are the stalwart, pure breed ideologues now paraded in TV talk shows, there will be a tendency to oversimplify the meaning of outcomes, continuing to demonize adversaries. Tea Party darling Sarah Palin may be right in extolling the virtues of hockey-moms, the practical women, spiritual daughters of the Frontier, who can roll up their sleeves and get busy. But can she really deny the plight of the urban under classes? Is Black America's predicament really due to too much Government?

By the same token, those who invoke an assertive Government as the necessary remedy against social injustice, tend to look at inequity and injustice as naturally built into "the system" and thus perennial. The weak will be weak forever and thus they will need protection in perpetuity. The fallacy of socially oriented policies is that they are there to

alleviate; but not really to transform. Poverty and marginalization this way become the rationale for forever running social programs that in substance become self-perpetuating public charities, and not policies aimed at triggering qualitative change.

These elections repudiate Obama; but they do not settle anything

From this perspective in which we have two juxtaposed and deeply entrenched models that respond to different historic and cultural experiences for different parts of America, the political earthquake resulting from the November 2 mid-term elections does not “resolve” anything at all.

This November 2 vote signals a powerful reaffirmation of the “Small Government Idea”, up to that point silenced by the avalanche of big policies concocted by Washington; but it does not settle anything. Indeed, even if we take proper notice of the strong small government message shouted by Middle America, almost half the country, mostly ensconced in the big cities, in the labor unions, in academia and in the traditional media thinks the opposite –and just as strongly. They may concede this battle; but not final defeat in what amounts to a perennial conflict.

Harmful division, no clear way forward

This deep division, cutting the country in two almost equal parts is harmful. The American system that allows divided Government can function only on the basis of some compromise. For America to thrive, this political middle ground ideally should translate into policies that keep opportunity open, in fact expanded; while encouraging and rewarding enterprise. The American Dream, among other things is about upward mobility. It is about having a fair chance of getting ahead. The political system at its best should enact policies that open up the system; or, at the very least, policies that will not

impede growth.

These mid-term elections amount to a “Stop!” cry by rebellious Middle America. But they do not provide a clear indication of a good way forward, when it comes for instance to a detailed fiscal agenda and measures that would encourage enterprise, not to mention education reform and true health reform. And this lack of an identifiable common middle ground is scary, given the unusually bad predicament the country is in.

Common ground

So, how do we get out of this political stalemate? The real trick would be in finding a common ground. But this would entail transformation of both somewhat crystallized ideologies which define themselves as mutually exclusive, in as much as each of them asserts to contain the totality of a good recipe for America.

Large issues would require larger majorities

Most of the problems facing America today are huge and systemic: erosion of national competitiveness, negative impact of globalization, declining education standards, lower levels of R&D, shifting demographics and consequent higher cost of benefits for more retired seniors.

Neither party today has a credible formula that can productively embrace the whole picture. Tackling the big issues will require a combination of private and public efforts. The private sector by itself cannot set the stage for new energy policies or for any large, far reaching new infrastructure program; let alone a true health reform or a drastic overhaul of the welfare system –itself the only way to start reducing the debt. Likewise, the Government cannot run the economy. It needs a vibrant and confident private sector. And one way of having it is by not choking it under an avalanche of restrictions that discourage enterprise.

Cooperation unlikely

However, while political cooperation is essential, especially in this historically bad predicament of low growth, high unemployment and massive debt, in this ideologically tainted environment cooperation is not politically expedient. And yet we have a system that allows, in a sense encourages, divided government, such as the one we are getting now, after this vote, with the Republicans controlling the House and the Democrats still in charge of the Senate and the White House. Again, divided Government may work; but in order to be productive it somehow postulates compromise to get anything done. And this can happen only when the two main parties are not sharply divided by ideology. But this is not the case now.

Temptation to play politics very strong

In this heavily charged atmosphere, how can one work with the other side without being viewed as a sell out by the zealots of the base? The Republicans now control the House; but they do not run the show. And even by saying "no", the Republicans may lose.

A clever President Obama in the next two years can paint them as obstructionists who care about politics but not about the country; and then sail to reelection in 2012. The only way for the Republicans to play a winning political game would be to put forward sensible legislative initiatives and then have the Democratic Senate vote them down. But this could work only if the Republicans could convince the country that they had very good, middle of the road ideas, and that an ideologically prejudiced Democratic Party prevented their enactment. In any way, all this political maneuvering would be exhausting and, unlikely to produce results for America.

Is there an alternative to the present two party system?

Some say that the existing parties, with their entrenched constituencies and established ideologies, cannot really grow

beyond their traditional base so that they could forge a truly broad based national consensus that would allow either of them to govern on the basis of a wide and deep support.

For a brief moment, it appeared that Barack Obama, as a brand new politician, could assemble and keep some kind of new, post-partisan coalition in 2008. But the 2010 mid-term elections put an end to this dream. Obama never had the confidence of the hard core Republicans and he clearly lost the support of most independent voters. But the Republicans, while resurgent, are also confined to a base that, while much larger than two years ago, is still not overwhelming.

And yet America needs sensible pro-growth policies that unfortunately, neither the Democrats nor the Republicans by themselves can pass. Is this a terminal weakness of a divided American political system? Or will this stalemate produce a true transformation, rather than just dramatic pendulum swings every two or four years?