

# Deficit Reduction Alone Will Not Do For America – Need to Have Real Stimulus – Infrastructure Maintenance Would Do A Lot of Good

[the-subtitle ]

By Paolo von Schirach

June 30, 2011

**WASHINGTON** – David Wessel points out in *The Wall Street Journal*, (*Prescriptions to Revive Recovery*, June 30, 2011), that the US economy needs both a believable deficit and debt reduction plan *and* an energizing growth strategy. While deficit reduction –which has to imply serious spending reduction– is essential, he writes, that alone will not restore growth. We still need to find ways to kick-start the economy.

## **Deficit reduction, good stimulus**

Can America do both at the same time? Can the Congress and the President agree on a credible plan that will reverse the dangerous upward spending trend? Can Washington convince America and the world that this time we are serious? So far, not so good. The persistent stalemate on a debt raising deal that would include spending cuts does not augur well.

But, even assuming success, while cutting spending, can Washington also provide meaningful incentives for investments and growth? Doing all of this at the same time may be too much for a brittle US political system that seems to be paralyzed

by deological stands, whereby compromise is considered capitulation and thus political ruin.

### **Infrastructure maintenance**

Still, within the to do list provided by Wessel at least one item should be non controversial: infrastructure maintenance, as opposed to brand new infrastructure projects. New projects are unfortunately very political. Where do we build this highway? Close to your city? No better close to mine. You need an airport expansion? No, I need it more. You get the point.

But taking care of routine maintenance of our vast and often dilapidated infrastructure stock would be far less controversial. There are mountains of studies, audits and analyses pointing out the horrible state of disrepair of highways, bridges and more in America, due to decades of underinvestment. The needs are enormous and they are spread around the entire country.

### **Stimulate the economy, while implementing badly overdue projects**

One way to provide good stimulus would be to launch a substantial highway repairs program, focusing on mundane but necessary tasks. In most cases, this would not require new studies, or complicated approval or vetting processes. This is about funding deferred routine maintenance and urgent repairs.

In so doing, Washington would give a boost to the construction industry, create demand for labor, equipment and supplies in order to perform work that is already overdue and that sooner or later will have to be done.

This is not a cure all. But it would help out of work construction workers, while re-energizing a depressed sector. There may be some work in putting together an inventory of projects, while trying to prioritize the most urgent interventions. But this could be left to states and

localities. Washington would provide the cash.

For those who object because any new spending would add to the deficit, the answer is that without reliable highways, bridges, ports and airports, pretty soon there will be no America. This should be spending that we could all agree upon.

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# **Robert Gates Retires as The Last Defense Secretary of a Powerful America – The Erosion of the US Economy Will Cause Cuts in Defense and a Reduced US International Role**

[the-subtitle ]

**By Paolo von Schirach**

June 28, 2011

**WASHINGTON**– Robert Gates is about to retire as Secretary of Defense, (“SecDef” in Pentagonese), after a remarkably long tenure spanning two presidents, George W. Bush and Barack Obama who could not be more opposite in terms of their basic approaches towards national security. Whatever his merits, Gates goes into retirement with a personal awareness that he may very well be the very last Defense Chief of America as a “Mighty Nation”. Gates knows his country and Washington too

well not to realize that a diminished America, if its serious economic ailments are not reversible, in the near future will simply be unable to afford not just “wars of choice” but any extended national security commitment, let alone wars.

### **Defense spending no longer affordable**

Gates gets this simply fact: *“There is no more money”*. Just like for everything else, Washington has to borrow 40 cents of every dollar it spends on defense. Gates tried to salvage what he could by initiating cost savings measures within the Pentagon. His aim was to preemptively “cut the fat”, (over-staffing, inflation of general officers, command centers that make no sense, untold sums spent on consulting services of questionable value), in order to avoid reckless amputations—cuts in force structure—down the line. But this is impossible.

US defense spending, while historically low at about 4% of GDP, (by Cold War standards), is unaffordable for a country now routinely running \$ 1.4, 1.5 trillion budget deficits every year. As Herbert Stein used to say, “What cannot be sustained, will not”. Gates knows this. He has been around public policy way too long not to realize that in the end the vast military machine he presided upon will be deemed to be extravagantly expensive and it will be pared down.

### **Cutting defense as a matter of choice or as a matter of fiscal necessity**

It should be clear to all that there is a huge distinction between reducing defense spending because of political judgment, (correct or incorrect as it may be), and reducing spending as a fiscal imperative, because there is no choice, whatever one may like to do.

Let me illustrate this point. After the demise of the Soviet Union, the reunification of Germany and the end of Russian domination over Eastern Europe, it made sense for the Clinton

administration, (January 1993 – January 2001), to reduce defense spending. After all, the historic existential threat, the USSR, amazingly was gone –for good. Therefore it appeared sensible to reduce spending on an enormous peace time military machine built mostly to deter the Soviets, relying primarily on deployable forces that had to be “ready” at any given time. So, no more Red Army, no need to spend so much to defend ourselves from a threat that had vanished. Time to enjoy the “peace dividend”, as policy makers used to say in the 1990s.

### **The post 9/11 defense build-up**

Then we had the post 9/11 defense build up, the need to augment the standing forces and to replace equipment worn out or destroyed in Afghanistan and Iraq. Hence the growth of the Pentagon budget to sustain two costly wars. Now the military commitments may have peaked. In Iraq for sure, while the deployments in Afghanistan will be diminished, starting now. These may or may not be wise decisions. Time will tell.

But the deeper reality that Gates knows is that, assuming no vigorous American economic renaissance and consequent fiscal re-balancing, these and other withdrawal decisions will not be part of a range of options. As I said, “*There is no more money*”. \$ 1 trillion is the very conservative estimate of the total cost of Iraq and Afghanistan, so far.

If you thinks that America can have a \$ 14 trillion national debt, (and counting), with yearly budget deficits of \$ 1 trillion or more, AND a large expeditionary force in Afghanistan, (70,000, even after the cuts just announced by president Obama), that needs to be armed, fed, and supplied, think again. By the same token, the extreme reluctance displayed by Secretary Gates himself, when it came to providing a US contribution to the European military efforts against Gaddafi in Libya, underscores the same point. Even though the enemy is puny and the “war” would have been smallish, the very thought of opening another theatre of

operations with all the inevitable cost that would follow appeared too much.

*The US administration finessed its decision to sit Libya out as an issue of fair division of labor between America and Europe. May be. I suspect that the decision was driven instead by fiscal considerations. If this is so, then Libya will be remembered as the campaign America could not lead because Washington was short of cash.*

Of course, critics of US security policies may say, perhaps with cause, that, given the incredibly bad decisions made by George W. Bush regarding military invasions, it would have been better if America did not have the financial resources to start anything. May be so. But we are not arguing here about the wisdom of policies, we are realizing that lack of money will severely restrict the range of viable policies.

### **No money, reduced national security options**

Now, now we are entering an uncharted territory. In the "American Century", the US used to have abundant resources. The resilience of Pax Americana was in large part due to the awareness in Washington and across the world that America was wealthy and thus it had options in foreign and security policies.

But now it is different, as the incredible economic vitality that generated the resources that could be devoted to defense is in serious doubt. So much in doubt that it has now become conventional wisdom to say that the most basic US national security asset is the strength of the US economy.

And so everybody, starting with Admiral Mike Mullen, soon to be retired Chairman of the Joint Chiefs, remind us all of how important it is to restore a vibrant US economy. Indeed. So, we have established the connection between wealth creation and a strong military. But what if this economic renaissance does not happen? What if we continue with anemic growth and no

political consensus on significant cuts in welfare programs obligations that will eventually bleed America to death?

### **No more carriers, no more bases around the world**

Well, then you can kiss good bye to replacing Nimitz class super carriers (the last one is the George H. W. Bush). If you take into account the whole carrier group with cruisers, frigates, destroyers, submarines and the full complement of aircraft, each carrier runs at several billion dollars a copy, not to mention the cost of keeping it operational. You can kiss good bye to perennially forward deployed troops in Japan, Korea and whatever is left in Europe. And the enormously costly Iraq and Afghanistan operations will be remembered fondly (or angrily) as actions that America could undertake when it still had money. The projected spending cuts already indicate downsizing of the Army and Marines.

### **Leaving now, when the going is still good**

Bob Gates knows all this. He understands America, and he knows how budgets are done in Washington. May be this is why he is retiring now, when there is still some semblance of prestige for a country entering a new era of diminished means that will inevitably translate into diminished options and reduced horizons. Who knows, may be all this will be reversed and America will go back to its glory days. However, looking at a rather low key, almost somber Bob Gates, one might get the feeling that he does not think so.

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## **“The Economist”: Piloted**

# **Bankruptcy For Greece – Sovereignty Surrendered – Yet No Political Agreement Is in Place To Allow Any Of This**

[the-subtitle ]

**By Paolo von Schirach**

June 27, 2011

**WASHINGTON** – The Economist, news magazine has its own recipe for Greece, (*If Greece Goes...*, June 25 – July 1, 2011). It correctly points out that the EU has been in denial about Greece. Thinking that more liquidity, added to more liquidity already pledged, will do the trick of resurrecting the Greek economy and thus its public finances is wishful thinking. Greece does not have a temporary liquidity problem. It has a basic insolvency problem. Notwithstanding the massive rescue package initiated last year, Greece cannot come back. The markets do not believe it. The debt burden is too huge. And politically the Greeks are not on board –this being a real problem, as it will be impossible for the country to emerge from this disaster without the people supporting whatever economic policy agenda is agreed to.

## **Bankruptcy will not do**

However, according to The Economist, an old fashioned bankruptcy, with Greece leaving the Euro and reneging on all its debts, would be a disaster with unfathomable consequences, not just for Greece but also for all those who are exposed to it, starting with many commercial banks in France and Germany that lent heavily to Greece during what appeared to be better times.



## **Arranged bankruptcy, much better**

So, what is the least troubling solution? A piloted bankruptcy. Basically, creditors accept a cut. Debt would be reduced to about 80% of GDP, about half of what it is now. The paper argues that this would be far more acceptable. The losses have already been factored in by many. Those who hold Greek debt can take it. And the real advantage would be to reduce the crushing debt burden for Greece, thus allowing some hope for the future. Coming back from under a debt half the size of this one may be doable.

## **Restricted sovereignty**

Of course, Greece would have to agree to all kinds of restrictions. In other words it would have to accept that it will have to operate under European tutelage and supervision, probably for several years. Europe would have the power to dictate or at least validate Greek budgets, fiscal policies and privatization modalities.

This is rather extreme, of course. This is the kind of therapy that the IMF used to impose on African basket case countries. These were the loathed "conditionalities" to be accepted in order to be bailed out by the Washington based multilateral financial institution. "You want our money? Well, then you do as we say". Under this scenario, Greece would be the new Burkina Faso or Liberia.

And yet, is there a better scenario? The idea of rolling over existing debt, looks like a softer and perhaps less intrusive approach. But it will not work. And Greece's exit from the Euro and declaring bankruptcy is too risky. So, a guided bankruptcy, under EU supervision, seems better.

## **Nothing within the EU contemplates this**

Indeed. But it should not escape anybody's attention that, if the EU went that route, The Europeans would be inaugurating a

new era of *de facto* limited sovereignty for troubled members. Nothing in intra-European agreements provides for these extraordinary interventions and for Brussels running the affairs of a member country. If this is one way of deepening European integration, it is a funny way of achieving it. The construction of a United Europe should be based on political consent freely expressed, because countries want to surrender sovereignty by merging into a federal state. Instead, here we would have drastic surrender of sovereignty not chosen, but mandated because of a financial and economic emergency.

### **Starting Europe with the Euro was a bad idea**

I said before that integrating Europe starting from the currency would be like having started the United States starting with the Federal Reserve. No, America started with a Constitutional that envisaged strong federal powers. The Federal Reserve came much later. It came into existence and started operating after America was born and reasonably grown.

While The Economist may be right on Greece, the Europeans have had it wrong on how to build Europe –essentially from the beginning. And the Greek mess is at least in part caused by assuming that fiscal policy coordination could happen “just like that”, without any real institutional backbone deriving its legitimacy from a genuine and deeply felt political arrangement. And so, now, if The Economist therapy is agreed to, the Germans will have to swallow the economic and political consequences of having accepted a lousy partner without any clear political arrangement freely entered into by any of the parties involved.

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# Troops Withdrawal From Afghanistan Politically Inconsequential – Bad Economy Really Hurts Obama, Polls Indicate – Yet Republicans Message Not Inspiring

[the-subtitle ]

By Paolo von Schirach

June 22, 2011

**WASHINGTON**– President Obama just announced the end of the surge in Afghanistan. 10,000 US troops will be withdrawn between this July and the end of 2011. 20,000 more will be gone by the end of 2012 and we are still on target to hand over security to the Afghan Government by the end of 2014. Quite frankly, all this is not very meaningful. I have said before and repeat now that the counter insurgency strategy we have been following since Obama got Stanley McChrystal first and then David Petraeus to lead the effort is wrong. A lighter US foot print should have been pursued in order to ensure the American strategic objective of preventing the use of Afghan territory to become a base for anti-American terror.

## **Announcement about Afghan policy politically insignificant**

However, whatever the opinions on Afghanistan, from a US domestic political perspective, this announcement about troop withdrawals is unlikely to change many votes down the line. The war is generally unpopular among Americans who do not have the time to study the effects of special ops night raids on

Taliban cadres and who cannot figure out Pashtu politics versus Tajik grievances. The beginning of a withdrawal process is not going to make Obama more popular. Americans vaguely remember that Osama bin Laden had plotted the 9/11 attacks from Afghanistan. But they tuned out on this poor country long ago. And the recent bin Laden killing was interesting news for about 5 minutes. Obama got a bit of a bump in the polls. But it did not last.

### **War is not the big 2012 story, the economy is the issue**

Very simply, while in 2008 the War in Iraq was a major issue, do not count on Afghanistan to play the same role in 2012. If it will play any, it will be mildly negative, as Americans are tired of the whole thing. Hard for Obama to get much political traction by asserting that he's got a winning strategy and that his plan worked. True or false, it does not matter. People are not interested.

*What matters now for America is the state of the US economy. And here things are not good. And since Americans still believe that the president is some kind of CEO of America Inc., if the economy suffers greatly, the CEO is to be blamed.*

Obama can do whatever he wants in Afghanistan; but if the US economy does not improve substantially between now and November 2012, he may get fired.

### **New poll not encouraging for Obama**

Indeed, according to a new Associated Press-GfK poll, four out of five people now believe the economy is in poor shape. Unless there is a major improvement in the forecast, Obama's job approval will continue to be dangerously low. As the Associated Press reports, "For the first time this year in AP-GfK polling, respondents who say Obama deserves re-election have fallen below 50 percent into a virtual split of 48-47 in favor, a demanding challenge for him"

Unemployment is at 9.1%. The housing crisis is still in full swing. Foreclosures continue. The price of gasoline declined, but it is still nearly 90 cents higher than a year ago.

### **Approval down**

In the new AP-GfK poll, Obama's approval is down to 52%, back to his popularity levels before the killing of bin Laden. Women seem to be running for the exit: from 57% approving him, they are now down to 48%. This is a key constituency for Obama. If the erosion continues, this may be big trouble. Major losses also among independents, down to 43% from 62% in June 2010.

One more poll does not tell the whole story. And polls do change, as people change their minds quite frequently, and at times abruptly. But it is clear that a consistently weak economy is hurting president Obama. And it is also clear that his handling of the economy will be the dominant issue of the 2012 elections.

### **Obama may still make it, thanks to the Republicans**

And yet, all this baggage notwithstanding, Obama may still make it, care of an opaque Republican Party, incapable thus far of firing up America. Right now, the rallying cry of the Republicans is fiscal responsibility. However, while important, in fact absolutely critical, fiscal responsibility by itself is not going to build a huge wave of national support. And why not? Because it is mostly about taking stuff away from people.

America can reform its seriously deteriorated finances only by reducing entitlement spending. Any reasonable person knows this. Sure, you can cut defense and you can also raise taxes. But, in order to attack a 14 trillion national debt, you have to cut the programs that absorb more than 60% of total outlays. And that's Medicare, Medicaid and Social Security. Anybody who cares to look at a pie chart of the US Federal

Budget clearly showing the huge slices represented by entitlement programs can figure this up in about 10 minutes. (No, America, we cannot balance by the budget by cutting foreign aid, by closing down the US Embassy in Malawi, or by abolishing NASA or the Department of Education. That would save pocket change. It is your Medicare bill that makes a big difference).

### **Republicans will not win on an austerity platform alone**

Unfortunately, the problem is that people do not want to be reasonable and accept reality. Election time is rarely a time of reason. A Republican political platform focused mostly on drastic spending cuts (of the stuff people enjoy getting) is not popular. The GOP policy message addendum whereby budget cuts will miraculously trigger a wave of private investments and enterprise that in turn will create millions of jobs is a nice idea in which most people do not believe. Period. Whereas people getting money from Uncle Sam just want more of it coming their way. As for the disastrous fiscal consequences of this constant hemorrhage, let someone else worry about them.

And do remember that, before Obama, the Republicans run the economic policy show and they almost destroyed the country. So, if Obama's record is bad, the GOP free market credentials are also tarnished. When people think "private sector" they think "Wall Street". As the memory of the financial crisis debacle is still too fresh, who believes in the genius and integrity of corporations? Nobody.

### **Vote for Obama, he will keep entitlements intact**

So, as neither party has a believable record on economic management, if Obama can successfully paint the Republicans as unrepentant, scary characters who will cut Medicare and Medicare and who will plot once more to privatize Social Security, while still unable to run the economy, many people may decide that, even though the economy under Obama is bad,

at least Obama will not take their safety nets away. And so in the end they'll vote for him.

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# **With a Bad Economy Obama Should Lose in 2012, But He May Win As Democrats Have a Much Broader Appeal Among Minorities Likely To Decide The Next Elections – And They Do Not Vote Republican**

[the-subtitle ]

**By Paolo von Schirach**

June 13, 2011

**WASHINGTON** – Obama is supposed to lose the 2012 elections. The economy is still in bad shape, with dismal growth. Unemployment around 9% is horrendously high by any historic standard; while we have yet to emerge from the catastrophic housing slump. Any incumbent president going into an election with this record should be very vulnerable. Right? Wrong. Obama may be vulnerable; but the Republican party is more vulnerable, because its “natural” constituency is much too narrow, and so is its message.

**Republicans are white and middle class**

Let's take a step back. Looking at the assembled Republican delegates during the 2008 Convention leading to the nomination of septuagenarian John McCain as candidate was rather worrisome for anybody hoping to have a vibrant two party system in America. Very simply, the cameras gave you a view of an almost entirely white, mostly male and somewhat elderly middle class crowd. If this was and still is the "base" of the Republican Party, then, whatever else may happen, it will never have a chance of becoming a majority party.

And, unless miraculously the Republicans nominate a candidate for 2012 who can credibly appeal way beyond the narrow constituency represented by those delegates at the 2008 convention, they have slim chances of beating Obama, however weak he may be next year, given the bad state of the economy.

### **Democrats appeal to minorities now growing fast**

Very simply, the Democratic Party has the significant political advantage of appealing to "diverse America", even though mostly for the wrong reasons, in as much as it is the party that promises to "give things": assistance, aid, welfare. But precisely because it gives things to them, the Democratic Party has solid support among Latinos, Blacks, women, senior citizens and single mothers, typically the weaker and more vulnerable segments of society.

The Republicans have essentially zero appeal among most of these constituencies. And the problem for them is that these groups are growing fast, whereas the white, male, middle class voters are shrinking as a percentage of the total. As Mike Murphy noted in TIME Magazine, (*Numbers Matters. But Which Ones?*, June 20, 2011), a bad economy certainly plays to the strengths of the pro-business Republicans; but the significant demographic shifts already occurred and still underway strongly support Democrats. And demographics may very well trump the economy unless another disaster occurs before November 2012.



## **Republicans cannot run just on spending cuts**

Of course the fact that when the Democrats rule they feel an obligation to provide more and more for their aggrieved constituencies is in large part the reason why our debt grows and we are now in this fiscal mess. But, from a standpoint of political appeal, the Republicans cannot credibly run on an austerity message and nothing else. A platform about major spending cuts and tax cuts alone, as the magic mix that will re-energize America and make everybody rich, will not sell in the inner cities. In case you did not notice, there has not been much trickle-down there in the poor neighborhoods lately.

## **Republican inclusiveness: America as "Opportunity Society"**

If they want to win, the Republicans need to credibly broaden their base. And therefore they need to have a positive, constructive message of inclusiveness, something that gives genuine hope to minorities and others who feel left out. If the Republicans do not want to go the route of welfare, aid and subsidies, then they should be able to re-cast themselves as the party that will recreate a genuine "Opportunity Society" in America. There is no contradiction between sound economic and fiscal policies and providing a real ladder to all those willing to climb it.

## **Education is step one**

And the very first rung of this opportunity ladder has got to be quality public education. Opportunity is not real without access. And education is the prerequisite for access. Yes, one can be fiscally responsible and also socially inclusive by making sure that most Americans will have good education and thus the tools to participate and engage in their own version of the American Dream.

## **Blacks and women as delegates at 2012 GOP Convention?**

It would be nice to see Blacks and women and Latinos as delegates at the next Republican Convention. And not because they have been “bought” with welfare promises; but because they do feel that they are building a real “Opportunity Society” in which all Americans will have a chance. It would be nice; but I doubt that we shall see it.

And thus expect Barack Obama to be re-elected, as the Republicans stay prisoners of their own narrow world –a world overwhelmed, for better or worse, by a radically transformed America.

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## **Departing Secretary of Defense Robert Gates To Europeans in NATO: Shape Up, Commit Real Forces to Missions, Such as Libya, Or US Will Abandon This Alliance**

[the-subtitle ]

**By Paolo von Schirach**

June 10, 2011

**WASHINGTON**– NATO is evolving into a two tier arrangement in which some members show commitment, while most of the others talk a lot and engage in semi-irrelevant activities. The conduct of the Libya operation shows this. If this continues, forget about America’s future support to NATO. This is the

gist of departing Pentagon Chief Robert Gates' farewell speech, delivered in Brussels to America's strongest "European Allies". Blunt and brutal it is; but he is retiring and thus somewhat uninterested in diplomatic tact.

### **Doubts about Europe always there**

If we step back, even when NATO used to be a serious affair as the defense mechanism aimed at deterring Soviet expansionism, many questioned the depth of Europe's commitment to it. Many Americans policy makers believed that NATO was mostly a US unilateral US defense guarantee to Europe via the American "nuclear umbrella". The Europeans did not have to worry too much about their own defense, the critics argued, because Uncle Sam was essentially doing it for them. Indeed, even in the darkest days of the Cold War, the Europeans spent some on defense but not too much.

### **After the end of the Cold War no more serious defense spending**

But if getting Europe to do more when there was a real danger was difficult, after the Warsaw Pact disappeared, the Soviet Union imploded and Germany was reunified, forget about it. In the 1990s, Europe really relaxed. Defense budgets were slashed, as the general perception was that without the Soviet Union to scare Europe there was nothing else to worry about. And in a sense the Europeans were right. The NATO Alliance had been created most fundamentally to protect Europe from Moscow. With the end of the Soviet Union, arguably Europe's most pressing security concerns were over.

### **Other "out of area" crises**

Except that other problems kept popping up. Certainly they had nothing to do with a threat from the East. But they were and are real concerns. There was Bosnia, and then Kosovo. As of 2001 there is Afghanistan, and now Libya. As Secretary Gates pointed out, all these contingencies have shown that the European members of NATO have minimal capabilities and even

less will to act. Even when they have declared that action has to take place, the European members of NATO, in general rich to middle income countries quite capable of acquiring whatever may be needed, are militarily unprepared and disorganized. And, of course, some do not show up at all.

### **Gates: shape up or this will be the end**

In his final speech to the Europeans, Gates bluntly told them that, if their behavior continues as is, this will be the end of NATO. He argued that it is impossible to assume open ended US political support for Allies who are essentially incapable or unwilling to do even the bare minimum for the common defense.

### **NATO somewhat unserious even in tough times, now a talking shop**

Having watched the steady deterioration of NATO for the past 20 years, I fully agree. Even in the more glorious past, the inside jokes were that "NATO" means really "Not At The Office", or "No Action Talk Only". The "European Pillar" of NATO was nicknamed the "European Pillow", soft and cuddly just as they are, and so on. Now the best that I can think is that NATO will either die or be transformed into something like the British Commonwealth, a nice "alumni group" that meets and hold Games and does not do much else.

### **Gates' scathing assessment**

Robert Gates used his last appearance before retiring as an opportunity to re-ignite Europe's commitment. But he knows that this is just for the record, so that he will be able to say, a few years from now "I tried. I told them. But they would not listen". And this is some of what he actually said:

*"If current trends in the decline of European defence capabilities are not halted and reversed, future US political leaders – those for whom the cold war was not the formative*

*experience that it was for me – may not consider the return on America’s investment in NATO worth the cost.”*

And then there were scathing comments about the inability to conduct sustained military operations against Libya, a rather modest opponent.

*“The mightiest military alliance in history is only 11 weeks into an operation against a poorly armed regime in a sparsely populated country. Yet many allies are beginning to run short of munitions, requiring the US, once more, to make up the difference.”*

Besides, while the Alliance had unanimously decided to get engaged in Libya –all 28 of NATO members– not many showed up. Indeed in Libya, of all the Allies, Gates noted,

*“Less than half have participated, and fewer than a third have been willing to participate in the strike mission ... Many of those allies sitting on the sidelines do so not because they do not want to participate, but simply because they can’t. The military capabilities simply aren’t there.”*

(This sad show reminds me of an old anti-regime joke during Mussolini’s militaristic dictatorship: *“Armiamoci e ... Partite”*, *“Let’s All Take Up Arms, And...You Go”*).

### **Many Allies can and should do more**

In a previous occasion, Gates had noted that, with the US providing much of the overall logistical support, only France, the UK, Norway, Denmark, Belgium, Italy and Canada have committed assets to the air campaign against Gaddafi. Counting the US, that is a total of 8 countries –out of 28 NATO members.

Gates had singled out Germany, Poland, The Netherlands, Spain and Turkey as Allies who would have capabilities but are unwilling to participate. And, in this case, the enemy is only

Gaddafi, a bizarre gangster with third rate armed forces, rather than major armed forces.

In the end, I believe that Gates is correct. Hard to believe that the US will continue to maintain a commitment to a NATO Alliance in which most of the Allies do almost nothing. Sad but true.

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# **Italy Is Not Greece, But Getting Closer – Recent Industrialists Report Indicates Manufacturing Sector Overtaken By India, South Korea**

[the-subtitle ]

**By Paolo von Schirach**

June 9, 2011

**WASHINGTON** – The bad news from Europe is still about Greece. But Italy is a runner up. Not so much for its immediate fiscal problems, (rather well contained, at this stage); but because of its slow motion, but steady economic implosion, punctuated by the decline of its once buoyant manufacturing sector.

**Gloomy analysis**

The *Centro Studi di Confindustria*, a research outfit of the

leading national confederation of Italian industrial groups, indicated in a recent report that Italy's industrial production is almost at a stand still. *"Italian industrial production is hovering around the levels of the Summer of 2010"* –the report indicates. There is pitiful monthly growth of about 0.1%. Production is way below pre-crisis levels (-26.1%). Italy is a country *"smashed by a violent recession and a slow recovery"*.

### **Behind India and South Korea**

Even worse, Italy lost two notches in world rankings of leading industrial powers. From number 5 it is now number 7, behind India and South Korea. With only 3.4% of global industrial production, Italy is now just a bit ahead of Brasil, a country growing at a much faster pace. Italy remains an industrial country. But the sector declined almost 17% in the last 3 years, a record fall among developed countries.

According to the research center Director, Luca Paolazzi, quoted in the Rome daily La Repubblica, Italian entrepreneurs have to be three times as clever as their foreign counterparts *"in order to survive in such a non competitive environment"*.

### **Long term, impossible to deal with Italy's massive debt**

While Giulio Tremonti, Italy's Finance Minister, has been good at containing public expenditures during the financial crisis, thus preventing a fiscal collapse a-la-Greece, Italy's public debt, now close to 125% of GDP, is one of the biggest in the world. Difficult to deal with it in ordinary circumstances. But no chance to keep financing it –let alone paying it back– with a diminished revenue base due to a collapsed industrial economy and manufacturing in free fall. It is not Greece, but it is not looking good.

And, down the line, this systemic industrial weakness spells more troubles for the Euro-zone.

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# **Killing Osama No Game Changer – Defense Secretary Bob Gates Vaguely Talked About Possible Gains Down The Line**

[the-subtitle ]

**By Paolo von Schirach**

June 9, 2011

**WASHINGTON** – Will the US get much mileage from the Osama bin Laden operation? Well, not much, according to comments made by departing Secretary of Defense Robert Gates. *“I think that in terms of the political prospect, the potential of the killing of Bin Laden to be a game changer is there.”* So, we have “prospect”, with “potential” that the killing may become a “game changer”, at some point in the future. Talk about convoluted sentences aimed at saying nothing of substance! Translation: the operation was important; but mostly for US morale. It is no game changer regarding the ongoing struggle against Al Qaeda. Sadly, it is so.

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## **Senate Foreign Relations**



# Committee Questions Value of US Aid to Afghanistan – Chairman John Kerry Says Commitment Too Costly For US

[the-subtitle ]

By Paolo von Schirach

June 8, 2011

**WASHINGTON** – At his Senate Foreign Relations Committee confirmation hearing to be the next US Ambassador to Kabul Ryan Crocker essentially held the position that the US should stay the course in Afghanistan. This means continue fighting the Taliban, while continuing to provide massive amounts of aid to Afghanistan in the hope that between now and 2014, the official date for a real US withdrawal, Afghanistan will be more secure and viable as a country.

## **Optimism not justified**

Nice idea. Except that nothing happening on the ground justifies this optimism, that things will turn out this way. The situation, while by no means desperate, is not improving much, while keeping a 100,00 strong US expeditionary force in Afghanistan , led by General David Petraeus (he is about to leave), is costing a fortune. The Taliban is not winning; but they have not given up either. Thanks to the US surge, security may have improved in parts of the country, but it is still tenuous and extremely fragile.

Besides, the vast amounts of US taxpayers dollars spent on the civilian side in order to shore up the government and build a viable economy have not produced good results. 10 years and \$

19 billion later, not much to show for a civilian aid effort costing now additional \$ 320 million a month. And this is just the non military part. The military cost is on top of this.

### **Flawed assumptions about the US intervention**

Why such disappointing results? The problem is that we have the wrong strategy. These huge expenditures with inconclusive results are all based on the flawed assumption that this is the best way to protect American national security interests. The official orthodoxy is that, since the 9/11 attacks against the US homeland were hatched in the al Qaeda run camps in Afghanistan, it is imperative to secure Afghanistan; so that it will never again be used as a platform for anti-American terrorism. Leaving it to the Taliban would mean re-opening the door to al Qaeda and other assorted militants.

### **“De luxe” option**

May be so. But in the pursuit of this goal, the US chose the “de luxe” option which includes vast and ambitious interventions at every level of the Afghan society. And this is on top of military actions. A “sanctuary denial” policy against the Taliban, based on targeted actions, as opposed trying to control the whole country, could secure the objective of preventing terror camps from being set up again without a commitment of a complete “re-do” of Afghanistan.

(And in all this let’s keep in mind that al Qaeda can set up operations elsewhere. Maybe not on an open grand scale; but it can. Again, let us remember that effective terror plots do not require thousands of trained troops. 9/11 was implemented by 19 people. We can deny Afghanistan, but we cannot control the whole world. Al Qaeda can operate from other bases).

### **US Aid programs “not sustainable”**

Besides, this “re-do” is not working well; while what is working, according to a recent Senate report, is “not

sustainable". "Not sustainable" is development folks speak to indicate "a castle of cards". In jargon, they call "not sustainable" any kind of program or project that is predicated on permanent donor support. Which is to say that, once the donor leaves and hands over the keys to an Afghan entity, the whole thing collapses for lack of trained managers, money or both.

This opinion about the overall rather poor record in Afghanistan is not partisan. "Our current commitment, in troops and dollars, is neither proportional to our interests nor sustainable," said Sen. John Kerry, D-Mass., chairman of the Senate Foreign Relations Committee in the course of the confirmation hearing for Ryan Crocker.

Exactly right. We have interests in Afghanistan, no doubt; but they could be protected with a different kind of intervention. And, no, we do not have all this discretionary money to throw into Afghanistan.

### **Senate Foreign Relations Committee Report**

And this was not just an off the cuff remark by Senator Kerry. The Senate Foreign Relations Committee majority staff, that is the Democrats, just came up with a rather gloomy report titled ***Evaluating US Foreign Assistance to Afghanistan***, (June 8, 2011), that shows as a minimum the thinning of support for the war and concerns about what will happen later on, assuming a US 2014 departure. About the efficacy of aid in Afghanistan, the Reports states that:

*"Evidence that stabilization programs promote stability in Afghanistan is limited. Some research suggests the opposite, and development best practices question the efficacy of using aid as a stabilization tool over the long run. ... The unintended consequences of pumping large amounts of money into a war zone cannot be underestimated."*

Even worse, the Democratic staff report warns that because "an

*estimated 97 percent of Afghanistan's gross domestic product (GDP) is derived from spending related to the international military and donor community presence ... Afghanistan could suffer a severe economic depression when foreign troops leave in 2014 unless the proper planning begins now."*

## **US created an artificial economy**

In the end, it is like this. We entered an extremely poor country with the intention of helping it. Instead we have made whatever new prosperity there is now almost totally dependent on the aid we provide and on the services sourced there that support the military. We leave in 2014 and the whole thing collapses, with bad socio-economic and political consequences.

It would be wise for the administration to come up –and fast– with “*Plan B*” for Afghanistan, as this one is not going to end up well. As the development people say, this is one is “not sustainable”.

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# **Egypt in Transition Towards Democracy Is Semi-Bankrupt – \$ 20 Billion International Assistance, Will It Be Enough?**

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**By Paolo von Schirach**

June 6, 2011

**WASHINGTON** – If you thought that the US had a mighty fiscal crisis and that nothing could be worse than Greece, once more with begging bowl in hand, barely a year after a gigantic European Central Bank (ECB) and International Monetary Fund (IMF) bail out, think again. Egypt should come to mind as the looming Mediterranean Basin basket case. It is the largest and now semi-bankrupt non-oil Arab economy. Remarkably, this country of 80 million managed to get rid of octogenarian president-for-life-or-so-we-thought Hosni Mubarak in an almost peaceful fashion. This was a great success, considering the ongoing bloodshed in Yemen, Syria and, of course, Libya, with no victory in sight for those who want change.

### **Egypt revolution about economics as much politics**

But the Egyptian uprising was at least equally a revolt of the unemployed and the marginalized demanding a better deal as it was a rebellion against autocracy and lack of accountability. The provisional government tried to assuage the economic tensions by giving lots of stuff away. Egypt's almost 6 million civil servants and other public workers got a 20% wage increase, according to a The Financial Times story. Minimum wage has been increased and fuel subsidies have been extended. All these laudable attempts to buy social peace, however, because of the political upheaval, occurred as state revenue fell by half and exports also fell by half.

### **Spending up, revenue down**

So, in Cairo we have now a really nasty combination of increased expenditures to keep a modicum of tranquillity and an incredible revenue shortfall. The public deficit will climb from almost 9% of GDP to about 11% next year. This is clearly unsustainable for an already fragile economy. To shore things up a bit, the Egyptian government just got a \$ 3 billion loan from the IMF. But this is just a band aid, some budget support that will be spent in no time.

## **How to get the economy moving**

The hard part will be to get the economy moving again and to recreate a sense of confidence among foreigners, so that they will start coming to Egypt again, this way fueling a substantial hospitality industry that provides employment and much needed revenue.

## **European Union and G-8 countries to the rescue**

French Foreign Minister Alain Juppe', speaking in Washington at the Brookings Institution about the prospects for the Arab Spring, indicated that the EU has plans to shore up the tattered economies of the Arab countries just transitioning into what we hope will be democracy. Juppe' recognised that, if the economies of Tunisia and Egypt fail, it will be chaos and consequently the prospects for democracy would be very dim.

He also added that the G-8 countries pledged a fresh fund amounting to \$ 20 billion for Egypt and Tunisia. But he admitted that pledges are one thing, spending on a good plan is quite another. Can the Egyptians come up with a good economic revitalization strategy in which precious foreign assistance will play a major role? Let's hope so.

## **Egypt is "too big to fail"**

Very much like Greece, Egypt cannot make it on its own, this much is clear. Greece is lucky (or so we think) to be inside the European Union and thus apparently "too big to fail". Egypt is also "too big to fail"; but for entirely different reasons. Because it is in many respects the center of gravity of the much of the Arab world. Still, its successful economic rescue, right in the middle of this delicate transition to some kind of democracy, cannot be taken for granted.