The Center for Disease Control Found That Americans Drink Too Many Sugary Sodas – A Big Deal? Yes, Because Too Much Sugar Leads to Obesity, Type Two Diabetes And More – And A Bad Diet Practiced By Millions Ends Up Costing Billions

[the-subtitle]

By Paolo von Schirach

August 31, 2011

WASHINGTON – Washington think tanks and the US Congress through the new *ad hoc* House-Senate committee on spending and the deficit debate what to do to curtail ultra expensive federal health care programs, (Medicare for the elderly, Medicaid for the poor). Meanwhile, the Atlanta based Centers for Disease Control, (CDC), comes up with disheartening findings indicating once more that Americans indulge in very unhealthy dietary habits that ruin their health and end up causing totally preventable diseases that –guess what– end up costing billions of dollars every year.

Bad diet costs money

And these huge costs then become a political issue as the Federal Government is in debt in large part because of the growing costs associated with the growing cost of health care programs. Bottom line: bad diet ruins your health and the nation's finances. Lumped together, public and private health care costs absorb now about 17.5% of America's GDP, an astronomic amount that is more than 1/3 higher than the average spending of other rich nations. Believe it or not, a huge chunk of this spending has to do with the medical consequences of bad diet.

Americans drink too many sugary sodas

A major bad dietary habit, documented by a just releases CDC study, is that Americans drink too many sugary sodas. You might think that this does not sound like much of anything. But it is, because sodas are loaded with sugar. On average a can contains the equivalent of 10 to 12 tea spoons of sugar. Too much sugar ingested regularly, as part of the every day diet, is essentially like a low level poison. For this reason, the daily recommended amount is no more than half a soda per person. Cutting down on these sweetened drinks is strongly recommended in order to cut down on excessive sugar consumption.

But few seem to follow good advice. According to the CDC findings, half the American population drinks on average about one sugary soda a day. And since this an average, many are drinking a lot more, with larger quantities consumed by young males, African Americans and lower income people. So, the young, the minorities and the poor are those indulging the most and thus most likely to suffer long term health consequences due to this overuse.

Too many sodas lead to higher health care costs?

But what does this have to do with health care costs? A lot, because plenty of sugar loaded sodas are an integral part of a hyper caloric, unhealthy diet, heavy on starch, fat and sugar, preferred by tens of millions of Americans. And it is now firmly established that a bad, hypercaloric diet leads to obesity, cardiovascular diseases, type 2 diabetes and more. It follows that people contracting these diet induced chronic diseases are in need of medical care. And all this health care costs money. A Lot of money. The estimates are that it costs more than 200 billion a year to treat obesity induced diseases.

Change the basic American diet: health gains, lower health care costs

Cutting down on soda drinks and drinking instead plain water would be no magic bullet. But it would help a lot, especially as part of broader efforts aimed at educating people on how to eat healthy food. It appears that some US hospitals are trying to lead by example, by stopping to have on their premises vending machines that sell sodas, offering instead non sugary products. It is about time.

Needless to say, the American Beverage Association, the soda industry main lobbying group, says that these CDC findings are untrue or at least grossly exaggerated. But what else would you expect from Coca-Cola, Pepsi-Cola and all the other groups that make money by inducing bad habits? Remember for how long tobacco companies tried to make the case that cigarette smoking was essentially harmless?

Steve Jobs Is A Great Innovator Within A Rich

Tradition Of American Entrepreneurs – The Secret Is An Open, Flexible Business Friendly System That Breeds Innovation – So Unique That No One Managed To Replicate it

[the-subtitle]

By Paolo von Schirach

August 26, 2011

WASHINGTON – As Steve Jobs leaves Apple, predictably it is time for all to to say with abandon what a genius he is. And for sure we can agree that he is one of a kind, an eccentric, driven innovator who succeeded, failed and then came back with the best stuff ever in his later years. But in heaping all this praise, we may lose a larger point noted by The Wall Street Journal in its Editorial, (*The Importance of Jobs*, August 26, 2011). While Steve Jobs may be indeed unique, what he did, while exceptional, is in line with an American tradition fueled by innovative entrepreneurs who thought of and then created disruptive technologie and products for which there was no manifest market need.

America is fertile ground for innovators

Indeed, the great innovations that transformed not just America but the world were the products of someone's imagination. The light bulb, the telephone, the TV and, closer to us, the Internet did not come about because entreprenueurs interrogated focus groups about what consumers wanted. They were willed into existence by visionaries. And then a capitalist economy managed to transform invention into product and profitable business.

The point of this reminder is that America's unsurpassed, (till now, at least), economic greatness has rested in providing the fertile ground for innovators to be hatched, grow and develop their ideas, in an environment that, as a mimimum, was not hostile to innovation. The environment also gave a substantial number of people a reasonable education foundation that would enable them to go ahead and pursue their own ideas. If America will continue to preserve this favorable soil, then our future, whatever the dire straits we are in now, does not look so bleak.

If instead we turn innovators away by creating onerous rules and by complicating the system which enterprise have to live in, then we poison the soil and it is good bye to America as the Magic Land where all innovators want to go to and stay.

Simple enough to reproduce the US system?

Yes, all this sounds simple, in fact pretty pedestrian. A good education system, a few innovators thinking original ideas. Capitalists willing to back the fledgling entrepreneurs. A work force to make them and sell the new products. What' so complicated?

Top down "Lisbon Goals" failed

Well, it is so basic and so simple that no one so far has been able to reproduce it. Remember the ambitious "Lisbon Goals"? This was a Grand Plan proclaimed by the European technocrats in March of 2000 whereby, via a focused and concerted effort, the European Union would become *"the most dynamic and competitive knowledge-based economy in the world*" by 2010. Well, it all failed, rather miserably, proving once more that one cannot will innovation into existence by bureaucratic fiat.

Let’s nurture the unique American eco-system that breeds and sustains innovators

So, it is difficult to have and preserve an America-like dynamic, flexible, receptive and adaptable economic system that will welcome innovators and the fruits of their genius. Again the difficulties, (mostly failures), in replicating these features of American capitalism elsewhere attest to the uniqueness of this model.

Steve Jobs is a unique, irreplaceable innovator and corporate leader. But the economic eco-system that allowed him to thrive is also irreplaceable and in fact much more valuable, as it will allow others like him to follow.

How Can America Create Incentives For Large Truck Operators To Switch To Natural Gas Vehicles? Tax Subsidies, And An “American Natural Gas Highway”, A network of Refueling Stations

– Chesapeake Energy Is Leading With a $ 150 Million Investment in Clean Energy Fuels

[the-subtitle]

By Paolo von Schirach

August 21, 2011

WASHINGTON – America's imported oil bill is about $ 400 billion a year. This amount will fluctuate with the price of oil but it is astonishingly high. This affects our balance of payments, while it creates a huge strategic vulnerability. America is exposed to the consequences on price and actual oil availability caused by even minor supply disruptions. (Just think of the conflict in Libya this year and oil jumping to $ 100 a barrel). One way of cutting imports is to produce more oil domestically, and we are doing some of that. US domestic oil production is up. But, even the most optimistic projections indicate that production increases in America will never replace imported oil. America cannot possibly become self-sufficient. While more domestic oil is welcome, it will never be enough.

Alternatives to oil: electric vehicles

As far as alternatives go, industry is moving its first but deliberate steps towards electric vehicles, EVs. For the first time major volume producers like GM, Ford and Nissan are offering EVs. Overtime, assuming success for this new segment of the auto industry, EVs will displace a large number of gasoline burning cars and trucks.

Natural gas is cheap

But if we really want to replace imported oil, we have now a powerful additional alternative represented by cheap and abundant US natural gas. America is now a major natural gas producer. In recent years, technological breakthroughs, (hydraulic fracturing to get gas trapped in rock formations), have allowed massive production expansion. Natural gas has been traditionally used for electric power generation and as an ingredient for chemical industry processes and products. But now, with all this additional natural gas supply, it becomes possible and economically attractive to start powering vehicles with either Liquefied Natural Gas, LNG, mostly suitable for heavy trucks, or Compressed Natural Gas, CNG, used by cars.

And the reason for switching to LNG or CNG is cost. At current prices, we are talking about savings up to $ 1.50 to $ 2.00 per gallon. Natural gas is cheap. Assuming large scale conversion of just heavy trucks, it is estimated that the US could reduce its oil imports from OPEC countries by about 50%. Besides, unlike electric vehicle technology that is still relatively new territory, there are no mysteries about how to make natural gas fired vehicles. This is old stuff.

Large scale industrial conversion is a daunting task

That said, large scale conversion from gasoline to natural gas powered vehicles represents a daunting economic proposition, given the scope of up front investments necessary to create factories to make natural gas powered vehicles, to purchase the vehicles themselves, (trucks would be a priority), and to create a national network of refueling stations. Besides, how do you even start this process? Many things need to happen almost at the same time.

How to convince buyers and producers to make the move?

First of all, you have to convince end users –and these would be companies operating large numbers of heavy trucks to begin with– that it is a good idea to buy natural gas powered vehicles, given the significantly lower fuel costs that would reduce their large operating costs. However, in order to make conversion possible, someone has to make the trucks, and this would require up front investments in plant and equipment. But, in order to convince buyers to demand the products and manufacturers to produce them, you also need a national network of filling stations that will provide the fuel.

Incentives: legislation and refueling stations

All this is pretty complicated, even though the incentive of low fuel prices should get corporate America motivated. Still, in order to get this process moving, someone has to create incentives. T. Boone Pickens has been pushing for federal legislation that would provide incentives for corporations to switch over to natural gas vehicles.

But what about refueling stations? Chesapeake Energy, America's second largest natural gas company, has a clear interest in expanding the market for its product. The large gas group invested $ 150 million to support a broad effort to create an "American Natural Gas Highway". This will be the first major effort to build a number of natural gas refueling stations across the US, so that trucking companies will know that their vehicles will get the natural gas they need along their routes. The stations will be built by Clean Energy Fuels, a company fully dedicated to natural gas. Chesapeake Energy expectation is that, once it is proven that natural gas is truly viable as transportation fuel, most heavy trucks fleet operators will jump on board, therefore creating demand for more vehicles.

In the end, the incentive to switch over is low price

In the end, notwithstanding the number and the magnitude of the hurdles involved in creating –essentially from scratch– a natural gas vehicle industry with all the necessary supporting elements, from specialised maintenance to filling stations, the reason for doing this is very simple: the low cost of this domestic fuel compared with oil derived gasoline.

A boost to the US economy is an extra bonus

That said, the fact that gas is extracted and processed in America, by Americans and that it will allow fuel cost savings for US businesses and ultimately for the general public is an added bonus to a battered US economy. Instead of sending abroad $ 400 billion a year to pay for the fuel to power American cars and trucks, we shall spend our money on our own domestic resources, with considerable savings. Not a bad plan.

Berlusconi Promises Tough Budget Measures For Italy – Attempt To Avert Greek Style Debt Crisis – Good Show, But Do Not Count On Structural Public Spending Reforms – Italian System Is Incapable

[the-subtitle]

By Paolo von Schirach

August 15, 2011

WASHINGTON – The European Council President, Herman Van Rompuy, praised the Italian Government led by Prime Minister Silvio Berlusconi for its "*timely and rigorous financial measures*" aimed at reducing the government deficit as a way to contain the effects of the debt crisis. The measures announced are more stringent than a previous package which Rome announced only a few weeks ago.

Balance the budget?

Under the new plan, Italy aims to cut its deficit to only 1.4% of GDP in 2012 and balance the budget in 2013. This will be accomplished via a mix of spending cuts and tax increases. Why the new round of "rigorous" measures? Well, because the bond market had began wondering how Italy would ever pay back its astounding debt.

Unmanageable debt

Sure enough, until now Italy managed to service its debt, notwithstanding its staggering size, now more than 120% larger than the country's GDP. But, in the midst of the growing Eurozone turmoil, caused in large part by market fears of huge piles of debt in many countries characterised by weak economies, Italy's oversized debt looked very bad. And so investors started asking for higher interest rates for Italian bonds. And a rise in interest rates could be disastrous, given the size of Italy's debt and the impact of higher interest rates on the yearly cost to service it. So, the European Central Bank, ECB, came to the rescue, buying Italian bonds, (and Spanish bonds, as Spain is also doing poorly), in order to alleviate the interest rate pressure.

In return for the favor, the ECB wanted Italy to show more forcefulness in spending cuts as a demonstration that the country is well on its way to balance the budget, and very soon capable of generating budget surpluses, so that it can credibly show that it is has a strategy to start retiring this enormous debt.

Italy “does not do” long term plans

Well, here I invite a pause. Such a transformation in Italy’s fiscal policies would be a revolution. In size and scope this would be totally unprecedented. Italy “does not do” long term strategies. It never did. And I suspect it never will. The political system was and is paralysed. Silvio Berlusconi, haunted by criminal prosecutions and even sex scandals, is a totally discredited leader attacked from within his shaky coalition. And there is no credible center left political alternative.

Everybody is wedded to the system as is

Besides, whatever their politics, the Italians are wedded to a costly and ineffective welfare system. And the Italian economy is strangled by bad laws and extremely onerous labor regulations. Some Italians reacted to this through the “grey economy”, also known as “the submerged” sector, (no invoices, no records, no taxes). Organised crime, through its main “holding companies”: Mafia, Camorra and N’drangheta feeds on all these structural inefficiencies, collecting rents at every step of the way.

A “rigorous” plan would entail trasnforming all this, so that –puff– the old Italy is gone and a new one born. So, please, forget about it. With this I do not mean to say that nothing will be done in Italy. “Something” will be done, for sure. But count on cosmetic, mostly window dressing, temporary stuff.

Count on clever moves

Italy is famous for last minute improvisations and clever manoeuvres. But, serious, structural reforms are too complicated in a country kept together by layers upon layers of interlocked vested interests and where it is a remarkable political achievements to survive the day.

And, please do remember that Prime Minister Silvio Berlusconi himself came onto the Italian political scene as the anti-establishment "new man", a self-made businessman who would finally introduce sound market oriented economic policies. Well, this was back in 1994. And while lucky enough to govern with a large majority, at least after the most recent elections, he did basically nothing.

But now it is different, bold action needed

One might object that now the situation is different, as Italy is confronted with a fate similar to Greece, unless drastic action is taken right now. Well, you would think so. But I doubt it.

*Look, even Greece, a Eurozone country **that did fall into the abyss** and is now in the midst of a real national tragedy, still does not get it. The Greek Government is still a long way from having all its citizens buy into a real reform plan. Mostly the Greeks resist the changes enacted to save it.*

Italians still believe that they will get by

The Italians, who want to believe that their predicament is not as bad as Greece's, are even farther away from buying into anything. For sure, to assuage the markets, "something" will be done. Hence Rome's policy announcements. But do not expect any serious, radical and implementable long term plan. This would be way beyond what a weak political system can design, sell and execute.

The EU partners know this

So, to read today that Italy's new initiatives are regarded as "*timely*" and "*rigorous*" by its EU partners makes me wonder. Don't the other Europeans know that this is going to be some more Italian window dressing, with little substance? My hunch is that probably they do know. Still, it is expedient to say nice things in public, hoping that the bond markets will be fooled. After all, last year when the Greeks promised to put their house in order, in return for EU and IMF money, nobody doubted their intentions in public. And then we saw what happened.

Proclivity for farce

This proclivity for farce makes me think. It used to be said about Italy that *“The situation is dramatic….but not serious”*. Now, if the other Europeans play along and accept Italian smoke and mirrors as substance, I am beginning to think that this sarcastic characterization of basic lack of seriousness applies to the rest of Europe as well.

Wall Street Mini Crash, Turmoil in Europe Indicate No Faith in Western Countries Economic Policies – Cost Of Welfare State Coupled With Weak Economies Caused Unsustainable Debt – We Need New Pro-Growth Economic Strategies

[the-subtitle]

By Paolo von Schirach

August 5, 2011

WASHINGTON – Whatever the mini stock market crash, (minus 512 point for the Dow Jones), of Thursday August 4 was, it was not a sign of confidence in the economic foundations of worn out, short of breath Western countries. Who knows what exactly caused a moment of panic and this significant stock market sell off. But one thing is clear: neither in Europe nor in the US the economic and economic policy fundamentals look particularly inspiring. On both sides of the Atlantic we have now a nasty combination of slow economies and huge entitlement obligations, accumulated over decades, that created an enormous debt burden, suffocating public finances.

Vote of no confidence, Italy weak link

In an emotional, panicky, moment markets simply expressed a vote of no confidence in Western public policy as currently structured. Their verdict: No way that anybody can sustain, let alone pay back, this kind of (growing) debt without any significant economic expansion. In Europe now it looks as if Italy, (the world's 8th largest economy), is the new weak link –and a big one, compared to tiny Greece that has been making headlines for months. And concern is with cause.

While the yearly budget deficits are not staggering, (thanks to the efforts of Economics Minister Giulio Tremonti), Italy's total debt, at about 125% of GDP is huge –and the economy is not growing. So investors started wondering how will Italy manage to carry this enormous debt burden without the ability of generating the extra revenue that could allow debt repayment, while also meeting ordinary expenses. Their skepticism is expressed first of all in asking for higher interest rates when lending new money. And this is of course very bad, as it increases the debt service cost of the existing national debt, increasing the strain on already strapped public finances.

Needed: a new course

What markets –and Western societies– badly need now is bold new leadership that would admit failure of this model and propose a radical change of course, away from more and more welfare and focused on growth. But I would not count on it. Politics in both Europe and the US is about giving things to people who have come to expect hand outs in the form of entitlement programs as civil rights. All well and good if these hand outs were free. But they are not. Hence the disconnect between large promises made and revenue shortfalls that manifests itself in mountains of debt. Without changing course, it is obvious that governments will be unable to keep their promises, while the economies will be crushed by debt.

US: dismal growth, no debt reduction plan

In the US, we just had a puny mini August 2 debt deal that means nothing, while new data indicate dismal economic growth, (less than 1% so far this year), and only modest employment growth: 117,000 new jobs in July. The general consensus is that we would need sustained 2 to 3% growth and 200,000 new jobs every month to get more revenue and start mopping up the 9.1% unemployment rate. And the US, while not in desperate conditions when it comes to servicing its debt, has yet to put together any credible plan that would convince markets as to its determination and ability to really reduce federal spending, if not now, at some point.

While it is extremely difficult for Washington to engineer an economic growth strategy in a country in which tens of millions of people are laboring to get out of debt and thus are unable to fuel demand through their very modest spending, there is absolutely no action plan to do anything worthwhile.

Do something: promote domestic energy exploration

One idea? Start by focusing on boosting supply of domestic energy. Make it easy to have more exploration for oil and gas.

Create more downstream opportunities for new sources. America is lucky enough to have found out how to exploit huge reserves of shale gas. Well, let's use this gas for transportation as well as electric power generation and feed stock for the chemical industry. Let's create a new domestic truck and auto industry of gas powered vehicles. T. Boone Pickens has been promoting this idea for years.

Exploit all natural gas opportunities

The economics are good. Natural gas is much cheaper than gasoline. And gas is domestic, not imported. We keep our money here and we invest it here, this way creating new jobs in America both in energy production and in the vast supply chain that feeds the industry. This is bound to be good for new employment and growth, while it would improve our balance of payments, as we would end up importing less oil.

Infrastructure maintenance plan

Look, this is just one idea. We have also heard about a massive national plan to hire people to execute badly needed infrastructure maintenance. This is not about new projects that would need time consuming vetting and permits. This is ordinary stuff: highway repairs and the like. But these are essential interventions, absolutely necessary just to keep the integrity of our national physical plant. Former Pennsylvania Governor Ed Rendell talks about it on TV. It may not be panacea. But it will put people to work, while performing repairs that are needed anyway, with obvious benefits for commerce and overall economic productivity.

This is urgent

But president Barack Obama, while proposing the creation of a National Infrastructure Bank, is not providing the leadership needed here. There is urgency about doing whatever is reasonable to get the economy moving. And the White House is not conveying this urgency. No wonder markets are pessimistic.

Not All US Spending Is Bad – Public Investments in Infrastructure, DARPA, Basic Science R&D And Education are Good – But Impossible To Differentiate In A Climate in Which All Spending Is Either Bad Or Sacrosanct

[the-subtitle]

By Paolo von Schirach

August 3, 2011

WASHINGTON – In a piece in The Financial Times, (*Washington's battle is a diversion*, August 3, 2011), Martin Sandbu points out that in the Washington anti-spending drama whose first act just ended with the August 2 compromise, we lost sight of the fact that not all US public spending is bad. There is so much focus on the evils of deficit and debt, the consequences of too much aggregate spending, that now, according to the fiscal purists, "all spending is bad" and thus we should cut everything –across the board.

Not all US spending is bad

Well, no. Some spending may actually be good, and that would fall under the category of "investment". To put it in simple every day life terms, some spending, even if originating in borrowing, may actually be good. Suppose you get a commercial loan or borrow against the equity in your home to finance a new business or to build an addition to the house. Chances are that there may gain from this borrowing. The business may succeed. Your home value may increase due to the addition.

Borrowing to invest in assets not the same as borrowing to finance leasure

Suppose instead you borrow against your home equity to pay for a lavish, luxury vacation. Well, that is spending on leisure. It may be enjoyable; but that is pure spending to support a life style that you could not otherwise afford, as the money does not come from your income. And if you did this every year, in the end you may have eaten up your entire home equity with nothing to show for it, except that hopefully you had a good time.

US needs to spend on infrastructure

By the same token, whatever the bad reputation earned by the Obama stimulus plan , ("shovel ready projects" that were not), there is an obvious –in fact urgent– need in America to maintain aging physical infrastructure. Now, this is not sexy, futuristic stuff. It is highways, bridges, ports, airports. But spending for its upkeep is absolutely necessary, unless we want to descend into Third World conditions.

Borrowing to fund infrastructure maintenance is not the same as borrowing to fund transfer payments. In so doing, we are actually attending to the upkeep of the national physical plant. Good highways, ports and other facilities reduce the time it takes to move goods around. This will facilitate commerce and improve productivity, and thus it will have a positive impact on the economy.

Good US spending on R&D and education

By the same token, government funded basic research provides the underpinnings for additional private sector-led research that may piggy back and hopefully capitalise on the first wave of government funded outlays. Remember DARPA and the Internet early steps? Who funded it? Well, the US Department of Defense. And what about all sorts of electronics and your portable GPS device? Yes, the evil, spendthrift US government started all that. Not so evil stuff, after all, as it gave life to a variety of private sector, high technology industries that are still the envy of the world.

From the above it should be clear that even as we retrench and we cut down, as we must, it would be wise to keep spending on items that strengthen the economic resilience of America and/or its future innovative capabilities.

Most spending is for entitlements that America can no longer afford

Regarding the "bad" spending, we should note that most entitlement programs are based on political bargains in which the government determined that it was its responsibility to provide for the poor and for the elderly. Most of the money Washington spends, about 60% of the total federal budget, goes to entitlements that are essentially income support and health care support programs.

These programs are not "bad" in and of themselves. It is their overall size that is bad in as much as the amount of transfer payments, (mostly to an increasing number of elderly Americans), cannot be financed through the current revenue raising measures. In other words, Washington made promises and then overtime enlarged them, while it has not enough money to keep them. As entitlements cannot pay for themselves through the taxes devised to fund them, the difference between revenue and outlays is made up through increased borrowing.

Reforming social spending is politically explosive

Of course, we should add that the rest of the government has also run amok. Non entitlement, discretionary spending, (defense and non defense), has grown too much. But tackling discretionary spending, while complex, is not nearly as controversial as reducing benefits to tens of millions of current and future beneficiaries. It is not an accident that these are called "entitlements". Try and yank them away from people who mistakenly believe that they "earned" them. All in all, these politically explosive items are the major reason why we are running large deficits.

If we focus only on the deficit we do not discuss the composition of public spending

But, as Sandbu points out, by focusing entirely on the deficits that are a consequence of all aggregate spending, we are not discriminating. Given a bias against spending *per se*, there is no debate about the composition of US federal spending and therefore we are not discussing which spending is useless, which spending we may want but can no longer afford and which spending may actually be beneficial to the US economy.

Staggering deficit growth due to the extraordinary circumstances of the financial crisis combined with ordinary spending already out of control

True enough, the rate of increase of all spending is unsustainable. But, first of all, we should be able to differentiate between one time extraordinary spending due to the need to counter the effects of the 2008 financial crisis, and the trends of ordinary spending. The current scary ballooning of the US deficit and debt is unfortunately due to a combination of the two: current expenditures, and extraordinary measures such as TARP to bail out banks, salvaging GM and Chrysler, money for Fannie and Freddie, extension of unemployment benefits, and so on. But the real long term problem is representated by ordinary spending that will continue to grow, unless changes are made, well after the end of the *ad hoc* programs aimed at containing the impact of the 2008 financial crisis.

Needed: a mature debate on the composition of spending

Still, confronted with a 14 trillion debt mountain, (and counting), the intelligent response should not be just: “Let’s cut all spending”. The sensible approach should be: ***“Let’s cut starting with whatever is the least useful and then continuing with reformulating entitlement programs so that they become affordable, even if this means reducing benefits, while preserving and perhaps even enhancing spending that may have a beneficial effect on the economy, like research, education and infrastructure***“.

Impossible to have a relaxed conversation about emotionally charged issues

But, while sensible, this approach may be almost impossible. In the current highly politicised environment the Left argues that social spending has to be preserved, at current levels, come what may. The Right instead argues that all public spending is unproductive ands thus it should be cut, while new taxes to reduce the deficit are out of the question, as a matter of principle.

In this climate, we miss the opportunity to have any real debate about the composition of public spending and we may be unable to preserve and even enhance spending that may have aggregate beneficial effects for the whole economy.

In the end, the powerful lobbies will probably prevail

In the end, I suspect that we shall have neither a “slash everything” approach nor a sensible, selective cuts criteria based on merit. In the end, I suspect that, lacking a shared analytical approach to reform, we shall continue to spend on the programs that are best protected by the most effective lobbyists, whose patrons are also funding the campaigns of key decision-makers.

As always, policy decisions will be based on political bargains and not on cost-effectiveness. If the traditional approach will prevail, give or take a few bones thrown to the fiscal hawks, the federal deficit and debt issues may be contained for a while; but they will never go away.

Debt Deal Discounted, Dow Jones Tanked – Markets Consider Possible New Recession – The Issue is De-Leveraging, Says Mohamed El-Erian of PIMCO – US Wants Foreign Entrepreneurs To Rescue America – Good Policy, But It Will Take Time

[the-subtitle]

By Paolo von Schirach

August 2, 2011

WASHINGTON – Whatever magic the August 2 Boehner-Reid-McConnell debt deal performed, it was not enough to sway Wall

Street. As a way of celebrating Washington's last minute compromise that avoided sovereign debt default, the markets tanked. The Dow Jones lost more than 250 points, closing well below the symbolic 12,000 mark. How so? Well, it seems that the markets are looking past the debt deal that changes nothing, focusing instead on a US economy so feeble that some are already talking about a possible relapse into recession, (1 in 3 chances, according to Larry Summers who used to run the economic policy shop at the White House).

A stalled US economy

Yes, it is true. While the basic dynamics of spending, deficits and borrowing need to be realigned, right now the most urgent issue is to rev up the economic engine. But this is going to be mighty difficult. Given the deficit and the mixed record (at best) of the Obama "stimulus package", there is no appetite for more stimulus medicine. Besides, after all we have been through, who is going to propose, today, more stimulus that would require more borrowing?

The issue is de-leveraging, says Mohamed El-Erian of PIMCO

And so, how do you kick start this stalled American machinery? Well, according to the real experts, such as Mohamed El-Erian, CEO of Pimco, one of the largest bond traders in the world, it is really difficult, as the real drag on this economy is staggering consumer debt. Millions of Americans are trying to pay off massive amounts of debt incurred in the go-go years. They have no savings cushion. Their home equity vanished. They simply have no discretionary money to spend as they used to.

For a US economy driven by consumer spending, (75% of US GDP), this is a real problem. Paying off debts is a good thing. But this will mean less money for consumption and therefore no need to add to the jobs that produce the goods and services that feed consumption. Which is to say that until consumers are more financially healthy, demand for additional goods and services will stay weak. Hence weak demand, high unemployment and dismal growth.

Attracting entrepreneurs to America

In all this, can an additional supply of driven entrepreneurs spice up the mix, reigniting America's dormant innovative spirits? Well, Alejandro Mayorkas, head of the US Citizenship and Immigration Services, a unit of the Department of Homeland Security, seems to think so. In an interview with The Wall Street Journal he outlined a new "entrepreneur visa" program, (EB-2), specifically aimed at super qualified foreigners who may want to start a business in the US, if the new business is deemed to be "in the national interest".

Allowing Ph.D graduates to stay

This new program wants to address the problem of qualified foreigners who came to the US to get, for example, a Ph.D in computer science and, upon completion of their studies, are forced to leave the US because of visa restrictions. Now they will have a fast track to residency, (the coveted "green card"). By the same token, ordinary business visas, known as "H-1B" will be granted more liberally, not just on the basis of a job offer but based also on the employment offer of shareholders or corporate boards.

Good policy, good strategy

The intent of all this is clear: favor the immigration of smart people. And we should all welcome this. It will be now US policy to try and retain the talent of many qualified foreigners who can enrich America with their ideas, their innovative drive and their enterprise. If we look at America's history, this is hardly a new concept. This country was built and strengthened by enterprising immigrants, starting with the early English colonists.

Yet, no immediate impact on growth and employment

Unfortunately, though, while this immigration policy shift makes perfect sense as a long term strategy, sending the right message to potentially tens of thousands of eminently qualified people who, if given a chance, would love to start a business in America, this will not affect short or medium term US economic growth. Unfortunately, it will not change next year’s unemployment figures. Until consumers will be able to consume again, do not expect much. De-leveraging will take a long time, as Mohamed El-Erian says. And, unlike the folks in Washington, when it comes to the economy, he knows what he is talking about.

Boehner, Reid and McConnell Got a Deal To Raise the Debt Ceiling – An Unremarkable Spending Cuts Agreement That Changes Nothing Regarding The Direction Of US Spending – America Needs Serious Entitlement Reform – But The Politicians Will Procrastinate

[the-subtitle]

By Paolo von Schirach

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WASHINGTON – And so, the last minute deal between Democrats and Republicans has been done. It yielded a rather underwhelming patchwork agreement for modest US spending cuts now, with a promise of more later, in exchange for raising the debt ceiling now and putting away the "debt issue" until after the 2012 election. I do not know what to make of the weeks and months of gyrations, false hopes, arguments and recriminations involving House Speaker Boehner, Senate Majority Leader Reid and President Barack Obama that finally gave us a totally unremarkable, modest arrangement that could have been hatched months ago. The deal says almost nothing about future US fiscal policies. But the long and wasteful way we got to it exposed systemic weaknesses of US political institutions. Weaknesses bordering on dysfunction.

No taxes

The only noticeable, if symbolic, feature is that the deal does not include tax increases. And so, one could consider this a Republican, Tea Party inspired, victory. They stood on principle and they won. They got the cuts without revenue increases. Big deal, really. For a country drowning in red ink, spending cuts around 2 trillion total over ten years are puny. Let's assume that the Democrats might have succeeded to insert a few revenue increase measures. Would this have transformed the entire fiscal and economic outlook for America? Absolutely not. But it would have a been a symbolic victory for them.

Symbolic victories, revisited deals

So, this deal is mostly about political symbolism. Don't get me wrong: cutting spending, even a little, is good. But when the cuts are so small and –please note this– all projected to take place into the future, experience about Washington ways invites prudence. As someone famously said long ago: "*Nothing is ever settled in Washington*". Meaning by that that issues are revisited. Agreements are broken, or at the very least circumvented and voided, if not formally, certainly in substance. I am not even bothering to see what "part 2″ of the deal looks like in detail.

Another bipartisan commission

Theoretically, "part 2″ will include a bipartisan commission that will make recommendations on further spending cuts for the out years. But, in case they are not bold enough, there will be triggers that will cause automatic cuts. What a messy contraption. But these are the clever creations that could only be thought about by a legislature composed mostly of lawyers. And I bet you that many of those lawyers-legislators who drafted this clever last minute compromise that gets us out of this mess are already thinking about ways in which they could circumvent and possibly void the whole thing later on.

Spending cuts all in the future

Again, please remember that most of the substantive stuff included in the deal is supposed to take place "later". As one of today's headlines accurately noted "*Debt Deal Puts Off Major Changes To the Future*". And this is Washington's genius at work. We get the debt ceiling raised right now. The complicated, more painful cuts are for later. But who knows what will happen later.

In 2012 we vote. New majorities. Old people out, new people in. May be a new president. A new cast of characters will have ample latitude to reinterpret decisions made, or tweak future appropriations in a creative way.

Tea Party Victory?

A The Wall Street Journal editorial calls the whole thing "*A Tea Party Triumph".* The editorial, rather optimistically states that:

"The US is engaged in an epic debate over the size and scope of government that will play out over several years, and the most important battle comes in the election of 2012″.

I doubt the "epic debate" part very much. According to the WSJ, the Tea Party has the merit of having placed the debt issue on the table and of having refused, on principle, any deal that would have included raising taxes. And then the WSJ goes on to say that the US is engaged in an "epic debate". I beg to differ. It is true that the Tea Party insisted on no taxes. But this was and is an ideological position divorced from context.

No real debate

More broadly, what we just had was no debate and not even the opening of a debate. This has been a shouting match featuring posturing politicians who were debating nothing of substance and who in the end, in order to avoid the supreme embarrassment of national default, agreed on a bare bones deal that resolves nothing and that provides no clear indication as to where US spending is headed, not just today, but –most critically– 10, 20 years from now.

Real debate should be about reforming the US welfare state

I have said it before: the real deal here –and the focus of a "real" debate, if we were having one– is the complete overhaul of the US welfare state, in the light of changed demographics that massively increased the number of beneficiaries and totally out of control health care costs. Congressman Paul Ryan, Republican Chairman of the House Budget Committee put together his budget proposal at the beginning of the year ("Path to Prosperity") which included a radical reform of the Medicare program. Ryan's plan argues, with cause, that if we do not fix Medicare in terms of its basic structure and its ruinous cost trends , we have essentially fixed nothing, because Medicare costs grow at double the rate of everything else.

May be his approach to have a voucher program instead of the current Medicare payments system was too radical. But it was and is a "reform plan". And yet, the Democrats sneered at it and called the plan "unserious", while portraying it in scary terms in order to scare seniors and get more of their votes. Some way of engaging in a "dialogue".

Will serious people come forward?

I really hope that smart patriots will prevail and that America, may be in installments, will manage to reform welfare programs designed in other times when today's total number of beneficiaries and staggering cost dynamics were unthinkable. That said, there is reason for being pessimistic. The US is not Greece in 2010, in the grips of an insolvency crisis. The US is in debt, and getting deeper into it; but America is not insolvent. In fact the world is still willing to lend plenty of money to the US Treasury. The current "US debt crisis" was totally self-inflicted. It reveals political dysfunctions; but it was not caused by fears of insolvency.

Political dysfunctions

And precisely the dysfunctions of the US political system, combined with a problem that is important but not immediately urgent, will conspire to postpone some more, and then some more. Again, this is not Greece. The US can run huge deficits counting on its status of leading world economy (for now) and on the dollar's role of world reserve currency. There is still (unfortunately) a lot of slack that allows Washington's politicos to delay, psotpone and procrastinate.

Tea Party and a real spending cuts plan

As for the Tea Party heroes, with all due respect, I shall take them seriously when I shall see a credible "Tea Party

Entitlement Reform Plan”. A Plan that spells out, in detail, how they would reform Medicare and Medicaid, clearly indicating how American voters will get less, probably much less, from Uncle Sam.

So far, when Tea Party leaders talk about spending cuts, they talk in general terms. They usually cite egregious, easy targets of pork barrel projects and other examples of clear mismanagement of taxpayers’ money. All well and good. But none of this waste is worth the trillions that America will have to cut. This may be good material to get the “base” worked up. But the Tea Party “base” gets Medicare checks and collects Social Security. Someone has to tell them that they cannot demand real –as opposed to feel good, symbolic– spending cuts and expect to keep collecting the same they are today from Uncle Sam. It simply will not work this way.

Until we shall have honest political leaders who will have the courage to tell Americans that, whatever they are used to getting, they will have to get used to getting much less of, there will not be a serious debate.