

Mitt Romney Has A Real Energy Plan Based On Exploiting Vast New US Resources, While Importing More Oil From Canada – By Supporting The US Energy Sector We Can Energize The Entire Economy

[the-subtitle]

By Paolo von Schirach

August 25, 2012

WASHINGTON – Mitt Romney has been criticized for being too vague on his plans for America, for trying to be all things to all people, shifting positions whenever convenient. Well, on energy issues he seems to have a coherent and sound platform. And its foundation is the obvious: America is in the middle of a fossil fuels renaissance.

Encourage US fossil fuels

This renaissance should be encouraged by appropriate public policy, so that abundant, domestic and cheaper energy will be used to fuel the US economy. Indeed, contrary to most prognostications, beyond vast amounts of coal, in the US there are huge new reserves of oil (North Dakota) and especially natural gas (Pennsylvania, Ohio, Texas). Gas reserves are in shale formations that now can be exploited via “hydraulic fracturing” and “horizontal drilling” technologies. If you add to this good mix super abundant oil resources located in

Western Canada, the notion of hemispheric energy independence will turn soon from impossible dream into practical reality.

The implications of this energy revolution are immense. Vastly increased US oil and gas, plus more Canadian oil will allow the US to cease importing oil from the Middle East, or North Africa. This will be a huge plus from the standpoint of energy security and therefore national security.

Energy as economic growth driver

Romney's vision is to encourage new investments in the US energy sector so that energy will become a real economic driver that will help lift the entire economy. Supporting extraction of US energy will create demand for products and services that feed the energy sector: such as machinery, pumps, drilling equipment, pipes, valves. The positive cycle will be extended to the revamping of all energy intensive industries (steel plants, smelters) that will be encouraged to either relocate to the USA or expand their American facilities. Keeping in mind that most of the energy technology is made and developed in America, supporting fossil fuels means supporting domestic investments in a variety of sectors, while creating many new jobs.

The Plan

Romney's plan is straight forward and easy to understand. It is based on the simple reality of major new discoveries in the USA, along with the recognition that its is in America's national interest to import more oil from friendly Canada. (Or would you rather import oil from the Middle East and Venezuela? You can see how his positions are summarized in the www.mittromney.com website from which this excerpt is extracted:

"As president, Mitt Romney will make every effort to safeguard the environment, but he will be mindful at every step of also protecting the jobs of American workers. This will require

putting conservative principles into action.

Significant Regulatory Reform

The first step will be a rational and streamlined approach to regulation, which would facilitate rapid progress in the development of our domestic reserves of oil and natural gas and allow for further investment in nuclear power.

- *Establish fixed timetables for all resource development approvals*
- *Create one-stop shop to streamline permitting process for approval of common activities*
- *Implement fast-track procedures for companies with established safety records to conduct pre-approved activities in pre-approved areas*
- *Ensure that environmental laws properly account for cost in regulatory process*
- *Amend Clean Air Act to exclude carbon dioxide from its purview*
- *Expand NRC capabilities for approval of additional nuclear reactor designs*
- *Streamline NRC processes to ensure that licensing decisions for reactors on or adjacent to approved sites, using approved designs, are complete within two years*

Increasing Production

The United States is blessed with a cornucopia of carbon-based energy resources. Developing them has been a pathway to prosperity for the nation in the past and offers similar promise for the future.

- *Conduct comprehensive survey of America's energy reserves*
- *Open America's energy reserves for development*
- *Expand opportunities for U.S. resource developers to forge partnerships with neighboring countries*
- *Support construction of pipelines to bring Canadian oil*

to the United States

- *Prevent overregulation of shale gas development and extraction*

Research and Development

Government has a role to play in innovation in the energy industry. History shows that the United States has moved forward in astonishing ways thanks to national investment in basic research and advanced technology. However, we should not be in the business of steering investment toward particular politically favored approaches. That is a recipe for both time and money wasted on projects that do not bring us dividends. The failure of windmills and solar plants to become economically viable or make a significant contribution to our energy supply is a prime example.

- *Concentrate alternative energy funding on basic research*
- *Utilize long-term, apolitical funding mechanisms like ARPA-E for basic research”*

Common sense

As I said, this is pretty straightforward common sense. make it easy to extract fossil fuels now, while supporting basic R&D for renewable energy, without subsidizing early adoption of non competitive technologies. Work with Canada. Streamline the review process for new nuclear reactors.

Obama blindsided by love affair with renewables

This is mostly common sense. But we do not hear the same from the Obama camp. President Obama unfortunately started his term with a clear bias in favor of renewable energy. Until very recently he paid no attention to the unfolding shale gas revolution, a real gift to the US economy.

Worse yet, his administration kept on focusing on subsidized renewable energy even after it had become obvious that wind

and solar simply cannot compete with ultra cheap domestic natural gas. Furthermore, Obama, fearful of offending the environmentalists, delayed the Keystone pipeline project that would allow larger amounts of Canadian crude to reach US refineries in Texas.

For the same reasons, Obama kept in place and even strengthened the review process for energy drilling on federal lands –a process that is time consuming, confusing and onerous.

There should be no contradiction between high environmental protection standards and a one stop review process that will avoid delays upon delays in obtaining all the necessary permits.

Obama has no clear energy plan

In the end is quite simple. Obama started with a bias in favor of renewable energy. His administration did not see the fossil fuel revolution happening in front of its eyes. When it saw it it did not support it. And what is Obama's energy plan for his next four years? I am not sure.

Certainly the president now is trying to get some credit for a fossil fuels energy boom he did nothing to create. But will Obama in his second term streamline regulations and permitting? Will he welcome Canada as our most valuable strategic partner on energy, opening the way to more oil imports from the Alberta Province? Will Obama stop the nonsense of renewable energy mandates based on subsidies to energy sources that are not yet economically viable? Probably not.

The greens and the pure environmentalists who would rather forgo economic growth today in favor of energy alternatives that may become viable only in the future will not like it, but Romney has a real energy plan based on real US based resources that will create major new business opportunities

and many new jobs.

America Is Now A Two Tier Country – Tier One Sends Robots To Mars – Tier Two Underperforms Even In Ordinary, Low Tech Tasks – Worse Yet, Tier Two Refuses To Learn

[the-subtitle]

By Paolo von Schirach

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August 24, 2012

WASHINGTON – America is now a two tier country. There is the country of leading innovation and creativity, the country of Apple, Intel, Cisco and Google. This is the country that just managed to send and safely land on Mars a car sized robot equipped with an on-board state of the art laboratory. But

there is also the country incapable of shaking off mediocre or failing public schools, the country unable to get rid of below standard contractors who cannot even execute ordinary projects in a timely and cost effective fashion.

Best practices are not contagious

How the two countries coexist side by side, sharing the same language, culture, geography and institutions is a bit of a mystery to me. One would assume that “best practices” are contagious. One would think that just knowing that there is excellence somewhere would make all the others curious to learn how the smart people (in the same country) work, so that the laggards can also learn and catch up.

No. It is not so. Tyler Cowen in his celebrated book *The Great Stagnation* makes the case of a general American economic slow down due to lack of significant innovation outside of IT and a few other sectors. (See above for link to a related piece). I fully accept this assessment as a general explanation about the causes of lower US growth rates. But here I am talking about declining standards of performance in traditional activities that do not depend on state of the art innovation.

Broken down escalators in Washington DC

Tom Friedman and Michael Mandelbaum in the introduction of their book *That Used To Be Us* shed light on this very issue with an illustrative example. The Washington, DC Metro, the city’s subway system, has escalators that routinely break down. In one particular case, given more extensive work needed, the forecast is that it will take several months to properly fix the problem. (In the same time it takes to fix an escalator in Washington, the Chinese have added miles and miles of track for their latest super fast trains.)

So, here is the picture. In the very same country that can successfully send a large robot to Mars, it takes months to fix an escalator (a low tech job) located in its capital city.

Worse yet, this is considered "normal". There is no outrage regarding this technological backwardness concerning just a simple escalator.

Inefficient condo management

And let me add another example in which the issue is culture rather than technological know how. I know of a large condominium located in a wealthy part of Washington, DC in which units lost value in part because of the inordinate amount of time it takes to execute necessary condo-wide renovation projects. Mind you, the money is there. But there is an incredibly cumbersome process in place that causes delay upon delay.

The condo association Board of Directors is composed of intelligent and educated people. Well, you would think that educated people who are not themselves architects or engineers would do the smart thing when it comes to major, multi million dollar capital projects. They would instruct their paid, professional management to identify consulting engineers who would be hired to produce the specifications according to the highest standards and then call for bids to execute the project according to the specs drawn by the consultants and approved by the Board.

Time is money

Since here we are not talking about another mission to Mars but rather of garden variety renovation projects, following this "best practices" approach should not be that difficult. Well, instead it is. The Board of Directors created an immensely long and cumbersome process of ad hoc committees, reviews, more reviews, legal opinions and endless deliberations.

As time is indeed money, the extraordinary delay in the execution of needed condo-wide renovation projects (several years from conception to execution) has penalized the

properties, leading to lower values. Well, you would think that this realization of self-inflicted economic damage would provide the impetus to adopt speedier, more effective project management procedures. But no, it does not.

Second tier America is clueless

And here I get to my point. Second tier America is not just patently inefficient. It is also clueless. Amazingly enough, second tier America in many cases has no idea that there is a first tier America that performs at a higher speed, with higher productivity. Or, even worse, second tier America may know about best practices, better management and better systems; but it is unwilling or just incapable of putting two and two together, ditch inefficiency and embrace best practices.

For mysterious reasons, in second tier America mediocrity has become the accepted and unshakable standard. Moving away from systems that under perform would entail change; and change would imply getting out of a comfort zone. Therefore we continue doing as we have done until today.

Of course we can choose this course of (in)action. But there is a price to pay. Those who believe that mediocrity and under performance are quite acceptable are inexorably left behind.

Mediocrity cannot survive

Indeed, in this unforgiving super fast and “hyperconnected” world, (as Friedman and Mandelbaum call it), entire sections of the US economy have been wiped out or downgraded because of low standards. Other industries will follow, unless they wake up and modernize themselves. Downgrades mean industries gone, jobs lost or jobs that pay less and less because of relentless, lower cost foreign competition.

China Is Really Slowing Down – Some Talk About Hard Landing, Others About Systemic Change – If China Turns Into a “Normal” Country, The Prestige Of The Communist Party Will Suffer

[the-subtitle]

By Paolo von Schirach

August 23, 2012

WASHINGTON – The economic numbers from China are bad. Manufacturing has been down for several months. There are mountains of unused coal sitting in large storage places, another indicator of diminished industrial activity. A protracted real estate frenzy has produced blocs and blocs of empty buildings across the country, while prices are still way too high for the average Chinese.

Over production, growing inventories

Car dealers are resorting to the most aggressive sales tactics in order to move vehicles out of show rooms, a clear sign of a glut due to over production. Wholesalers and stores across China are swamped with huge inventories of unsold goods. Soon enough, we shall see more businesses reducing production, purchases and staff.

Hard landing?

Whatever the official growth numbers that still project a growth rate around 7.5% for this year, this does not look like a “soft landing”. If it is indeed a “hard landing”, then a big question comes up: is this just temporary, part of a cycle? Or could this be instead the beginning of a structural change? Could it be that the protracted era of fantastic Chinese growth is over?

Who knows, really. We do not have all the facts, because Chinese statistics are notoriously unreliable. Indeed, in China it is quite possible to conceal what is really going on for quite a long time, as huge chunks of the economy are still controlled and bankrolled by the state. State owned enterprises operate in their own universe and for the time being they can count on easy credit granted on political rather than economic grounds by state owned banks. By the same token, large real estate projects are largely political, as developers get land from local officials on conditions that may not reflect true market value.

End of a successful model?

But why should this extremely successful model be over? Because it has been over reliant on manufacturing for export and on infrastructure and construction. Right now Europe, a key export market, is doing very poorly. Of course, this may change. But in the meantime the traditional Chinese low cost advantage has been progressively eroded by higher wages. In the future, unless China can compete on value and quality rather than just low cost, it may face increasing difficulties in keeping all its foreign customers.

On a different level, infrastructure and construction can grow at 5% a year only for so many years. Then you reach a point in which there is no economic return on the investment, simply because there is a glut.

By the same token, much of the residential real estate boom has been and is speculative. Rich people invest in condominiums with the intent to hold these properties and then resell them at a higher price. But now there are just too many of such unoccupied investment properties. Yes, this is a Chinese real estate bubble.

From investment to consumption

Of course, the solution would be in shifting the economic drivers from investment and export-led growth to domestic consumption. But this will not happen soon enough. China is a country of savers. In the meantime, China is slowing down. And in China, more so than in other countries, a palpable economic slow down may have political repercussion.

Structural economic change will have political consequences

The entire legitimacy of the Chinese Communist Party is based on its proven ability to deliver superior economic growth, year after year, for more than three decades. This is a truly remarkable achievement. But, if this unprecedented growth is to be replaced by more modest rates, (say 5-6% a year), in tune with other emerging markets, then the Communist Party magic will be gone.

And, without the economic performance magic, a growing Chinese middle class may discover the need for more accountability and more transparency. Indeed there is already a growth of public protests that openly defy authority. If this trend develops, who knows what may happen next.

The Todd Akin Rape Remarks Disaster May Become Big Enough To Cost Romney The Elections – His Stupid Comments On “Legitimate Rape” Confirm All The Ugly Stereotypes About “Anti-Women” GOP – This Is A Gift To Obama And All Democrats

[the-subtitle]

By Paolo von Schirach

August 22, 2012

WASHINGTON – Make no mistake, in a close election like this one, the scandal caused by Todd Akin’s rape and abortion debacle can make a real difference. Akin, a Missouri Representative, is now candidate for the Senate. The fall out from his unbelievable remarks about “legitimate rape” and how women can shut things off in their bodies so that they will not get pregnant if raped has already become so big that it may end costing Romney the election by alienating more women and many others who will not support a Republican Party in which crazy bigots like Akin can be candidates for state wide office.

Can this disaster decide the elections?

This is no exaggeration. The presidential race is close, and

it is well known that Obama already enjoys a comfortable margin among women voters, in part because of the Democratic party historic support of abortion as a right. For Romney to have a real chance, he would need to convince at least some of those women to switch sides. However, this would require a dramatic change of perception, and the GOP dogged persistence on re-fighting the abortion battle at every election does not help at all.

But now, with the incredibly stupid comments by senatorial candidate Todd Akin, what was a serious image problem until yesterday just morphed into a disaster, since Akin declared that he will not drop out of the race, (at least as of today August 22). (In his own defense, Akin admitted that he misspoke. He really meant to say "forcible rape". But it does not matter. The damage is done. By the way, try and explain how you can distinguish between "forcible" and "non forcible" rape).

The Republican Party tried to distance itself

Sure enough, the Republican party has tried to take its distance, condemning Akin's remarks about "legitimate rape" and openly asking him to get out of this senatorial election. Furthermore, both Romney and Ryan said that Akin should quit.

All well and good, but this is just minimum PR, going through the motions. This is not nearly enough to recreate an image of a modern party in which proponents of abortion may coexist with those who oppose it on moral or religious grounds.

Media portray Akin as a mainstream Republican

Looking at the media coverage, the prevailing narrative now is that Akin stupidly aired in the open what most Republicans secretly or not so secretly truly believe. They believe that women should have no right to abortions under any circumstances, including the cases in which unwanted pregnancies are the result of rape. And this is a huge problem

for the party.

Whatever your personal beliefs on the matter of sanctity of life may be, the Republican party on this issue is totally out of step with most Americans, and especially with the overwhelming majority of women voters.

Romney-Ryan hit by the fall out

Even though Romney and Ryan may want to finesse the politically damaging abortion issue by saying that, while they have personal views on abortions, as elected leaders they would uphold the law as is, the damage is done.

The chorus of the media and interest groups is unanimous: *“As the Akin “candid comments” demonstrate, the GOP as a whole is the prisoner of anti-women bigotry and therefore it is out of the American mainstream. Needless to say, this party has no hope to gain women votes”.*

GOP should take stronger action against Akin, but it will not

Perhaps the political damage could be contained by forcing Todd Akin out of the Missouri Senate race as soon as possible. But this would be barely the beginning. Akin should be barred from the Republican Party on the ground that personal moral principles should not be confused with bigotry. The GOP will not accept open bigots within its ranks. This should be the message.

But you cannot count on any of this happening. A big chunk of the Republican base loves the anti-abortion stance, even though they would not talk about “legitimate rape”. And I have no doubt that many GOP hardliners secretly share beliefs in the bogus “science” about women bodies shutting off when they are raped so that they cannot possibly become pregnant and other such nonsense as a way to justify their anti-abortion convictions.

Akin is a gift to the Democratic Party

In a close election in which Romney's only hope to win rests on his ability to keep the voters' focus firmly on the sputtering economy this Todd Akin disaster is an unexpected (major) gift to Obama and the Democrats. It allows them to fire up the base, while giving them a chance to recast this elections into a contest about choosing the party that supports civil rights.

The Akin scandal alone may not be big enough to cause a pro-Obama tidal wave, but it may be sufficient to give Obama the edge in key states in November. And that's all it takes to win: a tiny margin in Ohio, Virginia or Florida. Talk about self-inflicted (mortal?) wounds.

Paul Ryan's Medicare Reform Plans Should Be Looked At In The Larger Context Of Exploding US Health Care Costs – Why Does The US Have The Highest Medical Bill In The World? True Reform Would Have To Go Beyond Medicare

[the-subtitle]

By Paolo von Schirach

August 17, 2012

WASHINGTON – I wanted to expand on recent comments I made on Paul Ryan's plans to reform the Medicare program because of its excessive and growing cost. I thought that it would be good to place Medicare in the larger context of out of control overall US health care costs. Medicare is not "the" problem. Medicare is a large component of a bigger problem. In the US we have the highest health care spending in the world, both as a percentage of GDP (17,5%) and per capita. And all this money does not buy average Americans superior health. If we compare America with other high income modern countries, we see that they all spend much less and have better health statistics, starting with higher life expectancy.

The American health care crisis

So, here is the American health conundrum: extremely high costs, mediocre results and a complicated public policy and political issue, since much of this ever expanding medical bill is absorbed by the Federal Government, via Medicare and Medicaid. At the source of this uniquely American mess, three factors that conspire to have ever increasing expenditures and poor outcomes:

1) Americans developed very bad personal habits in terms of diet and lack of exercise. This caused a steady deterioration of national health conditions. The out of control obesity epidemic with all its medical consequences is just one example.

2) In America, the medical profession works on a "fee for service basis" . In plain language: your doctors makes money only when you are sick and you need his/her services. This creates a strong economic disincentive to create effective prevention programs. Likewise, no effort to teach "wellness practices", something that would include good habits regarding

nutrition and exercise.

3) Most American are covered by insurance. This means that, whatever doctors prescribe, most of the cost is absorbed by insurance companies and by Medicare/Medicaid for seniors and very low income people. This also means that there is no real market incentive to contain costs.

In a previous piece I examined Ryan's Medicare reform ideas, (at the time there was no talk of Ryan becoming a candidate for vice president), in the context of the US health care crisis. I re-propose it in its entirety because it places the current health care debate within a broader scenario. I do believe that the issues I discussed then are the same we are confronting today, with the difference that now they are part of a presidential campaign.

WASHINGTON – (April 2011) – Here is a riddle for you. What's the connection between the US looming fiscal crisis, the 2011-2012 budget proposal put forward by Congressman Paul Ryan which includes drastic changes in Medicare payments, and the advice to Americans to change diet and walk at least thirty minutes every day that came from the authoritative podium of the World Health Care Congress?

Believe it or not, the connection is very strong. In a modern society certain individual costs are socialized through centralized welfare programs. ***So, to what extent we socialize individual needs matters a great deal, because when costs grow exponentially they inevitably become a public policy and public finances issue.*** Believe it or not, In America we see now how millions of people who do not take care of their health originate massive –mostly preventable – health care needs that translate into massive socialized costs and consequently a huge political problem.

Individual behavior, social and political consequences

And this is the issue before us, as different players put

forward different welfare spending blueprints aimed at taking care of the consequences of the bad habits of millions of Americans. So, do keep in mind that what is now framed as a “political issue” at its roots has individual behavior, (life style, diet, exercise, addictions), and gigantic medical needs largely originating from this “bad” behavior.

Indeed, it is to deal with health care needs that systems are put in place. And they cost money. How much of these costs are socialized and what the consequences of this socialization are for public finances becomes a matter of political debate when costs are out of control, as they are today in America. Yet, it all starts with individual needs largely framed by personal behavior.

How are we dealing with the consequences of personal behavior? Paul Ryan has a plan

But let’s see how this plot unfolds. House Budget Committee Chairman Paul Ryan, Republican of Wisconsin, opened the “Big Budget Debate” by presenting a broad based plan on April 5, 2011 aimed at obtaining substantial savings that will cut the astonishingly high yearly deficits and consequently the total national debt. Compared with Obama’s budget, his “*Path to Prosperity*” federal budget proposal would cut an additional 6.2 trillion dollars over the next ten years.

Ryan’s plan outlines spending cuts that create a path to fiscal sanity. His assumption is also that a combination of lower government spending, plus a streamlined tax system, including lower corporate tax rates only up to 25%, will contribute to higher economic growth. This “*Path to Prosperity*” may actually work.

In line with an anti-government, Tea Party inspired, mood?

More broadly, one would think that these proposed drastic spending cuts should be in line with what angry voters loudly demanded in the course of the 2010 campaign that led to a

stunning Democratic defeat in the House. In fact the entire Tea Party phenomenon was and is largely an “anti tax and spend” grass roots movement.

So, big green light for Ryan and the Republicans from the voters? Well, not so fast. [*Please remember: this was written in April 2011*]. Angry Tea Party activists and many others demanded much lower government spending during the 2010 campaign to renew the Congress and they voted for the Republicans who seemed inclined to cut. But at the time nobody cared to single out in any detail **“what should be cut exactly, and by how much”**.

No. People really want to have their cake and eat it too

And here we get into the thick of the basic immaturity that characterized a debate long on grandstanding and posturing about “cuts” and short on seriousness. People running for office on a platform that would include –say– “no more federal money for private groups that provide abortions” may have scored big with ideological voters, but these types of cuts do not get you far. And yet, unfortunately, the political reality is that even for the most ferociously anti-government Tea Party Americans the slogan is: *“Cut, cut everything, but do not touch my programs, please”*. In simple language: symbolic stuff is good, cuts in what I get are bad.

The untouchable welfare state

And, as it turns out, all these armies of supposedly self-reliant, “do it yourself” Tea Party Americans are adamantly opposed to cuts to their favorite welfare programs. ***And these include Medicare and Social Security. And nobody told them in unequivocal terms that any path to fiscal restoration has to include cuts in all entitlements which alone constitute about 60% of all federal spending. Until this issue is squarely and honestly on the table, serious spending reform will remain an elusive goal. House Budget Committee Chairman Ryan means well,***

and I wish him success; but I sense that America is not yet on board.

Social security reform, a bit easier

Regarding Medicare and Medicaid, both programs are essential pillars of the US welfare state. Tinkering with them –let alone proposing major reform, as Ryan does– without broad popular support is politically explosive, if not suicidal. Social Security is equally important; but fixing it is much easier. Repairing Social Security is mostly about moving ahead the age of full benefits eligibility, in line with changed demographics and longer life expectancy. As we all live longer, we get our benefits a bit later. These program modifications can be done in a gradual way, without harm for future recipients.

Medicare is a mess, as it is part of the broader health care cost explosion

But Medicare is a much bigger mess. Because Medicare is one large component of a monstrous health care system characterized by the highest cost structure in the world –America spends more than 17% of its GDP on health care– and thus it is negatively affected by its crazy cost dynamics. As currently conceived, Medicare is a subsidy whereby enrolled senior citizens pass on to the government most of their medical bills. The problem is that, as the actual costs of medical care in the US keep growing well ahead of inflation, the overall Medicare financial burden for federal finances grows so much year after year that it will soon be unsustainable.

The Ryan remedy

The Ryan Budget blueprint puts forward a bold reform. The US Government will stop underwriting costs. It will provide instead a fixed amount of money that will be used by individuals to cover premiums of insurance policies that they

will select from within a pool of competing insurers. Beyond that, the Government contribution will rise only with inflation. *The rationale here is to introduce a system that will incentivize competition among insurers and a more judicious use of health care. This is good. But only up to a point.*

If costs keep growing, limited government help will dry up quickly

Indeed, if policy makers assume that medical costs are destined to rise at the current rate indefinitely, then it is clear that a limited premium support program will not do it. Assuming sky rocketing costs, senior citizens, after having quickly utilized whatever money comes from Washington, will be left to fend for themselves, and some for sure will not have enough money to do so.

As soon as this scenario sinks in –and you can bet that the Democrats will make sure to highlight this point– this whole Medicare reform proposal will become a huge political liability. It will be very hard to convince future recipients that they have nothing to worry about, because the new system will magically contain costs, so that they will be in line with inflation. People are unfortunately used to costs going up and up, every year.

But why these costs in America?

And this is indeed the real core issue. Why skyrocketing medical costs in America of which Government payments are only one, albeit very large, component? No similar phenomenon is registered in comparable advanced countries. What's so special about the US?

In truth, say the experts, there is absolutely no objective justification for this ongoing explosion of medical costs in the US.

“Fee for service”, no built in disincentive to over prescribe, and an unhealthy population contribute to increase demand and cost

There are contributing factors, though:

–One is that medical professionals are paid on “fee for service” basis, with no limitations. Which means that the more they prescribe, the more money they make. There is abundant evidence indicating widespread practices of unnecessary procedures, redundant tests and over prescription of medications. All this comes with a huge price tag.

–The second is that the medical insurance system places insufficient checks on this practice.

–And third we have a very unhealthy US population, more and more afflicted by chronic diseases whose treatment creates enormous financial burdens for the whole system. The Medicare program sits in the middle of this mess. In fact, it sits on the most expensive end of the continuum, because it provides for elderly patients, by definition in greater need of medical services than the average younger individual.

My point is that, unless the health care fundamentals –mostly “fee for service” and lack of meaningful “wellness education”– are not drastically modified, it would be hard to find a permanent and satisfactory solution for Medicare.

Can we change the underlying fundamentals that drive up costs?

Can we have reform? Of course we can. But it would require a real revolution –a revolution by the way recommended by leading health care professionals. Fate has it that this new Paul Ryan Budget was unveiled just at the same time of an event held by The World Health Care Congress. One of the speakers was George Halvorson, Chairman and CEO of Kaiser Permanente, one of the largest health care institutions in America.

Enter George Halvorson of Kaiser Permanente

And what Halvorson had to say is truly astonishing. With example after example he pointed out the absurd cost disparity between what people are charged in the US and in Germany, France, Canada and other modern countries regarding practically each and every routine medical procedure. Everything in the US costs double, triple or more. For the same procedure? With the same or comparable effort? This is completely absurd. But this is what a system in which the person getting the service passes the bill on to his insurance gets you. Crazy cost inflation.

No justification for exorbitant US prices

Some price differences may be justified by local economic conditions, prevailing costs, wages, etc. But everything costing so much more in America? And this is not about the cost of surgeries in emerging countries' facilities where we can understand that costs can be even 1/10 of what you would pay in the US. We are not dealing with Indian hospitals here. We are talking about advanced, wealthy nations with per capita incomes quite comparable to the USA.

Chronic illnesses absorb most of the money

And George Halvorson also pointed out that the real budget busters in the US are not the relatively few complicated and expensive procedures for rare cancers and what not. The real problem is represented for instance by the explosion of obesity and obesity related diseases, like type two diabetes.

In America obesity has created an army of chronically ill patients that need constant treatment. These types of patients break the bank. And we know that obesity, with very few exceptions, has its roots in something very, very mundane: people eat too much of the wrong stuff and exercise too little. Is it really possible that overeating has become a national medical and now public policy crisis? You bet.

And the miracle of a 30 minute daily walk

And what else? Well Halvorson talked about nutrition and exercise. (See above about obesity). And, you may find it odd but he dedicated a fair amount of time within his presentation extolling the health benefits of a 30 minute walk –every day. He provided suggestions on how this walk could be split into two 15 minutes installments and so on. He indicated that the body “really needs to move”. And he explained how walking is a key factor in tuning up all metabolic functions, so that “all systems” are kept in good working conditions.

Walking and the Budget

So, what’s the connection between walking or not walking, better or poor diet, doctors salivating when they get a new diabetes patient and Ryan’s Medicare reform plan? Well there is a huge connection. First of all, skyrocketing medical costs do not depend on some sort of law of physics.

They are driven by bad incentives that can be modified. Secondly, aggregate national costs are driven by total demand for services. And this demand can be lowered, significantly, if people overall develop much healthier habits.

Simple changes in diet and exercise (as Halvorson recommends) by millions of people could have a rapid effect in the reduction of demand for services that end up costing hundreds of billions of dollars, becoming in the end a huge component of publicly paid health care.

And so, oddly enough, an issue originating in personal habits, multiplied by millions of individuals, because of its massive cost becomes a public policy issue and inevitably a political issue in the forthcoming budget battle. The problem with Ryan’s plan is that it is an honest attempt to deal with the consequences on federal spending of a health care crisis that originates elsewhere.

Can all this be taken in as we frame the national policy debate on health care?

As complicated as all this is, it would be nice if the unfolding national debate on Medicare reform would take all this into account. But if medical care costs increases are treated as a given, as an independent variable that cannot be modified, then the whole debate will be restricted to: ***“This is what it costs. Now let’s decide who pays for what”***.

Caricature and emotions will prevail

And the politicians will not be driven by a desire to reform; but by a desire to apportion payments so that their favorite constituents come up on top. If this is so, then the debate will be portrayed as one between the “mean spirited Republicans” who want to throw indigent grandma out of the hospital, and the “compassionate Democrats” who want to keep grandma in the hospital, have Uncle Sam absorb the cost and then hope to find a way to the pay the bill. In so doing they jacki up the national debt, praying that China will keep buying when we issue more of our increasingly dubious Treasury bonds. Not a good way to frame this critical problem affecting tens of millions of citizens.

If we could only learn how to walk...

Demonized By The Left, Ryan Is Attacked By Former Budget

Director David Stockman For Being Unserious – Ryan’s Plan Just Pie In The Sky? – Still, At Least Romney-Ryan Want To Discuss Major Spending Reform

[the-subtitle]

By Paolo von Schirach

August 16, 2012

WASHINGTON – If you listen to Obama and his surrogates, by picking Paul Ryan as his running mate Romney has finally revealed his true, ultra conservative colors. The Romney-Ryan ticket is bent on destroying the welfare state, while striving to give an even more generous tax treatment to the already super wealthy. Seen from the left, Ryan’s fiscal reform plans are simply the expression of his extreme ideological prejudices. As a right winger, he is against social spending as a matter of course; and that’s why he is bent on destroying the safety nets that help the poor and those who struggle. A Marxist would call Ryan a true “class enemy”.

David Stockman on Paul Ryan

Well, if you look at the same Ryan agenda from the perspective of a former radical Republican who long ago abandoned his ideological biases in favor of realism, Ryan is just another politician promising some things that are mathematically impossible, while he is mistaken in others and biased elsewhere. This is what I got by reading a The New York Times op-ed piece by David Stockman, (*Paul Ryan’s Fairy-Tale Budget Plan*, August 13, 2012).

David Stockman was a fiery budget cutter when he became Ronald Reagan's first Office of Management and Budget Director in 1981. But then he changed his views. There was no way that the welfare state would be radically transformed – Stockman conceded, (after he had left office). Americans wanted it. The issue was (and still is today) how to pay for it. Well, today Stockman attacks Ryan's fiscal reform proposals not because they are too radical, but because they are badly construed, mistaken and plain wrong.

Ryan's agenda: fairy-tale, pie in the sky

On defense spending Ryan is a victim of neo-conservative ideology that pushes for defense spending beyond any possible realistic need. We could do well, with much, much less, argues Stockman, as there are not that many threats around – not even Iran counts as one. Not a word about the shifting balance of power in Asia.

On entitlement spending Ryan is not serious, argues Stockman, as his Medicare reform would kick in only in ten years. (At least he is not buying into the Democrats narrative that describe Ryan as literally pushing grandma off the cliff). Medicaid (federal health subsidies for the poor) reform is a joke, continues Stockman, because transforming it into a block grant to the states but with substantially reduced outlays, means in truth killing the program.

Besides, Ryan would cut disproportionately “non defense discretionary spending, the real fun stuff that politicians want to dole out: infrastructure projects, R&D spending, medical research, national parks and so on.

Just another politician

In conclusion, according to Stockman, Ryan is just another politician telling you stuff that will never happen the way he designed it because his construct is totally flawed, ideologically biased in some key areas and on the whole an

impossibility.

Stockman identifies other targets and other priorities in his piece. I have to say that his writing is interesting; and certainly he knows a thing or two about fiscal issues. Still, is he too harsh? I do not know. On Medicare reform, I would add that it would be very difficult to fix the federal component of health care spending without a comprehensive look at totally out of control US medical costs, private and public. (More on this in a separate piece).

Ryan put serious fiscal reform on the table

Still, while I can agree that Ryan may be wrong on a number of the solutions he proposes, as a politician he has the merit of having placed the issue of out of control federal spending on the table in a way that President Obama has not dared to even attempt in almost four years in office. Unless he is a complete fool, our President knows well that if we do not reform entitlement spending, the key driver of rising deficits and debt, this country is headed towards bankruptcy. If we just tinker at the edges, then we may avoid bankruptcy; becoming instead a tired, super indebted European social-democracy, with no drive and no real money. This being the case, it would be prudent to start serious reforms aimed at "bending the federal spending curve" sooner rather than later.

Obama calculated that reform is too risky

But Obama has calculated that any serious debate on fiscal reform would be very unpopular among his key Democratic supporters –as such a debate would have to include programs and benefits cuts. And for this simple reason Obama has avoided any serious discussion.

To the extent that he has debated the matter, it was always as a quid pro quo: *"I will concede welfare cuts, as long as the Republicans give me some tax increases for the well to do that I can bring home as spoils"*. So, fiscal reform was not

justified on its policy merit; but only as a political strategy. *"If it makes me look good I'll consider it. If not, I will not. Let the country get worse in the meantime. In any event, my estimate is that it will not go bankrupt while I am in office."*

Republican "no new taxes" intransigence is not at all helpful in this debate. I fully agree with that. Any serious fiscal reform plan would have to include some new revenue. That said, Medicare cannot be fixed with new revenue alone. The entire program needs to be reconfigured, so that it is not simply the underwriting of excessive health care spending determined by doctors who know very well that the Government will pay most of their bills, whatever they are.

Fiscal reform should be a key priority

In the end, the choice is between President Obama who does not want to offend his constituents and who is calculating that, as we are not yet in a Greece-like emergency, there is no need to take strong actions; and the Romney-Ryan ticket that wants action today, while we retain some flexibility. The Republicans, possibly ill advised on many issues, (as David Stockman argues), at least are saying that serious fiscal reform plans should be put on the table and debated today, with the hope of some constructive action.

Whereas a re-elected President Obama will do little or nothing to seriously attack excessive spending , this way kicking the proverbial can down the road, Europe-style, leaving a much worse situation to his successor.

As Greece and Spain teach us, there is a point of fiscal deterioration beyond which reforms become pointless. Or we can still escape a Greek fate, becoming instead like Japan: a super indebted, chronically weak society that can still survive decently but not do much more. Is this what we want in America?

Paul Ryan Attacked By The Obama Campaign As A Dangerous Extremist – The Media, Whose Role Should Be To Inform, Have Joined The Chorus Misrepresenting Ryan's Medicare Reform Plans

[the-subtitle]

By Paolo von Schirach

Related story:

<http://schirachreport.com/index.php/2012/08/11/by-picking-paul-ryan-as-his-running-mate-romney-has-created-a-stark-choice-for-america-more-of-the-same-with-obama-or-bold-fiscal-and-tax-reforms-on-top-of-new-economic-policies-with-the-republicans/>

August 13, 2012

WASHINGTON – When Romney picked House Budget Committee Chairman Paul Ryan as his running mate I assumed that Ryan would be attacked and in fact demonized by the Obama campaign as a dangerous extremist, totally out of the American mainstream, because of his advocacy of major federal spending reforms that would inevitably target entitlement programs so dear to the Democratic Party base. (See link above). And, sure enough, it is all happening. What I did not expect, though, is

the barrage of negative pieces on Ryan (based on his reforms proposals) by opinion writers who quite frankly should know better than playing on emotions and fears.

America going broke

The way I see it, Ryan's "radical plans" originate from a clear and hard to challenge premise. The same premise by the way used by the bipartisan "Debt Commission" led in 2010 by Democrat Erskine Bowles, (former White House Chief of Staff under Bill Clinton) and Alan Simpson, (former Republican Senator). America is going broke, and by far the major (even if not only) cause is excessive and growing spending caused by 3 big entitlement programs –Social Security, Medicare and Medicaid– designed in a different era by policy makers who could not possibly fathom how expensive they would become, given different demographics (more older people compared to the general population), and skyrocketing health care costs.

60% of total federal spending

Quite simply, these programs now absorb more than 60% of all federal spending. If you add defense (another 20%) and interest payments on the existing debt (close to 10%) already today there is almost nothing left for what experts call "non defense discretionary federal spending": research, education, national parks, transportation, infrastructure, and so on. And all projections indicate that entitlements, if left unchanged, will soon absorb 100% of federal spending. Worse yet, Medicare (federally funded health care for seniors) alone in a few years will absorb the entire budget.

We need action

Now, given all this, if a law maker comes forward proposing radical spending reform, focusing on entitlements, is he really just "an out of control extremist"? Look, we may legitimately disagree on the solutions proposed by Paul Ryan and his associates in Congress. But no thinking person can

argue that America's predicament is not serious. The fiscal picture is dramatic and getting worse every day. Action is needed.

Right now we do not feel the pain because of the European debt crisis. As Europe is in even worse shape, US bonds look good in comparison for most investors. And so, notwithstanding our gigantic debt, the Treasury for the time being can still borrow at less than 2%. But this is just temporary good luck.

Medicare reform

Again, regarding Ryan's radical ideas, much has been said about his plan to transform Medicare into a voucher system. For this he has been accused of wanting to destroy Medicare for all American seniors. But this is patently untrue. And the media that repeat this charge know that the charge is false.

Whatever we want to say about Ryan's reform plan, one thing is certain: it does not include current Medicare recipients, nor will it affect people in their 50s who are approaching retirement. Which is to say that whoever is now covered (or about to be covered) by the current Medicare system has nothing to worry about. The current system will continue to work for them as they would expect.

Media joining in the spin

But it is not so according to many commentators who once more should know better. Indeed, willfully misrepresenting Ryan's reform plan, many have argued that putting Ryan (with his radical ideas on Medicare) on the ticket will cost Romney precious votes in Florida, given the high number of retirees relying on Medicare in that state. *"But, wait a second, have we not just stipulated that current retirees and people approaching retirement would still be covered by the existing Medicare system according to Ryan's plan?"*

So why is it that commentators keep repeating that Ryan's plan

to transform Medicare of course should scare seniors, when in effect they have nothing to fear from a reform that, whatever its merit, will not affect them at all? Unfortunately the media now are not here to inform. They are in the game, taking sides.

By Picking Paul Ryan As His Running Mate Romney Has Created A Stark Choice For America: More Of The Same With Obama, Or Bold Fiscal And Tax Reforms On Top Of New Economic Policies With The Republicans?

[the-subtitle]

By Paolo von Schirach

August 11, 2012

WASHINGTON – Good luck to Mitt Romney. By choosing Paul Ryan as his running mate Romney made a really bold choice. Ryan is a relatively young (only 42) yet experienced seven terms Congressman from Wisconsin, currently Chairman of the House Budget Committee. But, most critically, Ryan is a radical reformer on fiscal and tax policies. So, Romney did not go for

boring but safe middle of the road Republican candidates, (among them, former Minnesota governor Tim Pawlenty or Ohio Senator Rob Portman). He went for a controversial congressional leader who has formidable credentials as the foremost Republican experts on federal spending and taxation, and as the political leader who proposes a reduced government as the only way to avoid fiscal collapse.

Demonizing Ryan

The political impact of this bold choice, though, is very difficult to predict. Ryan is very divisive. Way before he was thought of as a possible running mate for Mitt Romney, Ryan had already been portrayed by the Democrats and much of the main stream liberal media as an out of control extremist. In fact he has been artfully recast in truly demonic terms. Therefore, Romney can rest assured that Ryan will become the lightning rod for every possible demagogic attack about “the real purposes” (starving the poor, more money to the rich) of the fiscal reforms he has advocated as House Budget Committee Chairman.

Destroying the welfare state?

Ryan has already been defined by the left as the man who would love to destroy the welfare state, thus causing ruin and suffering to the elderly and the poor in America. In particular he is accused of plotting the obliteration of Medicare, the federal program designed to provide health care support to the retirees. (Never mind that the Medicare program, as currently designed, is so expensive that it is destined to absorb 100% of all federal revenue in just a few years. That is to say never mind that the program is on a totally unsustainable path. The cynical calculation is that the elections are in just a few months. And people do not vote today on what will happen to Medicare in 10 years, especially if we keep telling them that all will be just fine, as long as you vote for Obama.)

Ryan is the perfect enemy

And you can expect more of that from the Obama campaign. Ryan in a sense is the perfect enemy. Precisely because he is a true reformer in a political environment so far dominated by timid tinkering at the edges, it is very easy to misrepresent a bold new vision of reduced but affordable government as radical, extreme and just out of sync with the American people. Of course, if you do not tell the people how unaffordable what they are getting really is, they will naturally want to keep the checks coming, just as they have been coming for decades. It is only natural.

In this toxic "us against them" atmosphere, Obama and his people will do their best to argue that the choice of Ryan as Romney's running mate underscores how this election is really a choice between a benign status quo with minor changes regarding the role of government and the size of entitlement programs on one side and the destruction of hard earned benefits programs that go back decades on the other.

Democrats as the defenders of Middle America

So, from the Democrats' side you can expect a simple narrative. *"We are the good guys. We are here to protect the weak in America: the retirees, the struggling middle class, the minorities, the single mothers with kids and the poor. Romney and his new sidekick Paul Ryan are the hired guns of the ridiculously rich, Wall Street, the mega millionaires, the insurance companies, and the oil conglomerates who want to suck even more of your blood"*.

Ryan's budget proposals have been portrayed as radical, ultra conservative, out of the main stream, you name it. The fact that on close inspection none of this is true does not really matter. This campaign, more so than other past campaigns, is all about rallying the base and appealing to fears and emotions. And just the idea of severe cuts to welfare programs

scares millions of Americans. Never mind that Ryan never advocated cutting benefits to current retirees or people approaching retirement. He has proposed radical reforms that will affect later on those who are still young today and thus capable of making adjustments to new systems.

Will team Romney/Ryan succeed in making the case for reforms?

The open question is whether Romney and Ryan will be able to convince enough Americans that this election is the time to make a hard choice on fiscal and tax policies, along with buying new ideas about economic growth.

This is really a lot to chew on. Will the public be inspired by bold reform plans, or will most Americans be scared by the talk of impending fiscal Armageddon that team Romney/Ryan will dish out and thus retreat in the arms of Obama who promises to keep things going just as they are?

Stark choice

Will America wake up, understand what's at stake and rise to the challenge, with the understanding that without serious policy changes we are headed towards insolvency and national decline, just like Greece and Spain; or endless stagnation, like Japan?

At the very least on thing is clear. By choosing Paul Ryan as his running mate Mitt Romney has shown that he is not fudging. He seems intent on presenting a clear and stark choice. More of the same with Obama, with the consequence of slow but steady American decline? Or an American renewal founded on the redefinition of entitlement programs, comprehensive tax reforms and pro business policies?

The European Union And The Eurozone Within It Are Not Like The USA – Washington Would Have To Bail Out Michigan, No Matter What – Germany Does Not Have To Bail Out Greece If The Price Is Too High

[the-subtitle]

By Paolo von Schirach

Related story:

<http://schirachreport.com/index.php/2012/08/05/the-problems-of-southern-europe-are-not-fixable-greece-failed-to-meet-most-of-the-conditions-negotiated-with-its-lenders-face-reality-and-restructure-the-monetary-union-some-countries-just-do-no/>

August 8, 2012

WASHINGTON – A few days ago I argued (see above link) that the eurozone simply cannot carry on with all its current members on board. Some of them, Greece, Portugal, Spain and Italy, (the “Club Med” countries), are just too weak economically and institutionally to get back in shape and regain the pace of better organized, more productive and more efficiently run Northern European societies such as Germany, Austria, the Netherlands or Finland.

Why should weak countries leave the euro?

A reader asks me why is it that the weak states have to exit the euro. After all, he points out, when municipalities, counties and states get into economic or financial trouble in the United States, they do not have to leave the Union. They do their best to fix their problems, with Washington's help, if need be. Here is how he stated his comment:

Agree in general, but have a question: why is "restructuring the monetary union" necessary? In the common-currency-US, states, cities, municipalities, and counties all go bankrupt. They don't then pull-out of the union, but restructure. The questions for Greece et al in this scenario is this: Is it better to be a member of the EU with the concomitant currency and leading-edge societal/competitive benefits, or is it better to fall backwards and run their traditional finances and depreciate their currencies unendingly...

What is Europe?

The reader's comments and basic questions really require us to examine what "Europe" is and what the "eurozone" is. I think that it may be appropriate to use this opportunity to clarify some key issues and possibly some misunderstandings about what "Europe" really is –and especially what it is not. I hope to be able to clarify why Greece getting into serious trouble is not at all the same as Michigan, or Alabama falling behind.

First of all, one fundamental point that really shows the qualitative distinction between Europe and America: unlike the United States of America, "Europe" is not a state. It is not one country. We may think it is, as it calls itself officially "European Union". But the use of the term "Union" is quite misleading. A "real" European Union is at best an aspiration, a dream to be realized may be one day.

Europe is not a country

Today, Europe is neither a country nor a federation. The European Union is the result of a set of complicated

arrangements among sovereign states regulated by a variety of treaties that are in fact inter-governmental agreements. Unlike the states within the United States, the EU member states are fully sovereign states. There is no elected President or Prime Minister of Europe. There is no elected European government. There are no European armed forces. There is no European judiciary. Most fundamentally, there is no European Ministry of Finance. There is an executive, the European Commission, but it is an appointed body and it does not have policy making powers along the lines of a real executive. There is however a European Central Bank, ECB. the ECB is similar to the US Fed; but not quite the same as it operates in a completely different context of the 17 sovereign states that adopted the euro, as opposed to one single country.

No federal government

The European Parliament, while duly elected, does not have the legislative powers of the US Congress. Most powers still rest with the individual legislative bodies of each member state. While there is a European Union budget, it is very small and it covers mostly agricultural subsidies and a variety of regulatory and administrative tasks. There is no real Europe wide budget covering defense, international affairs, justice, education, welfare programs and so on. There are small bits and pieces of all that, but nothing that would resemble the US federal government prerogatives vis-a-vis those of the 50 states. While the 27 members of the European Union and the 17 states of the eurozone jointly manage a number of activities, each member state retains its separate sovereignty, its separate fiscal policies, its separate welfare programs and its own national economy.

The US is a country

In the US, within a system that respects states' powers on a variety of issues, the federal government has a significant

fiscal, tax and regulatory presence across the 50 states. All citizens and corporations pay federal taxes. In return, all Americans receive federal benefits: Social Security, Medicare and Medicaid. On top of that, the Federal Government provides block grants to the states and offers a variety of other programs, from education to infrastructure, that benefit states. When we had the financial crisis in 2008-2009, the federal government arranged for a gigantic bail out of banks nationwide. It rescued General Motors and Chrysler. Freddie Mac and Fannie Mae took over most of the mortgages and so on. On top of that, the Federal Reserve manages monetary policy.

In the US, when individual municipalities or states get into financial trouble they continue to benefit from belonging to a federal entity that provides a floor to all, including the implicit guarantee that, if things turn really ugly, Washington will intervene. Besides, there is no provision in the US Constitution to expel any city, county or state for bad behavior. The United States is one country.

A common currency without a country

Whereas Europe is not a country. And this the problem –and fundamental weakness– that was conveniently forgotten when some members of the European Union –a Union, remember that is not a Federal State– decided to go ahead and adopt the euro as the common currency that would help strengthen trade and economic ties among them.

Quite correctly it was understood at the time that the common currency could come to life and later on succeed only if all the countries that adopted it would voluntarily abide by "rules of good behavior" they would willingly sign on to.

Mandatory rules

Most critically, all signatories agreed that, as a precondition for accessing the monetary union, all members would agree to limit their annual budget deficits to an amount

that would never exceed 3% of GDP, while their total national debt would never surpass 60% of GDP.

The ability of all eurozone members to stick to these rules also implicitly postulated that their economies would function all at the same speed, in a fairly harmonious way.

For some strange reason, at the time, (early 1990s), it was believed that such tight mandatory rules, based as they were on ultra optimistic assumptions of existing and continuing good behavior on the part of all and equally good economic performance shared by all, would be easy to follow. Knowing what we know today (all fiscal rules broken by huge margins, systemic economic weaknesses deeply embedded in many countries), this optimism appears really stupid –or at least incredibly naive.

The advantages of the eurozone

The economic advantages of a common currency would be significant. France, Germany, Finland and Italy would be able to trade with on another using the same currency, thus cutting costs and making all payments and transactions a lot easier and faster. The advantages of all eurozone members adhering to sound principles of fiscal discipline would also be significant. A strong and stable currency used by strong economies would mean low interest rates for all euro users, something beneficial for both the private sector and treasuries that could borrow at a low interest rate.

All in all, the common currency seemed to be a good deal across the board. The eurozone countries would emerge as a stronger trading bloc, all transaction costs among the euro users would be lowered, while the euro would be able to rival the dollar as a dependable international means of payment.

Good behavior stopped

All very well, except for the fact that the fundamental

preconditions of good behavior and equal economic performance have vanished. In simple terms, the deep debt crisis now affecting the weaker members is the necessary outcome of chronic under performance coupled with over spending. The dilemma for Germany and the other rich states is whether they want to bet on the ability of Greece and the others to get back on their feet by financing their recovery, or admit that they will never make it and thus cut them loose.

Imagine a similar crisis in the US, but without federal remedies

Transposed to a US context, picture this: Colorado, New Mexico, North Carolina and Florida are all on the verge of bankruptcy, and all at the same time because of structurally poor economic performance, fiscal mismanagement and a lot of corruption. The federal government (in this imaginary scenario) has no institutional means to intervene. Each state has its separate government, its budget, its banking regulator, its own pension system and so on.

Washington would have to invent, and only with the concurrence of the states in trouble, new means to bail them out. The only institution that could do something is the Federal Reserve. Except that, by statute, the Fed cannot legally buy the bonds issued by the states. Nor can the states in trouble issue bonds that would be guaranteed by the federal government. A real mess, wouldn't you say?

Well, this is where the eurozone is today.

Can the weak states recover?

Remember: Greece is not part of the (non existent) United States of Europe. And Berlin is not Washington. It cannot make policy or issue orders. Given these constraints, if you are optimistic and bet that the troubled Mediterranean countries with huge amounts of help from their richer northern neighbors will eventually get back on their feet, then all is well.

But if Germany and the others think that the “Club Med” countries cannot make it, then, as painful as the cure may be, they will cut them loose. It is unthinkable that Germany will keep bailing out Greece for ever in the same way as it would be unthinkable that the US would keep bailing out Mexico, even though we all belong to NAFTA.

Does The Past Determine Who We Are And Want To Be? Are Our Personal Choices Pre-determined By A Sense Of Obligation To What Others Expect? – An Interesting Story Illustrates This Point

[the-subtitle]

By Paolo von Schirach

August 4, 2012

WASHINGTON – An interesting radio report from Warsaw dealt with the story of Polish people who now have the opportunity to consult Jewish archives and other documents. In some doing, some discover that they are in fact of Jewish origin.

Rediscovering Jewish origins

It is not surprising that many in Poland grew up in the post

war period having lost track of their Jewish origins. Jews had been horribly persecuted by the Nazis in a country with its own anti-Semitic traditions. Untold numbers of families perished in concentration camps during WWII. A few survived simply by disguising themselves as Catholics. In many instances, the old faith was left aside and forgotten. But now young Poles have the opportunity, if they so wish, to dig. And some discover their Jewish roots. Fine. It is always good to learn more.

The revelation

Still, I was surprised by one particular story included in this radio report. A young man, raised Catholic but not particularly religious, had actually joined a group that professed antisemitism.

Well, his wife did some research and then brought him documents showing that his family was in fact Jewish. As he recounted the story in the radio interview, he was really confused by this revelation. He checked and rechecked and then realized that it was indeed so. His family was Jewish.

Choosing as a matter of obligation?

That said, what followed seems strange to me. The young man concluded that he simply had to rejoin the faith of his ancestors. And so he did, choosing to become an Orthodox Jew. May be this was the right thing to do.

But I am surprised that in our own modern world in which freedom of choice is a fundamental value, the way the story is reported indicates that this young man believed that he really had no choice. Whatever his past beliefs, including his own professed antisemitism, he had to surrender to the reality of his origin and rejoin the Jewish tradition.

We always have a choice

So, he felt that he had no choice. But in my mind he did have a choice. Learning about one's origins is not learning that one has signed a contract that must be honored. Origin is one thing, personal choices about one's own life are something else. Or are we saying that "birth is destiny", whereby one "has to follow" the faith of one's ancestors, no matter what, as a matter of obligation?

This young man had grown up without any knowledge of his heritage. If indeed, upon learning of his family's Jewish origins he had decided to inquire about Judaism and then make up his mind about what he wanted to do on the basis of a personal feeling, then this would be another matter.

Our world is founded on the principle of freedom

Whereas the notion that, having learnt about the past, one has the obligation to follow it denies the basic principle of freedom of choice based on one's own inclinations and tastes that is supposedly at the foundation of our modern world founded on the notion of individual liberties.

More broadly, we can engage in pursuing the new, whatever that is, precisely because we are not totally wedded to the past. This does not mean that "the past" should be rejected as a matter of principle. Most certainly not. But one should opt to follow the past, including the religious faith of the ancestors, not out of a sense of obligation but out of genuine personal choice, freely expressed. "I do this because I want it. Not because I have to".