

Day To Day, Stocks Go Up And Down Mostly For Irrational Reasons – Billions Change Hands Not On Account Of Facts; But Because Of Mood Swings

[the-subtitle]

By Paolo von Schirach

September 30, 2012

WASHINGTON – Supposedly stock markets are the best vehicles to provide rational capital allocation to promising publicly traded enterprises. Well, it may come to you as a shock, but it is not so. There can be millions of better of examples to illustrate this, but let me pick just this one not because it is egregious but because it is recent.

Manufacturing data blip

After several months of disappointing decline, the US manufacturing index went up, just a little bit. As an expert put it, numerically this one month advance is insignificant; but psychologically it boosted market sentiment. And so, in early trading, the Dow Jones shot up 150 points, a substantial advance.

Which is to say that a small bit of quasi-news can move billions of dollars in a matter of hours or even minutes, this way changing significantly the valuation of major companies. And all this happens because traders had an emotional reaction to the news. Irrespective of the

substantive value of the new information, it made them “feel good” and so they went to Wall Street and bought stocks. And we call this behavior “*rational allocation of scarce resources*”? This is real money, folks.

Bernanke provided a sobering picture

But how about reacting to real news? On the same day of this manufacturing data high, Ben Bernanke, Chairman of the Federal Reserve, speaking in Indiana provided a sobering picture of the US economy. No, we are not headed towards another recession, Bernanke said. However, we have a dismal rate of growth (under 2%) that cannot possibly help in mopping up our stubbornly high unemployment rate. What is worse, he continued, there are just too many long-term unemployed Americans. The longer people have been out of job, the harder it is to get back into the labor market. Which is to say, our hard times are far from over.

Now, what should a rational person do? Be conservative on the basis of a relatively pessimistic outlook presented by a leading policy-maker, or be daring on the basis on a one month small blip, affecting just one index?

Irrational behavior

In the long run, stock valuations may provide a true reflection of real economic value. But on a day-to-day basis they are mostly a reflection of irrational mood swings: enthusiasm or fear, (in some cases panic). So much for a system designed to provide a rational allocation of scarce resources.

To Save America Democrats And Republicans Should Reject All Extreme Positions, Find Agreement On the Fundamentals Of Democratic Capitalism – Erskine Bowles And Alan Simpson, Co-Chairs Of The Debt Commission, Did That

[the-subtitle]

By Paolo von Schirach

September 29, 2012

WASHINGTON – America is a democratic and capitalistic society that lost its bearings in on an orgy of stupid ideology fueled by ignorant ideologues. This toxic concoction is fanned out daily by outrageously partisan media that treat politics as entertainment that has to be dished out to aficionados who want to hear their silly biases repeated again and again.

Democratic capitalism is complicated

In fairness, to create and sustain a modern society based on democratic capitalism is a really complicated matter, in fact an almost impossible undertaking. The enterprise is premised on ample doses of vision, intelligence, maturity, self-restraint and on the ability to constantly balance the promotion of private interests and the need to uphold the public good.

Balance between private and public

Indeed, democratic capitalism is about building a robust consensus on the proper mix between private and public –in everything.

To begin with, there should be a shared understanding that democracy does not mean much without sustained economic growth. Therefore democratic capitalism has to include every possible incentive to free enterprise, along with sensible regulations that will prevent capitalists to become exploiters or rent seeking monopolists.

Opportunity

The mix has to include basic regulations, some functions performed by public entities that will include the provision of some basic services. A democratic capitalism formula has to include a broadly shared understanding of what it takes to create the foundations for a *real* equal opportunity society in which all children, irrespective of socio-economic background, can acquire the tools that will give them a truly fair shot at excellent education and therefore personal growth.

By the same token, there should be a widely shared consensus as to how all citizens and corporations contribute financially, via the tax system, to the general welfare.

Growth and the environment

By the same token, it should be obvious to all that there must be a good balance between economic development and protection of the physical world in which we all live. There should be no built in contradiction between sustainable growth and sound measures to safeguard the environment.

All in agreement?

In theory, all this sounds simple and self-evident. Of course, we are for economic growth. Who isn't? Of course, we all

believe in equal opportunity. Of course we think that there should be a balance between markets and regulations as well as between development and environmental protection. Yes, we all agree, in theory.

The triumph of ideology

In practice, though, in recent years intense ideological bias and the desire to cultivate selected special interests and voting blocks created a huge mess that now risks to derail proper US governance, any residual social consensus about taxes and public services, and the entire American economy. The goal of optimal balance goes out the window when we have opposing sides vociferously advocating their own self serving reformulations of what a "fair balance" should be.

Demonizing opponents

Forgive the over simplification, but this is the nasty predicament in which America finds itself today. On the eve of a critical presidential election, the two parties have managed to create an absurd scenario of mutually exclusive, extreme visions. Obama presents himself as moderate and socially inclusive. Romney calls his plans disastrous socialism that will kill enterprise while causing financial ruin. Romney claims that he knows how to manage public policy and how to restart the economy. Obama calls him a vulture capitalist bent on destroying social programs in order to benefit the rich.

Both candidates are right in some measure, and both are guilty of indulging in crazy hyperbole and willful slander.

No, Mr. Romney, markets are not self-regulating, as a history of boom, bust and bubbles, culminating in the 2008 disaster that almost sunk the entire US economy, shows. And no, Mr. Obama, regulation and public contracts are hardly a formula for optimizing outcomes, witness the historic disaster of the American public education system and the unsustainable debt burden caused by overgenerous benefits granted to public

sector employees by politicians who want votes more than good governance.

Reject ideologies

Many say that the only way to get out of this mess is finding an honorable “compromise” between diametrically opposing visions –all for the good of America. I disagree. The healthy way out is for both parties to grow up, sober up and reject as silly and foolish their most extreme positions. As long as these ridiculous positions, (“tax the rich to redistribute wealth”, “no new taxes under any circumstances”, and so on), have legitimate standing, compromise will be extremely difficult or impossible, as the recent history of major failures attests.

As a nation, we could not have broad based agreement on sound health care reforms, on financial regulations, on air quality regulation, on a public schools reform agenda. Most notably, as the failure of the 2010 Debt Commission and subsequent efforts proves, we cannot agree on the really big ticket item of federal spending reform which has to include entitlement and tax reform.

Deadlocked America

While the picture may be very different at the state and local level, when it comes to national policies, America is deadlocked. For a constitutional system based on the separation of powers whose success is therefore predicated on the ability to reach agreements between different factions, this perpetual deadlock is the kiss of death.

In this respect, we are not faring better than any tired and litigious Southern European parliamentary system and no better than perennially blocked India.

True statesmen: Bowles and Simpson

The reasonably good debt reduction formula provided in December 2010 by the Debt Commission was based on a broad policy agreement between the two elder statesmen who served as co-chairs. Republican Alan Simpson and Democrat Erskine Bowles set ideology aside and put together a decent proposal that should have been the basis for crafting a national plan that both parties could sign on without suffering any political consequences.

But it did not work out that way because active duty political leaders are sensitive only to immediate political pressure. In so doing, they show that they do not care that much about national priorities and even less about the price of inaction in terms of missed growth and impending fiscal disaster. Nothing was done about the Bowles-Simpson plan. Absolutely nothing.

Erskine Bowles and Alan Simpson are rare examples of genuine statesmen who put together a proposal for the common good. (Of course it helps that they are both out of the active politics arena and therefore with no concern about defending their agreement at the next election). The others, and that includes Obama and Romney, are not real statesmen. They are just myopic politicians.

The Economy Keeps Sputtering At 1.3%, But Obama's Numbers Are Getting Better – People

Got Used To Mediocrity, While Romney Failed To Connect With Voters

[the-subtitle]

By Paolo von Schirach

September 28, 2012

WASHINGTON – Ronald Reagan was nicknamed “Teflon President”. No matter how big his blunders, he exuded magic likability. So, nothing bad would stick to him. The American public was in love with “*The Great Communicator*”. But Obama’s magic looks even more amazing.

Obama’s magic

The American people say that the country is going in the wrong direction, that the economy is in terrible shape; but they still like the man in charge. This President does not walk on water; but somehow he managed to make every body believe that he can do magic. Consider this not sequitur accepted now by most as true: “*The US economy is not doing well; but it is not the fault of the man who has been in charge for the past four years*”. And so, these days in America people do believe that the sun shines at midnight, because a White House press release says so. I call this magic; because it defies any logic.

Bad economy, popular president

Look, I have no partisan animosity here and I fully recognize that Obama should get credit for stopping the financial meltdown in 2009. Obama also has the good fortune of facing Mitt Romney, a surprisingly dull Republican challenger who just cannot “connect” with the people. However, armies of

political scientists and political operatives with decades of experience had told us that no incumbent President could ever be re-elected with a weak economy and unemployment at or above 8%. Americans are very practical people, we were told. If the economy stinks, they get another coach.

Obama's numbers getting better

Well, not this time, it would seem. Ironically, just as we get closer to voting day, the economic news gets a bit worse and Obama's numbers get a bit better. Second quarter GDP growth has been revised down from 1.7% to just 1.3%. The manufacturing sector is losing steam, while orders for consumer durables are down, led by a decline in commercial aircraft orders. Business sentiment is lukewarm, given the uncertainties about taxes, regulation, health care costs and the future of federal spending.

Let's make it clear. This is not a disaster. But this is the continuation of a slide into economic mediocrity. Historically the US used to grow at an average pace of 3% a year. After the end of the Big Recession we never had the "V" shaped curve. We never had a big bounce. America is growing. But we have been limping along, slowly and weakly.

In the past this level of economic under performance would have been considered totally unacceptable. Americans want more than the 1.7% growth we have achieved so far this year.

Ahead in all the polls

But it is not so. President Obama, the steward of this economy, is ahead in all the polls. Most ominously for Romney, Obama is widening his lead in most of the ultra critical swing states. If Romney loses in Florida, Ohio, Virginia, Pennsylvania or Wisconsin, there is no path for him to the White House.

People got used to mediocrity

Well, how is all this possible? Unsatisfactory economy and popular President? I have a simple explanation. *Most people have gotten so used to mediocre performance that by now it looks and feels alright.* Persistent 8% plus unemployment would have looked like a national calamity until recently. Now it is regrettable but tolerable.

Bush's fault

And Obama has managed to convince the media and the public that America's still sputtering economy is really a legacy of the terrible recession that occurred under George Bush and that he unfortunately inherited. Likewise, the explosion of public spending and the unprecedented federal deficits, with a net addition of \$ 5 trillion to the national debt in the Obama years, is also a George W. Bush legacy; just as the wars in Iraq and Afghanistan were started by Bush.

Romney-Ryan will destroy the welfare state

Besides, right now the issue is not just the economy, Obama tells the voters, but the threat to entitlement programs represented by the Romney-Ryan ticket. This mean spirited duo, composed of a vulture capitalist (Romney) and an out of control, extremist ideologue (Ryan) are determined to destroy all entitlement and safety net programs created to support and defend the poor, the weak and the struggling middle class.

So, there you have it. *"The disappointing economy is not so bad after all. But if you really think that it should be a lot better, remember that George W. Bush is the culprit. Besides, the next four years are going to be great, trust me. And if this is not enough to convince you to vote for me, consider the nightmare of a Romney presidency: no more Medicare or Medicaid. And poor children will go hungry"*.

Oversimplified narrative works

You may find this oversimplified narrative funny. But it is

working, rather well. May be Obama's surprising popularity in large part it is the responsibility of an uncharismatic Romney who drives people away. Still, the Obama magic is working. As I said, Obama does not walk on water. But he did a splendid job convincing a majority of Americans that he really belongs to a different dimension in which performance and accountability do not go together.

America on a path to decline

That said, whatever the popular perceptions and the feelings about this President, the reality is that America is on a path to mediocrity and eventually irrelevance. If President Obama in his second term will vigorously promote pro-business and pro-growth policies, this national decline can be reversed. But if we continue with timid half measures while drowning in red ink, then the damage may become irreversible.

The Obama Administration Failed To Protect The US Consulate In Benghazi From Credible Terror Threats – After The Killing Of Ambassador Stevens It Created The “Video” Story To

Obfuscate The Facts And Deny Its Responsibilities – Failure To Pursue Intelligence Leads, Inadequate Security And Lack of Candor, A Bad Mix

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By Paolo von Schirach

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September 27, 2012

WASHINGTON – The story of the (probably) preventable attack on the US Consulate in Benghazi (Libya) is slowly evolving into what may turn into a major scandal, featuring: bad intelligence, inadequate security, the killing of a serving US Ambassador (first instance in 30 years) and a subsequent deliberate obfuscation aimed at confusing the public and hiding administration responsibilities. In two earlier pieces on September 17 and 21 (see links above) I pointed out that

the official *"its-all-about-the-video-we-had-no-clue-anything-like-this-may-be-happening"* explanation did not add up.

Intelligence failure, and more

The Libyan government had already publicly stated that the attack against the Consulate in Benghazi was premeditated. *This was not a spontaneous outburst that had unfortunately turned violent. The US Consulate had been targeted.* Well armed militants had a mission to attack and kill. I stated at the time that, assuming what the Libyans had said was true, then as a minimum here we would have a major intelligence failure.

But now that some of the facts are coming out, it looks a lot worse. In a detailed editorial, The Wall Street Journal (*The Libya Debacle*, September 27, 2012) recounts that American officials in Libya had reported concerns about imminent attacks back in the spring. That notwithstanding, the US diplomatic facilities had only minimal security protection. Ambassador to Libya Chris Stevens himself had apparently noted that he was a possible target of extremists.

Given all this, (and surely there is more to come), it is incomprehensible that the US Consulate was only lightly protected on September 11, the anniversary of al Qaeda's major terror action against the USA.

Bad planning, inadequate security and then obfuscation

If it is all as it unfortunately appears, then this is much worse than what I thought at the beginning. This was not just intelligence failure. This was lack of action after having received credible intelligence that something might happen. If this is indeed so, I would call this negligence.

And it gets even worse because of the deliberate, if clumsy, administration obfuscation attempt to blame the anti-Islam video for everything, when apparently they knew that this was a planned attack practically from day one.

So, there you have it. Bad planning, actionable intelligence not acted upon. As a result, inadequate security in Benghazi. All this was followed by a disaster and by the immediate attempt by the administration to divert attention and deny responsibility.

Administration looks bad

In all this, President Obama looks bad. Secretary of State Clinton looks awful, since the State Department is in charge of Diplomatic Security and therefore responsible for the personal security of all its staff. And UN Ambassador Susan Rice, dispatched to tell the “video” fable on all the TV networks, is made to look like a fool, since her superiors knew exactly what had happened, while they instructed her to make up a story aimed at exonerating the administration.

No pass for George W. Bush

What is most astonishing in this disaster is that hardly anybody is talking about it, except for the major media openly opposing Obama, like Fox News and the WSJ (same Rupert Murdoch ownership). Imagine if unloved George W. Bush just a few weeks before a crucial election had tried to get away with something as egregious as poor planning and poor security measures resulting in the first killing of a serving US Ambassador in 30 years. Would the media have given Bush a pass?

Industrial Policies Usually Do Not Work – The Obama

Administration Bet On Renewable Energy Right When Shale Gas Drove Down The Price Of A Key Carbon Source Illustrates The Point

[the-subtitle]

By Paolo von Schirach

September 26, 2012

WASHINGTON – Watching the science program NOVA on PBS, (US public television), I was absolutely mesmerized by the array of incredible experimentation currently going on in universities and laboratories across America. New airplanes wings that will be able to change geometry during flight, “self healing” materials that can absorb bullets, contraptions that recreate the same photosynthesis used by plants to transform sun light into life creating processes, new chemicals that can guide medications precisely to cancer cells, thus avoiding any damage to healthy tissues.

Creativity and innovation

This TV program presented a veritable festival of creativity and innovation. All these efforts should give us hope regarding the ability of capable scientists to solve major problems while creating economic value through industrially viable versions of their discoveries.

All true, except for one thing. Most of these incredible discoveries are still at the experimental level. In most cases it is not clear if and when an economically relevant

application will be created. In many instances there will never be one. In other cases there will be a bad marriage between the innovators and the business development people. And finally, even when smart people decide that the innovation is going to be a money maker, something will go wrong. Projections will turn out to be far too optimistic, market conditions will be different, and so on.

All this is well known: creating innovation and bringing it to market is a very risky business. Most new ventures fail. Some look promising and then fail.

Renewable energy, anybody?

With this general background in mind, it is important to give a second look to far reaching US public policies, such as the push for renewable energy, that turned out to be wrong. They were not wrong as a matter of principle; but mostly as a matter of timing.

The desire to see a world in which clean technologies will provide renewable, zero emission, affordable energy is a healthy one. The world would benefit enormously from viable renewable energy. With the deployment of such technologies, we could solve the combined problems of lack of energy in emerging countries, (mostly Africa), high energy cost, pollution and climate change caused by burning fossil fuels.

Good goals, bad timing

Keeping all of this in mind, why wasn't it a good idea for the Obama administration to support, mandate and subsidize renewable energy solutions? It was not a good idea because the timing was not right. In other words, the issue is not about the goals, but about misjudging the level of maturity of the means at hand.

Renewable energy technologies have been improved a great deal in the past decade. But as yet they cannot conquer markets

based on their cost effectiveness. At least not yet. The most common mistake of policy-makers who think they understand more than they do about technologies and markets is to misread the value of they are pushing forward. And very often their "industrial policies" are misdirected because of their ideological biases and belief in politically popular simplifications.

Political bias

In the case of Obama and renewable energy there was an ideological bias against the powerful interests that support the hydrocarbon industry, (read the oil multinationals), the high cost of oil and gas, the widespread fears about the impact of global warming and the exaggerated claims made by green technology enthusiasts.

To make it simple: *"Oil is dirty, expensive and bad. Money goes to greedy Exxon. Renewable is green, clean, modern, progressive and politically correct. So let's go green!"*

As I noted above, nothing wrong with the basic idea of green tech as a long term goal. But federal support for the long term goal should focus not on deployment of existing technologies but on supporting more research, so that the existing ideas could be further refined and improved upon.

Pushing for renewables in the midst of a natural gas boom

But if you are blindsided by your ideological biases, then you want to believe that existing technologies are "state of the art" therefore just fine; and so you will use public policy to force them into place. In the case of the Obama administration push towards renewables, it so happens that they did push existing technologies concurrently with a parallel but far more powerful development entirely driven by the private sector that greatly undermined the effort.

And this was the incredible hydrocarbon renaissance produced

by hydraulic fracturing and horizontal drilling. These technologies, (developed by industry with no government help), created a natural gas boom, while extending all projections about US oil reserves.

So, right at the time in which Washington made a push for renewables, the same renewables were displaced by ridiculously low natural gas prices. Hard to make a case for subsidizing wind and solar when the cost of generating electricity with natural gas (a carbon source much cleaner than maligned coal) has just plummeted.

Denial

Faced with these new facts, what did the Obama administration do? For almost three years absolutely nothing. Nobody said: *"Well, hold it. We had a policy based on certain premises including scarce and expensive natural gas. Now we have to review everything, as the fundamentals have changed"*. No, they just kept doing the same, simply ignoring the shale gas revolution until it became so huge that they could not keep pretending it was not there.

Support basic science, stay away from industrial policies

The point of all this is that the government should be in the business of supporting basic science, especially in the uncertain sectors that the private sector would not touch. But the government should stay away from choosing technologies, while pushing them into place through market distorting tax brakes and subsidies.

And this advice comes from reviewing the record. If the private sector makes a mistake by betting on the wrong technology, it is discovered pretty soon. The market mechanism will take care of it. When the government makes mistakes the tendency is to hide them, because they are politically embarrassing. As the technologies are protected by favorable taxation, subsidies, biases regulations, tariffs and what not,

it takes much longer to recognize the error.

The government should use its limited resources to create an enabling environment. Picking winners and losers on the basis of politically popular biases is a bad idea.

Superficial Foreign Policy Debates

WASHINGTON – In this rather silly and definitely low brow sound bite political campaign, president Obama said in a recent TV interview that the current mess in the Arab world is akin to a “bump in the road”. This unfortunate metaphor was seized upon by Mitt Romney and his surrogates as an example of Obama’s superficiality when it comes to serious international matters.

Bump in the road

“Bump in the road’? There has been a wave of anti-American violence in the Muslim World. Our Embassies have been attacked. In Benghazi our Consulate was overtaken and destroyed. This planned attack caused the first death of a serving US Ambassador in 30 years. In the meantime, Washington sits and watches while Syria is up in flames. Last but not least, no clear plan to stop Iranian open nuclear ambitions.

Still, some Obama surrogates dismissed the whole thing. Amazingly, one of them summarized Obama’s foreign policy management credentials by asserting that the American public will trust the abilities of this president because he is the one who ordered Osama bin Laden killed. So, that’s it. Obama scored big. With Osama dead all issues are taken care of.

Killing Osama not enough

Look, killing Osama was obviously a very good thing. But it was a tactical victory in what had become a secondary front. At the time of his death Osama was no longer at the top of his game. He was a fugitive living in hiding in Pakistan. While still the inspirational leader of a transnational Islamic radical movement, he was not that important anymore.

Which is to say that the American foreign policy agenda is much larger than killing one leader of a radical anti-American organization.

Does Romney have better ideas?

That said, while Romney claims that he would do a lot better, I seriously doubt it. He is also guilty of oversimplification. Romney would like a more muscular foreign policy in which America does not apologize and is more assertive. Very nice concept; but in practice it means almost nothing.

The truth of the matter is that the world has become more complicated, with plenty more assertive actors, (China, India, Brazil, among others), while America has become weaker in relative as well as absolute terms. Other developments, such as the Arab Spring and its aftermath, or the never-ending European debt crisis, are so large and so complex that America can do very little to direct or reshape them.

Pax Americana based on US economic strength

Post WWII *Pax Americana* was based on American inspired principles of democracy and free trade. But these ideas were sustained by the credibility of the immense and unmatched American economic and military power. Now the overwhelming economic power is no longer there, while US military is on its way down, simply because a heavily indebted America can no longer sustain it. This is the hard and unpleasant truth.

Obama leading a country on its way down

Obama wants to avoid this conversation on the underpinnings of America power altogether, because he is now leading and wants to keep leading this downsized America. This being the trend, it is easier to tell the public that all is well because the guy who killed bin Laden is in charge than to dwell on the unpleasant realities of diminished means causing a re-evaluation of what goals are actually possible.

Romney also avoiding the hard issues

Romney is also avoiding the issues by stating that the problem is Obama's weakness. It may be so, in part. Obama may have the wrong instincts. But the hard fact is that America is \$ 16 trillion in debt. Its economy is no longer buoyant, the rate of US industrially relevant innovation is disappointing.

Meanwhile, would be military recruits that supposedly want to join the best armed forces in the world fail to answer correctly this question: "If $2 + X = 4$, what is the value of X ?". (I am quoting this from the Friedman Mandelbaum book, *That Used To Be US*).

How to re-establish economic vigor

An adult conversation about foreign policy would be centered on how we quickly re-establish the economic and industrial foundations of US power. Impoverished super powers are no longer super powers. This applied to Spain, to Great Britain; and it will soon apply to us, if we do not take quick remedial steps.

The Republicans Failed To Convey A Message Of Hope, Along With Their Fiscal Reform Plans – Obama Likely To Win By Making Promises He Will Not Keep – Tough Road Ahead For America

[the-subtitle]

By Paolo von Schirach

September 23, 2012

WASHINGTON – The Romney-Ryan ticket is most likely doomed because the only part of the Republican message that truly resonates is “cuts and sacrifices”. Worse yet, the Democrats have managed to sell the view that these cuts and sacrifices are really part of a sinister plot to keep enriching the super rich, while reducing benefits for the poor and increasing their taxes. So the Republicans are not just heartless accountants who care only about balancing the budget, they are in fact mean spirited people bent on making the lives of those who struggle even harder.

Republicans as bad guys

As silly and comic book like as this interpretation looks, the fact is that politically it sells quite well. Most unfortunately, the American public is still accustomed to politicians promising more and more goodies (at zero cost) and no sacrifices. Hard to get elected with a message that in

essence says: *"Sorry folks, the party is over. Here is the bill. Roll up your sleeves because it will take a long time to pay for all this nonsense"*.

This being the way the GOP message resonates, to make things a lot worse Mitt Romney is a bad messenger. Whatever his personal qualities, he comes across as a wooden, insincere and rather flat would-be leader. In all this, it does not really help much that there is almost nothing in his platform that at least on the surface is aimed at winning the support of some segments of traditional Democratic supporters. Nothing for Blacks, nothing for Latinos, nothing for women, nothing for immigrants, nothing for seniors, nothing for the gay community.

Given all that, Obama's re-election, improbable until a few months ago given the sorry state of the US economy and public finances, now looks almost certain.

Not telling the truth

But this is not a good thing. Obama will win by behaving like a traditional politician in a time of plenty, that is a time in which finances are healthy and the economy is thriving. Obama is promising to keep benefits and entitlements just as they are, telling the neediest beneficiaries that he will take care of them and that he will send the bill to the rich, so that they will finally pay "their fair share". His program does not even begin to address the historic challenges of globalization and the consequent need to be strategic and proactive in planning major investments in new technologies, while adjusting federal spending to the new realities of debt and lower revenue.

And here is the problem. America is facing a historic competitiveness challenge and an equally large fiscal challenge. Simply stated, we have run out of innovative ideas that will keep us ahead and we have not invested in our

future; while we still live under the illusion that we can keep spending gigantic and growing sums of money on entitlement programs designed in another era with different costs and entirely different demographic trends.

Economic and fiscal challenges

It is obvious that any serious re-engineering plan that would address both the US economic base shortcomings and all critical fiscal issues would need to be supported by a broad based social compact. From this stand point, as we need to decide how to assign additional burdens, fairness is absolutely important. But so are programs with real teeth.

Obama will win because he is stressing fairness. But his reform plans lack teeth. This way his campaign is creating the false hope that just by taxing the super rich a bit more, (yes, the greedy folks like Mitt Romney and his backers), all will be well. This is of course a fantasy; taxing the rich more may be good social policy; but it will solve nothing. This is obvious, and the president, an intelligent man, must know it.

The Republicans blew it

The Republicans blew the historic opportunity to properly mix their message of serious economic and fiscal reform with an equally important message of inclusiveness, equal opportunity and hope. In other words, whatever their intentions, nothing in what they are saying gives the disadvantaged a novel and inspiring vision of how Republican policies will help them overcome hurdles and help them climb the economic and social ladder. This inability to connect with so many struggling Americans condemns the Republicans to be a minority party at the national level.

Clever Democrats

The Democrats, in their effort to curry favor, refuse to state

how bad things really are in America, both economically and fiscally, this way encouraging the wishful thinking that easy solutions are just around the corner. Tax the rich, tinker a bit with Medicare and all will be fine. Just vote for Obama and you will be happy. Politically expedient but totally irresponsible message.

Obama Administration Conceding That Attack Against Benghazi Consulate Was In Fact A Premeditated Terror Action, Contradicting Earlier Position – Inability To Prevent Incident Reveals A Major Intelligence Failure

[the-subtitle]

By Paolo von Schirach

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September 21, 2012

WASHINGTON – I expressed my skepticism about the “*it’s-all-the-video’s-fault*” blanket official US Government explanation, (provided by US Ambassador to the UN Susan Rice, among others), for all the attacks against US Embassies and Consulates, including one that led to the killing of Chris Stevens, the US Ambassador to Libya, and three more diplomats. (See above link to related story). Now the administration is slowly admitting that there were plots and therefore intelligence failures in detecting them .

Violence was caused by the video

At the very beginning, the Obama administration stated that all these instances of violence against US Embassies were provoked only by an offensive, unfortunately made in the USA, anti-Islam video. Pious Muslims, upon finding out that the video was made in America, lashed out at anything American in their countries. Regrettable, but understandable reaction. And, by the way, nothing that the US Government could have done to prevent this.

This way the Obama administration wanted to deflect any attention from itself. The implicit message was: “*We have nothing to do with any of this. We did nothing to provoke these attacks against our Embassies. Our policies regarding Muslim countries and the Arab World in particular are sensible and measured. However, there is nothing we can do to contain (justifiable?) rage unleashed by Muslims who felt so deeply offended*”.

Obama’s policies

Well, there are at least two issues wrapped in with this narrative. The first one would warrant an in depth analysis of the Obama administration policies towards these countries, starting with the June 4, 2009 “Cairo Speech” in which president Obama promised a new respectful attitude and good behavior towards the Muslim World.

Some would argue that Obama's new posture, ostensibly based on dialogue and respect, was instead interpreted as weakness; and that this very weakness encouraged more anti-American violence promoted by radical Islamic fundamentalists. Plenty of room here for debating how Obama's policies were actually perceived in the Muslim World. Hard to come up with clear answers.

Security arrangements, prevention

The second issue is about security measures to protect US assets on the anniversary of September 11, in countries in which Islamic fundamentalist groups operate freely. And here there is far less room for debate. The official American position in the aftermath of Benghazi was that the attack leading to the destruction of the US Consulate and to the killing of four US diplomats, including the US Ambassador to Libya, could not have been prevented as it was part of an impromptu, spontaneous wave of popular protests that caught everyone by surprise.

In Benghazi, it was a plot

But the Libyan government almost immediately contradicted this interpretation, stating publicly that the attack against the US Consulate had nothing to do with the video. It was in fact premeditated. Now it seems that the Obama administration is backpedaling. Now they are on the record saying that the incident was a terrorist attack, implicitly admitting that this was part of a plot.

Well, if this was indeed a premeditated terror attack, then it becomes painfully obvious that the American government, with all its resources and intelligence assets deployed in sensitive regions, did not see it coming and could not stop it.

Quite frankly, insufficient security, right on the anniversary of 9/11, for obvious American targets in an Arab country with all sorts of military hardware still floating around and known

to harbor extremists, is totally inexcusable. The fact a key US facility was targeted and destroyed, with several US diplomats killed is cause for deep concern. The suspicion now exists that at least parts of the American intelligence and the security apparatus protecting key US assets abroad are run by amateurs.

Obfuscation

That said, it gets worse. Indeed, the determination to immediately provide a politically convenient explanation for the issue, by stating that there was no plot and that all these attacks, including Benghazi, have to be viewed as part of a strong reaction to a video, is willfully deceitful.

The Obama administration tried to confuse American public opinion by deliberate obfuscation, (*"the video did it"*), this way showing that the desire to win the elections is much stronger than any desire to shed any light on what may turn out to be a major national security failures. Only after their "explanation" was openly contradicted by the Libyans they started changing course.

Politics first, serious investigation later

To put it crudely, this has been the approach: *"First let me win these elections, and then we may investigate what went wrong. As what we may have done wrong would make us look bad and would cost votes, let it be understood that politics come first, truth seeking second"*.

Americans More Optimistic About The Economy? The Facts Do Not Support Euphoria – Have We Become So Used To Bad Performance And Mediocrity That Now They Appear Good?

[the-subtitle]

By Paolo von Schirach

September 20, 2012

WASHINGTON – I can certainly understand how president Barack Obama may have the great luck to be re-elected by default this November. Republican challenger Mitt Romney on the whole would appear to have clearer ideas about how to restart the economy, while beginning a reform process aimed at overhauling the tax system and downsizing the enormous and growing public sector.

Uninspiring Romney

But Romney is aloof, vague and unconvincing. And now he comes across as "the enemy" of at least half the nation, having said at a fund raiser that 47% of Americans look at themselves as "victims" and therefore feel entitled to get something from the state in terms of subsidies or benefits. While it is true that there is a culture of entitlement out there, anybody aspiring to become president perhaps should have expressed this concept a little more diplomatically.

Economy doing better?

Still, leaving aside whether or not this and other self-

inflicted wounds may have doomed the Romney candidacy, I find it odd that in recent opinion polls Americans have indicated that they are now more optimistic about the economy. Things are really looking better?

Look, if the economy had really turned a corner and America were back on the rise, there would be cause for jubilation. President Obama, as the incumbent steward, should be rewarded with re-election for his effective policies. But, while I would understand a re-election by default, given Romney's uninspiring performance so far, I wonder where all this optimism about this battered economy is coming from. Certainly not from factual evidence.

Gloomy picture

Let's review the picture. Years into a feeble recovery, America still has an abnormally high unemployment rate above 8%. And millions of jobless people are no longer counted because they have given up looking for employment. We have now the lowest percentage of working age people actually having a job. Even higher unemployment among minorities. We have stagnating incomes that in real terms are at the 1995 levels.

Having seen all this, the Federal Reserve, citing historically high unemployment and no prospect for a quick turnaround, embarked in a rather extraordinary open ended operation aimed at mopping up mortgage related securities for an indefinite period of time, with the goal of getting interest rates to go further down. While this may not change much, all observers indicated that the Fed acted almost out of despair, trying to do whatever it can to revive a moribund America economy.

Negative manufacturing forecast

And there is plenty more bad news. Just today, I read an AP story titled "*US economy hobbled by weak hiring, manufacturing*". In this piece Sam Bullard, senior economist at Wells Fargo Securities, is quoted saying that "*there certainly*

doesn't appear to be much improvement in the performance of the economy. Manufacturing continues to soften and decelerate. We shouldn't expect to see substantial gains in hiring or output from manufacturers any time soon". Bullard is an expert, and he does not sound that optimistic.

Recent data cited in the same AP story support this rather gloomy forecast. Applications for unemployment benefits fell a little last week; but are still way too high to indicate a future pick up in hiring. A manufacturing index covering Pennsylvania, Delaware and New Jersey is negative, indicating contraction. A separate Conference Board report reveals lower manufacturing orders, negative consumer sentiment, and slippage in hours worked.

Weak business sentiment

To top it all off, corporations with cash do not invest because they cannot read the new business and public policy environment. They are uncertain about taxes, future health care costs, the impact of many burdensome new regulations, and they are also concerned about the broader public spending outlook. Will America avoid the fiscal cliff, or fall into it? Will there be more US sovereign debt downgrades?

New normal: bad is in fact good

As I said, I can understand how the independents who usually decide presidential elections may prefer Barack Obama, "the devil we know", rather than take a chance with a rather colorless Romney. But if the vote for Obama comes because Americans really believe that there is cause for optimism about the economy, because things are looking good, then I would conclude that we have really embraced "a new normal" in which under performance and mediocrity are deemed to be good or excellent. Sure enough, given this strange euphoria and deep skepticims about Romney, Obama may get re-elected. But if we keep pretending that bad is in fact good, America is not on

a good path.

Most Commentators Give Good Grades To Obama's Foreign Policy – Yet The Record Is Unremarkable: Messy War In Afghanistan, Iran On Its Way To Get A Nuclear Weapon And Now A Wave Of Anti-American Protests Throughout The Muslim World

[the-subtitle]

By Paolo von Schirach

September 18, 2012

WASHINGTON – The established consensus among leading American foreign policy experts and media commentators is that president Barack Obama has done very well in foreign and security policies. Among his achievements: he ended the war in Iraq, while he has set a time table for withdrawing from Afghanistan. And, of course, he eliminated Osama bin Laden. And, yes, he reset relations with Russia, while ordering a resources refocus on Asia.

Too much praise

While there is some cause for a mildly optimistic assessment, this praise is highly exaggerated. The Iraq withdrawal followed the timetable set by the agreement the Bush administration had reached with the Iraqi government. So, Obama followed a set policy.

List of under achievements

Afghanistan was a mess when Obama came along and it is still a mess today. The surge the president ordered at the end of 2009 produced little that can be called sustainable, at a very high cost. Having now a date (2014) for getting out of a country in turmoil, with a still very active insurgency is not the pinnacle of achievement. Meanwhile, relations with Pakistan have turned from bad to positively horrible on account of the drone strikes against Taliban elements who take refuge in Pakistan that violate Pakistani sovereignty.

The "reset" with Russia did not bring that much. Russia is still mostly uncooperative on Syria and Iran. And the Obama administration cannot do much to influence the autocratic proclivities of the Russian government.

The refocus on Asia looks like an attempt to contain China. While some of this may be welcome by China's smaller neighbors, it is not clear what the end game will be. The decision to dispatch a few marines in Northern Australia has to be viewed as unfriendly by China, even though by itself it has just about zero strategic value.

The olive branch to Iran was rejected. Iran was bent on developing nuclear weapons when Bush was president and nothing changed during the four years of the Obama presidency. Except for the tightening of sanctions, nothing at all.

The peace process between Israel and the Palestinians was deadlocked when Obama came along and it is still deadlocked

today. Essentially zero progress, while relations with Israel have somewhat deteriorated.

New era of engagement with the Muslim World?

That said, let's remember that Obama became president with a highly ambitious agenda of recasting, in a major way, America's relations with the Muslim World. His famous "Cairo Speech" was supposed to inaugurate a new era. Well, it did not. The Obama administration was caught completely off guard by the 2011 Arab Spring phenomenon that gave legitimacy to mostly, although not entirely, anti-American forces.

And now, a year later, notwithstanding various attempts at engagement and dialogue, the well publicized incident of the anti-Islam video has become a pretext for conservative Islamic forces throughout the Arab world for inciting anti-American demonstrations and for attacking US assets, such as Embassies and American schools.

No action in Syria

In the meantime, America is just a spectator as the carnage in Syria goes on and on. Washington has piously declared that in this crisis it will follow the will of the international community. Translated in simple language this means: "We shall do nothing worth mentioning".

Afghanistan still a festering wound

In Afghanistan, the "good war" according to Obama during the 2008 campaign, some US troops get killed almost daily by the Afghans we are supposedly training so that they will become an able fighting force capable of defeating the ongoing Taliban insurgency. And other Afghan fighters just days ago attacked a US base, destroying 6 Harrier jets while damaging 2 more. (Total damage: at least \$ 200 million). The environment has deteriorated so much that the US and other NATO allies just announced they will reduce the level of cooperation with the

Afghan forces they are supposed to train.

And this is success?

It is remarkable how this rather undistinguished record may be portrayed as successful. In fairness, Obama certainly inherited a bad legacy. Too many years of misguided wars wanted by the Bush administration had tarnished US reputation and prestige. Still, this president who came along with a new agenda of humility, friendliness and engagement in foreign relations is ending his term with a diminished America unsuccessful in Afghanistan, incapable of preventing Iran from getting the bomb, no progress in the Palestinian-Israeli peace process, incapable of influencing economic policies in Europe, on an uncertain footing with China, and no record worth mentioning in Latin America or Africa.

And, to top it all off, this new benevolent and engaging America is now targeted by half the Muslim World on account of just one video produced by totally unknown film makers. One cheap anti-Muslim made in the USA video apparently has more power to influence negatively Arab and Muslim public opinion than the entire foreign policy apparatus of the US government. America's best intentions and far reaching policy objectives destroyed by just one video clip? If this is a record of foreign policy success, I would be curious to see what would constitute failure.