

Big Pentagon Cuts Coming – Can America Have Lower Defense Spending And An Adequate Force? In Principle Yes; But More Easily Said Than Done

By Paolo von Schirach

January 31, 2013

WASHINGTON – With or without the unwise, draconian cuts envisaged by the “sequester” that may or may kick in very soon, it is obvious that the Pentagon budget is headed down.

Lower defense spending

What does lower defense spending mean for America’s security? President Obama seems to believe that all is well. A decade of war is over. We are done with Iraq and we are getting out of Afghanistan, whatever the outcome of these long and costly operations. So, big savings ahead. By picking dovish Chuck Hagel as his new Secretary of Defense signals that it is both necessary and wise to reduce US defense spending.

How much is enough?

True enough, America has by far the biggest defense budget in the world. The layman may therefore conclude that if we cut some, even a lot, we could not possibly jeopardize our national security, because even after substantial reductions we would still be way ahead of the pack.

Fine. Yet critics would argue that US current defense

spending, as a percentage of GDP (about 4%) is very low by historic standards (5 to 9%). And it is headed lower. If we factor in projected spending cuts, we may get down to 2.8% of GDP, and this would be really low.

Asymmetric warfare

But there again basing defense spending on magic figures or ideal percentages of GDP is rather foolish. As September 11, 2001 demonstrated, we are in a new era of asymmetric threats and warfare. With all its might, air defenses, state of the art aircraft carriers and nuclear weapons America was a helpless sitting duck on 9/11. Al Qaeda, a small transnational group of terrorists, mounted a clever, spectacularly successful –and extremely low budget– attack against the US homeland. Their only weapons were box cutters. A bigger Pentagon budget would not have prevented 9/11.

Spending should match the threat

That said, how much is enough for defense? In principle, defense spending should be guided by the nature of the threat against our national interests. In other words, we should be able to field a force capable of preventing or countering any aggressive intent or action against our core interests. And this implies not just a given level of spending, but spending on the right things.

If the threat is represented by mobile transnational terror cells, we need more drones and more highly mobile special forces that could be airlifted where needed at a moment's notice, as opposed to long range field artillery.

Asian strategy?

But this may not be the only problem America will have to deal with. President Obama proclaimed some kind of strategic shift to Asia. The goal appears to be to cultivate China's large and small neighbors who may feel threatened by China's more

assertive presence throughout Asia, including spurious claims on remote islands.

So, it would appear that America will redeploy conventional military power into the Asian theatre. Great, except that we do not have much to redeploy. Last year Obama announced that a handful of US Marines will be stationed in Northern Australia. How will they view this in Beijing? They will look at this as a sorry (in fact almost laughable) mismatch between intent and capabilities.

A small Navy

The US has some forward deployed troops and assets in South Korea and Japan. But that's about it. Force projection in Asia should be based on US naval power. But the US Navy, even though today's modern vessels are much more capable, is down to 286 ships, the lowest number since 1916. (Yes this is 1916). This is one of the lowest numbers in modern history and lower than the 313 that the Pentagon indicated to be a bare minimum. And we could go on and on.

Better defense with less?

In the end, America could have both lower defense spending and a more effective force. It all depends on our ability to refocus on essential capabilities, as opposed to wasting money on obsolete force structures and weapons systems pushed by powerful domestic political constituencies.

Granted, all this is very complicated. This is all about trying to accurately estimate future threats. This is art and not science. That said, in an unpredictable world where America is likely to face sudden emergencies, more is better than less.

Defense spending determined by political constraints is a bad idea

But if we have to do this backward, creating a force on the basis of a given level of budgetary allocation determined by overarching spending constraints, as opposed to a defense budget driven by national security priorities, we will end up with the wrong type of force.

Immigration Reform May Succeed – The Republicans Want Latino Votes – However, Let’s Remember That Immigration Is About Becoming Citizens, Not Just Legal Workers – America Is About Shared Values, Not About Jobs

[the-subtitle]

By Paolo von Schirach

January 29, 2013

WASHINGTON – In perennially divided and dysfunctional Washington it seems that Republicans and Democrats may have found enough common ground to hatch a decent immigration reform plan that may actually get enough votes and a presidential signature.

Immigration as a priority

Of all the burning issues on the policy makers agenda –budget, debt ceiling, fiscal and tax reform– this is not the most urgent. But it may have risen to the top because the Republicans may have finally realized that they need to end their stupid and self-destructive opposition to legalizing an estimated 12 million people (mostly from Central America and Mexico) here in the US but without legal status.

Romney's immigration policy

We do remember that Mitt Romney (incredibly) argued during the campaign that he favored “self-deportation” as a solution for illegal immigration. By that he meant that, if we really enforced labor laws and other provisions, illegal immigrants would have no jobs and therefore would be forced to pack and go away. Neat idea. Except that it was and is a colossal idiocy. Imagine 12 million people, some of them in the US for decades, packing and leaving. Very practical, no?

Romney's totally insane positions on immigration contributed to his defeat in November. The GOP got less than 30% of the Hispanic vote. In some states these low numbers meant assured defeat, given the large numbers of Latino voters.

GOP learnt a lesson?

Well, may be the Republicans in Congress learnt something and therefore now are eager to appear in favor of reform. At least some of them, (like Cuban American Florida Senator Marco Rubio) want to be in front.

Hard to say what the final product will look like. Still, there seems to be a good chance to get bipartisan consensus on a at least a broad policy goal. The shared objective (so far) is to pass legislation that will create a path to legal status for illegal immigrants. That said, the road to legalization can be made easy or extra complicated.

Easy or hard path to legal status?

If the Republicans are worried about resistance from their conservative core, they will (stupidly again) fight to create an obstacle course for illegals that will become a source of frustration and resentment. Indeed, if you make it too complicated and costly to apply for and then finally obtain legal status, creating a never ending process requiring too much documentation that needs to be checked and approved, accompanied by heavy fines and an endless waiting list, this would defy the policy goal.

I do agree with imposing restrictions for people with criminal records. But if we want to make sure that everybody paid all their taxes and what not (how do you check that, anyway?) this "reform" will soon become a bad story –with all the blame going to those (once more the wicked Republicans in the House) who insisted on making it harder rather than easy to become a legal resident.

Make it as easy as possible

I favor a quick path. We may include fines, but they have to be mostly symbolic, not punitive. As to the principled (again, mostly Republican) insistence that first we must certify that the border is secure and only then we may proceed with immigration reform, I say enough of this nonsense. The US-Mexico border is not totally sealed, but it is mostly secure. Of course, the virtual end of the South to North flow we have seen in recent years has to do mostly with the US recession that halted demand for cheap labor. But some credit should be given to improved border controls.

While in the case of this proposed legislation the devil is really in the details I am reasonably confident that most Republicans will do their best to show that they aren't dragging their feet. They want to give the impression that they are reasonable and humane people eager to solve an old mess that is really inconsistent with a country ruled by laws.

Remember: this is about citizenship, not about working legally

In all this I really hope to see immigrants fully integrated into the American main stream. The inability to have access to legal status contributed to the creation of ethnic ghettos in which the illegals could more easily hide. As a result we have large pockets of people in America who are here only for economic reasons and who are separated by language and status from the larger society. This is bad.

Immigration reform will be a real success if and when most, if not all, of these residents with no status will be real citizens, with a genuine allegiance, not just to their communities, their families and their jobs, but to the United States of America.

American is mostly about shared values, not about jobs

The Oath of Allegiance to the Constitution –after which a legal resident becomes a US citizen–should not be viewed as a formality, something that needs to get done to compete an administrative process. It should be viewed for what it is intended to be: a reasoned and willful declaration of allegiance to the values of this country, for whose protection and enjoyment the Founding Fathers created our institutions. (The very end of the Oath places the burden of sincere allegiance on the immigrant: “...And I take this obligation freely, without any mental reservation or purpose of evasion...”. This means that I take I take this step of choosing American citizenship because I really want to and mean it).

America is founded on citizens who share and uphold basic values; and not on people seeking mostly economic opportunity. If this country wishes to endure, let's make sure that all of us, old and new citizens, remember that we are here because we share a vision and not just an economy.

America's Problem: Half The Country No Longer Believes In The Virtues Of Free Market Capitalism

WASHINGTON – America's biggest problem –as the recent presidential elections have demonstrated– is that a bit more than half the country no longer believes in unfettered free enterprise as the main engine of both personal and national growth.

Government is better

Obama's re-election (with 51% of the votes) as the defender of entitlement programs as they are, of state intervention and as proponent of income redistribution through taxation shows that a majority of American voters today believe that the benign hand of government helping them is a better and safer bet than the Republican promise to lower taxes and public spending, so that the spirit of can-do enterprise can be once more liberated and put to work. At least 51% of American voters are not so sure about free enterprise.

Capitalism as a model lost the battle of ideas

Let's face it. The 2008 recession destroyed capitalism's credibility and mystique. The system failed. And it failed big time. Most of the almost theological assumptions about the sanctity of markets were proven wrong by the Financial Catastrophe.

Nothing illustrates this failure more than Alan Greenspan's

contrite admission that he –The Flawless Maestro– had made a huge mistake. All his life he believed that financial markets would self-regulate in a fashion that would allow them to price risk appropriately and thus avoid excesses. Well, it wasn't so. No self-regulation. On the contrary, even the most elementary rules dictating restraint were broken.

And it turned out that our Wall Street Captains were not just unwise, they were in fact complicit in a sinister orgy of speculation and greed in which they all succumbed to the zany idea that financial manipulation would make them super rich. In so doing, they almost sank America.

Romney successfully portrayed as the enemy of the common people

Right or wrong, this is the prevailing narrative. And this is what those who voted for Obama believe in. Poor Mitt Romney came along saying that he had the super manager credentials to really fix this mess.

The premise for his challenge was that Obama had done a poor job as economy's steward during his first term. *“Well –said a confident Romney– let the amateurs go back home and let me, the real pro, handle the economy. I know this stuff. I have done it all my life”.*

Well, this impeccable resume became Romney's main political liability. Precisely because of his close identification with venture capital, Romney was conveniently depicted by the Democrats as the arch-enemy, as the fox in disguise who wanted to run the chicken coop. Thanks to the clever character assassination dished out by the Obama campaign, Romney was doomed.

The audience does no longer believes the old story about capitalism

But Romney was doomed also because a bit more than half of the

audience no longer believes the old American narrative of “self-help and individual effort”. People are tired and disoriented. Capitalism failed. Corporate leaders behaved like gangsters.

Therefore, now a liberal Government that promises help looks like a better bet.

And so it was. Obama won the political battle.

That said, the Obama policy medicine is a disaster. He may want to help out with more of this and that –and the people cheer. But he of all people should know that the cupboard is bare. There is no money, while public spending is still trending up.

America does not grow

Obama’s ideological blinders prevent him from understanding that the country needs first and foremost higher growth. From a post war average of about 3%, we are down to 2%. This trend will get us closer to stagnating Europe and all its problems. In order to get to higher growth, it is essential to have a new Grand Bargain that would place entitlement programs on a sustainable course, while reforming our incomprehensible tax system in order to provide a strong encouragement to business creation.

Public assistance for ever?

Of course we need to extend a helping hand to those in need. But only if this is a way to make people self-sufficient sooner rather than later. *Unfortunately, the message now is that there are some perpetually weak constituencies that will need assistance in perpetuity.*

If you are on the receiving end of these public goodies, this may sound great. Easy for the moment to ignore the combined consequences of low growth, high spending (that goes mostly to

assistance and income support, as opposed to investments), and more debt. If we looked at where sorry-looking Southern Europe is today, after having followed exactly this course of action for a few decades, the end game should be obvious. But nobody within this new majority will point this out.

Who will make capitalism believable?

Until and unless somebody will come up with a credible message that will reignite enthusiasm for free market capitalism and sober governance, along with policies aimed at opening up real opportunity to all, America will continue to slowly slide into higher debt, mediocrity and eventually national decline.

787 Grounded Possibly For Months, Cause Of On Board Batteries Fires Still Unknown – A Major Crisis For Boeing – Loss Of Prestige For America As Technology Leader

By Paolo von Schirach

Related story:

<http://schirachreport.com/index.php/2013/01/17/boeing-787-dreamliner-grounded-all-over-the-world-due-to-serious-malfunctions-aerospace-giant-image-tarnished-has-america-lost-it-as-technology-leader/>

January 25, 2013

WASHINGTON – I pointed out just a few days ago (see link above) that the worldwide grounding of the Boeing 787 Dreamliner is a public relations disaster, (on top of the economic damage), for America's leading aerospace company.

The 787 story gets worse

Now the story is getting worse. There is no idea as to when the problems will be fixed. Experts are talking about months, not days or weeks. The cause for this almost unprecedented action by the Federal Aviation Authority, America's air safety agency, is that the 787 brand new on board batteries may catch fire, as a couple of recent episodes involving Japanese airlines have demonstrated.

Still, as of today, no idea as to what went wrong. But it is clear that there is a basic design flaw. In the meantime, the 787s do not fly. Boeing cannot make new deliveries. The company's prestige is damaged, its future earnings are in question.

This is huge. The 787 was and is the next generation airliner. It is supposed to be the most cost effective. It is built with new materials. It is supposed to consume far less fuel. The airlines liked it so much that they placed over 800 orders for the Dreamliner.

Problems from the beginning

But from the very beginning there were mishaps. Indeed, we should keep in mind that the gestation of the 787 project was very troubled. As most (about 70%) of the aircraft parts have been subcontracted, Boeing relied on its (overstated, it turned out) "system integrator" ability to manage a complex network of designers, vendors and suppliers spread all over the world. And it did not work. There were repeated and very embarrassing glitches that caused delays upon delays. New

delivery deadlines were announced and then not met, many many times. In the end, the first 787 was delivered three and half years behind schedule. This is not exactly an example of flawless project supervision by a world leader in sophisticated technologies.

But all the redesign and upgrades made necessary to solve the assembly problems that had caused all the delays apparently did not take care of everything. Hence these battery accidents and the subsequent grounding of all 787 aircraft world wide.

Well, we should hope that National Transportation Safety Board safety experts, working around the clock with Boeing's top specialists, plus others in Japan and Europe, will come up with an explanation of what went wrong and will be able to fix the problem, once and for all.

This is a disaster

But, in the meantime, this is an unmitigated disaster. For decades Boeing was the world standard when it came to aviation technology and safety standards. Sure enough, these days Boeing is locked in a difficult global competition with Airbus, its aggressive European rival. Still, Boeing continued to enjoy a high level of international respect based on its performance.

Now this reputation is badly damaged. Can it be repaired? Of course it can. But imagine that after the "battery crisis" something else happens to another 787, revealing more design flaws. Then it will be really difficult to climb back.

Flawless high tech is America's main ticket to stay competitive

The real point of all this is that America's chances to survive as a leading player in the hyper competitive global economy rely almost entirely on its technological prowess. Unless America can out innovate its competitors and move up

the value chain with a stream of commercially profitable high end products, it will lose its world economic leadership. Quite frankly, America has already lost its edge in many sectors: auto, consumer electronics, machine tools, renewable energy, to name just a few.

Until recently, aerospace was one of the few bastions of US global prestige. (No longer primacy, because of the successful emergence of Airbus as a totally credible competitor). Now, well now we are not so sure about that hard earned prestige anymore. The longer the unfixed 787s stay on the ground, the worse the prognosis.

Obama's Social Justice Agenda Is Unaffordable – But The Republican Message Of Fiscal Responsibility Has No Traction

By Paolo von Schirach

Related story:

<http://schirachreport.com/index.php/2013/01/21/obamas-second-inaugural-address-focused-on-equality-issues-noble-goals-however-unless-the-american-economy-grows-while-washington-fixes-spending-and-taxes-there-will-be-nothing-to-redistribute/>

January 22, 2013

WASHINGTON – President Obama’s priorities, as outlined in his Inaugural Address, (see above link to related piece), are in line with the political *Zeitgeist* that his first term contributed to create. And here they are: more government, strong defense of existing entitlement programs, more support for the needy, pushing a green energy agenda. All this is popular in America, and Obama’s re-election attests to this.

Unaffordable

The problem is that single mindedly pushing policies focused on these goals of social justice, equality and what not will lead America to fiscal disaster. We run out of money long ago. Irrespective of the noble goals, the notion that it is possible –indeed morally righteous– to defend an essentially unchanged (and unaffordable) system of costly entitlements in a country drowning in debt (mostly because of entitlement spending) is almost surreal.

More will than wallet

Does President Obama know that, in part thanks to his actions, America is running trillion dollar deficits every year? Does he know about the size of the national debt, (\$ 16 trillion plus), a big chunk of it added during his first four years in office? I presume he does know. But I also think that the President, following I have no idea what kind of logic, believes that America’s deteriorating fiscal position is just a small detail that we shall attend to at a later date. Securing benefits is priority one. Paying for them is a secondary matter.

America believes we can afford anything

This is border line insane. And yet the President won re-election on his pledge of defending the welfare state as we know it against the vicious attacks of the mean spirited Republicans. Against all odds, President Obama managed to obfuscate his own mediocre record as steward of the US

economy, while extolling his role as champion of the poor and disadvantaged. And he won.

Debt: termites in the basement

But how is it possible that America approves all this when you look at the fiscal disaster building up because of entitlement spending and debt trends? Well, it is quite possible. A mounting fiscal crisis is painless until it breaks out. And so it can be ignored. As someone said "***Debt is not the wolf at the door. It is more like termites in the basement***". If you do not know the termites are there, you see nothing and fear nothing. In the meantime, they are literally eating your home. When you find out, it is too late.

For the time being, ordinary people do not feel the pain of a mounting national debt. A mixed blessing in all this is that (thanks to the Fed) interest rates on US Government Bonds are ridiculously low and so Uncle Sam keeps borrowing, paying only a small price in terms of interest on these loans.

Wise people call for action

All the wise people, (think of the Simpson-Bowles duo, co-chairs of the "Debt Commission"), have said and repeated that this course is unsustainable and that we should act now in order to "*bend the spending curve*".

We do not need to all of it at once. But we need to act now, so that public spending in the future will be substantially reduced, giving us a chance to regain fiscal balance.

Grow the economy

And the wise people also tell us that we should incentivize enterprise, business creation and innovation --the proven drivers of wealth creation and more widespread prosperity. A major overhaul of our complicated and outdated tax system would help to secure these goals. Well, except for subsidies

targeting his pet green tech/renewable energy projects, President Obama is essentially silent on this.

Does he really think that the current lackluster 2% growth is optimal, when the post war average was 3%? But there again, the public likes his social justice message, the media and most opinion makers nod, and few dare challenge his agenda in which more equality can and will be achieved via more debt and a mediocre economy.

Republicans in a pickle

And here is the immense challenge for a disoriented and fractured Republican Party, at times dominated by the voices of strident ideologues.

When Ronald Reagan run for office in 1980 his slogan of ***"Getting the Government off the backs of the people"*** was a stirring cry for unleashing the power of American free enterprise. Big Government produced by the liberal left was the enemy. And most voters agreed with him. So, at that time, deep spending cuts and even slashing and burning were seen as smart, high minded, morally superior and liberating.

Well, not today. After the shock of the 2008 financial crisis, the private sector lost its lustre and indeed its respectability in America. Making no distinctions, the public dislikes business in general and not just the reckless Wall Street bankers and sub prime mortgage companies.

Private sector is bad

In the aftermath of the financial crisis we have established a new narrative. The private sector is made out of greedy people who couldn't care less about the common folks who work for them.

And so the poor and the disadvantaged need the Government to protect them against the rich and ultra-privileged who –as we

all know— long ago gamed the system so that it works only in their favor: they get all the money and pay essentially no taxes.

This is the narrative. The private sector is the villain. Mitt Romney, the country club vulture capitalist with horses, luxury cars, too many homes and off shore bank accounts is its personification.

Benign and thoughtful Big Government led by caring Obama is the defender of the oppressed. Thank God that we have this good man, (a former Chicago community organizer who learnt the ropes by helping the poor), in the White House to help us out.

Can the Republicans be fiscally responsible and popular?

Yes, this is an incredible and dangerous distortion of reality. But this is what most Americans believe today. It will take a heroic effort for the Republicans to build a new, credible and compelling image as the party of growth and fiscal sanity; but also as the party of fairness, inclusiveness and real opportunity for all Americans.

As of today, any Republican policy mix that includes any spending cuts will be not just unpopular; it will be portrayed as vicious and mean spirited.

That said, Obama's agenda is good politics but terrible policy.

Obama's Second Inaugural

Address Focused On Equality Issues – Noble Goals – However, Unless The American Economy Grows, While Washington Fixes Spending and Taxes, There Will Be Nothing To Redistribute

By Paolo von Schirach

January 21, 2013

WASHINGTON – Nothing I have heard from Barack Obama since his November clear, (albeit not triumphant), re-election convinces me that this President has anything even close to a meaningful economic growth and fiscal reform agenda that can receive bipartisan approval. His Inaugural Address, if anything, would indicate that between growth and equality this President believes that equality is more important.

Equality rather than growth

President Obama's second Inaugural Address was beautiful, well crafted and at times stirring. Of course, this is not the occasion for outlining a policy agenda. But it is the occasion in which a President reveals his core values and thus his priorities.

And Obama, if we judge by the space devoted to issues, wants more equality in America, while he will fight for the preservation of the existing entitlements system that provides safety nets and income support for the elderly and the poor.

He said that we should not have to choose between caring for the young and making sure that senior citizens will have a dignified existence.

All this is noble and morally correct. Indeed we should make sure that all Americans, in practice, have meaningful access to opportunity, at every level. Indeed we should make sure that "the pursuit of happiness" is not restricted to a small class of privileged individuals. Obama is right in this.

Entitlement programs not sustainable

That said, the President said almost nothing about the fact that the current entitlement system is unsustainable and thus not affordable. Moreover, he said almost nothing about ways to rev up America's stalled economy, the only reliable engine capable of producing prosperity –the foundation of expanded opportunity. He mentioned only vaguely the historic fiscal challenges this country is facing, while professing enduring confidence in American ingenuity and enterprise.

So, nice speech, noble goals. But America's problem today is that we lack the means to reach those goals. Our colossal federal deficits and historic national debt will make sure that in the future we shall do less rather than more. A Government that has essentially become a welfare distribution agency has almost no money left to invest in our future. And, as spending and borrowing will increase, at some point even the check writing machine will stop.

Slow growth

By the same token, an American economy that grows at best by 2% a year, as opposed to the post war 3% average, will offer less to fewer people.

The President outlined noble goals of social and economic justice. This is all very well. But unless America starts growing again, the only way to get to more social justice is

by redistribution through taxation and well meaning but costly social programs.

Fairness policies require resources

This approach may satisfy the desire to achieve more "fairness"; but it will not get as very far. Even Marx clarified long time ago that Socialism was not to be understood as mere redistribution for this would amount to the socialization of misery. Socialism was supposed to be a way to maximize resource utilization. In other words its success was predicated on economic growth.

Taking from the "haves" to re-balance the fortunes of the "have nots" is not an economic growth strategy. It is populism. Of course we need a genuinely equitable society where everybody has a fair shot at success. But in parallel we need a dynamic society that grows rapidly, this way expanding opportunity.

So far, no growth agenda, no fiscal reform plan

So far, I have heard nothing from President Obama indicating that he has a credible growth agenda that will get us out of the swamps of economic stagnation, accompanied by a serious entitlement and tax reform plan.

The President is right in saying that America should be able to provide for the needy and the elderly. But, if we do not even begin to balance our books and do not grow the economy, we shall lack the resources to do so. Just look at Southern Europe and you see where America is headed.

After four years as Chief Executive the President should have understood that slow growth and high debt are slowly choking America. But I suspect that he has not.

Praise For Mario Draghi Is A Way To Forget That Europe's Structural Economic Problems Have Not Been Fixed – The Financial Situation Is Much Better; But The Economies Of Southern Europe Remain Hopelessly Weak

[the-subtitle]

By Paolo von Schirach

January 20, 2013

WASHINGTON – I am really worried about too much praise for European Central Bank President Mario Draghi. He is described as Europe's savior, as a genius because last Summer he bluntly said that he would do whatever is necessary to defend the Euro.

Draghi's bet

Since the bond markets did not test this bold proposition, in essence believing that Draghi would be able to follow through with adequate liquidity aimed at supporting bonds under pressure, he won the battle. There is no more downward pressure against the Club Med countries bonds. Europe's financial markets are back to "normal". So, this is it? Just

one brave statement of intentions by the head of the monetary authority fixed everything?

This is patently absurd. There is a huge difference between the end of an emergency and return to normalcy. Mario Draghi deserves a lot of credit for boldly asserting his intention to fight for the integrity of the monetary union.

German help

But this is after all his job. And by the way this would have never worked had Draghi failed to enlist the German government as key supporter for his plan. Imagine if Chancellor Merkel had said publicly that Draghi's strategy couldn't work because key Eurozone members would not provide the liquidity to rescue Club Med. That would have been a disaster.

Still, some praise is deserved. In an environment where timidity and half measures are the best that mediocre leaders can come up with, Draghi's blunt words were like a lion's roar.

Meltdown avoided, picture this bleak

That said, it should be crystal clear to all observers that the President of the ECB cannot turn Europe around all by himself. The idea that since monetary meltdown has been avoided now all is well is plain stupid. Sure, the patient (Club Med) did not die, and he may be soon out of intensive care. But the prognosis is that there will never be a full recovery. The ailment is so severe that it created permanent damage.

Weak Club Med economies

Let's look at the picture. The Eurozone is in a recession. Unemployment is at 11%. If this is bad, look at Spain where it is at 27%. **Yes, that is 27%**. Youth unemployment in the Club Med countries is around 50%. Austerity measures, while

necessary to cut spending and restore some confidence in highly indebted countries, are recessionary. They have sucked oxygen out of the room. Tied to the Euro, the Club Med countries cannot hope in an export led recovery aided by a devalued currency. More broadly, they still lack macroeconomic policies that would strongly encourage domestic and foreign investors.

Greece will never come back

Just look at Greece. After the latest bailout, Greece will have received 255 billion Euro. This is an astounding figure for a small country. The IMF now warns that it may need an extra 9 billion Euro. And, despite all the massive interventions, the economy is in free fall. Sure enough, the Greek 10 year bond is now “down” to 11%. This is a huge success if we consider that it was at 30% just few months ago. While this is great progress, 11% is still extremely high. (Germany is less than 2%).

If markets had total confidence in the rescue plans for Greece, then its sovereign debt should be regarded as debt of any other perfectly solvent country, with zero risk premium attached. But it is not so. And this proves that Draghis' victory, while significant, is only partial and temporary. Avoiding the Euro's meltdown is not the same as restoring full credibility in Europe's future.

ECB cannot fix weak economies

The truth of the matter is that Southern Europe's structural problems are not just fiscal. They are also economic. True enough, its public sectors are still too large and inefficient, its welfare programs too expensive. Partial reforms have yet to resolve these core problems. But, in addition, its economies are not competitive, productivity is too low. There is no business creation. Old and underfunded education systems are unable to turn out world class knowledge

workers. And, to make it even worse, all Southern European countries have extremely low fertility rates. This means societies made out mostly of inactive old people clamoring for pensions, medical care, disability benefits and more.

Europe will under perform

Even if Mario Draghi were the best central banker in history, the ECB cannot fix these systemic problems all by itself. Without miraculous economic transformations, dragged down by its weak and needy Southern periphery, Europe will continue to under perform.

Obama's Partial Restrictions On Guns Will Make No Difference – 300 Million Fire Arms In Circulation – New Measures Enacted Just To Give The Impression That “We Are Doing Something”

January 19, 2013

WASHINGTON – Adam Lanza, a young lunatic, got hold of his mother's (legally purchased) guns. He killed her and then went to an elementary school in Newtown Connecticut where he proceeded to gun down little children and some of their teachers.

Let's "do something"

This massacre caused an enormous national uproar. Commenting on the tragedy, President Obama was in tears. Hence the urge to "do something", so that we shall have no more such tragedies.

After some consultations with relevant constituencies and stakeholders, President Obama came up with a series of measures, most of them to be enacted by executive order, as they do not require new legislation. The focus is on restricting the sale of assault weapons, magazines with too many bullets and creating new measures whereby doctors would alert authorities about possible criminal intentions revealed by their patients.

Step in the right direction?

Is this the proverbial first step in the right direction? Not really. This is feel good stuff, and little else. None of these measures comes even close to severely restricting the constitutional right to bear arms. Of course, it would ideal to enact new norms that will make it impossible for mentally deranged people to have access to guns. But this is very difficult.

Most lunatics do not go around broadcasting their intentions to acquire weapons in order to execute a massacre. How do you catch them before they act? Who will determine which mentally ill patients should not be able to legally purchase a gun?

Too many guns in America

More broadly, and this is what really matters, even assuming draconian new measures enacted today, America is awash in weapons. Estimates vary. But we are talking about 280 to 300 million weapons already in circulation. This is an unbelievably large number. People with bad intentions will find a way to get one or more.

Feel good actions

Taking all this into consideration, Obama's announced new measures are the proverbial attempt to warm up the oceans. It is understandable that the Nation's Chief Executive wants to give the impression that he got busy and that countermeasures are now in place. But all this is mostly politics. Certainly Obama is polishing his image as defender of vulnerable children. This will get him a higher approval rating. Women will love all this.

But this will do almost nothing. Let's remember that previous legislation that prohibited the sale of assault weapons from 1994 until 2004 had almost no impact on the number of homicides.

America has to deal with a gun addiction problem

America has a real addiction problem when it comes to fire arms. The otherwise unobjectionable right to own guns for self-defense has been stretched to absurd levels. While some states have created restrictions, by and large it is easier to buy a gun in America than to obtain a driver's license. This is grotesque. Quite frankly, given all these tens of millions of guns floating around, the real surprise is that horrible massacres like Newtown are not more frequent. Mentally ill people who have plans certainly have plenty of tools available, if they choose to act.

Given this persistent gun addiction and the popular resistance to serious curbs, if America really believes that these assorted new partial restrictions enacted by President Obama will make a real difference on gun violence, then they'll believe anything.

Algeria Terror Attack Shows That Radical Groups Are All Over – US Forces Should Stay Mobile And Flexible – What Is The Point of Keeping A Large Occupation Army In Afghanistan When Terrorists Operate Quite Freely Elsewhere?

By Paolo von Schirach

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WASHINGTON – What's the connection between the hostage taking and bloody (botched?) attempted rescue at a large gas facility in South Eastern Algeria and the US-led war in Afghanistan? The connection is that the fight against radical Islamist terrorists cannot be conducted as a conventional military campaign, as we are doing in Afghanistan.

Terror groups are all over

We are dealing with ideologically motivated loosely connected or entirely disconnected multinational groups, factions and cells that seem to share the objective of disrupting what they see as illegitimate governments, while attacking Western targets as they believe the West is supporting and propping the hated local rulers.

Deny sanctuary?

The rationale for the costly and prolonged war in Afghanistan was and is that we wanted to make sure that the Afghan territory would never again become a sanctuary for al Qaeda and its affiliates. This would have made sense if Afghanistan had been the only place in the world where they could go. Had this been the case, then it would have made sense to occupy Afghanistan, reorganize it and clean it up in order to deny al Qaeda any opportunity for re-entering.

But this is not the case. "International Terror" is not an organized structure with a supreme command operating from a base. It is a loose transnational movement, with various groups engaging in different operations wherever they see fit. The most recent events in Algeria attest to this.

Invade every country in which terror groups operate?

If it were indeed the policy of the United States to deny al Qaeda and associates any and all bases of operations from which they can launch attacks, then –just as we have done in Afghanistan– America should occupy Algeria, Libya, Tunisia, Egypt, Yemen, Somalia, Mali, Nigeria and more in order to make sure that these countries cannot be used with impunity as bases by terror groups.

This approach is clearly impractical. Well, if it is impractical to invade Algeria in order to avoid another attack against an energy installation, what is the point of keeping a 68,000 strong force in Afghanistan? A much better approach would have been to reduce our presence there, focusing on what really matters to us: degrading and disrupting the operational capabilities of terror groups inclined to do us harm.

Terrorism is unfortunately like a nasty winter flu virus. It mutates and changes every year. No matter how much prevention we try, it still attacks us, with harmful consequences, especially for the most vulnerable. Hopefully one day this insane idea whereby terror methods are the best way to achieve

noble goals of political change will go away.

Stay flexible, focus on counter terror

Between now and then America and its allies should stay prepared and flexible. We should maintain and upgrade our intelligence and special operations capabilities so that we can prevent and disrupt terror plots whenever possible, and react swiftly when necessary.

Keeping a large US occupation force in one particular country –Afghanistan– for more than a decade, while al Qaeda and associates are busy plotting and acting elsewhere, amounts to a really dumb way of allocating scarce resources.

Chinese Media Openly Discuss “Smog Crisis”

WASHINGTON – What is most remarkable about the almost historic “smog crisis” enveloping China is that all the state media and the authorities talk about it candidly and openly, almost emulating the “glasnost” days of the declining Soviet Union.

China’s moment of truth

I do believe that the unprecedented levels of smog in Beijing and in practically all large metropolitan areas in North Eastern China may represent an unprecedented “moment of truth” for the citizens of China, for the economy and for the Communist Party that is responsible for having pursued a “growth at all costs” strategy, regardless of environmental consequences.

Well, the fine outcome of 30 years of unrestricted growth is literally *"Hell on Earth"*. If you cannot breathe the air in the brand new cities you've built, who will want to live there? What's the use of 10% growth year after year, if the outcome is an unlivable environment?

The environment is a serious matter

In China these days "the environment" is not a concern for sophisticated intellectuals worried about the welfare of spotted owls or romantic tree huggers. It is about basic quality of life. Levels of smog several times above hazardous thresholds are not just a passing inconvenience. They become a serious crisis, an issue of public health (or lack thereof) affecting tens of millions.

Telling the truth

That said, what is truly intriguing regarding this unprecedented smog crisis is that the Chinese media, having abandoned the traditional reluctance to give and seriously discuss bad news, plunged head on into this air pollution story with uncharacteristic zest. There is almost total openness about the scope and seriousness of the problem and all the questions that it raises about China's economic development model.

Segments of "Dialogue", (a TV show on the English language CCTV), dedicated to the smog issue could have been produced by American or European media. The discussion was open, real data cited and clear calls for radical change made.

All guests on the TV show commented on the fact that the Chinese Government at last started publishing real data about air and environmental quality, so that the public can have a good idea of what is actually going on.

This is truly remarkable. While the Chinese media do not call 30 years of unchecked, runaway development a "failure", the

implication is obvious that the model adopted and followed in order to produce growth was and is deficient. An economic strategy that produces air tens of millions of people should not breathe cannot be that good.

Now the people know

So far, so good. The environmental degradation issue is out there. It is also clear that it has been caused by unchecked economic growth. The extent of the damage is no longer denied or camouflaged with false or incomplete data. The media discuss all this. The public gets it.

But then what? It is clear that there is no quick fix for any of this.

Now what?

The only way to get to a substantially improved environment is to close down or substantially upgrade/retrofit old manufacturing facilities and power plants. This would entail massive investments in what is now the world's second largest economy. This is capital that will be diverted from productive activities.

The political cost of going green

It would be wise for China to "go green". The point is that it is difficult and extremely expensive; while it will take years before tangible results will be achieved. And, while there will be huge benefits for the general population, the price of this gigantic policy shift will include a lower rate of growth, meaning fewer Chinese escaping poverty or a very low standard of living.

Looking ahead, the real question is whether the Communist Party can manage all this, while retaining its prestige and power intact. I doubt it.