

The Real Story Of The Italian Elections Is That Monti Is Now Irrelevant – There Is No Real Pro-Growth Political Force – Populists in Charge

By Paolo von Schirach

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February 26, 2013

LUSAKA, Zambia – Regarding the incredibly disappointing outcome of the Italian political elections, allow me to say “I told you so”. (See links above to related stories). I predicted that the elections would decide nothing; and I also predicted that Monti’s improvised coalition of serious reformers would do very badly at the polls. A Monti victory, or at least a strong showing, would have signalled that the Italians are finally getting serious about fixing their country. His defeat means that there is little chance of any serious improvement.

Monti is the big loser

Professor Mario Monti, technocratic Prime Minister in a moment of crisis, is the voice of reason, of western-style good governance, of sensible pro-growth policies. His government imposed new taxes and spending cuts as a way to shore Italy's finances and regain credibility in international bond markets. The hard part of course is still to come and this is about relaunching the economy. Continuing with Monti, this time endorsed by a popular vote, would have represented progress, moving forward.

But no, forget about reason. The Italians do not like austerity, and so they voted for "anything but austerity". As for new badly needed economic growth, who knows, they may believe "it will just happen", by some Divine intervention. The victory (although not decisive) of Beppe Grillo and his "*let's throw all the rascals out*" 5 Stelle Party is the expression of deep frustration. Frustration with taxes, with the EU, with Angela Merkel, with the entrenched professional politicians, their privileges and their corruption. But just venting frustration will get Italy nowhere. Grillo is essentially a populist. Do not expect him to lead on anything. Governing is hard. Putting together the right actors who will plan and implement sensible pro-growth policies –a must have for a country in economic decline– is even harder.

Who will lead?

After this vote, stalemate in Parliament. The hardly promising center-left coalition, (the grandchildren of the old Communist Party), with all its stale pro-welfare, pro-unions baggage, has a majority in the House. No majority in the Senate. Former Prime Minister Silvio Berlusconi has re-emerged from yet another near death experience and now leads a diminished but hardly irrelevant number of MPs. Grillo is triumphant, even though not able to govern by himself; and Mario Monti –the only credible reformer– is marginalized.

And you expect this national leadership to coalesce around modern, pro-growth, pro-education, pro-employment policies?

Dream on.

South African Mining Sector In Serious Trouble, Country's Economy Downsized – Says Zambian Mining Executive

By Paolo von Schirach

February 24, 2013

LUSAKA, Zambia – As Africa is moving forward, South Africa, the Continent's historic economic power house, seems to be falling behind, having lost its ability to modernize. The huge South African mining industry, the country's main economic driver, is in trouble. Plenty of recent stories about violent labor unrest, in a few instances punctuated by violence and excessive use of force by the police. Many striking miners have been killed in these demonstrations that evoked the atmosphere of the worst days of apartheid.

South Africa is in trouble

Here is how a competitor sees South Africa. This is what Adam Little, an executive with First Quantum Minerals, FQM, a mining conglomerate operating in Zambia, a smaller country north of South Africa, said in an interview published in the January/February 2013 issue of Zambian Traveller:

Q. What do you say about the labour related problems facing the mining sector in South Africa?

A. We believe that the South African mining industry is in a different position to the Zambian mining industry, and we sincerely believe that there is no need for the type of tragic confrontation that we have recently seen in South Africa.

South Africa has completely missed the last two mining booms, due largely to the problems associated with labour force relations and also to the uncertainty of ownership raised by talks of nationalization.

The effect of this on the entire South African economy has been catastrophic, which has seen the country decline from a position where it contributed 40% of Africa's total GDP to less than 20% in just 18 years. [bold added]

As a result all South Africans are now poorer than they were a decade ago. In the meantime other African countries, Zambia included, with more balanced [business-labour] relationships have enjoyed the boom times with a material rise in living standards across most of the continent."

Bad policies, no growth

Of course, a mining company operating in a different African country may have a vested interest in exaggerating South Africa's precarious conditions. But it is true that labor issues are a big problem, while it is also true that there has been open speculation about nationalizations concerning the South African mining and banking sectors. And it is also a fact that the South African economy is not growing much, this way making it impossible for the ANC government led by president Jacob Zuma to raise the revenue necessary to finance its very ambitious social agenda.

Bottom line: bad economic policies and troubled labor relations yield little or no new wealth. As a result, few if any new schools and hospitals built.

T. Boone Pickens Still Pushing His Plan To Adopt US Produced Natural Gas As Transportation Fuel – A Great Idea Whose Time Has Come

By Paolo von Schirach

February 22, 2013

WASHINGTON – T. Boone Pickens keeps pushing forward his plan to convert American vehicles to US produced (inexpensive and cleaner) natural gas. His purpose is to help the US economy by promoting the use of a now abundant US resource, while lessening US dependence on oil; as oil prices, unlike domestic natural gas, are still determined by the OPEC cartel, no matter how much more oil America is getting now from North Dakota.

Use US natural gas to avoid OPEC controlled oil

In other words, we determine our own (very low) price of gas. OPEC still controls oil prices. Hence the advantage in economic, geo-political and environmental terms of choosing US produced natural gas as transportation fuel. Gas is plentiful, domestic, cheaper and cleaner than gasoline or diesel.

In Pickens' own words:

"This morning [February 21] I also co-hosted a SquawkBox on CNBC where we talked about our nation's dependence on foreign oil and how the U.S. can fuel domestic energy production.

Key points of the interview:

– Despite great strides in domestic energy production, U.S. consumers are seeing no relief in gasoline prices because oil is a global commodity and Saudi Arabia is the swing producer.

– OPEC is a cartel, and the best way to break the cartel and address rising fuel costs is to inject competing transportation fuels into the mix.

– Taking advantage of our expanding supplies of natural gas, particularly in the heavy duty truck and fleet market, is the most realistic way to solve the national security and economic threat tied to OPEC oil/diesel/gasoline."

There is long road ahead before we convert our vehicles, beginning with heavy trucks, to natural gas, but it well worth the effort.

**Tech Leaders Started A New
Health Science Prize –**

American Scientists Need Incentives

By Paolo von Schirach

February 21, 2013

WASHINGTON – Tech billionaires Yuri Milner, Mark Zuckerberg and Sergey Brin joined forces to institute and support financially a new annual prize worth \$ 3 million for ground breaking health science research. This is good news for America. There is widespread concern that the US is lagging behind in scientific discoveries. Rich people providing financial support to the efforts of promising scientists is a good thing.

Do more science awards make a difference?

There is in fact a proliferation of other science awards supported by corporations and other institutions. However, people who have looked into this phenomenon, (see [WSJ](#) story on this), argue that the monetary benefits are not significant enough to transform the field.

In other words, we are not going to see a massive movement of promising young minds into scientific research purely on account of the potential financial rewards that may come to them through any of these awards.

That said, hopefully these rich tech people may be able to influence others. This may start a wave. And we need one. Badly.

In The US Coal Consumption Is Down, Natural Gas Is Up – Great News For The Environment: Gas Is Much Cleaner Than Coal

By Paolo von Schirach

February 20, 2013

WASHINGTON – Great news. The latest figures indicate that in the US coal consumption is down significantly, while natural gas is up. Given the low prices of US produced natural gas, (this is due to the additional supply made possible by shale gas extracted via “hydraulic fracturing”), natural gas is displacing coal as the fuel of choice for power plants.

Gas is clean

This is of course a bad economic development for coal miners. However, it is good news not just for energy companies extracting natural gas, but also for the environment. Natural gas is much cleaner than coal. While it produces emissions, it is the cleanest of all carbon based energy sources.

Obama Care Will Not Be Able

To Bring Down US Health Care Costs – America Needs To Embrace Prevention, Doctors Should Have An Incentive In Keeping People Healthy

By Paolo von Schirach

February 19, 2013

WASHINGTON – The “birth defect” of Obama’s Affordable Care Act, (universally known as Obamacare), is that it tackles the almost impossible topic of US health care coverage and out of control spending from the wrong end. It tries to reduce spending by reappropriating the bill. The problem is in the spending drivers.

Increasing coverage while reducing costs?

This effort is a bit like buying the best new tires for on old car that needs new tires alright; but most urgently it needs a new transmission. If you do not fix the transmission, the brand new tires will not get you very far.

The laudable goal of the ACA is to extend coverage to millions of uninsured Americans. But the wishful thinking here is in the unsupported assumption that, by some magic, it will be possible to change almost overnight established practices whereby we will get the miraculous result of an entire US population insured, sensible, cost-effective new protocols adopted by the medical profession, and therefore a net reduction in overall health care costs.

This outcome is most desirable, but most likely unachievable,

unless enormous transformations will take place. And the ACA does little to get us there.

Doctors make money only when you are sick

It has been said before; but it is well worth repeating. Most US doctors are paid only if and when they treat and prescribe. Hence a built in financial incentive to do “more” rather than “less” regarding any given patient. Combine this with “defensive medicine”, and it becomes clear that the tendency to over treat and over prescribe is almost irresistible. Considering that most patients are insured, all this insane hyperactivity would appear painless, as patients pay out of pocket only a small portion of their health care.

But higher costs translate into higher insurance premiums. And this is inevitably translates into a larger burden for employers who provide medical insurance for their workers.

Unhealthy Americans

Add to this problem another –possibly bigger– one. Americans are more and more unhealthy because of the widespread adoption of bad habits. Addiction to processed foods and nutrition generally rich in fat, starch, sugar and salt has caused a massive, nationwide obesity epidemic. All this causes more diseases, many of them (like type 2 diabetes) chronic and costly.

Bad health and eager doctors, a bad combination

And there you have it. A very unhealthy population and doctors eager to treat and over treat. The notion that it is possible to fix all this mostly by re-regulating insurance is crazy.

Better habits and doctors who teach prevention

In order to contain US health care costs and bring them down to the average of other rich countries, (this would be overall spending at around 9-10% of GDP, as opposed to US spending

around 17% of GDP), Americans need to embrace a healthy life style, while the medical profession needs to be restructured.

Doctors should have a financial incentive to keep people healthy, as opposed to making money only when they (over)treat sick people.

Obamacare addresses some of the cost containment issues, but not in a systematic fashion. Its basic flaw is that it hopes to reform a horribly flawed health care system mostly by broadening insurance coverage. This alone will not do it.

Happening Now: Bionic Human Beings With Man Made New Parts

WASHINGTON – Wellness gurus teach people good habits in terms of healthy nutrition, good exercise regimes, and stress management techniques that will help keep the body in good shape and therefore prolong the length of our lives, while making life less disease prone and therefore much more enjoyable, even when you get to old age.

Wellness practices prolong lives, up to a point

If we would all follow this sound guidance, we would do so much better. There would be no obesity epidemic, nor obesity related ailments. No more type two diabetes. No more high incidence of cardiovascular diseases. There will be a dramatic reduction of certain types of cancers, and so on.

Still, even the best wellness practices will get you only so far. You may stay healthy and you will live longer. But, in the end, the human body is “programmed” to age and eventually fail. If you take good care of it, your body will fail much later and gently. Still, even if much later, it is bound to fail. This is what we are told by the scientists.

Man made body parts

Well, may be it is not so anymore.

This is the startling new horizon opened up by science and technology. While most of this new research is still hazy and highly speculative, dramatic progress in electronics and nanotechnology allows scientists to predict that soon enough we shall have “failure proof” replacements for human organs.

We already make some artificial stuff. But what we shall have in the (not so distant?) future is much more sophisticated. TIME magazine provides a small but revealing illustration of the new frontiers, (*He Robot, The High-tech future of the human body*, February 25, 2013). Scientists are working on artificial eyes, full functioning hearts, plastic made blood, totally functional artificial hands, and artificial kidneys.

Science fiction?

Sounds like science fiction? May be so. But people working in this field are not laughed at. Intuitively we can argue that our much more refined knowledge of human anatomy and physiology, combined with rapid advancement in miniaturized, sophisticated electronics may indeed yield viable man-made replicas of human parts. In fact, the manufactured replacements may even be better than the original parts, because they will not wear out.

Devices that will improve brain functions?

But wait. It gets better. A scientist interviewed on National

Public Radio (NPR) went much further.

He indicated that soon enough there will be artificial devices that, when implanted in humans, will actually improve brain functions. In other words, we shall soon be able to perfect and refine “personality”, the complex construct of rational and emotional qualities that defines a person’s identity. This includes intellect, taste, artistic proclivities, feelings of love and anger, fantasies, and a lot more.

New, man-made personalities?

And here we enter a really complex, slippery new terrain. One thing is to give a human being a new hand. This is about restoring a function lost due to injury. However, a new artificial hand does not alter the individual’s personality.

But imagine instead a re-engineered human being with enhanced cognitive abilities, an improved memory, new skills, and different feelings. If this were indeed possible, then we would essentially have transformed the human being produced by the natural process of sexual union into “man-modified humans”.

Transcending our limitations?

The scientist interviewed on NPR did not seem to be at all disturbed by this revolutionary scenario. (I paraphrase the exchange that went more or less like this). *“But our individual minds, our characters and our predilections and feelings are what define us as humans”* –pointed out the interviewer– *“If we mess with all this, where are we headed? ”*

“What defines us as humans, is our ability to transcend the limitations of our conditions. –replied the expert. “Men were not designed to fly or swim underwater. And yet we devised ways to do all that. Re-engineered bodies and improved minds will be just another milestone along this path”.

Think of that.

Obama Presented His State-Led Policy Agenda – Rubio Proposed The GOP Alternative – Good Message, But An Ill At Ease Messenger Who Seemed At Times Overwhelmed

[the-subtitle]

By Paolo von Schirach

February 13, 2013

WASHINGTON – Only hubris can explain the obvious disconnect between Obama's re-election by a decent but hardly overwhelming margin and the rather grandiose agenda of more federal programs involving various sectors that he outlined in the State of the Union message.

Divided America

It is true that Obama run for re-election as the champion of state intervention and as the defender of entitlements and benefits for the poor and retirees. And it is true that on this basis a majority of Americans voted for him. But it is also true that almost half the country did not agree. So much so that the Republicans, certainly opposed to this interventionist plan, kept control of the House.

Looking at what is clearly an America deeply in debt and politically divided almost in the middle, a wise re-elected leader would propose to stabilize public spending safeguarding the needs of the poor and most vulnerable, while pushing tax reforms aimed at reigniting growth. He would try to do all this by seeking genuine compromise with the other side.

Obama: a political agenda

But no, Obama is not doing any of this. Having observed that the House Republicans are quarreling with one another on what should be the best conservative, "small government" agenda, Obama seems to be bent on exploiting these internal divisions attempting to defeat the GOP politically by proposing taxes that some Republicans would accept and others would reject. In other words, Obama, a second term President not running for re-election, is still campaigning against an admittedly not so formidable GOP. Great strategy, revealing cunning and political dexterity; but a lousy way of governing.

Be that as it may, in the State of the Union message Obama dished out his partisan list with proposed new federal programs for almost anything, with predictable applause coming from all the Democrats in the audience and cool Republican reactions.

It is obvious that, without GOP participation, none of these Obama initiatives will become law. So why produce them? Well, for political reasons. As a way to create fissures among Republicans, just as Obama did with the tax issue.

Indeed, even though higher taxes will do very little in any effort to fix the deficit, the controversial issue divided the House Republicans, undermining the authority of House Speaker John Boehner. Again, lousy policy-making; but great politics.

GOP rebuttal

And what is the GOP alternative to all this? I am afraid the

Republicans have a lot of work to do, and I mean a lot. They picked rather green Florida Senator Marco Rubio to deliver the rebuttal to the President's Address.

Unfortunately on TV a polished delivery counts almost as much, if not more, than substance. Rubio's delivery was not so great. Here and there he appeared uncomfortable if not overwhelmed. (Yes, I refer to his awkward reaching out for water in the middle of a solemn speech and to his obvious nervousness displayed in other moments). The indirect message that the public got from this man who appeared uncomfortable in his role as national GOP spokesman is that the GOP does not have a strong national leader. Marco Rubio did not appear ready for prime time.

Rubio as national GOP spokesman?

That said, it was not a disaster. Rubio did a good job explaining the fundamental philosophical differences between a Republican vision whereby in America the Government does little while enabling the private sector to unleash growth and the statist Obama vision whereby growth is good only if it is properly balanced via government action.

Rubio did propose a decent and credible GOP alternative. Even though he formulated it in his own words, with a lot (probably too many) of autobiographical references, it is the same vision of a private sector-led economy proposed by Mitt Romney last November.

Give or take a few details, there is nothing wrong with it. And quite frankly it is certainly more in line with American mainstream values and history. The problem is that a majority of Americans (although not a huge majority) today do not buy it, as Obama's re-election proved.

Better messenger?

The GOP needs a good national spokesman to convince the public

that its vision should become national policy. Many Republican Governors sold it successfully to state audiences. So, it can gain national traction. Still, given what I have seen so far, I am not so sure that Marco Rubio is the right man to sell it.

Pope Benedict Is The Symbol Of An Ailing Church That Is Losing Its Appeal In An Increasingly Secular World – Fewer And Fewer Believe In The Church’s Teachings

[the-subtitle]

By Paolo von Schirach

February 12, 2013

WASHINGTON – Pope Benedict XVI announced that he will resign on account of his advanced age (85) and increased frailty. This unexpected (and unprecedented) move provides the opportunity to give a look at the Catholic Church and its prospects as the institution that for two millennia gave spiritual guidance, education and refuge to a large portion of humanity.

Strict adherence to dogma

Pope Benedict is an orthodox theologian. He wanted to preserve the absolute integrity of the dogma as the Church saw it for

centuries. In other words, for this Pope the Church's teachings are not negotiable, nor are they an "a la carte" menu from which the faithful can pick and choose what they like and leave aside what does not look so tasteful.

While this approach may appear an appropriate means to preserve the integrity of what is after all a coherent spiritual message that has value only if it is perceived as absolute, sticking with an uncompromising dogma that resonated much more long time ago means that the Church has lost and is losing followers.

Losing the flock

Indeed, many "Catholic countries", such as Italy and Spain are now Catholic only in name. The churches are empty, hardly anybody embraces the priesthood, while once upon a time Catholics freely and openly engage in pre marital sex, practice birth control, have abortions and get divorced. In fact, in many instances young and not so young people no longer get married. They live together, have children and often separate without having sanctified their unions.

By the same token, there are open disputes within the Church about homosexuality, the rights of gays and of women and the celibacy of priests. In simple words, the Church's time honored teachings, deemed to be unalterable by Pope Benedict, have lost appeal.

The Church continues to provide its guidance; but very few pay attention, apparently without fear of the consequences, as far as their chances to be saved are concerned.

Pedophile priests and cover ups

If the preaching falls on deaf ears, egregious conduct by pedophile priests, (in several countries including the USA and Ireland), and the well documented Church efforts to keep this widespread criminal conduct hidden, have seriously tainted the

Church's prestige, not to mention the huge financial damage caused by a barrage of costly law suits.

It is really hard to believe in the value of moral teachings dished out by a demonstrably immoral clergy. Indeed, far too many of the Church's representatives failed the standards Pope Benedict would like to see upheld and practiced by all the faithful.

The Church is in decline

All this indicates a Catholic Church in slow but steady decline. That said, do not expect a quick dissolution of this ancient institution. Its roots in a number of western societies (and subsequently also in the developing world) are strong and profound. The Church can still rely on powerful and entrenched assets, such as parochial schools, Catholic Universities and hospitals, a variety of charities and a still significant, if less vibrant, moral and cultural appeal, at least in some quarters.

With or without reforms, dim prospects

However, in the long run the Church faces a huge dilemma with no good outcomes. Its orthodox teachings are less and less popular. And this means a narrower base of true believers. On the other hand, abandoning principles, or even some of them, may be the beginning of an institutional break down, possibly with no end. Once strict adherence to dogmatic purity is discarded, you may expect the sprouting of different theologies leading to splinter group churches based on their own interpretation of the scriptures. This would be the end of an institution based on unity, cohesion and total respect for the authority of the hierarchy.

The future

Keeping all this in mind, it is difficult to envisage a bright future for a Catholic Church essentially engaged in defensive

battles aimed at preserving whatever influence and authority it still retains.

If the next Pope will not be a European, (for centuries they were all Italians; the last two were not. John Paul II was Polish and Benedict XVI is German), this would signal that the Church recognizes that Europe is essentially a losing proposition, while it may have a more sympathetic audience in developing countries.

Possible to survive in a secular world?

Still, secularism and more relaxed attitudes towards premarital sex, divorce, abortion and gay rights are creeping up even outside of Europe. While Christianity retains its appeal, the way it is packaged by the Catholic Church may have become hopelessly outdated.

America Stagnates – Global Competition And Lack Of Pro-Growth Tax Policies Stifle The Economy – Urgent Need Of Policy Changes; Will The President Lead?

[the-subtitle]

By Paolo von Schirach

February 7, 2013

WASHINGTON – The American economy has yet to recover from the spending binge that led to the 2008-2009 financial collapse. Simply stated, most American households are spending less as they are trying to pay back the debt they accumulated during the go-go years. And they are doing so while their homes (housing recovery notwithstanding) are worth much less.

Painful de-leveraging

As US GDP is driven mostly by consumer spending, thrifty consumers are bad news for the economy. Hard to say how long it will take for this painful de-leveraging process to lead to more acceptable levels of household debt, an essential precondition for higher level of consumer spending in the future.

Competition from low cost Asian workers

But this is not all. As the financial and housing debacle destroyed the value of real estate, while everybody got into debt, America was also hit badly by systemic global labor market changes whose net effect has been and will be to eliminate many jobs while hurting the earning power of the US middle class.

Whatever the at times grotesque demonization of “outsourcing” as a sinister plot hatched by evil US corporate leaders, the truth is that in the global market place there are now hundreds of million of new, able bodied Asians workers. Most of them are reasonably skilled and willing to do the very same jobs Americans do at a fraction of the cost. This is a fact. While cheap labor advantages are not for ever, (indeed we already see wages moving up in parts of China), for the moment they determine the location of many labor intensive economic activities.

Low labor costs, combined with “hyper-connectivity” provided by inexpensive communications, plus reliable and lean supply chains made transferring manufacturing to Asia possible. As a

result of this gigantic change, many US middle class jobs have disappeared, while there is no chance for wage increases for employed US workers who have to compete with cheaper Asians.

More US manufacturing

As for the hopes of a US manufacturing renaissance, they may actually be real, at least in energy intensive sectors. Some corporations want to relocate to the USA in order to take advantage of low electricity prices due to abundant and cheap American natural gas. However, a few more factories do not translate into more jobs. IT systems, automation and more robots are actually eliminating factory jobs at a fast pace.

No innovation, mediocre education

To add more misery to the picture, the American marvelous technology/innovation engine has stopped. At the moment, we have no great breakthroughs opening up entirely new fields, just as it happened with the IT revolution in the 1980s and 1990s.

And if you really want to be pessimistic, you have to add a mediocre to bad public education system that produces sub par high school graduates, many of whom end up getting a semi-worthless college degree.

Disappointing public policy

In order to reverse this economic stagnation, we need better education, more private and public resources devoted to R&D and a tax system that encourages business creation.

But instead we have a semi-broken Washington government machine that is not even capable of passing budgets, let alone frame new pro-growth policies. Due to bitter ideological feuds, the President and the Congress are able at the very best to pass short term stop gap measures, so that America will not go into default and so that we do not need to shut

down the Federal Government. And these band aid deals last for just a few months.

Indeed, today's "policy debate" is about the short term and long term consequences of the "sequester", an emergency, across the board spending cut provision encompassing all discretionary spending (defense and non defense) that will soon kick in lacking broader agreements on spending and taxes between Democrats and Republicans. And we call this governing?

We know what needs to be done: tax and entitlement reform

And yet, all the centrists and all the smart economic and fiscal policies experts in Washington know exactly what needs to be done. There are Blue Ribbon Commissions Reports and plenty of studies generated by think tanks that provide the basis for substantive reforms.

In brief: America badly needs tax reform based on simplification and the closing of loopholes designed to protect special interests. A modern tax code will create incentives to create new enterprises and to invest in future technologies. At the same time, America needs a long term, bipartisan agreement on entitlement reform that will take into account the growing number of seniors (and therefore the cost of programs dedicated to them), while trying to reform health care, so that its costs will stop growing at a faster pace than the economy. Entitlement reform can and should be phased in gradually, without hurting current recipients. But it needs to be done.

Confidence

A new, credible and sustainable tax and fiscal reform package that will encourage economic activities, while signaling the beginning of a real inflection in America's public spending, over time would do wonders to re-inject confidence in the system.

Confidence, in turn, will stimulate investments and business growth. All this has been said by wise people many times. Remember Simpson-Bowles and their "Debt Commission" December 2010 Report? It's all in there. It is time for Washington, starting with the White House, to lead and take action.