

# American Health Care Is a True Monstrosity

**WASHINGTON** – Among wealthy nations, America holds the dubious record as the country with the highest health care spending as a percentage of national wealth, (18% of GDP), extraordinarily high costs of even standard procedures, and mediocre health outcomes.

## **Big spenders**

Think about it, the next big spenders on health average around 10% of GDP. Related to our \$ 20 trillion GDP, American overspending is roughly \$ 1.4 trillion. This waste is almost double the entire defense budget.

If Americans were getting vastly superior quality of care for all this extraordinary amount of money spent on health, then you could say that you pay for what you get. But there is no evidence that, on average, Americans are getting superior care.

## **No serious debate**

And yet, this gigantic cost difference between the US and other wealthy countries is not questioned by health care experts, policy-makers or consumers. It is accepted as a fact of life. *“Well, this is what health care costs in America”*. In the US all the policy debates are not about trying to understand why we have stratospheric costs. They are only about deciding who pays the bill.

Not much effort, it seems, goes to try and find out the causes of this enormous discrepancy between the US and other rich nations. By and large, lower health care costs in other wealthy countries are superficially explained away as due to low quality, socialized medicine. *“In the UK or Canada*

*citizens get lousy service because of low quality, rationed care. No wonder it is cheap".* This is a generic charge that is mostly untrue.

## **Economist and management consultants cannot get to the bottom of this?**

What is even more extraordinary is that America is the home of thousands of economists and top of the line management consultants who should have the intellectual ability to understand that our high costs are in large measure due to horrible practices and down right perverse economic incentives.

## **The major flaws**

At the cost of oversimplifying the extremely complex, layered US health care system, here are its major flaws. In the US we have an awful mix of private health care providers, without any genuine private sector competition, because services are paid mostly by medical insurance and not by the care recipients. Therefore health care providers do not feel the market pressure that would normally induce all participants in any economic sector to do their very best to offer the highest quality product or service at the lowest price, so that they can stay ahead of the competition. In US health care there is no real "market". This lack of competition among private sector providers who are into this business to make a profit leads to abnormally high prices. In other words, providers tend to jack up prices well above cost and overall inflation, without any justification.

## **Perverse economic incentives**

And it gets worse. In the US, self-employed doctors make money only when they can prescribe something to sick people. Therefore, there is absolutely no incentive to teach people "prevention", that is healthy life style habits, so that they can stay away from the doctors' office as for as long as

possible. Healthy patients bring no money to the providers. this may sound absurd, but in this system doctors want/need many sick people. This is only way they can make a living. From this perspective, the ideal patient is someone with a chronic condition that must be treated but cannot be cured. Patients for life are a wonderful source of guaranteed income.

Well, thanks to extremely bad personal habits when it comes to diet and lack of exercise –just think of the obesity epidemic and all its health consequences– millions of Americans now need to be treated for chronic ailments such as cardiovascular diseases and type 2 diabetes. While this is not good for the patients, from the standpoint of providers millions of sick Americans are an endless windfall amounting to hundreds of billions of dollars.

### **Prevention would be a game changer**

But here is the thing. Any serious health care professional knows very well that with proper education and guidance, many chronic diseases could be prevented and in most cases reversed. But where is the financial incentive to educate the public? It just does not exist. Doctors do not want to lose their revenue. Ditto for pharmaceutical companies that simply love to have millions of Americans who need their drugs in order to manage (never cure) chronic ailments.

### **The ugly picture**

So, here is the ugly picture. Through their unchecked bad personal habits millions of Americans have developed a host of chronic diseases that require monitoring and treatment at inflated prices. This way causing enormous and but totally preventable expenditures.

Could this trend be reversed? Of course it could be, provided a sustained “wellness education” campaign conducted by the government and all the key providers. can we do this? Of course we can. Think of the sustained efforts carried out for

many years aimed at convincing Americans to stop smoking. Millions did so. However, today the medical profession has practically zero incentive in educating the public on ways to stay healthy and prevent disease.

So, there you have it. Tens of millions of Americans in poor health, private sector providers who love this, and a complicated medical insurance system that masks true costs and allows higher and higher prices. And here is a telling illustration of what this perverse system produces.

### **\$ 50,000 for a new knee**

A WSJ front page story (*What Does Knee Surgery Cost? Few Know, and That's a Problem*, August 22, 2018) tells us how some health care providers almost casually set extravagantly high prices for procedures which are completely disconnected from actual costs.

*"For nearly a decade, Gundersen Health System's hospital in La Crosse, Wis., boosted the price of knee-replacement surgery an average of 3% a year. By 2016, the average list price was more than \$50,000, including the surgeon and anesthesiologist.*

*Yet even as administrators raised the price, they had no real idea what it cost to perform the surgery—the most common for hospitals in the U.S. outside of those related to childbirth. They set a price using a combination of educated guesswork and a canny assessment of market opportunity.*

*Prompted by rumblings from Medicare and private insurers over potential changes to payments, Gundersen decided to nail down the numbers. During an 18-month review, an efficiency expert trailed doctors and nurses to record every minute of activity and note instruments, resources and medicines used. The hospital tallied the time nurses spent wheeling around VCR carts, a mismatch of available postsurgery beds, unnecessarily costly bone cement and delays dispatching physical therapists to get patients moving.*

***The actual cost? \$10,550 at most, including the physicians. The list price was five times that amount.*** [bold added]

*Competitive forces are out of whack in health care. Hospitals are often ignorant about their actual costs. Instead, they often increase prices to meet profit targets. Patients, especially those with insurance, often don't know the price of a procedure and rarely shop around."*

### **Massive overcharging, and nobody cares**

Got that? Patients and insurance companies are outrageously overcharged, and almost nobody can figure this out. Uninformed patients are clueless and therefore do not fight this outrage.

But how is this possible? In no other economic sector providers could get away with exorbitant over pricing, because competitors with lower prices would fight to get their business. True, however, as noted above, in the US health care system elementary free market economic principles simply do not apply.

The mix of private health care providers bent on maximizing profits, a maze of insurance plans, and health care customers who lack even the most elementary means to assess costs and do any comparison shopping without getting lost have created a monster.

### **Anybody can see this**

Again, any intelligent observer who cares to look into this ugly picture can see this abomination and immediately grasp that there is an urgent need to teach wellness education in order to minimize overall health care needs and therefore costs , and transform the entire health care delivery system so that physicians are rewarded for keeping people healthy, not for prescribing expensive therapies for preventable diseases.

To be clear, it is obvious that not all health care is about “wellness education” aimed at eradicating or at least minimizing preventable illnesses. There are and there will be many other ailments, including: genetic conditions, cancer, accidents, injuries, epidemics. And they need to be dealt with.

My point is that when you eliminate life style caused illness and the ridiculous over prescribing affecting almost everything else, we are talking about possible savings in the hundreds of billions of dollars per year.

### **It will be difficult**

Look, I am not totally naive. I realize that reforming medical care in the US would be an enormous, thankless undertaking. There are just too many stakeholders who have a strong interest in keeping things just the way they are, because this is how they make money.

Still, by not touching the status quo, we keep wasting hundreds of billions of dollars every year in unnecessary therapies and procedures whose costs keep getting inflated beyond any justification, while the average American is trapped in an unhealthy life style.

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# **Wellness Programs Will Transform US Health care**

**WASHINGTON** – Undoing Obamacare is proving to be a lot more complicated than what confident President Trump (and the

Republicans in Congress) had anticipated. The problem is that it turns out that most Americans want universal health insurance and affordable health coverage –the promise of Obamacare. But they do not want to pay what it costs to obtain medical care in our horrendously complicated and super expensive system.

### **A political problem**

And this creates an insoluble political problem for the Republicans now in charge. It is clearly impossible to yank coverage away from previously uncovered Americans who got used to getting significant health care benefits thanks to Obamacare. Many get benefits at a deep discount, because of subsidies granted to low income people. At the same time, there is no easy way to reduce the cost of coverage to all those who have seen their premiums go up in the last few years because of unforeseen systemic cost increases.

### **We have created a monster**

That said, if we distance ourselves for a moment from the political infighting that focuses almost entirely on who gets what coverage and who will pay for it, we see that the entire U.S. health care system –before Obamacare and after– is in fact a true monstrosity. We have created a real Frankenstein. Physicians get paid only if they treat patients. Most patients do not pay because they have insurance.

And, to top it all off, the overall health of most Americans has deteriorated because of widespread bad habits involving a horrible diet and no exercise. There you have it. A medical profession that thrives on insured sick people and not even a semblance of any wellness education program aimed at keeping people healthy. The outcome? America spends about 18% of its GDP on health care –a stupendous amount– while Americans are not at all healthy.

### **A flawed system**

The reason for this veritable disaster is that the entire health care edifice is built on terrible premises. The first one is that American physicians are mostly self-employed professionals who make money only when you –the patient– are sick. They have no financial interest in keeping you healthy. In fact, the opposite applies. If you are healthy, they get no revenue from you.

The second one is that when most people are sick, in most cases someone else pays the cost, i.e. health insurance. And so we have created a perverse system with perverse incentives.

### **Fix what is broken**

Physicians deal with you –the patient– just like an auto mechanic deals with your car when you bring it to their workshop. They look at what's wrong with your vehicle, identify the problem, and try to fix it through a repair. And off you go, until the next time you have another problem, (hopefully soon).

The difference between auto mechanics and doctors is that when you go to the mechanic you pay with your own money. Whereas, in the health care system in most instances someone else (the health insurance that covers you) pays the bill.

### **We love sick people**

Given the way this system works, (captive customers who send the bill to a third party) most American doctors have a built in incentive to over treat you; because this how they make extra money. And they believe they can do this because they know you will not feel the financial pain of the cost of the cure, thanks to your health insurance that will pay your bills.

Hence the widespread tendency to over prescribe almost anything: ordering batteries of diagnostic tests, new procedures, often unneeded surgeries, and what not. And why



would doctors do that? Very simple: because this is how they make money! And they have few disincentives, because they know that in most instances their insurance-covered patients –that would be you– do not pay, or pay only a fraction of what the doctor charges.

### **No interest in prevention**

By the same token, given the fact that sick patients bring revenue, while healthy people do not, most physicians do not have any interest whatsoever in advising you about ways that will help you improve your life style and habits, so that you maximize your chances to stay healthy, especially as you get older.

On the contrary, they truly benefit from you when your bad habits cause you to be sick more often. Better yet, the ideal customer is a patient with multiple chronic afflictions –many of them caused by widespread bad life style habits, such as over eating, eating unhealthy food, drinking too much alcohol, doing drugs, not exercising. In fact, the more the chronic afflictions, the better. If you are chronically ill, this means that you are and will be a permanent source of income, because your chronic ailments require constant (expensive) treatments and monitoring, possibly for life.

### **Cost explosion**

That said, this situation, while ideal for physicians, created a gigantic problem. America has the dubious distinction of having the highest health care costs in the entire world, (as a percentage of national wealth), when compared with all other developed, rich nations that provide high quality care to their citizens.

And the cost of health care delivery keeps going up because it is almost unchecked, given the perverse incentive to do “more” of everything to people who do not pay directly. And all this is happening while Americans are becoming more and more

unhealthy because of the explosion of otherwise preventable ailments –think type 2 diabetes– due to bad personal habits when it comes to diet and exercise.

However, while armies of now chronically ill patients get treatment, the health insurance industry has difficulties in trying to remain profitable, while containing costs. Inevitably, the additional costs of care are passed on to the insured individuals. Feeling the pressure of higher insurance premiums, the people turn to the politicians so that they will “do something” in order to make good health care available to all, and truly affordable for all.

Nice idea. However, if we leave the fundamentals of the system just as they are now, there is in fact no way out.

### **There is a way out**

A solution does indeed exist. But it would require a complete revolution affecting the entire American health care structure.

However, this would require a new national consensus about the true purpose of medicine. Medicine should be indeed about curing sick people. But, most of all, it should be seen as an integral part of a broad effort aimed at teaching people how to be and stay healthy. And this includes practicing proper nutrition, avoiding all addictions, and having plenty of good exercise.

### **Reduce ailments by teaching wellness**

Of course, good habits will not make all illnesses or accidents-caused trauma go away. Of course not. But they would greatly reduce and eventually do away with the national epidemics of chronic diseases –first and foremost type 2 diabetes and a variety of cardiovascular afflictions – caused primarily by bad personal habits. Believe it or not, treating millions of people who are chronically ill mostly because they

do not know how to live a healthier life costs hundreds of billions of dollars every year. Most of this money could be saved, thereby reducing the overall costs of care.

### **Rewards for keeping people healthy**

And here is how it would work. In the future, physicians would be employed by health maintenance facilities that would reward them financially for being proactive and successful in keeping their patients healthy. In the current system healthy patients are actually a problem for doctors who make money only when they can provide services. In the future, healthy people who stay healthy should become symbols of medical achievement.

In a sane world we want healthy people to stay healthy. Think about it. The individual is in good shape, feeling healthy, strong and energetic. She or he can devote all their energies to leading a productive life, as opposed to worrying about diabetes and hypertension.

### **Costs would go down**

As a result of a well structured national education program focused on wellness, the total cost of health care delivery would fall dramatically, because the millions of chronically ill patients who drive up the costs would eventually become healthy and therefore in no need of constant, expensive medical attention.

Below you can see practical illustrations of how wellness and prevention programs will help contain health care costs. The compilation listed here is drawn from various sources. Keep in mind that the figures provided about cost savings are estimates. They may be inaccurate.

Still you will get an idea of the cause and effect connection between changed personal habits coupled with intelligent prevention programs and significant cost savings for the entire U.S. health care system.

## Wellness programs and prevention save money

- *For every HIV infection prevented, an estimated \$355,000 is saved in the cost of providing lifetime HIV treatment.*
- *A proven program that prevents type 2 diabetes may save costs within three years. One of every five U.S. health care dollars is spent on caring for people with diagnosed diabetes. People who increased physical activity (2½ hours a week) and had 5 to 7 percent weight loss reduced their risk of developing type 2 diabetes by 58 percent regardless of race, ethnicity, or gender.*
- *A 5 percent reduction in the prevalence of hypertension would save \$25 billion in 5 years.*
- *Annual health care costs are \$2,000 higher for smokers, \$1,400 higher for people who are obese, and \$6,600 higher for those who have diabetes than for nonsmokers, people who are not obese, or people do not have diabetes.*
- *A 1 percent reduction in weight, blood pressure, glucose, and cholesterol risk factors would save \$83 to \$103 annually in medical costs per person.*
- *Increasing use of preventive services, including tobacco cessation screening, alcohol abuse screening and aspirin use, to 90 percent of the recommended levels could save \$3.7 billion annually in medical costs.*
- *Medical costs are reduced by approximately \$3.27 for every dollar spent on workplace wellness programs, according to a recent study.*
- *Dietary sodium is linked to increased prevalence of hypertension, a primary risk factor for cardiovascular and renal diseases. Cardiovascular disease alone accounts for nearly 20 percent of medical expenditures and 30 percent of Medicare expenditures.*
- *Reducing average population sodium intake to 2,300 milligrams per day could save \$18 billion in health care costs annually.*

- *Tobacco use accounts for 11 percent of Medicaid costs and nearly 10 percent of Medicare costs.*
- *Tobacco screening is estimated to result in lifetime savings of \$9,800 per person.*

### ***Prevention increases productivity***

- *Indirect costs to employers of employee poor health—lower productivity, higher rates of disability, higher rates of injury, and more workers' compensation claims—can be two to three times the costs of direct medical expenses.*
- *Asthma, high blood pressure, smoking, and obesity each reduce annual productivity by between \$200 and \$440 per person.*
- *Workers with diabetes average two more work days absent per year than workers without diabetes.*
- *Absenteeism costs are reduced by approximately \$2.73 for every dollar spent on workplace wellness programs, according to a recent study.*
- *Research from the Milken Institute suggests that a modest reduction in avoidable risk factors could lead to a gain of more than \$1 trillion annually in labor supply and efficiency by 2023.*

### **Wellness programs are the solution**

Anyway, you get the picture. The point here is that U.S. policy-makers need to understand that as long as they battle with one another trying to determine who will pay what part of a horrendously flawed system there will be no real transformation. Only some more patches to an inherently bad system.

### **Re-frame the health care debate**

As a society we have to recognize that we really have to change our parameters. We have to understand that it is absolutely essential to teach people how to stay healthy, as

opposed to spending 18% of our GDP to treat armies of chronically ill citizens who could learn how to practice good habits that would keep them healthy.

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## **The Moral Case For Capitalism**

**WASHINGTON** – Would Hillary Clinton make a moral case for American capitalism? I am not so sure. First of all, let's point out that Hillary Clinton will not be Bill Clinton 2.0. Remember that Bill Clinton came along in 1992 as a “sobered up” new centrist Democrat who proclaimed the end of the era of Big Government and actually as President passed welfare reform, notwithstanding the fierce resistance of the left of the party. (More on this later).

But that was then. Today, strongly challenged from the left by a vociferous Bernie Sanders openly advocating wealth redistribution, Hillary Clinton's message is about expanding benefits, subsidies, tax breaks to the poor, the disadvantaged and the minorities. Her presidency will be about more of the neo-Keynesian deficit-spending stuff that failed over and over again, and yet seems to be the only medication in the cabinet of most Western left of center political forces.

### **More failed neo-Keynesian remedies**

Therefore, should Clinton become President, this will be America's death by a thousand cuts. More public programs, more welfare, more aid and assistance to this or that needy constituency. More unproductive publicly funded jobs. More stupid and counter productive regulations; and, of course, higher taxes needed to finance all this ill-advised social engineering. The combination of ad instincts and bad policies will stifle innovation, enterprise and private sector jobs

creation.

## **Nobody makes the case for capitalism**

***Here is the real tragedy of American politics. In this critical election year, no one has been able to articulate in a simple, clear and cogent manner the moral case for free market capitalism. (In fact those who tried, mostly Jeb Bush and John Kasich, did not do it well, and got no attention)***

By this I mean the ability to convince people, especially the poor and disadvantaged, that capitalism and free enterprise are good for everybody, including those who are currently at the bottom of the pile. And by that I do not mean that people should be convinced that on balance capitalism delivers better results than social democracy. This is true in principle. But this truth does not resonate with people who are and feel helpless because they believe that they do have any open path forward.

***By “morally superior” I mean the ability to explain how capitalism empowers people, and therefore makes them better human beings.***

Here is the simple truth. Even if well-intentioned, welfare programs make recipients perpetually dependent and listless. Whereas a system that fosters personal responsibility encourages people to take charge of their own lives. And this makes them more self-confident, more optimistic.

## **Bill Clinton's welfare reform worked**

Let's go back to Bill Clinton's partial welfare reforms. That was about public aid to single mothers. These were mostly uneducated, poor African American young women with small children, trapped in an endless cycle of dependence on public subsidies.

Being poor, they were entitled to get enough money to survive.

But the programs as designed provided no incentives so that recipients had to do something in order to get out of poverty. The reform passed by Clinton was about sun setting benefits, while giving the women tools, so that they could find work.

**“It will not work”**

*The critics cried that this would never work. This bad reform was about taking the life jackets away from shipwrecked, defenseless women, thereby drowning them.*

*Well, the reformers argued instead that the goal was to teach these women how to swim before taking their life jackets away.*

And, on balance, it worked. With assistance, women found jobs. There were lots of testimonials by women who had received training, and found work, so that they could care of themselves and their children. As a result, they felt more optimistic and more confident.

**The “moral case” for capitalism**

This is what I mean when I talk about “the moral case for capitalism”. An economic system that encourages people to become self-reliant and independent is morally superior.

If we recognize this basic premise, then the purpose of enlightened public policy should be to make sure that all citizens “learn how to swim”, so that they do not need the perpetual life jacket of public assistance.

In today’s ultra competitive world, this means that all children should have access to quality public education. And meaningful adult education and/or training should be made available to all adults who did not have a chance to get an education as children.

**Educated citizens do not need welfare**

I am not suggesting that this is easy. It is not. But deep



down this is the case for a rules based competitive system in which all participants have a fair shot at doing something and making a decent living without help, because they are empowered by a good education that gives them the tool to become active participants.

Of course, there are special circumstances in which public assistance is warranted. But these should be the exceptions, not the rule. Temporary relief should not morph into a permanent subsidy.

### **Making a case**

What both Democrats and Republicans have failed to do is to make a moral case for free market economics and the role of public policy in enabling and fostering it. Indeed, if we are convinced that free market capitalism on balance works, then public policy should be about making sure that everybody can and will participate.

### **Public policy is about giving everybody a good chance**

Good public policy is not about more subsidies or about creating fake jobs. It should be about making sure that all citizens get into adulthood “knowing how to swim”. And this means that everybody –all Americans– should be reasonably healthy and educated.

It is obvious that education is the functional equivalent of knowing how to swim. Without good to superior public education, the poor do not have a chance to get out of poverty. They really do not. Again, if we want capitalism to be fair, then all people should have good tools, so that they will be able to participate.

Until now we have tried to deal with poverty attacking the symptoms. While well-intentioned, this approach has done nothing to eliminate it, or substantially reduce it.

## **Capitalism works well if all citizens are active participants**

The “moral case” for capitalism is about reaffirming the superiority of a free market economy, because it empowers people; making them self-reliant and self-confident, therefore better human beings.

At the same time, the goal of public policy, (this is the job of elected officials), must be to enable everybody to participate. Sound public policy will focus on health and education, so that all Americans can do their best, without the burden of feeling perennially disadvantaged.

### **It is going to be difficult**

I realize that transforming our value systems and the content of public policy so that it will focus on these objectives is very difficult. But this is a worthwhile cause. Perhaps the most critical one we can think of.

In the end, a successful moral case for capitalism is about more prosperity, and about self-confident citizens who know that they have the ability to take care of themselves.

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# **Keystone Pipeline Is Dead – The Triumph Of Politics**

**WASHINGTON** – Now it is official. President Obama announced that he is against the proposed Keystone pipeline that would have allowed Canada to ship oil directly from the Province of Alberta to the Texas refineries. The project has been officially killed.

## **A symbol**

It is no secret that this pipeline had become a target for all the US environmentalists who believe that fossil fuels are bad, if not evil. The argument against this particular project is that it would have delivered an even more potent poison. You see, Canadian oil is extracted from oil sands. The process is messy, and dirty. And it generates more emissions.

Therefore, preventing this pipeline from being built became a crusade.

And now Obama has finally taken a position. It is no wonder that in the end he had to agree with the various environmentalist groups. They are mostly Democrats. Hard to think that he would have done anything that would alienate them.

## **Theological argument**

And what about his argument? Well, his argument is based neither on economics nor on any practical energy policy. In fact, it is akin to a theological argument. America is leading the world in the battle against emissions and climate change, Obama said. By approving a project that increases reliance on a particularly dirty form of fossil energy, America would have tarnished its own credentials.

It would have set a bad example, right before the United Nations Conference on Climate Change to be held in Paris on November 30. This will be a major international event in which all countries are supposed to prove how serious they are on combating climate change. Approving a fossil fuels project right before a global forum in which America will encourage others to commit to reducing oil related emissions would have looked bad.

Therefore, this is not about getting more Canadian oil. This is all about politics, ideology and symbolism.

## **Negligible impact**

Let's make it clear. Whether you are for or against the pipeline, at the end of the day, when it comes to global warming this is a non issue. The fact is that having or not having this pipeline does not move the needle in any special way.

## **Enhanced energy security**

However, it would have been better to approve it for different reasons. The pipeline would have contributed to enhanced US energy security. Indeed, the Keystone pipeline should have been allowed because getting more oil from Canada (as opposed to importing it from OPEC countries in the Persian Gulf) would have added to American energy security. Getting about 800,000 barrel a day from Canada would not have been a revolutionary change. But it would have been a positive incremental step.

And here is why. Notwithstanding the huge increase in US domestic production that took place in the last 5 or 6 years, the US still imports almost 50% of all the oil it consumes. That's about 9 million barrels a day. This being the case, it would be wise to get more of the oil we absolutely need (until something else will replace it) from Canada, a friendly neighbor, as opposed to importing it from the perennially turbulent Middle East. It is as simple as that.

The Middle East is a mess that we cannot control. Something really bad may happen there; and a major crisis may affect oil flows from the region. Therefore, if we had a choice –and now we do– let's further reduce our reliance on oil imported from the Gulf region and let's get more oil from Canada, a friend and an ally.

Is this really so difficult to understand?

## **No impact on the environment**

As for the alleged negative environmental impact, the Obama State Department, technically in charge of all reviews regarding the proposed pipeline, stated that building Keystone would not alter US total emissions in any appreciable way.

Therefore, all considered Obama should have allowed this project to move forward. He did not do this for political reasons. Nothing to do with the merit of the case.

### **Does it make economic sense?**

Now, from a different perspective, one could argue about the wisdom of constructing this new Canada to USA pipeline right at a time in which there is a global oil glut, and oil prices are half what they used to be when people started planning for the Keystone pipeline.

May be it no longer makes economic sense to build it. Fair enough. But this is a business decisions to be made by TransCanada and its partners. It is not up to the President of the United States to decide if a project makes economic sense or not. This project would have been built by a private company, and not by the US Government.

### **Oil transported by rail**

And one more thing. The green movement applauded Obama's decision as a good way to preserve the environment, while sending a strong message to the fossil fuels lobby: *Watch out. We are going to get you"*.

But here is the irony. Without the pipeline, substantial amounts of Canadian oil are and will be imported into the United States. This Canadian oil is loaded on trucks or freight trains.

Now, any energy logistics expert would tell you that these modes of transportation are much more dangerous than a modern, state of the art pipeline. As several train wrecks with

explosions and fires caused by the oil loaded on rail cars have demonstrated, transporting oil by train can be a real hazard.

### **The issue was the pipeline**

But I guess that trains loaded with oil, occasionally derauling and exploding here and there, are not an issue for the environmentalists.

The issue was the pipeline. And now it has been killed. Victory.

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# **Where Is The New African Middle Class?**

**WASHINGTON** – In a recent article focusing on why the African middle class is still rather small, The Economist points out that rosy expectations about more broad-based prosperity failed to materialize. Indeed, while sub-Saharan African economies have experienced significant economic growth in recent years, this is simply not enough to expand the ranks of a new middle class.

### **Scaling back**

The news is not entirely negative. There has been some expansion. But far less than what many had predicted. For example, the article points out that Shoprite Holdings, a major South African retailer, just a few years ago announced that it planned to open anywhere between 600 and 800 stores in Nigeria, Africa's most populous country, (173 million).

Well, Shoprite ended opening up only 12 stores. You see the

difference. 600 stores assume a large, reasonably affluent middle class that can afford supermarket shopping, as opposed to low income buyers who do their shopping with street vendors who barely get by with a tiny volume of sales. A total of 12 stores in a country of 173 million indicates that this scenario of more widespread prosperity failed to materialize. Most Nigerians are still poor.

### **The commodities boom is over**

In truth, many African economies are growing. But in recent years this growth was the result of the global commodity prices boom triggered in large measure by Chinese unprecedented demand. This commodities explosion proved to be a short-lived, exceptional phenomenon. Now that China's artificial boom is over, demand for Africa's raw materials has declined. And this means lower revenues and stagnant standards of living.

Beyond this, you have to add Africa's chronic malaise, a mixture of inefficiency, cronyism, lack of accountability, and corruption. This malaise in many cases translates into large income inequalities. Those in power and the well connected benefit in a disproportionate way from whatever growth is produced. Most of the others get little. Hence a small middle class.

Fine. We get all this. However, while good governance matters, the real reason why the middle class is not expanding in Africa is that the economic base is still very narrow.

### **Lack of electricity is the number one problem**

***And by far the main reason for this is lack of electricity. Yes, lack of electricity. We can talk all we want about democracy, transparency, the need to fight corruption while creating systems that improve accountability. However, the fact is that without electricity you cannot have broad-based economic growth.***

For many readers in developed countries this may sound really odd. We take electricity for granted. But imagine a situation in which, if you live in a city, power is cut off for several hours, every day. And if you live in a rural area there is no electricity whatsoever, period. Imagine doing routine things, (reading, ironing, riding an elevator, running a washing machine, watch TV, use your computer), without any power.

### **No power, no growth**

Of course, if you are a rich city-dweller in Africa, you can buy a generator. But making your own power is expensive. Imagine running a small manufacturing company relying on your generator for several hours, every day. This is possible, of course. But it adds to costs, in a major way. And this means non competitive products and smaller markets. If you live in a city and you are poor, forget about expensive generators. Lack of electricity means no lights, no refrigeration, no chance to watch TV.

If you live in an African village with no power, you are essentially cut off from the larger economy. Sure enough, these days you probably have a cell phone, and you may have access to a solar-powered phone charger.

### **The rural poor stay poor**

But you have no electricity. This means using wood or charcoal for cooking. Alternatively, you have to spend a large percentage of your truly small income, (we are talking about people surviving on a couple of dollars a day), to buy fuel for a stove.

And forget about basic developed world amenities such as refrigerators. Forget about switching on the (non existing) lights at night. In such circumstances of basic deprivation it is very difficult, in fact nearly impossible, to advance to the middle class. Lacking electricity, most African are condemned to a life of perpetual poverty in which at best



people survive thanks to subsistence agriculture.

### **Other factors also matter**

Of course, there are additional factors that prevent economic growth, and therefore the expansion of a fledgling middle class. Health and education are key issues. Difficult to have economic progress with too many semi-illiterate and sick people.

Right next to these constraints, you have infrastructure, or lack thereof. While electricity is fundamental to any kind of economic development, good road, ports and modern customs systems that allow the easy movement of goods are also critical.

Yes, while this may sound odd, moving goods by truck on old roads is quite complicated in Africa. Likewise, clearing goods through antiquated (and often predatory) customs systems may take several days, or even weeks. All these obstacles hurt commerce and all companies that want to be engaged in international activities.

### **Economic growth will lead to the expansion of the middle class**

So, what about the future of the African middle class? Very simple. Hard to picture any significant expansion without basic modernization that will make more economic growth possible. Africa has come a long way. There are hundreds of millions of cell phone users, there are plenty of ATM machines, and internet penetration is improving. But African societies must fill huge gaps. While many issues are relevant and should be addressed, ***the number one problem is still power generation and distribution.***

In Africa this is literally the difference between day and (hopelessly dark) night.

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# Obama's Anti-Carbon Policies Will Have No Impact On Global Warming

**WASHINGTON** – President Obama is trying to transform the US energy industry via federal regulations. He just announced a new plan aimed at promoting renewable energy production while penalizing “dirty” carbon fuels: coal, of course, but also much cleaner and cheaper natural gas.

## **Expensive electricity**

If implemented, this new policy means that at least for many years we shall have higher electricity prices, simply because more costly solar and wind energy still need subsidies in order to stay afloat. Without government-imposed mandates, they would not be adopted. “Dirty” natural gas instead is abundant and cheap. (Thanks to shale gas and fracking technologies that allow us to extract it, the US is now the largest natural gas producer in the world).

What is most extraordinary in all this is that, according to the same Obama administration keen on re-engineering the entire US power generation industry, there will be practically no change in global temperatures as a result of this major domestic energy revolution. Well, if this is so, what is the point?

## **Dogmatic beliefs**

Sadly, there is no point. This is all about taking actions

that please the pious members of the "*Church of the Environment*". While they claim that all their policy positions are based on "definitive science", the Faithful think and behave just like other religious zealots. Their point is that anything that contributes to global warming is bad (in fact evil) and therefore it must be stopped. Cost-benefit analysis does not apply here. What they believe is the Truth and therefore it is rational. Period.

As most of them vote for the Democrats, Obama believes that his anti-carbon policies are an appropriate homage to his base.

### **Let's protect our environment**

Let me state the obvious. Every sane citizen should be in favor of environmental protection. We should all be in favor of preserving the fragile ecosystems that support all life on Earth. We should also regulate, or forbid all human activities that have or may have an adverse public health impact.

We all want clean soil, clean water, and clean air. And if this means curtailing or outright forbidding economic activities that do have harmful public health effects, so be it.

### **We do not want another China**

Again, this is common sense. The alternative is what we had until the 1960s, before environmental issues awareness spurred land mark US legislation, (Clean Air Act, Clean Water Act, the creation of the US Environmental Protection Agency, and so on), aimed at protecting the environment.

It is also clear that, If we stop protecting the environment, then we get something like China, a country that for 30 years promoted large-scale manufacturing without any concern whatsoever for the extraordinary pollution caused by unregulated industrial activities. And the result of this is

an environmental disaster.

### **This is a religion**

That said, it is now clear that environmental protection has morphed into an anti-industrial religion. One of the key elements of its dogma is humanity's moral duty to stop "man-made global warming", most of it caused by burning fossil fuels.

As all dogmas, this absolute environmental belief assumes that man-made global warming is a settled issue, and that it is also settled that we must reverse it or at least stop it by outlawing or regulating all activities that will lead to an increase of greenhouse emissions, CO2 first and foremost.

### **Carbon is bad**

As I said above, it should be possible to forge a consensus about regulating harmful emissions. If an old coal-fired power plant fouls the air around it, causing respiratory diseases or worse, let's close it down.

However, it would be wise not to stretch our definition of harmful effects beyond the obvious. But this is precisely the problem we have with the environmentalists. Their dogma assumes that burning fossil will raise Earth surface temperatures so much that we shall end up cooking the planet, with anything and anybody in it. Hence the necessity, indeed the moral duty, to stop the use the use of all fossil fuels.

That said, the believers themselves agree that even drastic and costly action aimed at reformulating America's energy mix will have almost no impact on global temperatures.

### **Set a good example?**

If so, then what is the point? Their point, I assume, is that America, as the leading per capita energy consumer, should set a good example. If other countries see that America is serious

about “doing something” to stop global warming, then they may follow our example by cutting down their own fossil fuels consumption and emissions, this way allowing mankind to win this gigantic fight against global warming and climate change.

### **Irrational and crazy**

So, here is the thing. For the believers, It appears to be totally rational to embark in a policy that will have high immediate and medium term costs in terms of higher energy prices, even though we have no reassurance that it will produce any impact on the issue they want to address.

This is irrational and wasteful. In fact, it is crazy.

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# **US EPA: Fracking Does Not Create Systemic Water Safety Risks**

**WASHINGTON** – After years of research and analysis, a 1,399 page US Environmental Protection Agency (EPA) report concluded that hydraulic fracturing (fracking) is safe. The technology widely deployed more than a decade ago in the US to extract shale oil and gas in fact does not create systemic risks for drinking water.

### **This is big**

*Now, this is big. It is a well known fact that the EPA is no friend of the US oil and gas industry. And yet, nothing was found. Notwithstanding large resources spent in studying the*

*allegations indicating that fracking indeed created a systemic risk for humans and for agriculture, (supposedly chemicals injected into the soil during fracking seep into the water table causing pollution), the EPA found no evidence of systemic risk.*

### **There are accidents**

The EPA study did indicate that defective well construction in some instances caused chemicals seepage that led to water pollution. But this was due to the negligence of some energy companies that did not follow established well construction protocols.

Obviously there is a huge distinction between a few accidents caused by negligence resulting in faulty well construction and widespread accidents due to inherently unsafe fracking technologies.

What we get from the EPA report, and this is consistent with other findings, is that fracking is safe. As long as energy companies follow mandated well construction protocols, fracking does not threaten the water table.

### **How will Governor Cuomo react?**

Now how will New York State Governor Andrew Cuomo react to this EPA report? Almost alone in America, (Maryland joined him later), Cuomo banned fracking in his state on the basis of public health concerns, even though the technology is used all over America, (Texas, Oklahoma, Colorado, Louisiana, Wyoming, and other states).

And this long list includes neighboring Pennsylvania where the state authorities (under Republican as well as Democratic Governors) welcomed the shale gas industry that uses the very same fracking technologies deemed to be too risky on the other side of the state border. In fact, New York and Pennsylvania share the same, immensely large gas rich formation known

as Marcellus Shale.

### **Pseudo science and politics**

Cuomo's argument was that more scientific review is necessary in order to be really, really sure that fracking is 100% safe. In truth, we all know that the Governor had to bend to the purely ideological, anti-carbon industry bias of New York State Democrats. He simply could not go against the wishes of his party; even though this is a costly decision.

Indeed, by banning fracking Cuomo forced many communities in the Western part of New York state, (this where the Marcellus shale gas is located), to give up millions of dollars in royalties that would otherwise come to them from energy companies, should fracking be allowed.

But now, after the EPA report made it clear that fracking does not pose any systemic risks to the water table, it will be a lot more difficult for Cuomo to tell the (rather poor) up state communities that he intends to keep the fracking ban.

Now everybody knows that there is no scientific basis for this prohibition.

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# **America Needs Structural Reforms**

**WASHINGTON** – There is no doubt that millions of Americans are economically worse off because of the negative impact of a couple of global trends. First of all there has been the Asian awakening.

## **The impact of cheap labor**

This translated into hundreds of millions of able-bodied Asian workers who almost suddenly joined the global labor pool, while offering their services at a fraction of the cost of their US and European counterparts. A lot of additional cheap labor supply, with no significant additional global demand for more goods, simply depressed the wages of US workers, while causing many US businesses to literally shut down, or move to low wage Asian countries.

## **Technology kills jobs**

This is bad enough. But there is more. In the past, the effect of new technology was the creation of new sectors. The introduction of mass industrial production at the beginning of the 20th Century created millions of factory jobs, just as modern farming allowed food production with very few farmers, this way creating labor redundancies in the country side.

But now it is different. Now, advanced industrial technology means mostly automation. And this means that robots rather than humans make stuff. The factory of the future will be run by machines with only a few highly specialized humans at the controls.

This means fewer and future factory workers, regardless of demand increases.

## **Pressure on the US middle class**

All this is enough to describe the plight of a huge portion of the American middle class. Jobs disappeared or pay a lot less, because US wages have to compete with the lower wages of Asian workers willing to do pretty much the same jobs at a fraction of the labor cost. At the same time technological progress killed other functions that now can be performed by machines.

## **Regain competitiveness**



The only possible –but by no means certain– way out this is to regain global competitiveness by redoubling our efforts in innovation. We have to create new technologies, new systems, new products that will allow our corporations to lead.

This is not at all simple. Still, as a minimum, let us stipulate that public policy needs to be aligned with this paramount strategic objective of fostering innovation. But let me be clear on this. Good public policy is no guarantee of an economic renaissance. However, for sure bad public policy will hinder it, or prevent it altogether.

So, what is good public policy for America?

Here is my list.

### **The to do list**

1) We need a vastly simplified federal tax code that will eliminate all tax loopholes, while reducing tax rates. What we want is a pro-growth tax code that encourages easy compliance, without discouraging business formation and new business investments.

2) We need a dramatic reform of all entitlement programs. We simply can no longer ignore the fact that all major entitlement programs (Social Security, Medicare, and Medicaid) were designed in another era, with vastly different demographics, and significantly lower costs.

3) We need a dramatic reform of the entire US public education system. The facts are known. US public schools, often at a very high cost, deliver a mediocre and at times horrible product. The impact of bad public education is immense. First of all, it creates an almost insurmountable obstacle to social mobility. The poor disproportionately depend on public education to get the skills that will allow them to advance in the American society. And, secondly, a smaller pool of educated people will make it a lot more difficult for America

to become once again an innovation leader. Functionally illiterate high school drop-outs rarely turn into leading inventors.

4) And, yes, we should have sensible immigration reform. Make the borders secure. Create a path to legalization for most of the illegals who are here, and make it a lot easier for ambitious, smart people to come here and start a business. Let's start with the capable people who are already here as graduate students in leading American universities. We educate them. Let's give them a chance to stay and work here, if they so wish.

### **Health care is a mess**

To this agenda we should also add serious health care reform. But this is so complicated that I hesitate to place it on my wish list. Simply stated, by creating a system that is a horrible hybrid between private and public, with perverse incentives for doctors to over treat, and no financial reward for teaching prevention and "wellness", we have created a real monster. And so, we got the worst of everything: astronomic costs, (the US spends 17.5% of GDP on health), millions of Americans affected by (preventable) chronic diseases, and mediocre health care.

### **Plenty to do**

Anyway, there is plenty to do. However, it will be difficult to hear clear calls for true reforms coming from the crowded field of would-be presidents. And this is a real shame. What I outlined above should be a pretty straightforward, non-partisan, to do list.

And yet our politics have become so ideological and vicious that we have done essentially nothing to advance on any of these issues for more than a decade. Between Bush's foolish wars and Obama's sterile populism, we have wasted precious time, not to mention trillions of dollars.

## **Focus groups policies**

And now the risk is that the next president will be elected on the basis of what focus groups want to hear, (usually more benefits and lower taxes), as opposed to what needs to be done.

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# **80% Of All US Children Follow A Bad Diet**

**WASHINGTON** – The alarming news is that millions of American children now exhibit signs of heart disease normally found only in adults. Yes, believe it or not, US children have high cholesterol and hypertension, and so they have to be put on medications. This sounds crazy. But it is true.

## **Bad diet**

And how did this happen? Very simple. It is mostly about an extremely bad diet adopted on a massive scale by millions of families. As a result, American children eat too much of the wrong stuff: processed food, junk food, high sugar carbonated sodas, cookies and potato chips. And they do not eat almost any of the good stuff: fresh fruits, vegetables, fish, and whole grains.

## **The American food industry did this**

We can thank the American food industry for this. It has managed to create very cheap processed products available now in every supermarket and convenience store that are really bad for you. This food, if consumed in large quantities, amounts

to poison. But the marketing message is the opposite. The companies' relentless advertising has convinced millions of Americans that snack bars and chips are nutritious and healthy.

### **Only 1% follow a good diet**

*Well, the compounded effects of this bad diet embraced now by almost every family and child in America are truly frightening. A recent study of 9,000 American children has concluded that only 1% –yes this is 1%– follow the optimal dietary guidelines recommended by pediatricians and nutritionists. Another 20% follow the guidelines at least to some extent. And this means that 80% do not. Think of this. 80% of all American children have bad to horrible dietary habits.*

### **Teach about healthy food**

No wonder that we see children with previously unheard of manifestations of heart disease. This is incredibly bad. The good news however is that all this can be changed. Of course, modifying entrenched eating habits will require a lot of education. Parents need to be taught about healthy food, so that they can properly feed their children. But education is possible. And, given the health catastrophe in the making, it has to be considered an essential and urgent effort.

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## **Healthy Looking Ethiopians, Unhealthy Americans**

**ADDIS ABABA** – Walking around this large city I notice relatively healthy looking people. In particular, comparing

Addis to the USA where I am coming from, I see mostly lean people: women, men, young and old. No overweight children. And this is certainly not an emaciated lot. Being lean here is not about malnutrition. Here in Addis most people are doing alright. They may not be rich, but there are no visible signs of misery and widespread poverty.

### **Good habits, good health?**

Furthermore, I have yet to see anybody smoking a cigarette. So, there you have it. Healthy looking, lean people makes me think that the average Ethiopian eats in a reasonably balanced, healthy way. A population of non smokers is another plus. Obviously this is an impression, limited to what I see here. But this is a major city, the country's capital.

### **Obesity in America**

Now I compare this Ethiopian scene to what I see in America, every day. Obese people, young and old, everywhere. And the cause of this obesity is no mystery. It is now well documented that a very large number of Americans have unhealthy personal habits. They eat too much of the wrong stuff. Obesity is so widespread that it is now recognized as a national epidemic. And obesity is the root cause of cardiovascular diseases and type 2 diabetes, among others. These are chronic illnesses that usually require lifetime (expensive) treatments.

### **Americans still smoke**

Beyond that, notwithstanding a decades long and fairly successful anti-smoking campaign, millions of Americans still smoke. And certainly this significant minority of smokers will contribute to the incidence of cardiovascular diseases, to the number of people affected by pulmonary issues, and lung cancer.

### **Staggering cost of chronic diseases**

To put all this in a broader context, TIME magazine reported that 86% of the \$3 trillion that the US spends on health care every year goes for the treatment of chronic diseases. Both figures are astonishing. We spend an enormous amount of money on health care, and this is shocking. Even worse, most of it goes to treat preventable chronic diseases.

And how do you prevent most –extremely expensive– chronic diseases? In large measure, by adopting a healthy life style. In a word, by doing what most Ethiopians I see walking around Addis Ababa seem to know how to do, at least intuitively. Eat healthy stuff, not too much of anything, and do not smoke.

### **Developed America?**

We think of ourselves as a leading developed nation, constantly breaking new ground in medical science. And yet we waste almost 3 \$ trillion each year by treating the self-inflicted wounds caused by bad habits we refuse to change.

And this is our modern culture? A culture that cannot even teach people what a healthy diet is?

### **Healthy habits help prevent diseases**

And so the irony here is that while Ethiopia probably spends a small fraction of its national wealth on health care, (I am not saying that this a good thing across the board), at least the personal habits of its people create a powerful barrier against the spread of the (costly) chronic diseases that afflict millions of Americans.