

# Trump Takes U.S. Out of Paris Accord on Climate

**WASHINGTON** – U.S. coal miners and out of work factory workers: this is for you! President Donald Trump publicly announced that the U.S. will withdraw from the Paris Climate Accord that his Democratic predecessor, Barack Obama, promoted and warmly endorsed. Trump's argument against the Paris deal is that it will penalize the American coal mining industry, and the overall American economy in the short term, with only vague hopes of somewhat lower world temperatures, way down the line.

## **Bad deal for America**

As Trump sees it, this is a bad deal for America; and so the right thing is to get out of it. Sticking to the obligations created by the Accord would amount to enacting the equivalent of a huge energy tax on the US economy, because compliance with new, strict emission controls (in order to limit the amounts of greenhouse gases released into the atmosphere) will be very expensive.

As a candidate, Trump promised that he would withdraw from this climate deal, and now that he is President he is doing it. We know that his close advisers are divided on this issue. His daughter Ivanka and son in law Jared Kushner, along with Secretary of State Rex Tillerson, recommended not withdrawing. Still, in the end Trump sides with the opponents.

## **What does this mean?**

That said, from a practical standpoint, America's exit, at least in the short term, will not amount to any worsening of the global climate. Indeed, the Paris Accord, if all goes well, promises only modest progress on lowering the temperature of the world, and only after many years. And this will happen only if we assume that all the other participants

will actually do what they promised to do in terms of enacting new policies aimed at lowering their consumption of fossil fuels, this way reducing greenhouse gases emissions. Do keep in mind that the Paris Accord has no enforcement mechanism. The commitments made by the signatories are purely voluntary. In the case of China, the world's biggest polluter, Beijing is theoretically bound to implement new policies several years from now.

### **Political consequences**

Still, Trump's decision on this rather emotional issue has had immediate political consequences. From the stand point of other nations, particularly the leaders of the G 7 Trump just met in Taormina, Italy, this amounts to America choosing to go it alone, openly dissenting from a global consensus on the global threats to the earth created by the unrestrained consumption of fossil fuels.

### **U.S. no longer leading**

In the short and medium term, this means that America is no longer leading the world on a critical policy issue, As most world leaders see it, America has now retreated in its narrow universe characterized by a bizarre anti-science fixation pursued by a strange president who is "anti everything".

### **Anti-everything Trump**

Indeed, Trump is so anti-immigrant and xenophobic that he wants to build a wall along the entire border with Mexico.

Furthermore, according to the now widely accepted narrative, this is a president who is openly against free trade, against the EU, against NATO, and against Muslims, (sort of). Given all this, Trump being also against joint international efforts aimed at stopping and hopefully reversing climate change is disappointing; but not surprising. This new development fits the now accepted narrative.

America is no longer leading. Trump's America has retreated behind a myopic worldview of narrow self-interest.

From the standpoint of old friends and allies, Trump's announcement on exiting the Paris Accord is yet another (sad) sign that America is no longer the "Leader of the free World".

In fact, even before this new development on the Paris Accord, German Chancellor Angela Merkel had already publicly argued that it is time for Europe to think of and plan for a future without close ties to the U.S., since Trump's America is no longer a reliable friend.

### **Political symbolism**

Again, keep in mind that all this is mostly about political symbolism. It will take four years for America to fully extricate itself from the obligations contracted under the Paris Accord. This is fairly long time. And again, keep in mind that under the terms of this Paris deal, major polluters like China and India have modest obligations when it comes to reducing their own emissions that will kick in much later. Which is to say that you should not expect world temperatures to start rising tomorrow, simply because today President Trump announced that America will pull out in four years.

### **No gain**

However, as indicated above, this decision is not without political consequences. In the end, all this is will amount to an additional loss of international prestige for Trump's America.

With all this in mind, whatever you may think about the intrinsic policy value of the Paris Accord, it would have been better for Washington to be part of it, as opposed to becoming now a big pariah in the eyes of the world.

### **Trump is talking to his base**

Well, then why did he do it? Very simple.

Trump's narrow concern here is to reassure his domestic political base –the millions of Americans who voted for him last November. This base includes out of work coal miners and people displaced by the closure of old manufacturing plants.

Trump's message to them is that his job is to revive the American economy. If this means heavy reliance on dirty energy, so be it. Out of work factory workers want money to pay their bills. They do not care about the fate of polar bears or about extreme weather phenomena in Africa. And they do not care about rising sea levels.

Finally, dire scenarios of New York City and Miami under water in just a few years (because of the rapid melting of the Polar Caps) are definitely a hoax –at least according to Trump and his supporters.

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## No Serious Discussion About Entitlement Reform In The U.S.

**WASHINGTON** – Much has been said about the first Trump budget recently released. The expected partisan critiques –in fact outcry– focus on proposed cuts in Medicaid and disability benefits. Therefore, this becomes a “cruel budget”, an open attack against weak, low income Americans, and so forth.

**No discussion about Entitlement Reform**

Well, this may be true. However, the biggest problem with this proposed federal budget, (and with many budgets that preceded it, coming from both Democratic and Republican Presidents), is that –leaving aside symbolic fights– it is a reflection of an unchanged (unchangeable?) fiscal *status quo* that will stay pretty much the same until the American political leadership –Democrats and Republicans acting together– will finally address its **Number One Policy Priority: Entitlement Reform.**

### **Symbolic cuts**

The Trump Budget, even assuming that it will be passed by Congress as is, (it will not), will never “solve” the structural fiscal imbalance –namely: permanent high deficits– that has regrettably become the norm in America. You may indeed cut spending for the State Department, the Education and Energy Departments, and more. You may reduce Medicaid and the Food Stamps Programs. But none of this would really “bend” the overall spending curve. Hence the deficits and a growing national debt, soon to be out of control.

How so? Very simple. Anybody who has given even a mildly serious look at U.S. Federal Budgets notices a trend. The main drivers of (over) spending are large and growing federal entitlement programs that are not even voted on. They are on automatic pilot.

### **Social Security and Medicare bigger than ever**

The fact is that these programs (first and foremost Social Security and Medicare, accompanied by many other smaller federal assistance program), have become so large that now they comprise almost 2/3 of total federal spending. If you add to this colossal total another 16% of overall federal spending devoted to national defense (sounds like a lot; but in relation to GDP defense spending is historically quite low), plus about 6% of total outlays that have to be set aside for debt service, (this is about paying interest on all the debt

we have accumulated until now), and you realize that there is almost nothing left to squabble about.

Indeed, “the rest” –what the budget professionals call “non defense discretionary spending”– is less than 15% of the total. Since the bulk of all spending (with the exception of defense) is essentially off-limits, all the budget battles are fought on this residual 15%.

Which is to say that, unless we want to entirely abolish most of the U.S. Government, (Agriculture, Justice, Transportation, money for NIH and medical research, NASA, and more), we cannot possibly change the present pattern of spending without seriously looking at entitlement reform, with the goal of reducing future outlays. Since most of the real money goes to these programs, they should be reformed so that there will still be benefits for seniors in the future, but sustainable benefits. Simply stated, for social programs to work in a sustainable way, in the future most Americans will get less.

### **Everybody knows this**

Again, every student of US public policy, beginning with House Speaker Paul Ryan, (He used to be Chairman of both the Budget and later on the Ways and Means Committees), knows all this.

***And yet, for fear of causing massive social unrest, nobody –Republicans and Democrats– want to go even near the entitlement reform issue. The topic is worse than a non starter. It is almost unanimously viewed as political suicide.***

Not straying from the conventional wisdom, as a candidate, Donald Trump promised that he would leave all key federal entitlements untouched, claiming that these benefits have been earned by individual Americans, and therefore they should not be messed with. A very conventional approach.

### **“The Moment of Truth”**

A few years back, (2010), President Barack Obama convened a special bipartisan commission (it became known as the "Debt Commission") that was chaired by Erskine Bowles (Democrat) and Alan Simpson (Republican) in order to give a serious look at the issues of taxation and spending.

These two elder statesmen took the lead and eventually issued a powerful report in December 2010 aptly titled "*The Moment of Truth*". They, and most of the members of their Debt Commission, argued convincingly about the need to seek and find broad bipartisan support for a thoughtful plan aimed at reforming entitlement programs that had been designed in another era with different demographics (starting with life expectancy, much shorter at that time), and much lower health care costs. They pointed out that, if we change nothing, we are headed towards financial ruin.

They argued intelligently and convincingly. But nothing, absolutely nothing happened.

### **No action**

As it turned out, President Obama (even though he created the Commission) did not want to tinker with issues viewed by most political insiders as "radioactive".

The Tea Party Movement, at that time growing in national popularity, was led by amateurs who understood practically nothing about the real dynamics of public spending. Their home spun wisdom was that America's run away public spending and ensuing annual deficits, were all due to "fraud, waste and abuse". As simple as that. Their remedy? Eliminate silly programs and politically motivated earmarks, tighten the system, punish a few offenders who get benefits via false claims, and all would be fine.

Well, it would not be.

Given the overwhelming and growing weight of federal

entitlements benefiting mostly senior Americans, you could abolish the entire Defense Department and you would still not be able to alter the overall pattern characterized by over spending and perennial budget deficits.

### **Spending favors senior citizens**

Simply stated, in America, just like in most other rich democratic countries, there is now an unwritten social contract whereby large and increasing amounts of national resources are devoted to assistance to the sick and to the elderly.

*The problem is not that the priorities are wrong. The problem is that this level of assistance has become unaffordable, because it is no longer matched by revenue. Hence our annual deficits that add to the already exploded national debt. Of course, we could raise taxes in order to rebalance the federal deficit. But this would mean significantly "higher taxes", another radioactive issue that no mainstream politician wants to address.*

### **More debt is the path of least resistance**

So, here is the thing. Politicians want to keep doling out large entitlement benefits. But they do not want to tell the country that there is not enough money to pay for them. Instead, they have chosen the path of least resistance: use most of the federal revenue to pay for the entitlements, this way starving the rest, and borrow the balance.

This may look clever in the short run. But this approach means that we are well on our way to becoming Europe or Japan: societies with enormous public spending and huge national debts that simply do not have any resources to invest in their own future.

Let me say this clearly: these are society headed towards decline. In fact, some of them are already beyond repair,



mostly due to the impossible fiscal burdens represented by gigantic national debts.

### **Where are we headed?**

Well, unless we want to become the next Italy or Japan, we need a serious conversation about the level of future federal benefits. This does mean *“throwing sick grandma in the snow, in the middle of winter”*. But it surely means readjusting benefits so that, going forward, we take care of the neediest first, while all the others will get smaller benefits, and later in life.

Anyway, all this is purely theoretical. The current budget debate, with all its theater of partisan acrimony, posturing and grand standing, does not even begin to address entitlement reform. And this means that what we are having is not a serious, adult debate. This is mostly rubbish.

### **We need a serious debate**

The American people deserve national leaders –in both parties– who will tell them the truth about what we can afford going forward, and how we can and must share sacrifice, (fewer benefits, higher taxes, at least for some), in a fair and equitable manner.

This is what mature political discourse in a republic should be about. But nobody wants to even think about it.

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**How Will Macron Govern**

# France?

**WASHINGTON** – Emmanuel Macron's meteoric ascendance –literally from nothing prior to a short stint in the Hollande administration, to President of a major European country–is by itself a stunning political achievement. The very fact that obscure Macron saw an opening for himself as the leader of a brand new movement (he called it *En Marche!*) in a crowded field populated by seasoned politicians at least twice his age speaks volumes about Macron's political instincts.

## **He was lucky**

That said, we also know that Macron was very lucky. The center right party candidate, the Republican Francois Fillon, the favorite to win this presidential race according to most, suddenly imploded on account of the scandal related to fake staff jobs he offered to his wife and children. With Fillon sunk and a very weak Socialist party candidate running, Macron became the only credible alternative to Marine Le Pen, assuming that he could make it to the second round of the vote. Indeed there was a brief but all too real scare that grew as the first round got closer. It was all about Jean-Luc Melenchon, an unreconstructed Marxist who connected surprisingly well with the old French leftists (still many of them!) and with many young voters. Had Melenchon managed to overtake Macron in the first round, it would have been a disaster for Macron, the would-be new leader of a the newly reconstituted reformist center. (Imagine the scenario of a second ballot with Le Pen and Melenchon as the two finalists fighting for the French presidency).

## **Predictions were correct**

In the end, as we now know, Macron managed to get to the second round, even though not by much. And then, after this critical first round semi-victory, everything happened

according to most predictions. Macron won on May 7 by a large margin, (64%), while support for Marine Le Pen did not pass the symbolically significant 40% threshold. In fact she only got to 34%. Now she is defeated and humiliated, although still alive politically and –she says– willing to keep fighting.

### **Happy ending?**

So, happy ending? Not quite. France and the world dodged a major bullet. A Le Pen presidency, at least at the start, would have been very disruptive, given her very negative views on Europe, the Euro, trade relations, and the NATO Alliance. Not to mention the heavy and disturbing baggage of xenophobia, racism, anti-Semitism, and more.

### **How to rejuvenate France**

That said, while Macron's victory for sure is a precious reprieve, it is no guarantee that a severely weakened France, burdened by unaffordable social spending, unwieldy labor rules, and inefficient state owned corporations will become all of a sudden nimble, regain the enthusiasm needed to get out of the swamp of low growth and high unemployment; not to mention be able to overcome the unresolved issue of millions of (mostly Muslim) non assimilated immigrants, in many instance the breeding mix for radicalized youth who engage in acts of terror.

It is important to stress that Macron won on a positive message. He stated that France must embrace –not reject– globalization, foreign trade and strong relations with Europe. He forcefully argued that France is part of the global economy. Withdrawing behind protectionist walls is no solution.

### **Untested leader**

All true. The unknown here is whether this new –and completely untested– young president (the youngest leader of France since

Napoleon) will be able to galvanize his country, while at the same time gathering the necessary parliamentary support to pass critical labor and tax reforms, the minimal policy preconditions to create the enabling environment for French business and enterprise to flourish.

In order to secure these reforms Macron needs a major win at the forthcoming parliamentary elections. He needs a workable majority in the National Assembly in order to govern. Can his brand new political party repeat the leader's May 7 surprising victory?

### **The best choice?**

Finally another somber consideration. The very fact that we applaud Macron's victory as a major turning point in French and indeed European politics is in itself stunning. Macron is completely unknown, untested and inexperienced. Not that the establishment politicians inspire such great confidence.

However, the 64% obtained by this young new president is by itself a manifestation of a country adrift, grasping this modest straw (Macron) because this was the only way to avoid the abyss of a Le Pen victory.

When the French elevated General De Gaulle to the presidency, at least they knew they got a proven leader with a long, distinguished, and very public record. Today Emmanuel Macron is the new occupant of the same Elysee Palace once occupied by De Gaulle. The difference is that the French people who voted for Macron in large numbers have no clue as to how he will perform, because he has no real record.

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# Why Is Montenegro Joining NATO A Big Deal?

**WASHINGTON** – With the US Senate approving by a huge margin Montenegro entering NATO, the US-led security pact, (only 2 senators opposed), soon enough this small country, once a region of the former Yugoslavia, will join the western military alliance created on April 4, 1949 with the Treaty of Washington. In “normal” times, this tiny NATO enlargement should not be an event that would move the needle one way or the other.

## **Montenegro is small**

Indeed, on the face of it, Montenegro NATO membership should be a “non issue”. Hard to believe how a very small Balkan nation, with a population of 650,000, an army with only 2,000 soldiers, and a country GDP that is about the same size as the budget of the New York City police force, will alter the balance of forces in Europe.

## **A symbol**

And yet, it is a sign of the times we live in that this issue of Montenegro and its accession into NATO somehow has become a big deal. Russia sees this step of Montenegro joining NATO as further evidence of a relentless eastward NATO expansion, most likely with the intent of encircling the Russian Federation, therefore creating a national security threat for Moscow.

## **Sending a message to Moscow**

The US and other western countries instead want to portray the extension of NATO’s protection to this small Balkan nation as a manifestation of western political resolve. Russia is accused of trying to alter unilaterally the post war borders of Europe. Washington extending a helping hand to Montenegro,

this way guaranteeing its security from possible external threats, supposedly would send a signal to Estonia, Poland and other NATO members bordering Russia: *“America is here to stay in Europe. No intention to leave. Abiding by the letter of the NATO Treaty, Washington pledges that it will stand by its allies, large and small, no matter what”*.

Adding more complexity to the Montenegro accession issue, it is clear that the country was and is divided on this matter. Pro NATO political forces have accused Russia of meddling.

### **Moscow and Washington should address distrust issues**

Be that as it may, instead of using tiny Montenegro as a political symbol, it would be better for both Washington and Moscow to get together and seriously try to find common ground regarding legitimate security concerns. No, NATO is not about to attack Russia. By the same token, NATO should recognize Russian concerns regarding ethnic Russians outside of the borders of the Russian Federation, and Moscow's historic connections with Slavic nations in Eastern Europe and the Balkans. The way forward should include ways which will enable Russia to feel more secure, while NATO countries can be convinced that Russia will use diplomacy, and not military force, (or subversion), to further its political interests in Eastern Europe and other border areas.

### **Find a way to improve East-West relations**

Montenegro's accession to NATO will change nothing when it comes to the balance of forces in Europe. However, the very fact that we are even talking about this enlargement of the western alliance as a real problem, contributing to the further deterioration of East-West political relations, is indicative of the under currents of deep distrust between the US and Russia.

It should be in the interest of both Washington and Moscow to address this distrust.

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# Wanted: Credible Centrist Political Leaders

**WASHINGTON** – Recently, a Democratic party elected leader of national renown argued in a public forum that in order to regain lost momentum and credibility with the American voters the Democrats have to redefine themselves as the party of economic growth and inclusiveness.

## **Common sense messages**

At a national event focused on the future of U.S. small businesses, a Republican national leader claimed that America's greatness rests on its foundations as an opportunity society in which people can advance because of a rules based system that recognizes and rewards merit.

John Hickenlooper, the Governor of Colorado, a successful state chief executive, stated that through collaboration between Republican and Democrats we can find workable compromises on the future of the US health care system, and other national priorities.

Well, what do I make of all this? Very simple. These statements made by credible centrists in both parties raise the hope that it may be possible, even in this incredibly poisoned political climate, to rally millions of Americans, hopefully a majority, around the basic ideas of an optimistic country in which policy-makers promote economic growth, while upward mobility is based on genuine merit; and nobody is excluded or kept from advancing because of social class, gender, race, or anything else. In fact, the opposite –equal opportunity for all- is embraced by all.

And this must include quality education, the best foundation of future success in life, available to everyone; while bridges are built across every divide, and doors are wide open to all who are willing to make an effort.

### **It is an old idea**

This idea of America as a level playing field and fair rules used to be a shared vision embraced by most. Indeed, it was the belief that America offered genuine opportunity that attracted millions of immigrants who wanted to create in America a better life for themselves. It is about time to re-propose this vision in a manner that can be shared by today's Americans –Democrats and Republicans.

Indeed, who could object to public policies that promote economic growth, social advancement based on merit, while all citizens have genuine access to quality education, careers and consequently a good seat at the table?

### **Lost hope**

Of course, the last few years have told us an entirely different story. It is a story of lost hope, deep disappointment, and resentment. A story of popular distrust in the honesty and abilities of most elected leaders. A story of exaggerated promises not kept.

This has created an emotional anti-government rebellion on the right, ("*Washington is a rotten place*"), and the triumph of policy agendas on the left which advocate economic and social re-balancing achieved through redistribution by taking (ill-gotten gains) from the few ultra rich and giving to the rest of society. All this will be wisely designed and orchestrated by government, through taxation and subsidies.

### **Despondent America**

The outcome of all this is not pretty. The unexpected outcome



of the November 2016 presidential elections is evidence of the widespread feeling of deep despair. Indeed, according to millions who voted for Donald Trump, "the system" failed—period. Its failure is so deep that it is not worth salvaging. In fact, it should be dismantled. In fact, millions of Americans voted for Trump mostly because he is not a professional politician. Therefore he is untarnished by Washington's rot and well equipped to "*clean the stables*", "*drain the swamp*" and all by himself—with his power and superior intelligence—transform America.

Paradoxically, notwithstanding continuous economic growth and much lower unemployment since the end of the Great Recession in 2010, rightly or wrongly millions of Americans who used to be part of a self-confident middle class now are and feel poorer, left behind and alienated. At the same time, millions of young people feel hopeless facing a world of diminished opportunities, while laboring under the crushing weight of absurdly large student debts.

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

That said, I sense that there is a way out of this. Difficult, yes; but not impossible. Yes, America needs house cleaning. It needs fresh faces not tainted by the old ways of doing business.

The unimaginative political elites still populating Washington, DC have survived by over promising everything to everybody, while pretending to pay for all the goodies they offered to various (of course deserving) constituencies, knowing full well that the only way to finance all this public largess (unaffordable entitlements) was and is to borrow more and more, this way getting the country deeper and deeper into debt.

Sadly, the Washington elites have no real economic growth strategy, while their policies aimed at buying votes through

entitlements funded by public money and more and more borrowing are driving America towards the abyss of insolvency.

### **Credible people who will tell the truth**

Most Americans have common sense. However, they need credible new leaders who will tell the unvarnished truth about the dangers of systemic and growing fiscal imbalances, (i.e. we have to agree on a sensible plan to reform all major federal entitlement programs, by far our biggest fiscal problem), while pointing the only way to get out of this ditch: economic policies (think tax reform and smart deregulation affecting business activities) that will promote a more robust economic growth in a genuinely open and inclusive society. An inclusive society in which elected leaders are committed to destroying all artificial barriers to entry, while opening new avenues of opportunity to all.

(President Donald Trump, a new leader who is not carrying the baggage of the distrusted establishment politicians, could lead the way in shaping a new American political conversation. As his presidency is just getting started, it is impossible to say whether he will engage in this effort or not. We should all hope that he will. This would benefit the country and him).

### **Impossible?**

Well, in the end all this "back to basics" idea founded on the values of openness, fairness and merit sounds too lofty, in fact unrealistic. Yes, this is an appeal to an admittedly mythologized idea of an America "*where anything is possible as long as you work hard and play by the rules*" which (truth be told) never fully existed in the way many refer to it.

And then there is the huge problem of yanking benefits away from millions (deserving or undeserving, it does not matter) who got used to getting them. "*Come on...get real. Nobody gets elected by promising less, let alone by promising to cut*

*existing benefits. And we in Washington just do not know how to deliver stronger economic growth. We only know how to distribute subsidies”.*

## **The way ahead**

And yet, if we do not want to see America follow Europe on the path leading to historic decline, it is imperative to make real progress on these two related fronts:

***1) restore fiscal sanity by reforming all the major entitlement programs***

***2) genuinely and forcefully promote economic growth and real opportunity for all***

The alternative is political chaos, the de-legitimization of our institutions, and rapid economic decline.

Some elected leaders of both parties know this. I just hope that their common sense message will be heard, understood and embraced.

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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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# No Real Development Without Economic Growth – Part 2

**WASHINGTON** – International development practitioners focus on policies through which they can eliminate or alleviate poverty, the visible manifestation of underdevelopment, rather than planting the seeds that may foster self-sustaining economic growth and therefore true development –which is, by the way, the only proven way for any society to really get out of poverty. This “*poverty alleviation is our goal*” approach, while well intentioned, encourages the misallocation and outright waste of limited financial and human resources, all in the name of the noble cause of the “*fight against poverty*”.

## **Non sustainable projects**

For instance, it is considered good policy to create “economic” activities in poor countries, whatever they may be, that will generate some new income for the poor. However, in the haste to make some positive changes happen now, donors all too often leave out any solid analysis of the reasonable chances for such activities to become self-sustaining after the donor initial funding and assistance is gone.

The consequence of incomplete analysis is that very substantial resources have been squandered in supporting non sustainable activities –all of them justified as honest, good faith efforts to reduce poverty. Unfortunately, quite often when the donors leave the poorly planned and under resourced activities collapse.

## **Focus on what it takes to produce sustainable growth**

In fairness, absolute poverty creates so difficult an

environment that it may very well be impossible to engineer within its confines any kind of meaningful economic enterprises. Indeed, there can be a legitimate debate about what is really at issue: *“Poverty as lack of economic development”*, or *“The dreadful condition of poverty that, as such, prevents building the foundation for economic development”*.

True enough, it is obvious that the sick and the hungry, societies without clean water or electricity, along with refugees displaced by conflicts, cannot possibly engage in any meaningful economic development activity.

### **Relief alone will solve nothing**

Still, if we focus most of our resources on improving what are very bad, sometimes horrible living conditions without recognizing the absolute necessity to create at the same time indigenous economic wheels and help them turn as soon as possible, at best we have delivered some measure of humanitarian relief. To be sure, relief has a positive impact in reducing the impact of poverty, or at least its worst consequences in terms of disease, malnutrition and overall hopelessness.

***But in so doing we will not have caused any meaningful qualitative transformation. Qualitative change leading to real development must include the creation of a workable process through which societies are able to chart a path towards self-sustaining economic growth.***

### **Poverty is reduced through self-sustaining enterprise**

Contemporary examples reinforce this fact. Structural changes encompassing laws and incentives rolled out by governments in some important poor countries greatly improved the *“enabling environment”* for wealth creating activities, some of them supported by foreign investors. These policy changes have had the consequence of allowing millions (tens of millions in some

large countries) to be more productive *and thus lift themselves out of poverty through their very own engagement in wealth creation activities that in preceding times were not accessible to them.*

## **China and India**

The different stories of economic growth in China and India in the past twenty to thirty years have been told many times.

*But it is important to stress here that the activities of donors and aid programs have had very little impact on the gigantic, systemic policy changes which fostered growth in both India and China. The key factors that unleashed huge creative energies have been economic liberalization policies that allowed and indeed encouraged people in China and India to become more productive, to invest in education and new enterprises, and make money without penalties or fear of being dispossessed.*

*in China and India significant poverty reduction has been the byproduct of almost unprecedented rates of economic growth made possible by policies that fostered the creation of new enterprises. It has nothing to do with donor-assisted policies which had poverty reduction as their primary goal.*

*It is all about successful wealth creation.*

## **Donors do not like to focus on economic growth**

But, somehow, the notion of economic growth as the primary goal of development does not appear to be a noble enough purpose. At least for some development practitioners, economic growth conveys the images of rapacious businessmen, outrageous profits, corrupt practices, wheeling and dealing, profiteering, cronyism, child labor, domestic and foreign exploitation perpetrated by the unchecked powerful; and –worst of all– it means accepting growing economic disparities within societies.

Some of these critiques are justified. Unfortunately, some of these problems are often part of the picture within struggling societies that just embraced entrepreneurship, at least to some degree.

It is true that economic development, while crucially important, rarely occurs in a linear, harmonious fashion, with gradual, well-distributed benefits for all. To the contrary, it is a messy affair, especially in developing countries that usually lack the well-oiled framework of laws and effective institutions that should at least limit excesses and protect people from injustice.

### **Economic growth is a messy process**

However, the existence of significant flaws in how economic development occurs does not disqualify the basic proposition of wealth creation as a precondition for any lasting improvement in the human condition.

In fact, unless we postulate really large-scale, donor-led activities *in perpetuity*, there is no other way to reduce and eventually eliminate poverty. There just isn't.

***But many development practitioners are unconvinced. Many of them, contemplating the negative aspects of uneven economic growth, affirm that, unless this process can be properly regulated to ensure harmonious growth and fairness, then it is better not to have it all. So there you have it: better all poor but equally poor, if the alternative is wealth, but just for some.***

### **Development practitioners often lack a business background**

The inability to put economic growth front and center in the framing of development agendas in part can be explained by the cultural make-up of the practitioners.

The development industry is managed mostly by civil servants

and functionaries who work for public donors: state-run development agencies or multilateral development institutions. In the U.S. many of them are former Peace Corps volunteers, essentially lay missionaries who see development as moral duty to help the poor.

These professionals are flanked by large, religious or lay, private charities. For all of them, development is a mission, not a policy goal that requires the mobilization of indigenous resources in an economically productive way.

***Bottom line: most of them are not business people.***

As a rule, all these practitioners do not know or understand business and what it takes to make economic growth happen and flourish. For many of them, their primary mission is fighting poverty. They view this as a moral, noble endeavor for the good of mankind.

Teaching people how to make a profit in a competitive environment – the indispensable lever for economic growth– is viewed as promoting self-centered and egotistical drives, therefore not at all a laudable effort. In fact many see it as morally questionable.

**Poverty reduction alone will not do it**

***However, lacking a clear focus on economic growth as the paramount strategic objective, the goal of achieving development through poverty reduction is likely to be an endless and quite frankly fruitless task. True, with all these efforts, the poor may become a little less poor, but they will not learn much about how to become self-sufficient through engagement in money-making enterprises.***

**Asia grows, while donor-supported Africa does not**

Asia reduced poverty largely through the elimination of artificial barriers to economic activities, while at the same

time promoting education as the ticket to gaining marketable skills, and therefore access to better jobs and a better life.

On the other side of the divide, we have the sad story of Africa as the paradigm of what has gone consistently wrong, ***despite decades of well-meaning, donor-led efforts aimed at reducing poverty and improving overall conditions.***

Whatever has been tried, it failed to create, (with few exceptions, of course), an environment in which enterprises could flourish, with the attendant positive outcomes of sustainable wealth creation activities and consequent diminution of poverty.

This massive failure, compared with the success stories driven from within Asian societies, should provide enough material for reflection on the validity of the current approach.

Still, as yet, this reappraisal has not taken place. Donors are still *“fighting poverty”*; instead of creating solid foundations for sustained economic growth.

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## **No Real Development Without Economic Growth – Part 1**

**WASHINGTON** – International development is generally defined by practitioners of this craft as *“the fight against poverty”*. I totally disagree with this approach that focuses on poverty,



the practical manifestation of lack of economic growth, instead of dealing with the real problem that I define as: *"What does it take to get sustained growth, since growth is the prerequisite for economic and social progress in all societies"*? Fighting poverty is about fighting the symptoms, the practical manifestation of a lack of economic growth. What we want is healthy, productive societies that will create more wealth, and thus more widespread well-being. More growth means less poverty.

### **Fighting poverty**

Indeed, how an issue is defined goes a long way in shaping the nature of the efforts aimed at dealing with it. And, in this instance, the definition of both the problem and the solution is wrong. As I said above, the broad objective of the international development community vis-a-vis poor countries, (politely described as lesser developed countries), has been defined as *"poverty reduction"*, or *"the fight against poverty"*.

The World Bank, the most important multilateral lending institution focusing on development, is *"Working for a World Free of Poverty"*. Its Mission statement is *"To fight poverty with passion..."*

***So, poverty as a condition, rather than promoting sustainable policies that will allow societies to get out of poverty for good, is the focus of donors' attention.***

### **Public relations**

To some extent, this emphasis on *"fighting poverty, or "poverty alleviation"* is simply public relations. It is an attempt to deflect the critiques of the anti-global movement that, years ago, while elaborating its bizarre conspiratorial theories that would capture the root causes of all the planet's ailments, bunched together the World Trade Organization, the International Monetary Fund, the World Bank,

and Multinational Corporations. It defined all of them as a clique of demonic players working together to further mankind's misery in general, and the exploitation of the third world in particular.

Hence the pressure on the maligned "*development industry*" to do something in order to improve its image. It tried to do this by presenting to its critics noble institutional objectives that would humanize their institutions. "*Hey, Mr. & Ms. No Global, you are mistaken. We are the Good Guys. We are with you. We are fighting poverty. We are completely focused on helping the poor. There is no other agenda*".

### **Christians ethics encourage giving**

Undoubtedly there are other cultural/religious factors that can help explain this "*fight against poverty*" focus. At least to some extent, the Good Samaritan attitude stems from religiously derived ethics formulated by the Christian cultures that shaped the values, and therefore policy propensities, in many of the Western countries which "invented" the development industry.

Indeed, if we go back to the roots of this humanitarian approach, we see that over the centuries within Christendom we have seen the proliferation of a vast universe of charitable initiatives –many of them organized and run by religious institutions– aimed at aiding the poor.

Within Christianity, the moral obligation to give to the poor is the other side of a parallel moral bias against excessive wealth ever present in Christian ethics. The remedy to social inequality is for the rich to give away some of their (ill-gotten?) excess wealth to the poor, sometimes called "the less fortunate".

***But, in general, the Christian moral obligation to give to the poor was never aimed at having a truly transformative economic and social impact. It was meant as a good deed that would***

*somewhat alleviate the painful conditions deriving from a state of poverty which was, however, considered to be a permanent feature for some segments of society.*

### **Plenty of relief activities that are not transformative**

At a different level, it is difficult to evaluate the deep motives of modern day wealthy philanthropists who contribute to relief initiatives, whether defined as “poverty reduction” or otherwise. But it would appear that the likes of Bill Gates fall pretty much in the same category of those who attempted to redress and alleviate.

For instance the children immunization goal pursued, no doubt very competently, by the Bill & Melinda Gates Foundation, noble as it is, taken by itself, is not transformative. True enough, immunized children in Africa will not die of common diseases. But chances are that, unless other critical changes will take place within their societies, they will be alive but still condemned to a miserable (and short) life of abject poverty.

(This approach based on partial interventions that do not help economic development may be changing. The Gates Foundation and other wealthy donors are now shifting to initiatives aimed at fostering the creation of opportunity in poor countries, for instance through upgrades in education. They begin to appreciate that a new mind set, new values and new skills can and should be the foundations for wealth creation activities that will help transform these societies).

### **Poverty as “bad luck”**

More broadly, the issue of poverty is really not well understood in Western Christian culture. So much so that it has been explained away. Historically poverty has been regarded as a product of bad luck for some that can and should be somehow mitigated through faith-inspired charity performed by the rich. Indeed, even today in polite company in the

Western World the poor are often described as "*the less fortunate among us*".

Let's think about it. We, the well off, "*have*" because we have been fortunate. The poor, alas, less so. Again, words have meaning. According to this definition, our economic station in life is determined by having been more or less "*fortunate*". Which is to say that the possession of material wealth is all about random distribution of luck. The poor happen to be poor because –look at that– they have been less fortunate than we have.

### **Successful capitalism has nothing to do with luck**

At some level this is true, especially in the case of children. Some are born in rich circumstances and some are born poor. Clearly those who were born in privilege have an enviable head start in life.

But this is only a small slice of reality.

***Please, consider this. Most millionaires in the U.S. are self-made people, as opposed to being mostly "lucky" beneficiaries of inherited wealth.*** This means that an open economic system, protected by laws and independent courts, free institutions, transparent rules and no artificial barriers to entry, encourages people to try and forge a better life for themselves.

It is abundantly clear that all this has nothing to do with "*being fortunate*". And yet the use of these misleading definitions distracts us from confronting the real issues.

### **Poverty will be eliminated through successful enterprise**

***Poverty is mostly about the bad combination of lack of education, lack of capital and economic opportunity, and lack of entrepreneurial drive – all of them necessary preconditions to start and fuel wealth creating activities.***

If we do not tackle these issues –education, opportunity, entrepreneurship– by creating at least an embryo of the institutional eco-system that opens up opportunity and by instilling the will and the ability to create enterprise, we shall continue to provide humanitarian relief to the poor, without offering a realistic new path to growth.

***Borrowing from the old story about the qualitative difference between giving somebody a fish and teaching them how to fish, to date the fish hand outs continue, while the fishing schools are scarce, or non existent.***

### **The eco-system**

Even the most superficial analysis shows that wealthy societies did not become wealthy because of random circumstances; because people who live there won a major lottery.

Leaving aside all the defects of capitalism, at a macro level capitalistic economies have been successful because the institutions created by capitalistic societies allowed –or better yet promoted– a reasonably good functioning of the engines of wealth creation mobilized and run by private initiatives. As a result of the productive activities created through these engines, poverty, at least extreme poverty, has been eliminated.

***Which is to say that prosperity is the outcome of a mind set focused on wealth creating activities on the part of many inventors, innovators and risk taking capitalists. They create the businesses that create employment and therefore more prosperity. The aggregate outcome of all these efforts, consisting in a vastly improved standard of living for most, has nothing to do with “being fortunate”. it is all about being creative, industrious and persistent.***

### **Relief as opposed to growth**

But this is not how the issue is framed by the development community. The development practitioners have identified “*poverty elimination or reduction*” as the core development mission.

In so doing, wittingly or unwittingly, they focus (*and make us focus*) mostly on the effect of lack of economic development (poverty) and what we should do about alleviating it through donations and relief activities, rather than on a credible way out of it that can only be centered on a viable economic development agenda fully owned and promoted by the people who live now in poor countries.

*(See the rest and conclusion in Part 2, to be posted tomorrow)*

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## **Obama Is The Big Loser In This Election**

**WASHINGTON** – Outgoing President Barack Obama and his wife Michelle actively campaigned for Democratic Party nominee Hillary Clinton. In fact Obama spent more time campaigning for Clinton than any other sitting president ever did on behalf of the presidential nominee of his party. And why such a big effort? Because it was all about his legacy.

Indeed, a Clinton victory, especially if it had taken place with a significant margin, would have amounted to a final and lasting endorsement of Obama’s eight year presidency. Hillary Clinton would have been portrayed as the rightful and competent heir to his (great?) legacy. She would have moved America towards even higher achievements, by building on

Obama's record of success and the solid foundations they created for future accomplishments.

### **It did not work**

Well, it did not turn out this way, as we know. It is not just that Clinton lost. She lost badly. The numbers look pretty awful for Clinton, if we compare them with how well Obama did when he ran for office.

In 2012, Obama won a convincing re-election campaign against Republican Mitt Romney. In that election, Obama got 65,915,795 votes, or 51.1%. Romney got 60,933,504, or 47%.

Well, guess what. On November 8 Hillary Clinton got only 60,839,922 votes, or 48% of total votes cast. Which is to say that she got almost 5 million fewer votes than Obama in 2012 –and in fact even fewer votes than losing contender Mitt Romney.

### **Democrats did not vote**

Which is to say that a large number of Democrats or Independents leaning Democrat simply did not bother to get out and vote. I doubt that former Obama supporters voted for Trump in large numbers, although a small number probably did. The unpleasant truth –for both Clinton and Obama– is that millions of Obama Democrats stayed at home. They did not show up. They did not vote.

Well, so much for the legacy of the great transformational presidency of Barack Obama, the man who had promised in 2008 that we would re-engineer America, by bringing everybody together. The sad truth is that millions of people who belong to his own Democratic Party did not bother to show up and vote for his officially anointed successor, Hillary Clinton, this way paving the way for Trump's victory.

### **Trump's victory**

As for Donald Trump, it is clear that he won. But he won with a small margin against Hillary Clinton, a very weak candidate deserted by many in her own Democratic Party.

Yes, Trump the total outsider achieved something quite remarkable. He gained traditionally Democratic states like Pennsylvania and Wisconsin –and this is almost unprecedented. But his overall numbers, while more than enough to get him into the White House, are not overwhelming, and this should induce careful reflection among his key advisers.

### **Enough votes**

Donald Trump won enough states to become president. But he lost the popular vote, even though by a small margin. And all this happened in a year in which a lower number of Americans voted. Trump got only 60,265,858 votes. A good number; but not impressive. Barack Obama won 5 million more votes than he did in 2012. And do keep in mind that millions more were entitled to vote in 2016 as compared to 2012.

So, here is the thing. Trump won because he managed to energize millions of Americans who felt betrayed by the traditional political establishment run by Washington insiders, this is true; while Clinton failed to fire up her own Democratic Party base. And so he won and she lost. But do keep in mind that this is not “a wave election”. Trump won in some measure by default, because many on the opposite side simply did not show up.

### **Ronald Reagan in 1980**

In contrast, Ronald Reagan’s victory in 1980 was a real “wave election”. In a three candidates contest in which Independent John Anderson got a respectable 6% of the total vote, Reagan got 50.75% of the votes. He carried 44 states and 489 electoral votes. Democratic incumbent Jimmy Carter did not just lose, he got crushed. He got 41% of the vote. He carried just 6 states and only 49 electoral votes.



## **A mandate**

After his 1980 electoral triumph Ronald Reagan could reasonably claim “a mandate” from the American people. Donald Trump is the clear winner in 2016. But I do not see the same mandate. His numbers are good enough to get him into the White House; but they are not overwhelming.

His political and policy advisers should ponder on these results and decide how far can this new president push into uncharted territory when it comes to bold new policies. Based on these numbers, there is some political margin for him, but not a very big one. And, please, do keep in mind that history shows how quickly American voters can turn love into resentment towards their elected leaders.

## **Barack Obama is the real loser**

The interpretation of the significance of this vote in this unusual 2016 presidential election has just begun. How strong and, most importantly, how resilient is Trump’s political base? Can it be expanded? How seriously wounded is the Democratic Party after this surprising (for the party elites anyway) defeat?

While all this is still being discussed, as I indicated at the beginning, a clear result of this election is that Barack Obama has been rejected by most Americans. Based on these elections numbers, it is clear that he left no strong legacy.

Therefore, he is the real loser in these elections.

The American people –among them millions of Democrats– who voted for him twice, in 2008 and in 2012, at this most critical juncture chose not to go out and vote for his chosen successor –a successor on whose behalf he strongly campaigned. American voters implicitly rejected Hillary Clinton, the candidate of his Democratic Party, and therefore the candidate who would have inherited Obama’s great policy achievements,

while moving America to even greater heights.

### **Rejection across the board**

And the rejection does not stop with the presidential race. The American voters also rejected almost all the Democrats who tried to unseat Republicans in the Senate, even though all prognostications indicated that they had a great chance to succeed in becoming the majority party in the Senate after this vote.

So, here is the score. Republican Donald Trump is now president. The Republicans keep the House and the Senate, while advancing across the country at the state level. Indeed, on November 8 the GOP gained 3 Governors, for a total of 33 republicans versus 17 Democrats.

As I said, no Obama legacy. Sad, but true.

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## **How The US Fed Damaged The American Economy**

**WASHINGTON** – I indicated a while back that whoever would be elected President of the United States on November 8 –Clinton or Trump– it was unlikely that she or he would have the fortitude and the political backing enabling her/him to seriously focus on the real, yet silent systemic crisis affecting the U.S. economy: ***artificially depressed interest***

*rates*. I still hold this opinion.

## **Financial and economic distortions**

Let's look at the issue. We are now dealing with the consequences of several years of Fed-mandated zero interest rates policies, or ZIRP. These policies have created enormous distortions affecting now the entire fabric of the American economy, its economic policy making process, and financial markets. What started as extraordinary monetary easing in order to mitigate the risks of a post-2008 financial meltdown, morphed into a real monster.

## **Unprecedented predicament**

No, we are not necessarily on the proverbial edge of the abyss. The world is not coming to an end. At least not today. Nonetheless, a sad combination of wild (and prolonged) experimentation on the part of the Federal Reserve –way beyond the limits of reason– and a mixture of political cowardice, ideological infighting, and intellectual void on the part of the Congress and the Obama White House created this truly unprecedented hazard.

## **Fed policies now drive markets**

After years of zero interest rate policies, the US Federal Reserve managed to accomplish something quite unique. Its policies on interest rates –and not economic fundamentals– now determine in large measure investment decisions, and therefore assets valuations.

## **Disconnect between the economy and markets**

*Put it differently, prices of major assets, stocks first and foremost, no longer depend mainly on how the U.S. economy and the world economy are actually performing. They are largely dictated by Fed's policies and its perceived future moves on interest rates. Which is to say that Fed moves now determine*

***asset prices. And so we have had and are still having today an almost total disconnect between the actual conditions of the economy and the valuations of basic economic assets. Investors follow Fed mandated interest rates. They base their investment decisions on Fed moves, and not on corporate performance. This is most unhealthy.***

This obvious divorce between market valuations and underlying economic realities this time is not about market speculators. This is not yet another bubble created by crazy investors. This is a Fed-engineered disconnect between the real economy and financial markets. The Fed did this. yes, the Fed, the once revered custodian of national financial integrity.

### **Markets follow the Fed**

Simply stated, several years of interest rates repression induced (forced?) most investors seeking a return on their capital to migrate to stocks, whose valuations are now inflated, because that's what everybody is buying, since there are no other realistic investment choices.

As a result of this unprecedented distortion, stock prices now are not affected –as they should be– by expectations on future corporate performance and sector strength. No, they are affected mostly by speculations on what the Fed may do next. It is now accepted as a “normal” phenomenon that US stocks respond with sudden swings to any hint of significant changes in interest rates policy by the Fed.

***In other words, these days stock valuations respond mostly to developments that have nothing to do with the real economy.***

### **How did all this begin?**

Well, and why did the U.S. Fed get into this crazy game? At the beginning, in the immediate aftermath of the Great Recession of 2008, it was all done with good intentions. Fed officials were hoping that by pushing interest rates down to

zero, and keeping them at zero for a while, both corporations and individuals would gain confidence and have an extra incentive to borrow more and therefore kick-start into higher gear the wounded US economy struggling to come back after the horrible 2008 financial debacle.

### **Strong medicine**

It was hoped that this strong monetary medicine would help, giving time to the slow-moving US Government to concoct market-friendly reforms, (such as lower corporate taxes, streamlined regulations), aimed at creating a more pro-investment, pro-growth policy environment.

***And here is where everything went wrong. The U.S. Government, torn apart by bitter partisan politics, has done practically nothing. Since the end of the Great Recession nothing, absolutely nothing, has been done to reform federal spending, this way "bending" the curve. Likewise, nothing to reform and simplify the horrendously complicated U.S. tax code, with the goal of making it more business friendly. Nothing to improve the fundamentals of the U.S. "economic eco-system" in order to encourage new enterprise creation.***

Sure enough, after massive stimulus ordered by Washington financed mostly by issuing bonds, (read: more debt creation), the U.S. economy rebounded. But it has been a feeble recovery, with unimpressive growth.

### **Weak economy, strong markets**

And yet, despite all this, the stock market shot up. While this year Wall Street growth has been modest, it is clear to most observers that current valuations are not justified by the performance of the real economy.

While consumer spending is relatively healthy, the fundamentals of the U.S. economy are not good. There is very little new investment, while increased amounts of regulations

affecting practically every economic sector suffocate existing small businesses, at the same time creating disincentives to new business formation.

**Here is the monster**

***And so, here is the monster. America has at best a mediocre “doing business” environment. Our public finances are in a dreadful state, with more debt added to already historically high debt. There is little new investment, while more small businesses close down than new ones are established. In other words, the real economy is either stagnating or slowly declining, (at least in some sectors). And yet, the stock market has done great, mostly because of Fed policies.***

***What we got, after years of ZIRP, is a horrible distortion, whose ramifications we do not even begin to appreciate.***

**Gradual adjustment?**

The rosy scenario is that the Fed finally would see the danger of the effects of its policies. Therefore it will slowly jack up interest rates, this way allowing time for investors to devise and implement a gradual and orderly reallocation of capital. While this readjustment takes places, the stock market will experience some corrections. But nothing terrible will happen, as investors will have time to make the appropriate portfolio diversification.

***But what if it all happens in a sudden big burst? What if the hoped for incremental correction turns into a stampede? What if trillions of dollars now invested in obviously inflated stocks are vaporized in a matter of hours?***

**“Rewired markets”**

So, here is the thing. Just like a sorcerer apprentice, after 2008 the Fed went into uncharted territory, hoping that zero interests would work like the magic trick that would revive

the moribund U.S. economy. Worse yet, even though the magic did not happen, The Fed kept on this ZIRP course for many years. This prolonged intervention “rewired markets”. It created new, and truly unhealthy, incentives for financial markets. They now respond mostly to Fed signals, as opposed to economic fundamentals.

And there is more. Corporations now respond to short term financial incentives. Many of them do not make long term investments. Indeed, it is a lot easier to support your market valuations through stock buy backs funded by money borrowed at practically zero interest than to plan growth strategies that require real capital investments.

**How do we get out of this?**

***And now, to make a bad situation really treacherous, the Fed does not know how to extricate itself from the trap it created for itself and the entire U.S. financial system. Leaving interest rates near zero for much longer is a really bad idea. However, the danger now is that any action that may be read by the market as a quick return to historic interest rates may give the signal to a chaotic exit from artificially priced shares.***

**No help from policy-makers**

As for getting any real help from policy-makers, forget about it. On November 8 we had the end one of the most acrimonious and divisive presidential campaigns in recent American history. President-elect Donald Trump, the uncontested winner, should realize that almost half the country is still against him.

This is not an auspicious beginning for a new President who should instead have the political flexibility deriving from a strong mandate. Trump needs to engage both the Nation and the Congress in order to put in place, as soon as possible, a new fiscal, economic and tax policy environment finally conducive

to real investments and real growth.

### **What is the end game?**

While few policy-makers will say this in public, it is clear that the U.S. economy looks reasonably healthy mostly because it is on Fed-administered monetary drugs. The current high stock market valuations are illusions. At some point this whole thing will fall apart. How fast and how dramatically, is anybody's guess.