

Tax Cuts Will Increase The U.S. National Debt To Unsustainable Levels

WASHINGTON – It is really hard to properly assess the Republican tax reform proposal now discussed in Congress. Many details have yet to be ironed out. Sure, in principle we can agree that a basic reform leading to a simplification of the almost incomprehensible U.S. Tax Code would be much better than the confusing morass we have now.

Lower corporate tax rates

We can also agree that a lower corporate tax rate would be good for American firms, in as much as lower rates would simply realign the U.S. with corporate tax rates prevailing now in most advanced countries. And, finally, limiting the interest deduction on home mortgages in excess of a certain amount is good. This deduction in practice is only a subsidy to wealthy home owners who get a nice “rebate” –a huge deduction based on the amount of interest they paid on their mortgages– when they borrow large sums of money to finance their mansions.

That said, in all the back and forth about potential winners and losers and possible –just possible– incentives that may be created by this new legislation that may end up boosting investments, economic activities and therefore overall growth, one major consequence of this new tax law is barely mentioned.

This is mostly a tax cut

Whichever way you look at it, this “tax reform” plan is mostly a tax cut that will end up cutting national revenue –by trillions of dollar, over several years. In turn, lower revenue caused by lower tax rates will force America, an

already highly indebted country, to go much deeper into debt in order to meet current and projected spending obligations. This is a horrible, totally undesirable outcome.

America is in deep fiscal trouble

In case you did not know, America is already in deep fiscal trouble. Lower revenues would simply make a bad situation much worse. Indeed, absent sorely needed federal spending reforms aimed at slimming down (read: reduce size, scope and cost) our gigantic, and financially unsustainable entitlement programs—Social Security, Medicare and Medicaid—this Republican tax reform plan will further deteriorate our horrible fiscal outlook, simply because an even greater revenue shortfall—without significant spending cuts to go along with it—will amount to larger deficits, year after year.

Absent spending reductions, it is obvious that future larger annual deficits can be financed only through additional public borrowing.

So, here is the net impact of these ill-advised tax cuts. When all is said and done, some Americans will see their federal tax bill cut, in small or large measure. And this will be good for them.

A much larger national debt

But, as a result of this “reform”, America will have a much bigger national debt. And this is a disaster, not in the shape of a sudden catastrophe; but in the shape of a sliding slope that will amount to diminished federal resources down the line, and consequently much more limited options for the Federal Government in domestic as well as international affairs.

Simply stated, a country with an enormous, and growing, debt burden will no longer be able to afford a large defense budget. Therefore, with a shrinking military at its command,

the U.S. President will have to “redefine down” the national interest.

Indeed, trying to cope with mountains of red ink, America will be no longer able to afford meaningful amounts of federal spending on international affairs, foreign aid, health research, sorely needed new infrastructure, space exploration, energy, and what not.

You get the picture. No money means scaled down domestic and global ambitions.

If we look at history, all Great Powers that went deeply into debt simply ceased to be Great Powers. (Check Spain, Portugal, France, Great Britain, the Russian Empire, and more).

No longer a Great Power

This should be obvious to all. But let me restate it anyway. America cannot be a debt ridden country concerned about the mounting financial cost of extravagant debt service obligations and still remain a Great Power. This is just impossible.

Great Powers are rich.

The foundation of any Great Power is the flexibility provided by huge economic resources that the Government can use to pursue its objectives. Sure enough, resources are often squandered in the pursuit of ill-advised enterprises.

However, in the case of highly indebted countries, with no real money to spend, the national leadership has few or no options. No option among other things means fewer and fewer power projection means, (read: reduced military spending), and reduced leverage in international negotiations. Simply stated, the World does not give much thought about a country that used to be rich and powerful but is no longer.

When will the world stop taking America seriously?

Since Uncle Sam's debt already topped the astronomic figure of \$ 20 trillion, how much farther can we go before the World stops taking America seriously? Nobody really knows. It is a matter of changing perceptions about the speed and the likely impact of America's fiscal deterioration.

Why do we hear almost nothing about this fiscal crisis?

Well, if the fiscal consequences of this impending tax cut are so dire, why do we hear only vague and somewhat muted comments about the fiscal impact of this tax "reform"? Very simple. Elected leaders do not like to be the bearers of bad news.

And the added complication is that it is really hard to explain in layman's terms the damaging effects of an impossibly large national debt. Voters cannot "touch" the national debt and realize that it is really bad for them. These enormous figures –\$ 20 trillion dollars of red ink, and climbing– seem to be abstractions.

The sky is not falling

Besides, if the sky has not fallen until now, why should it fall tomorrow if just added a little bit more to the debt? Can't we just muddle through, just as before? Whereas a tax cut is a tangible benefit. This is something that can be sold to the voters. The bigger the cut, the better. If this means reducing already insufficient revenue, therefore worsening an already dire fiscal outlook, so be it. Tax cuts may get you reelected. Reducing spending on unsustainable entitlement programs in the name of fiscal sanity, will not get you any votes.

Manafort Indictment Is Just The Beginning

WASHINGTON – Russia probe Special Counsel Robert Mueller indicted former Trump insider Paul Manafort and his associate Richard Gates in connection with his broad mandate to investigate alleged efforts on the part of Russian operatives to manipulate the 2016 elections. Mueller’s investigation is also supposed to provide conclusive evidence as to whether or not there was any “collusion” between Russian operatives and individuals working for the Trump campaign.

No Russia connection

Well, if you were expecting explosive developments coming out of these indictments, you will be disappointed. Manafort and Gates are accused of several serious financial and other crimes. But there is nothing in the indictment that alleges actions or conspiracies related to possible connections between Russia and the Trump campaign. Zero. Absolutely nothing.

Assuming that the charges can be proven in court, Manafort and Gates are two sleazy and clearly a bit too self-confident “Beltway Bandits” who sold their services to people close to then Ukrainian President Victor Yanucovych. Bear in mind that such an activity is not illegal.

Tax fraud and money laundering

What is illegal is to conceal the profits of such consulting activities, while also concealing the nature and full scope of the work done on behalf of a major foreign client.

In other words, even assuming that Manafort and Gates are guilty, (for the record, both of them pleaded “not guilty” when they appeared in front of a judge on Monday), they would

be guilty mostly of tax evasion and money laundering –serious offenses, no doubt; but completely disconnected from the main thrust of Mueller’s investigation about alleged collusion between the Trump Campaign and Russian operatives.

What is Mueller up to?

So, what do we make of this? First of all we should understand that this is by no means the end of Mueller’s investigation. At most, this is the end of the first act. We are still at the beginning of a long process.

If this is indeed so, then the money laundering and tax evasion charges against Manafort and Gates, apparently disconnected from the main thrust of the Russia inquiry, acquire a new flavor. If Special Counsel Mueller has reason to believe that Manafort knows something important about an alleged Trump-Russia collusion, then the indictment against him is in fact a form of heavy psychological pressure.

Pit pressure on the small fish

It is quite common for American prosecutors to go with full force against second or third tier players in a criminal investigation in order to force them to collaborate with them in exchange for leniency. Keep in mind that, if proven guilty, Manafort could go the jail for many years. If he fully cooperates with the authorities, his personal future becomes a lot brighter.

Is this Mueller’s game plan? Yes, it probably is.

A major investigative effort cannot end with Manafort

Indeed, it is most unlikely that Robert Mueller, a tough, seasoned law enforcement official, an experienced lawyer and a former FBI Director, assembled a large team of important lawyers and prosecutors just to investigate Paul Manafort –a questionable character whose crime seems to be that he tried

to hide a few millions of dollars (of legitimate earnings) from the IRS. Therefore, it cannot be that this is the end of the probe. It would be wise to stipulate that with this indictment Mueller is just getting started.

Will they find anything?

That said, this does not guarantee that Mueller, despite a serious effort to determine whether crimes were committed, will find anything. Investigating potential wrongdoing and actually finding any are two different things.

The Real Benefits of Healthy Motherhood

WASHINGTON – Mothers should spend a great of time with their new-born babies in the first 3 years of the baby's life, and especially during the first year. This is not about reasserting traditional societal norms and old-fashioned cultural values regarding the role of women as mothers. This is medical advice to new mothers, based on empirical scientific findings.

Why babies need their mothers

The evidence shows, and much research conducted over many years clearly illustrates this, that babies come into the world without a developed central nervous system. A great deal of data demonstrates that close contact with the mother supports a healthy development of the baby's neurological system.

How so? Because women transmit through their milk *oxytocin*, a

critically important neurotransmitter produced by women and not by men. In addition, the oxytocin produced by the mother, (oxytocin is also known as the "love hormone"), contributes to the creation of a special bond between baby and mother. This bond helps the healthy neurological development of the baby. And no, the day care center, assuming that working mothers have access to one, is not a good substitute for baby-mother bonding during the child's early years.

This is not about "traditional values"

So, here is the thing. The old-fashioned notion, in fact antiquated according to most, that women should be primarily good mothers and should spend a great of time with their babies, while embraced by those who support the "restoration" of traditional values and traditional families, has true scientific backing.

Of course, depending on the slant you put on this new medical research, this scientific finding could lead to very counterproductive advice to women. *"Based on science, it is clear that, if you want to have healthy children, you should devote yourself entirely to them. This means that you should give up any plans to have a full-time job and a real career. You cannot have both".*

How do we reconcile work and motherhood?

Well, it does not have to be this way. Still, it will be difficult to reconcile the need to have mothers spend a great of time with their new-born babies, (a lot of time in the first 9 months to a year, and then still quite a bit of time, until they reach age three), and the legitimate desire (in many cases it is a basic financial need) shared by millions of women all over the world to work and have fulfilling careers.

it is very clear that, especially here in America, working women who have children are already penalized by a system that in most cases does not even recognize the need for a few weeks

of maternal leave for new mothers. If employers are not even willing to give a few weeks of leave, how can you possibly expect that they will give an entire year, possibly three? The employers will argue that they could not possibly sustain the cost of keeping on payroll women who stay at home taking care of their babies, not just for a few months, but up to three years.

It is a societal issue

Well, this is where public education has to come into play. It is complicated; but it is possible. Here is the thing. As a society, do we care about the proper neurological and psychological development of the new generations? Yes or no?

The sensible answer should be a resounding “Yes”. Well, if so, as responsible members of our society, we must be willing to help cover the costs of extended maternal leave while babies are still in their infancy, and later on flex time for young mothers until the little children reach age three. (This is the age in which according to the findings mentioned above their central nervous system has been formed through the close bonding with their mothers. After age three the need to spend so much time with their mothers is no longer essential for their healthy neurological development).

The price of inaction

Will we ever get there? I hope so. New York psychoanalyst Erica Komisar in a long interview with *The Wall Street Journal*, (October 28-29, 2017), explains the consequences of inaction. She recounts stories described in the medical literature which list the damages that often occur when babies grow up without the precious bond with their mothers in the critical beginnings of their lives.

According to many studies, there is a plethora of psychological pathologies affecting small children, ranging from autism to attention deficit disorder to “social

disorders”, and difficulties relating to other children and adults. According to the science Komisar cites in the interview, all these dysfunctions, sometimes severe, can and should be avoided. We only have to make sure that mothers and new-born babies, thanks to the “love hormone”, can develop the special bond described above.

The burden cannot be placed on mothers

Again, it would be horribly unfair to place the entire burden of this new approach to motherhood on women and their spouses. In most instances, working women simply cannot afford to quit work, not to mention the huge penalty of getting out of the work force, this way missing opportunities for career advancement, salary increases and what not. We should not place women in front of the horrible dilemma of having jobs or children, but not both.

A child centric society

Therefore, it is up to us to embrace the concept of a “*child centric society*” , as Ms. Komisar puts it. This is our society. it should be our shared goal to have mostly psychologically healthy babies develop into healthy children, and later on healthy adults.

Think about it. It is not just about the babies and their parents. it is about all of us. Let’s think about a proper way in which we can allow babies to bond with their mothers, without in any way penalizing women who want and need to work. Through a shared effort we may be able to find a good solution that will allow working mothers to be away from work, without imposing an unsustainable burden on their employers.

Only Skilled Workers Will Make It In The Global Economy

WASHINGTON – We can argue that in America may be about half the work force is doing alright because it is positively connected to the fast-moving global economy. For them globalization is good. Most of them are “knowledge workers”. They design the sophisticated technologies which power global or globally connected businesses, or at least are familiar with them and know how to work productively with them.

Some do well, many do not

If they are in high-tech, renewable energy, complex global logistics, medical science and diagnostics, digital design, supply chains creation, management and sustainability these American workers are probably doing alright.

However, most of the others –those who perform low value, repetitive tasks or who are engaged in manual labor – are or will soon be at the bottom of the skills pyramid. Unfortunately this means that their jobs are not and cannot become stepping stones to future employment in more challenging and more rewarding sectors. In many cases, the jobs that involve repetitive tasks will probably be outsourced, or will disappear altogether, as victims of the relentless automation wave.

Lack of skills, lack of opportunity

If you belong to the bottom half of the “old economy”, your current position is bad and likely to get worse. If you do not have and cannot acquire the skills that give you dexterity with machines that work with numbers, (most likely because you had a poor education and therefore you do not know how to work with these systems), you have no career future. You are or will soon be pushed down into dead end manual labor jobs like

janitor, landscape worker, bus boy, or nursing home attendant.

The unlucky former manufacturing workers who lost their jobs due to globalization and automation are equally in bad shape. If they cannot be retrained so that they could aspire to the more sophisticated positions in new high-tech manufacturing or services, in most cases they will end up in one of those dead end, low paying occupations.

Getting the jobs back

Of course, when then candidate Donald Trump came along in 2016 arguing that the only reasons these fine factory workers lost their jobs is the greed of their corporate employers seeking easy profits by exporting jobs overseas, along with unfair trade competition from China, Germany, South Korea, Japan, Mexico and everybody else, these displaced workers were eager to listen. And they were willing to believe that, indeed, all it takes to restore their old manufacturing jobs, (with all the perks and benefits), is a new President who really wants to help the little guy by turning things around in Washington.

Yes, they believed that a President can reverse the negative impact of globalization. Yes, he can force U.S. companies to stay at home and hire more American workers. Yes, he can re-negotiate unfair trade deals, so that the avalanche of cheap imports will stop, while American companies will find new markets abroad.

A nice dream

This is unfortunately only a nice dream. No, no President, however well-intentioned, can stop, let alone reverse, globalization. Yes, he can strong arm corporations in order to slow down or stop the outsourcing process. But this is no long term solution.

In the end, American companies will succeed only if they can be and stay competitive. Forcing them to keep expensive or

money-losing operations in America, so that workers can collect a pay check, while their nimble foreign competitors conquer markets leads only to eventual economic decline.

The way out

So, what is the proper way of addressing this crisis brought about by the competition of cheap labor (mostly from Asia) and the relentless march of automation?

The only way is for the unskilled to become skilled.

Those who are not employable today because they lack the knowledge and the basic understanding of how the high-tech knowledge economy works need to get those skills. And fast. Those who do not, are left behind. For them there is no upward mobility, no career ladder.

The old adage that "hard work" is the key ingredient to success in America is no longer valid. Yes, diligence and discipline still matter. But only when accompanied by the sophisticated knowledge that allows mastery of complex systems.

How is France doing?

Well, if this is the rather gloomy picture for millions of Americans who may have missed the bus leading to the global economy, what about elsewhere? What about France, for instance?

France recently embarked in a an incredibly ambitious political experiment. The French voters ditched the established political parties, of the left and the right, and elected President the young and completely untested Emmanuel Macron. And the reason is that this investment banker turned politician, promised nothing less than economic renaissance.

While he phrased his campaign slogans differently, he promised the same end results promised by candidate and now President

Donald Trump: a complete bottom-up economic transformation.

Newly elected French President Emmanuel Macron claims that his policies will kick-start France into high gear. This rather old and unimaginative country will become a "Start-Up Nation". As a result of fresh pro-growth policies, there will be a fresh crop of entrepreneurs and innovators.

Reform labor laws

Well, in principle this is possible. However, how do you make this happen? One good place to start is by reforming the antiquated French labor market. France is still prisoner of the old, pro-union leftist agenda which is all about the protection of workers rights. Nothing wrong with that, in principle.

The problem is however that by focusing on the protection of those who are employed, French labor laws make it much harder for employers to hire new workers. Indeed, when a new worker is hired, given all the protections he/she is entitled to, it becomes almost impossible or at least extremely costly to dismiss him/her when business is down.

In other words, by offering maximum protection to employed workers, French labor laws made sure that fewer workers would be hired, even in good times. In addition, the perks and benefits going by law to employees made French labor costs too high, this way making French companies less competitive in the global market place.

Bite the bullet

It seems that President Macron is willing to bite this bullet. His government wants to tackle labor laws reform.

But here is the political and psychological problem. Even if well designed and skillfully implemented, labor law reforms will threaten the job security of existing workers before they

will be able to broaden the labor market, therefore offering new opportunities to those who cannot get into it today. Which is to say that there will be pain first (guaranteed), and (possible, hoped for) gains later.

Can Macron convince France?

Can President Macron convince the French people that he can manage this complicated process well? Can he convince workers who may lose their jobs now, on account of more flexible labor laws, that in the future, given greater overall flexibility, more appealing jobs will sprout across the nation, this way creating brighter prospects for millions of old and new workers? This is going to be a tough sale.

In the end, it is obvious that a brittle French jobs market will not help advance Macron's vision of France as a "Start-Up Nation". Economic renaissance is very appealing until voters realize that change may entail threats to their current security. I am a bit pessimistic about the depth of France's newly discovered enthusiasm for enterprise and innovation, once the French realize that this hoped for transformation is not pain free.

I doubt that Macron will have the ability to convince most of the country that a more fluid society with fewer protections is also a more flexible society that creates more opportunities. No doubt most French would like to see more competitive companies and more jobs created. But those who are employed now do not want to lose whatever job security they have.

The challenge

As noted above, even here in America, until not too long ago the quintessential "Start-Up Nation", in many sectors of our society and economy we are failing to live up to the old and time-tested "can do" spirit of flexibility and quick adaptation to new circumstances.

We failed to build the education, vocational training and retraining structures that would have allowed millions of workers to have a relatively smooth transition from old-fashioned, large scale manufacturing to a new, complex and more demanding knowledge economy.

Can an even more ossified France do a better job? Can a young, optimistic President Macron inject a new vigor into a declining economy?

Time will tell.

[Will Washington Give Arms To Ukraine?](#)

WASHINGTON – Back in February 2014, right after a popular rebellion ousted pro-Russian President Viktor Yanucovych, this way taking over political control in Kiev, the then Obama administration was long on promises of aid and support; but very short on delivering almost anything of real value to the new supposedly pro-American and pro-European Ukrainian government.

Economic basket case

On the economic front, Ukraine was then (and still is today, by the way) a virtual basket case: an impoverished, non competitive, underperforming economy, poisoned by systemic corruption. On the military side, whatever your political preference on who is to blame for the ongoing fighting between government forces and pro-Moscow ethnic Russians in Eastern

Ukraine, back in 2015 it became obvious that Washington was not going to support the new anti-Russian Kiev government in any meaningful way.

Non lethal military aid

President Obama offered some non lethal equipment, (such as radar, night vision goggles), MREs, (military food rations), blankets, uniforms, and socks, (yes, socks), to the Ukrainian army –but no real weapons.

New Trump approach?

Now, with Trump in the White House, most recently the noises have been changing. It is no accident that U.S. Secretary of Defense Mattis recently made a high-profile visit to Kiev on that country's Independence Day. During public celebrations which included a military parade, Mattis stood at the side of Ukrainian President Petro Poroshenko. Mattis trip to Kiev followed another important visit to Ukraine by Secretary of State Rex Tillerson in July.

In public remarks in Kiev Mattis stated that the Pentagon is reviewing options that could include supplying real weapons to Ukraine; including anti-tank Javelin missiles, and possibly anti-aircraft missiles.

Of course, Mattis insisted that this American hardware –assuming a US Government decision to send it to Kiev– falls under the category of defensive weapons. America's stated goal –again, assuming a green light on this– would be to give Ukraine the tools to defend itself from Russian attempts to unilaterally change borders in the East.

Mattis justified any possible U.S. policy shift regarding weapons sales to Ukraine by pointing out that Russia is not living up to its commitments under the Minsk agreements aimed at solving through peaceful means all issues related to the future of ethnic Russians in Eastern Ukraine.

Policy shift

Well, should these supplies of U.S. weapons to Ukraine actually take place, this would indicate a major policy shift from the “do nothing” Obama years. For several years, Obama’s deeds (forget his speeches in support of Ukraine) indicated that America would not get involved, even indirectly, in any conflict involving Russia in Eastern Ukraine, a region with deep historic, ethnic and religious ties to the Russian state. With Obama in the White House, Ukrainian President Petro Poroshenko realized that he was on his own.

Now Donald Trump is President. So, a new more muscular approach to Ukraine in Washington vis-a-vis Russia? We shall see. Despite what Secretary Mattis just said in Kiev, I am inclined to believe that the Trump administration does not want America enmeshed, even if indirectly, in yet another, almost impossible and probably endless conflict, far from home.

A crowded national security agenda

Let’s look at the long “to do” list for the U.S. military, when it comes to hot spots. Washington is and will be engaged in the Middle East, (Iraq and to a lesser extent Syria) for quite some time. The President just announced a more muscular and open-ended policy towards Afghanistan, with the stated goals of defeating the Taliban insurrection. And then you have creeping and potentially explosive crises with North Korea, Iran, and may be with China on the South China Sea. Based on recent Washington moves and public pronouncements, we may also have to add Venezuela to this already long and challenging national security agenda.

Does Washington want to add an insoluble conflict in Eastern Ukraine to the headaches list, while cash strapped America has a hard time keeping up with existing and potential commitments? I do not think so.

Will NAFTA Be Fixed?

WASHINGTON – It is not a bad idea to look at ways to improve NAFTA, the Free Trade Agreement linking Canada, the U.S.A. and Mexico that came into force in 1994. Back then, we had a different world. The Internet was just beginning to blossom; the on line giant Amazon did not exist, and Apple's future was uncertain. Energy production and possible new cross border investments within North America did not even remotely resemble what we have now. Think of the incredible shale oil and gas revolution in the U.S., large scale oil extracted in Canada from oil sands in Alberta, and then exported to the United States, and the recent liberalization of the energy sector decided upon by Mexico, simply because they are shipped from Mexico.

Make it better?

What is not entirely clear at this early stage in the process is the spirit animating the American negotiators. As a presidential candidate, Donald Trump argued that NAFTA is a horrible arrangement that hurt the U.S. economy and workers, a key item within a long list of fatally flawed trade agreements.

So here is the question. Is the goal here to improve NAFTA or to try to kill it? We shall soon find out.

Key issues

Among the many issues that will be addressed by the U.S., Mexican and Canadian negotiators, "rules of origin", "dispute resolution" and "government procurement" stand out.

Rules of origin

In order to qualify for the NAFTA free trade preference, (this means no customs duties within the free trade area), goods coming into the United States –say from Mexico– must qualify as “made in Mexico”. For example, they cannot be sneakers or T-shirts made in China, exported to Mexico and then re-exported tariff free to the U.S.A., pretending that they are made in Mexico.

However, in this global economy sustained by global supply chains, how does one establish clear rules aimed at determining the origin of complex products? Think for a moment of automobiles assembled in Mexico. Almost by definition they contain many foreign made parts –parts not originating from other NAFTA countries.

Well, here is the question. What is the limit of foreign (non NAFTA) made components (in terms of value of the components, and in terms of overall percentage of parts) beyond which the car assembled in Mexico no longer qualifies as “originating in Mexico” and therefore not qualifying for the NAFTA preference?

How strict?

How high do you set the bar? Is a car with 30% non NAFTA components still qualifying for tariff-free NAFTA status? Or can the NAFTA negotiators be more lenient and set the bar at 40%? This is a big deal.

More or less stringent rules of origin will affect established trade relations with a global web of suppliers. No wonder the Japanese are following the NAFTA renegotiation issue very closely. The Japanese brands assemble cars in Mexico. Ostensibly those cars are “made in Mexico” and so they can be exported to America customs free, as they benefit from the NAFTA trade preference.

Components made in Japan

But here is the thing. Everybody knows that these cars contain

a large amount of components made in Japan. If adopted by the three partners, more stringent NAFTA rules of origin will inevitably disrupt established supply chains created by the Japanese brands to export components that end up in cars that until today met the minimum NAFTA origin criteria to be considered as "made in Mexico".

So, here is the issue that will affect the negotiations. America wants much stricter rules of origin, because it does not want what the U.S. considers to be essentially Japanese cars, disguised as "made in Mexico", to come into the USA tariff free, (because of the NAFTA preference),

Can a compromise be reached regarding what percentage of a finished product must be made of components made in Mexico, Canada or the U.S.A. in order to give this product "NAFTA origin"?

Dispute resolution provisions

The Americans also do not like the "dispute resolution" mechanism included in the original NAFTA Treaty. Many in the U.S. look at it as a binding arbitration process which amounts to an infringement of US sovereignty. Americans do not like to be bound by a process whereby non-U.S. judicial bodies decide the outcome of trade disputes. The other two NAFTA countries would like to preserve this dispute resolution mechanism. Is compromise possible?

Public procurement

Public procurement is another sticky issue. The three countries would like to have free and equal access to public procurement bids (think of government contracts which may include IT services, or infrastructure projects) put out by their NAFTA partners. Except when they do not.

Especially with President Trump pushing for an "America First" general approach on all trade and non trade issues, when it

comes to public procurement, Washington wants to privilege U.S. companies through “Buy American” policies.

And this would include all or most government contracts. This is obviously against the spirit of wide open procurement with a bidding process open to all firms within NAFTA.

Uncertain outcome

In the final analysis, all these are very complex and technical issues –on a good day. If the parties are willing to compromise, there is an opportunity to improve NAFTA.

But if there is a negative bias against NAFTA, it is relatively easy to tear apart this free trade area linking the 3 economies of North America.

Is There A Democratic Party Policy Agenda?

WASHINGTON – If you watch most of the cable news channels these days you get a steady diet of endless, in fact almost obsessive, commentary on what President Donald Trump said or twitted today, and what the seasoned analysts around the table think about it.

Endless coverage

As President Trump relishes being unconventional and breaking

all the established “Washington rules”, plenty for the experts to talk about. Fine. Except that this –Trump– is all they talk about. Which is to say that if you watch CNN or MSNBC what passes as “the news” is the endless effort to score the latest Trump outrageous tweet. And as different talk shows follow each other on the same cable news channel, the new anchor picks up exactly where his/her colleague left it and repeats the very same tweet of the day, and asks a different panel of supposedly savvy experts what we should make of it. The variations in all this are limited to the degree of (feigned I believe) amazement and/or outrage.

Again, this is not happening on occasion. This is now the standard offering throughout the 24/7 news cycle. Look, I do understand that the media has a duty to report on what the President of the United States says or tweets. And certainly, since Mr. Trump enjoys being unconventional and controversial, his statements give fodder for talk shows.

Is there a Democratic Party agenda?

Still, my point here is that there is practically nothing else in the news. The one thing that is missing, probably because it does not really exist, is a thoughtful alternative policy agenda coming from the Democratic Party. Cable news shows do not report on it because most likely there is nothing to report.

And this is truly astonishing. We have an entire news media apparatus supported by scores of pundits who keep telling us that we have a strange President sitting in the White House who says and occasionally does unpredictable things, while the Republican majority in Congress is in (terminal?) disarray. And yet no alternative vision to this (apparently) unsatisfactory state of affairs is presented by the Democrats and discussed by the media.

Sit back and watch the Republican Party implosion

Are we to conclude that the Democratic Party strategy is just to sit back and watch the hoped for Trump implosion and the eventual dissolution of a Republican Party torn apart by incurable internal ideological battles? This may be a clever tactical approach.

But this is not a strategy for a national political force aspiring to govern the United States of America. Let us not forget that the Democratic Party in 2016 lost its momentum and ability to connect with millions of voters. It lost the White House to a complete outsider with zero political or campaign experience, and it failed to regain control of the Senate even though the odds favored it. Some party!

No compelling message in 2016

In 2016 the Democrats best hope was Hillary Clinton, a shop worn, uninspiring candidate who represented a retread of the tired Clinton Brand. And, notwithstanding the Clinton machine open effort to game the system via the guaranteed support of the super delegates at the Democratic Party Convention, Clinton had to fight until the end against Bernie Sanders, a feisty old socialist whose astonishingly outdated policy agenda was all about redistributing (ill gotten) wealth accumulated by the demonized 1% in a more equitable way. That's all the Democrats had to offer: Clinton and Sanders.

What's the alternative?

Today, precisely because the Republican Party policy program seems confused and confusing, the American voters need to hear about a credible and thoughtful Democratic Party alternative agenda. It is OK for the late night comedy shows to use the latest Trump outrage as material for their jokes. This is fine. Political satire is healthy in a vibrant democracy.

Show America how the Democrats will govern

But the news media should stop this obsessive Donald Trump

saturation coverage, while the Democratic opposition, instead of relishing the Republicans' self-inflicted wounds, should rise to the occasion and offer a new and inspiring vision on how they intend to govern America.

As of now, I have seen none of that. And the reason for this, I suspect, is that the Democrats do not have anything new to say. And this is sad. A healthy republic needs a healthy debate on policy alternatives. Right now we have mostly noise.

America Needs Ballistic Missiles Defenses

WASHINGTON – The news of North Korea's successful test of an Intercontinental Ballistic Missile, (ICBM), a missile that could theoretically hit the United States mainland is bad enough. But it gets much worse when combined with a just released assessment compiled by U.S. intelligence stating that North Korea may have also mastered the ability to miniaturize a nuclear warhead so that it can be fitted on the tip of its new ICBMs. Taken together, all this means that North Korea could soon have the capability to launch a nuclear armed intercontinental missile that could reach Seattle, Minneapolis, even Chicago or New York City. A very unpleasant prospect, given the paranoid leanings of North Korea's leader Kim Jong-un.

No defenses

But it gets worse. These unexpected developments from North Korea reminded all Washington policy-makers that America does

not have real defenses against missile attacks. Yes, you got it right. America lacks meaningful defensive systems capable of neutralizing even a small scale missile attack originating from a third rate rogue state like North Korea. In simple language: we cannot be assured that we can shoot down and incoming missile before it hits America.

Yes, believe it or not, America has essentially no missile defenses. To be precise, America has some systems. But they are rudimentary and probably not accurate.

Regarding a possible nuclear attack from the Soviet Union, (later on Russia) or China, Washington relied and relies on its massive nuclear deterrent, that is on the power of dissuasion embedded in a guaranteed retaliatory strike against an attacker. Which is to say that deterrence –a credible threat of massive retaliation against an attacker– is in essence our only protection.

Deterrence

The conventional wisdom has been and still is that no “rational” foreign leadership would consider attacking the United States with nuclear weapons, knowing that the U.S., even if mostly destroyed, would still retain a lethal retaliatory force consisting of many nuclear missiles carried by its fleet of submarines. No “rational actor” would attack America knowing in advance that America, even if mortally wounded, would retain the capability to inflict intolerable damage on the attacker.

That said, deterrence applies only to “rational actors”. However, when North Korea and soon enough Iran will have nuclear weapons and ICBMs to deliver them on target, we enter a completely new dimension. A dimension we are currently not prepared for. These are not “rational actors”. Therefore deterrence may not apply to them.

The Strategic Defense Initiative

So, what do we do? Well, a few years ago the U.S. Government articulated a revolutionary "Grand Plan" aimed at neutralizing not just some, but all nuclear weapons. Way back in the 1980s, then President Ronald Reagan was sold on the idea that we could render all nuclear weapons "impotent and obsolete" by developing a variety of anti-missile systems which could hit incoming ICBMs before their warheads could reach their targets on U.S. territory.

Reagan's Strategic Defense Initiative, (SDI) –the Pentagon program created with the objective of developing the necessary anti-ballistic missiles technologies and weapons systems– was launched with much fanfare and a great deal of hype.

President Reagan promised that U.S. technological prowess soon enough would allow America to deploy layers of fully functioning systems able to protect America from any nuclear attack by hitting missiles and warheads before they could reach their targets on U.S. soil. These systems would render all nuclear weapons "impotent and obsolete". No point in developing nuclear weapons if they could be destroyed before they could be detonated.

It did not work

But SDI did not work out as advertised. The technological challenges were and still are immense. The task of hitting literally thousands of small targets traveling at fantastic speed, with absolute accuracy, seemed too daunting. After Reagan left the political scene in January 1989, Washington's focus shifted elsewhere.

Nonetheless America kept investing, albeit only modestly, in new anti-ballistic missiles technologies that could deliver effective systems down the line. Following this trend, at the beginning of his new administration, (January 2001), President George W. Bush made ballistic defense one of his national security priorities.

Renewed efforts in the new millennium

With the objective of pursuing more modern systems, the Bush administration in 2002 decided to withdraw from the Anti-Ballistic Missile (ABM) Treaty that the U.S. had signed with the Soviet Union in 1972, (and still enforced by the Russian Federation). By withdrawing from the ABM Treaty, an agreement which limited the numbers and types of anti-ballistic missiles that both the USSR and the US could deploy, Washington gained the latitude to test and eventually deploy new systems in line with the goals set forth by the National Missile Defense Act.

Unfortunately, 9/11 and its aftermath dramatically changed American national security priorities. Because of the two long and costly wars, first in Afghanistan and then Iraq, the Bush administration did not devote meaningful resources to its anti-ballistic missiles programs.

Insufficient resources

The Obama administration which followed 8 years of Bush in January 2009 certainly did not recognize the urgency of this defensive program. It funded some work on anti-ballistic missile systems, but only very modestly in the ensuing 8 years.

As a result today, as we face an increasingly real North Korean nuclear threat, we have almost nothing in place to defend America against incoming nuclear armed missiles. As indicated above, we have some systems. But they are small in terms of the number of deployed interceptors, and not necessarily accurate. Therefore they are unreliable.

No military or diplomatic solution

As many have already concluded, there are no good options when it comes to eliminating the North Korean nuclear threat through military means. Attacking North Korea's missile sites and other facilities connected with its nuclear programs,

while possible, most likely would trigger a general conflagration in the Korean peninsula, with the almost inevitable direct involvement of South Korea, China, and possibly Japan.

Non military solutions do not exist. Diplomacy will not convince Kim Jong-un to scrap its nuclear program, simply because this is the only asset he has that gives him international standing. Without nuclear weapons North Korea is just a grotesque aberration: an impoverished police state run by a crazy despot.

The recent new round of UN sanctions imposed against North Korea, should not create false hopes. The Security Council unanimous vote has been applauded because it may lead us to believe that China is finally coming to our side. But it is not so.

China will not help

As long as China keeps the North Korean economy and state above water –and there is no sign that Beijing will cut all economic ties with its old ally– North Korea will continue to have the financial and technical means to continue its nuclear weapons programs. Therefore, do not count on more UN sanctions as the tool that will make this emerging nuclear threat against America and its allies go away.

Redouble our efforts

All in all, even recognizing that Washington wasted at least 10 years doing almost nothing when it comes to creating defensive systems against nuclear armed ballistic missiles, now is the time to redouble our efforts and invest in state of the art interceptors and other devices that some day will neutralize the threat posed by rogue nuclear states.

OPEC Defeated By US Shale Oil?

WASHINGTON – It seems that American shale oil producers, an assorted group of small and medium-sized firms which gained strength in the last decade and are now operating in many states, have become the swing producers in a position to influence global oil prices. How did that happen?

Cutting costs

U.S. shale oil production is relatively new. At the beginning of the “shale revolution” the cost of extracting oil from shale formations was quite high. But now they have come down significantly, mostly because of aggressive cost cutting measures adopted in response to OPEC imposed low prices. (More on this below). On account of this incredibly fast makeover, today a large number of the shale companies, especially those operating in West Texas, are profitable even with oil well below \$ 50 per barrel.

Most interestingly, shale oil producers now have the ability to ramp production up and down with relative ease, this way adjusting to global market conditions, without causing major disruptions to their operations. They can increase output when prices are higher and cut back when prices are too low. Conventional oil producers do not have this option.

With crude around \$ 50 per barrel, it is good news to have a substantial number of U.S. based oil producers supplying the domestic market, while making a profit even in this new era of low prices. This is a big plus for the American energy sector, and for all American consumers of energy products.

OPEC reactions

With good cause, OPEC saw the spectacular increase of U.S. production caused by the large scale exploitation of abundant shale oil reserves (an additional 4 million barrels a day in just a few years) as a threat to its market dominance.

Hence a very simple strategy aimed at eliminating the American shale oil threat. The plan was to deliberately over produce, this way causing a global glut and consequently falling oil prices. The bet was that a long stretch of low prices would kill the U.S. high cost shale newcomers who –according to all analysts– could not survive with oil below \$ 60 per barrel.

After having eliminated the U.S. menace, OPEC would go back to business as usual, reaffirming its position as the oil cartel which alone has the power to dictate prices by manipulating supply.

The strategy failed

But it did not work out this way. Not by a long shot. And this is because the U.S. shale producers, surprising everybody, managed to quickly adopt major technological improvements which increased well productivity, while aggressively cutting other production costs, this way staying profitable even with oil below \$ 50 per barrel.

All in all, the Saudi/OPEC plan failed. While several marginal U.S. shale producers could not make the adjustments fast enough and went bankrupt, most of the shale sector survived the OPEC imposed squeeze on profits.

The high cost of low prices

In the meantime, the extended period of low prices hurt OPEC producers very badly. They saw their precious oil based revenue dwindle rather dramatically. It soon became clear that most OPEC countries could not sustain an extended period of

low prices.

Therefore, led by Saudi Arabia, the OPEC cartel, (this time working in concert with non OPEC Russia), tried to change strategy and jack up prices by cutting production, this way eliminating the oil glut they had created.

But this new approach is also failing. As oil prices go up on account of OPEC/Russia production cuts, the U.S. shale companies ramped up production, this way offsetting the OPEC/Russia cuts. As OPEC imposes cuts on its members, the U.S. shale sector produces more, while Saudi Arabia is denied the revenue gains that should have resulted from production cuts. So, the OPEC strategy aimed at eliminating the U.S. shale threat to its market dominance did not work.

Loss of precious revenue

That said, the sustained "attack" against US shale has been horribly expensive for the OPEC cartel members. Years of low prices hurt major Middle Eastern oil producers, (not to mention Nigeria and Venezuela, and non OPEC Russia, among others), in a significant way.

Most of these countries rely heavily on oil revenues to finance all or most public spending. Many of them had adopted national spending programs and budgets which assumed oil prices at \$ 90, or \$ 80 per barrel.

This means that all of them are facing fiscal problems or outright crises. Lacking oil revenue in the expected amounts, they have to cut spending and borrow more in international financial markets. But this is not an easy adjustment.

For example, in Saudi Arabia major spending cuts caused by declining oil revenue could lead to unprecedented political problems down the line. Almost the entire Saudi population depends one way or the other on direct or indirect government subsidies funded entirely via the oil revenue.

Reforms will take time

We know that the Saudi Monarchy is now openly committed to a major economic and fiscal transformation which will (hopefully) reduce and eventually eliminate all state subsidies, while promoting plans aimed at diversifying the economy. But, even in the best of circumstances, this is going to be a long journey. Cutting government largesse too much too soon could be politically dangerous.

Bottom line; U.S. shale wins; OPEC cartel and its new allies lose.

US Enacted Sanctions Against Russia

WASHINGTON – It should not come as a surprise that Russian President Vladimir Putin decided to retaliate in kind, after the US Congress passed a bill (subsequently signed into law by President Trump) that includes tough economic sanctions against Russia, as retribution for Russia's alleged interference in the US 2016 elections, and for unrelated issues pertaining to its meddling in Ukraine and more.

Punish Russia

Back in 2016, then US President Barack Obama ordered punitive measures against Russian diplomats stationed in the USA based on US intelligence findings that Russia had actively attempted to interfere in the U.S. elections via hacking and other cyber

attacks. The sanctions included the expulsion of a number of Russian diplomats. These sanctions were included in a presidential directive issued by Obama. As such they could have been rescinded by the new president. But now the tougher sanctions have been enacted by the Congress and therefore President Trump will not be able to eliminate them or modify them unilaterally.

Putin's reaction

After the US Congress passed this law containing sanctions, by a huge margin in both houses, Putin decided to get even, as he realized that these are "veto proof" majorities. In other words, even if he wanted to, a more conciliatory President Trump could not have blocked this legislation.

Putin's objective seems to get even. In order to bring the number of US diplomatic personnel in Russia down to the same level of what Russia is allowed to have in the United States, (455), 755 American diplomats will have to leave Russia. This is a major cut.

Impact

Will this move affect Washington Moscow based diplomats' ability to engage Russia in a meaningful way? Probably yes, even though it is not clear at this time which sectors of the bilateral relationship will be mostly affected by these significant cuts.

Most of all, this sequence of tough actions and counter actions indicates that US – Russia relations are in very bad shape, without any signs of improvements.

No Ambassador

To make things worse, keep in mind that the U.S. currently has no Ambassador in Moscow. Former Utah Governor and now Chairman of the Atlantic Council Jon Huntsman has been nominated by

President Trump to fill that post, but he has not yet been confirmed by the Senate.

Once confirmed, will Huntsman, an astute businessman who also served as U.S. Ambassador to China, be able to help turn things around? There are at least some areas in which Washington and Moscow can find common ground. At some point, there will have to be some kind of agreement on the future of Syria. There is also an opportunity to convince Russia that it is not to its ultimate advantage to be on the same side of Iran in the Middle East.

Common front on North Korea?

And finally there is the looming threat of North Korea's long-range ballistic missiles, soon to be armed with nuclear warheads. North Korea's threat is clearly aimed at the USA and its allies, South Korea and Japan. But Russia cannot be too happy with the idea of an unstable regime capable of launching nuclear armed Intercontinental Ballistic Missiles, (ICBMs) at its door step.

The Russia probe cloud

That said, for the bilateral relations climate to improve, the whole "Russia probe" now led by former FBI Director Robert Mueller must be concluded in Washington. Indeed, whatever the outcome of Mueller's investigations, only after he is done it will be possible to go back to a "normal" dialogue between Moscow and Washington.

That said, in the end, both sides must know that there is nothing to be gained when the two most important nuclear powers on earth do not engage with each other. Nuclear war between Russia and America is a very, very remote possibility. But such a possibility may be increased by misunderstandings and misperceptions.

Notwithstanding the sharp differences between the two

countries, open lines of communication are an essential tool that will help prevent fatal errors. And both sides should know that they need competent diplomats in each other's capitals to keep those lines open.