

# 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 societies 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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## 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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## Can Clinton Unify Left And Center Against Trump?

**WASHINGTON** – Hillary Clinton’s performance at the Democratic National convention in Philadelphia was “mission impossible”. Now the anointed presidential candidate of a Democratic Party that has once more moved decidedly to the left, Clinton needs to patch together the centrist base and the noisy far left Sanders’ crowds.

### **A progressive and a centrist**

Clinton’s objective was to reintroduce herself to America as a progressive, (wink to Sanders’ people), but also as a reliable, pragmatic unifier (wink to the center, and hopefully some Republicans), who can get things done.

Still, too many conflicting messages were packed in her speech: continuity with the Obama policies which she called very successful; and at the same time a strong indictment of injustice, enduring racism, and widening inequality in

America, all of which apparently did not diminish during the 8 long Obama years.

So, her speech gave good marks to Obama's progressive agenda, and at the same time bad marks to Obama's America for being so far behind in implementing a true progressive agenda, this way causing misery and suffering among the under privileged. A clear contradiction here. Is she proposing continuity or disruption?

### **Appeal to the middle**

At the same time, Clinton wanted to appeal to middle of the road Republicans truly worried about the possibility of a Trump victory. However, she also had to shore up her now left leaning Democratic Party base by endorsing the essence, if not the details, of the Bernie Sanders far left economic agenda.

### **Something for everybody**

So here are the ingredients of this political and policy stew: Clinton is the candidate who stands for continuity and disruption. She is with both the far left and the center, and may be some conservatives. And, mind you, this convoluted message is coming from an aged, quintessentially establishment, professional politician with extremely high negatives. Many voters will simply not buy this catch all "agenda".

### **Stronger Together?**

Supposedly, the magic glue that would unite all these diverse and in fact mutually exclusive themes is the "Stronger Together" slogan adopted by the Clinton campaign. In her acceptance speech Clinton tried to paint a picture of how her administration would operate. She would get everybody to work together—congressional Democrats and Republicans, disgruntled Republicans longing for centrist policies, and Bernie Sanders' "revolutionaries" who want radical economic and societal

transformation.

Nice idea, may be inspiring for some; but hardly the articulation of a clear and compelling policy program.

### **A leftist agenda**

In fact, her speech was rich in anecdotes and vignettes but thin on policy details. To the extent that there were any, they show a Democratic Party that has moved to the left, in fact the far left. Indeed, Hillary Clinton now looks very much like a female George McGovern leading a leftists party that may have lost its connection with America's more centrist middle.

***In her speech, there was absolutely nothing about reducing the national debt, the need to have common sense entitlement reform, or enacting pro-business tax reform. So, nothing on fiscal responsibility and measures leading to the promotion of higher economic growth.***

On the contrary, plenty on more money for an expanded Social Security system, free college for everybody, and higher taxes for the rich to pay for all this. Lace that with full legalization of illegal immigrants and syrupy stuff about "Love Trumps Hate" and you get a Europe-style Socialist-lite agenda big on income redistribution, economic equality, fiscally irresponsible and instinctively pacifist.

This is quite frankly the Sanders agenda.

### **Just tactics?**

Was Clinton just paying lip service to the themes loved by the party left in her speech simply because she had no choice? The truth may be that she had to endorse the Sanders agenda, because she did not want to be heckled by his supporters who filled the convention venue, and because she fully realizes that she is now the presidential candidate of a Democratic

Party where socialist leaning ideas have become core beliefs.

### **Tough road ahead**

While Clinton will get the usual “post-convention bump” in the upcoming polls, for the moment Trump, notwithstanding his boisterous style and open disunity within his own party, is doing quite well in the polls.

### **Unpredictable Trump**

No matter what he said about dumping NATO allies who do not spend enough on defense and inviting Russia to disclose hacked Clinton e-mails, Trump is surprisingly competitive in all the critical swing states. Is this a reflection of his strength, or a clear sign that Clinton is even more unpopular than we thought? Probably the latter.

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## **Will Tim Kaine Help Hillary Clinton Get Elected?**

**WASHINGTON** – Hillary Clinton, about to be nominated presidential candidate for the Democratic Party, just veered back to the political center. By picking moderate Tim Kaine, Senator from Virginia and former Governor of the State, as her choice for Vice President Hillary Clinton wants to reassure

middle America –independent voters in particular. No, a Hillary Clinton administration will not be hostage to the far left of Senators Bernie Sanders and Elizabeth Warren. Senator Kaine, her pick for VP, is a solid centrist.

## **Experience**

But there is more. Kaine is also an experienced public servant. He served as Mayor of Richmond, later on Lieutenant Governor, then Governor of Virginia, and now Senator from the state. (By the way, Virginia is a very important state that the Democrats *must win* in order to get Clinton into the White House).

When it comes to policy positions, Kaine could not be more different from Vermont Senator Bernie Sanders, the self-declared Socialist who turned out to be a formidable challenger for Clinton during the primaries.

Most fundamentally, based on this resume, Kaine knows a great deal about government. Therefore, here is the larger, reassuring message to America coming from the Clinton campaign: the Clinton-Kaine ticket will be about experience, reliability, good judgement, and proven ability to govern: *“Don’t be crazy, America. Do not allow a mercurial and totally inexperienced Trump into the White House. The Clinton-Kaine ticket offers you a far better choice: steady hands on the wheel”*.

## **Kaine will speak in Spanish to Latino voters**

Besides, Kaine speaks fluent Spanish, a significant asset. (As a young man he served as a volunteer in Honduras). It will be a huge advantage for Clinton to have a running mate who can speak in Spanish to increasingly important Latino voters. Indeed, given the changed U.S. demographics, it is clear that it is almost impossible to get elected president of the United States without getting a majority, or at least a significant minority of the Latino population.

(With his harsh anti-immigrant rhetoric and promises to build a wall on the southern border with Mexico, Donald Trump has managed to burn all the bridges with this significant and growing Latino constituency).

### **Sanders endorsed Clinton**

We know that Senator Bernie Sanders recently endorsed Hillary Clinton. This gesture from Clinton's feisty (and surprisingly popular) primaries opponent, albeit a little late, was expected. But will this endorsement from the chief representative of the party left recreate real, as opposed to cosmetic, party unity? Many Sanders supporters clearly do not like Clinton, and they will like even less her choice of (boring?) centrist Kaine as her running mate.

### **Problems on the left**

*Down the line this may be a serious problem when it comes to real party unity and the ability to get all Democrats, whatever their ideological leanings, to really show up and vote for Clinton on election day in November. The problem for Clinton is that at least some hard-core Sanders supporters –those who really believed the old Vermont Senator when he was calling himself leader of a revolutionary movement aimed at radically transforming American politics– will not follow their leader's endorsement of Hillary Clinton, the quintessential establishment politician who in their eyes symbolizes corruption and collusion with Wall Street.*

### **Sanders' supporters will not like Kaine as VP**

And now, with Clinton signaling a move back to the center with the selection of Kaine as VP candidate, it is possible that many of these leftists Democratic voters who wanted Sanders to be the party nominee may stay home, come November. Indeed, various polls indicate that may be up to 1/3 of those enthusiasts for radical change who voted for Sanders in the primaries will not vote for Clinton in the general election.

These polls of course are only indicative. Election Day is still a few months away. A lot can change between now and November.

Still, for the moment, Sanders' endorsement is a plus for Clinton. It formally ended the political rift that had become quite bitter during the Democratic primaries. It unifies the party, creating a perception of strength in numbers. However, now that she pocketed Sanders' endorsement, and hopefully the support of many of his leftist followers, Clinton is moving back to the center, as the Kaine choice for VP indicates. How will this Clinton center-to-left-and-back-to-center dance look to the Sanders people? Probably not very appealing.

### **Trump's unity problems**

That said, while the recent Sanders-Clinton unity announcement may look very uninspiring to some hard-core Sanders supporters, (they truly believed they had joined an anti-system political revolution that they know will never be carried on by Clinton), Republican nominee Donald Trump does not even have fake unity behind him, as the GOP Convention in Cleveland demonstrated.

### **Party notables did not show up**

Indeed, many Republican Party national leaders did not even attend. That includes John McCain, and Mitt Romney, the party nominees in 2008 and 2012. Most notably, Ohio Governor John Kasich, a Trump opponent during the GOP primaries, did not show up. Imagine that. The Republican Governor of Ohio not showing up for the event, held in his own state of Ohio, that led to the nomination of the Republican presidential contender. And forget about the Bush Clan and many other notables.

The only one who showed up is arch-enemy Ted Cruz. But Cruz had no intention to be conciliatory. In his speech at the Convention he failed to endorse Trump, thus telling everybody



that the political rift is still wide open.

### **No real unity**

Trump is now the candidate. However, as the Cleveland “non shows” indicate, he is not leading a unified party. Which is to say that, if the authenticity of the Democrats unity is questionable, the Republicans show deep, wide open rifts.

Combine this with the lack of a real Trump campaign field organization, especially in critical swing states, and it becomes clear how Clinton may indeed prevail in November.

### **Clinton is a weak candidate, but stronger than Trump**

While Clinton is a weak candidate, (just like Trump’s, her negatives are also very high), all told she is in a much better position to win in November than Trump is.

She will probably lose some disaffected young and leftist Democrats in November. However, she can count on the powerful support of all the labor unions and of their significant grass-roots organizations. She will have women, Blacks, Latinos and more young voters in her camp.

On the other side of the divide, Trump is also likely to lose many Republicans. And there are more Democrats than Republicans.

In order to win the general election, Trump would have to surprise everybody by getting most of his GOP base behind him and most of the independents, the unaffiliated American voters whose support is generally decisive in presidential contests.

### **To get elected you need a broad base**

Clinton’s decision to pick Tim Kaine as VP is a clear move aimed at increasing the ticket’s appeal among moderates (this may include some centrist Republicans who really detest Trump) and independents. If Kaine proves to be an effective

campaigner, especially with critical Latino voters, really hard to see a path to victory for Trump.

Trump's support is really strong among older, white, mostly male voters without a college education. The trouble is that this group is no longer the majority in America. Great to have their enthusiastic backing. But it is simply not enough to get elected president.

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## Orlando Shooting Strengthens Trump's Position On Muslims

**WASHINGTON** – In a U.S. presidential campaign that is and will be dominated by emotional slogans and over simplified narratives, the horrible Orlando shooting (50 people killed, 53 injured) by the son of Afghan immigrants will be used by Donald Trump as clear evidence that his tough anti-Muslim and anti-immigrants positions are the only way to protect American lives from the supreme existential threat of Islamic terrorism.

### **Muslim killer?**

This killing rampage (the worst in U.S. history) planned and executed by Omar Mateen, 29, will be used as a powerful argument to severely restrict immigration, ban refugees from the Middle East, place a hold on all would be visitors/immigrants of Muslim faith, and redouble U.S. military efforts against ISIL in Iraq and Syria.

This sounds absurd. However horrible, this is only one

episode, orchestrated it seems by just one person. No, America is not facing armies of domestic Islamic terrorists. But in this political climate, for almost half of America, this is not over reaction. This sounds logical and rational. And you can bet that this is the argument that will be made. And you can also bet that Donald Trump will lead this charge, with the clear expectation that his anti-Muslim policies will help him get to the White House.

### **We are at war**

Here is the “truth” according to the Trump/anti-immigrant camp. As we all know, a large part of the Muslim world is at war with us. We are the innocent targets and victims. The violent acts perpetrated on U.S. soil against Americans by Muslims, including Muslims born in the U.S. who became radicals as young adults, is evidence that we are facing a mortal danger and that the U.S. Government (led as we know by weak and incompetent Democrats who simply do not want to acknowledge that Islamic Terrorism declared war on us) is not doing enough to protect the American people against a mounting terror threat.

To those who argue that these scattered violent episodes –however gruesome– do not constitute evidence of a massive, ongoing campaign to kill Americans, the anti-immigrants reply forcefully that this is just the beginning. They “know” that there are hundreds, possibly thousands of would-be terrorists warming up and getting ready to unleash their vicious attacks against innocent Americans.

### **We need to protect ourselves**

As I said, this is a presidential campaign that is and will be dominated by over simplifications and raw emotions. Forget about balanced and nuanced positions. If most Americans buy the idea that “the terrorists are already among us and are ready to kill us all” and that for this very reason we need

drastic measures to protect our lives, then Donald Trump gains a powerful edge in this unfolding race for the White House.

He is the Tough Guy who will have the courage to take the drastic steps that will finally get us protection from this looming terror threat. He will do his very best to paint Hillary Clinton and the entire Democratic establishment as weak on terrorism and national defense and therefore unfit to govern America.

### **We need a determined leader**

And the Tough Guy will propose tough responses. If this includes undertaking measures that may infringe on the civil rights of law-abiding, innocent Muslims who have nothing to do with terror plots, so be it. Better safe than sorry. They are Muslims, and therefore by definition suspects. The priority here is to protect Americans.

### **Voice of reason?**

Hillary Clinton will try to be the balanced voice of reason. But this presidential campaign has nothing to do with reason. And fear of terrorism is the quintessential emotional issue. It is mostly about fear of unknown dangers that are easily magnified by those who want you to believe that this is the number one existential threat confronting all of us.

Those who support Donald Trump believe that in this hour of supreme danger only a New Leader, not tainted by the corrupt ways of Washington, DC, will create a new era of security, self-confidence, prosperity and eventually regained national prestige.

Are these the feelings of the majority of Americans? In a few months we shall find out.

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# Unhappy Americans Look for Culprits

**WASHINGTON** – The most visible impact of “*The Great Stagnation*” , (the title of Tyler Cowen’s book provides a good definition for this uninspiring economic era), is that many Western societies, including America, have lost whatever confidence they had in the ability of elected representatives to deliver steady economic growth, and therefore more prosperity. Hence a peculiar mix of revulsion and cynicism towards the “*political establishment that failed*”, and at the same time completely unrealistic confidence –almost blind faith– in would-be new, non traditional leaders who promise cost-free, total transformation –first and foremost the overnight rebirth of slow-moving economies.

## **Politicians do not deliver the prosperity they promised**

Regarding popular sentiments in the U.S., just look at the stunning outcome of a recent NBC/Wall Street Journal poll. Only 24% of all American polled indicated that the country is moving in the right direction, while 70% believe that we are headed the wrong way.

The problem is that most people, looking for the causes of an anemic economy, now believe that their own personal economic misfortunes are almost entirely attributable to the errors and/or misbehavior of corrupt or incompetent political leaders.

Hence the delusional hope, in many cases absolute certainty, that if we finally “*throw all the rascals out*”, and replace them with genuine fresh talent, all will be well. Sadly, here we have a combination of bad diagnosis and delusional faith in

an impossible cure.

### **Lack of innovation, constrained opportunities**

As Tyler Cowen explains in his book referenced above, the developed world is going through a bad patch of slow growth due lack of innovation. This means that there are very few new economic opportunities created by new technologies.

In the meantime, most Western societies, the U.S. included, are suffering because of the negative consequences of globalization. With hundreds of millions of Asians willing to work for far less money, millions of steady manufacturing and services jobs held by so many Americans migrated to Asia. No chance that these jobs will be coming back. I mean not a chance. Which is to say that anybody who promises to “bring our jobs back” is dreaming, or worse.

### **Who is guilty of all this?**

Anyway, no matter what the real facts are, this is what millions of Americans believe. **Number one:** most U.S. voters have lost confidence in the political and policy-making process as we know it, mostly because “establishment politicians” are unable to deliver improved economic standards. **Number two:** large numbers of voters – large numbers; but not majorities– are willing to take a chance on untested would-be leaders (businessman Donald Trump on the right, and Senator Bernie Sanders on the left) because they are perceived to be “good outsiders”, not tainted by the corrupt Washington establishment; even though one should note that, just like the old establishment politicians, both Trump and Sanders also promise great things at almost no cost. In fact, these brand new would-be Chief Executives promise much bigger and better things.

So, here we have a really bad combination of disgust about what exists and childish fantasies about what the next happy chapter is going to be. It is clear that there would be no

*number two* (escapist fantasies about great, flawless leaders), without *number one* (excessive pessimism about the current political establishment).

### **Loss of confidence**

Number one is serious business. Millions of Americans are now convinced that this country is run by an insiders' game rigged by the special interests who pay for the election of candidates. Once in office, these puppets do exactly as they are told by their paymasters. The accepted story is that the innocent American people are fooled by nice stories told at election time; and then they get just a few crumbs that fell from the table, because all the goodies go to the crooks who paid for the elections of their corrupt representatives.

### **Disgusted voters**

While this is an exaggeration, there is unfortunately enough truth in this generalization, (think of the armies of Washington lobbyists, the "revolving door" always open for retired politicians who want to go into business, the PACs, the convenient tax exemptions), to generate and justify genuine disgust about the whole political process. And this is a real problem.

Let's not forget that the peaceful self-perpetuation of the American Republic rests on the assumption that most people believe and will continue to believe that we have a legitimate, ethical system that operates in a transparent way, and that this system is run mostly by law-abiding office holders.

### **People feel cheated**

This is not the case anymore. People feel cheated because politicians do not keep their promises. And there is some truth to this. Indeed, in order to get elected, most candidates for public office routinely promise that they will

magically create millions of new jobs. But the honest truth is that elected officials at best can help create a more pro-business environment. No elected officials can create millions of jobs. Looking at our current predicament caused by aggressive Asian competition and lack of innovation, it should be clear that nobody can reverse new historic trends and major global shifts through legislation.

### **Politicians cannot fix this problem**

No U.S. Senator, Governor or President can reverse the rise of Asia, with its hundreds of millions of low-cost workers who get millions of jobs outsourced from the U.S. simply because Asian workers are happy with much lower salaries, and therefore are more cost competitive. By the same token, no U.S. President can prevent automation from killing hundreds of thousands of factory and now services jobs.

Promising the impossible is immoral. And yet all candidate do it, all the time. Voters believed those who in either party made the biggest promises. But now they do not believe them anymore, not because they understand the truth about "*The Great Stagnation*", an epochal change that cannot be controlled, let alone reversed by elected officials; but because they believe that these politicians are personally responsible for their plight.

The accepted narrative is that the masses suffer because most U.S. politicians are in the pockets of the greedy 1% who want to grab everything. Unfortunately, most Americans do not really understand the true dynamics of globalization.

### **Rigged game**

Most voters no longer believe in the establishment because now they are convinced that America is a rigged insiders' game. According to the simplistic and yet generally accepted narrative, America is still very rich. The problem is that most of the wealth is stolen. Millions of Americans believe



that Wall Street and major corporations are making huge gains by willfully sending jobs abroad, while all the cash goes to them, a tiny minority. Meanwhile, corrupt politicians paid by the special interests twist the system so that the greedy few will keep receiving even more, thanks to customized laws and tax provisions that favor the already ultra rich elites.

### **Throw everybody out**

Contemplating this ghastly picture, the disgusted voters are not asking for reforms. No, they decided that the entire establishment needs to be junked. And so, in this most unusual presidential campaign, they turned their attention and hope to outsiders, with blind faith that, once elected, these new leaders will step forward and fix everything, quickly and painlessly.

The fact is that the outsiders, if anything, make even bigger and therefore far more preposterous promises. But millions of voters are willing to believe them, because they appear to be "sincere". Since they are outsiders, they are not tainted by Wall Street money, PACs, Washington lobbyists, and the dirty business of buying and selling votes. So, they must be real saviors.

### **There are no saviors**

Well, they cannot be. And this is has nothing to do with their intentions. It has to do with the limited reach of any public policy. As indicated above, we are going through a bad patch that is only in some measure the result of poorly designed laws and regulations.

Washington cannot make productive innovation happen by legislative or regulatory fiat. Washington can and should promote and support a pro-growth, pro-innovation, pro-business environment. But even assuming that we did this tomorrow, this would be no guarantee of success. Eventual success is about the drive and the ingenuity of smart people who will come up

with new technologies, new products and new services. This is a highly desirable outcome; but it cannot be mandated by law.

Aspiring “Political Saviors” cannot and will not deliver prosperity just because they say they will. Unfortunately, this simple common sense message will not be listened to by people yearning for a panacea.

### **The old guard is out**

At this point, the infatuation is on, and the focus is and will stay on those who promise miracle cures. Sadly the traditional political forces are too discredited. Whatever sensible message about establishing a healthy distinction between realistic and unrealistic expectations they may put forward, they will not be believed.

And why? Well, because for decades they have been in the business of making exaggerated promises they knew they could not keep. For a long time they got away with over promising, because the economy was still growing. But now it isn't anymore, and so nobody believes them. Hence the rise of the Saviors.

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## **Hillary Clinton Will Ban Fracking - Less Energy For America**

**WASHINGTON** – When it comes to America's energy needs and viable alternatives to fossil fuels, it looks as if Democrats running for the White House live on another planet. Front runner Hillary Clinton recently declared that, as President,

she would place so many restrictions on extracting oil and natural gas from shale formations using hydraulic fracturing, or fracking, that this will amount to a complete ban. Her opponent Bernie Sanders declared that he is totally against fracking.

### **The benefits of fracking**

Indeed. And yet fracking has been one of the few pieces of real economic good news of the last decade. Thanks to fracking America doubled its oil production. This means importing less crude oil, and keeping billions of dollars at home, every day. And fracking used to produce natural gas means abundant supply and lower electricity prices.

But no, this is not good news. The Democrats are telling us that this energy revolution that increased supply and lowered prices is actually bad, because of the environmental impact of fracking. Well, this allegation, even though endlessly repeated by the green movement, is almost entirely baseless.

### **Fracking is safe**

Of course there have been incidents of pollution deriving from poorly constructed wells and other sub standard practices. But there is no evidence of any systemic risk. If energy companies follow best practices and established industry standards, and most of them do, fracking is safe. And, by the way, this industry is regulated, and heavily monitored.

Environmental protection agencies at the state level keep an eye on it. At the federal level the Environmental Protection Agency, EPA –certainly no friend of oil and gas companies– reviewed the entire US fracking industry and could not come up with anything bad to say about it. Again, while the Obama EPA is certainly not in the pocket of the energy lobby, it could not come up with any justifications to restrict fracking, let alone banning it.

## **Renewable energy will become more important...**

If we look at the broader world context, it is clear that fossil fuels, (and natural gas in particular), will continue to dominate as essential energy sources. It is true that the most recent energy outlook produced by the energy company BP clearly indicates that the renewable energy sector is rapidly growing. It is gaining a bigger share of total energy consumption. But it starts from a very low base. Therefore, even if it continues its impressive growth, it will take years before it will be able to displace fossil fuels.

## **...But oil and gas cannot be replaced**

***In the meantime, oil and gas will continue to dominate. In particular, natural gas share of total energy consumption will grow significantly. And –guess what– most of the new natural gas produced in the USA comes from fracking shale formations.***

The very tangible economic benefits coming from new natural gas extracted via fracking are stable or lower electric rates, (natural gas is used mostly for electric power generation), and huge advantages for US petro-chemical industries that use natural gas as feed stock. Cheaper natural gas means lower costs, and therefore more competitive prices for finished products.

Therefore, all sane people know that until we shall have truly cost-effective alternatives to oil and gas the fracking revolution is and will continue to be a major asset for the US economy. It allowed America to become once again a major energy producer, with clear advantages for industry, US global competitiveness, and huge savings for millions of consumers in terms of lower energy bills.

## **Politics**

So, why do Clinton and Sanders make such outlandish statements about banning or restricting fracking? Very simple. This is

just politics. They both want to appeal to the Democratic Party far left where the greens and the pure environmentalists are strongly positioned. In order to get their precious votes, they need to assuage these ideologues with ritualistic anti hydrocarbon policy statements.

**This makes no sense**

*And yet, if you think of it, all this is absolutely crazy. In the real world, for would be presidents of the USA –one of the largest oil and gas producers on this planet – to state that they will ban a significant component of the production of this vital source of energy should be dismissed as totally preposterous.*

But no, nothing happens. Both Clinton and Sanders declared that they will ban fracking. And no one says anything. I wonder how will Democrats in North Dakota, Pennsylvania, Ohio, and Texas –all of them major energy producers– react to this nonsense.

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## **Trump Leads a Large Movement – But It Is Not A National Wave**

**WASHINGTON** – After Super Tuesday, we can say that Donald Trump is still very much in the lead among the Republican contenders for the presidential nomination. However, he certainly did not exceed expectations.

**Solid, but not overwhelming victories**

Trump won several states in different parts of the country;

but only with about 35% of the votes cast. He is ahead; but he has not obliterated his opponents. Ted Cruz won big in his own state of Texas. Then he added Oklahoma and Alaska. This gives him enough reasons to stay in the race as a credible contender. (Rubio instead turned out to be a "light weight", just as Trump described him. He won the Minnesota caucus, and that's his only victory to date).

Still, be that as it may, if Trump keeps winning with good but not overwhelming margins, it will take him quite a while to get the majority of delegates that will secure his nomination at the Republican Convention. If his percentage of the vote shrinks a bit in future contests, he may not get a majority by the time of the Convention. (Of course, if Trump ends up ahead, even by small margins, in "winner take all states" this will change the dynamics of the race. He can jump ahead in the delegates count, even having gained only a plurality of the votes in some key states).

### **Bad news**

Here is the thing. Steady but slow progress is bad news for the self-proclaimed leader of a national movement that is supposedly revolutionizing American politics.

Indeed, part of the Trump mystique is his inevitability. A large component of his appeal is that he is the historic political tsunami that is sweeping the country, turning millions of disillusioned voters into a vast army of enthusiastic supporters.

Well, now that we are counting votes, we see that the Trump supporters are there, but their numbers are a quite bit less impressive than we thought. 35% is good. But not that good.

### **Will Trump be the nominee?**

My point is that If Trump keeps advancing, but not at lightning speed, this will give many voters the chance to

think again about what they want to do. Will they think twice before jumping on the Trump band wagon?

And keep in mind that many non-Trump Republican voters have declared in several polls that they will *never* vote for him –under any circumstances.

Still, even if we discount all this, and assume that Trump will pick up speed and quickly secure the Republican nomination, then what?

### **Strong but narrow support**

Well, as things stand now, his chances of getting elected President do not look so good. Even leaving aside opinion polls that see Hillary Clinton beating him by a decent margin in November, (polls so early in the race do not mean that much), any dispassionate analysis reveals that Trump's base of support, while solid, is too narrow to win a national election. And his chances of expanding it are not that good. His "negatives" as noted above are really strong.

Best case scenario, Trump will be able to get the nomination and the support of a vast majority of Republicans, come November. But nationally Republicans are not the majority.

Therefore this achievement will not easily translate into a majority of American voters, if he is unable to sway millions of independents. Besides, it is clear that there are many moderate Republicans who will not vote for him. In fact they may end up voting for Clinton, or not voting at all.

### **Clinton likely to win**

As the likely Democratic nominee, Hillary Clinton will be able to count on the votes of most White union members, women, young people, Blacks, Hispanics, and other minorities. And if you add to her natural constituencies many moderate Republicans and millions of independents who may vote for her,

because they are seriously worried about the possibility of a Trump presidency, this easily adds to a Clinton national majority.

### **The Trump phenomenon**

So, what do we make of the Trump phenomenon? Based on what we know so far, even in the light of Trump's Super Tuesday victories, we can say that Trump convinced a substantial percentage of Republicans, and may be many independents and a few disgruntled Democrats, that he is the Man of the Future. The New Leader who will take over and (magically?) transform Washington.

### **Not a majority**

*But this core base of Trump supporters is not a majority of Americans –not even close. In fact, as the Super Tuesday numbers revealed, this is not even close to a clear majority of Republican primaries voters.*

And I do not see how Trump will be able to expand his base, considerable as it is, so that it will become a solid national majority.

Undoubtedly many Republican primaries voters like him, a lot. But many more do not like him. And among them, there are many who absolutely loath him.

And this is just within the Republican Party.

### **Not a national revolution**

*No doubt, Trump created a political revolution. But it is a revolution affecting the Republican Party, whose final outcome, by the way, is not yet clear.*

*One thing however is clear. Whatever Trump provoked, it is not a national revolution. A large majority of Americans are not on board, and are unlikely to jump on board.*



If Trump wins the internal battle and becomes the Republican Party nominee, Hillary Clinton will be America's next President.

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## Angry Americans Love Donald Trump

**WASHINGTON** – How do you explain the “Trump Phenomenon”? It is easier than you think. Traditional democratic capitalism is short of breath, ideas and leaders. If this is true in Europe and in Japan, it is also true in America.

### **Discontent everywhere**

The Japanese for the moment trust Prime Minister Shinzo Abe, an old school politician with a new varnish. But he is failing. He could not deliver on his promises to boldly transform the country. We shall see how Japanese society will react to the obvious decline of what until the 1980s used to be a self-assured world power.

In Europe it is a mixed bag. Some traditional political forces are doing alright. But there is also a brand new universe of anti-system parties, from the National Front in France, to Podemos in Spain, or 5 Stelle in Italy. These are the new, rebellious parties that emerged in the aftermath of the Great Recession of 2008. (The French National Front is older. But it gained strength after the global recession).

Their policies capture the anger, resentment and fear about an uncertain economic future felt by millions in Europe. Until now, these new parties have been disturbances rather than real political insurgencies. But it may get worse.

## **We got Trump**

And in the US we got Donald Trump. (We also got Bernie Sanders on the far left. But his impact on the system is likely to be much more limited. Hillary Clinton, although taken aback by Sanders' aggressive campaign, will regain momentum. She is a shopworn old school politician. But the Democrats in the end will pick her. And America may very well follow suit, if the Republicans pick Trump as their nominee).

## **Trump's rise**

But so, what about Trump's rise? Well, it is mostly about American voters who (just like their European counterparts) are at the same time worried, scared, angry, and deeply disappointed in the ability of traditional parties to improve their conditions.

Let's start with disappointed. Many Trump supporters feel in their gut that America has lost its sheen. We do barely OK. We do not excel anymore. We are no longer number one. (As Trump says: *"We are not winning anymore"*). Our economy is limping along. We do not lead in most sectors. Most of our consumer products are made in China. Many old fashioned "good jobs", mostly in manufacturing, are gone –for good it seems.

## **Bad wars**

In foreign policy, nobody can see any victories. in 2001 we went to war in Afghanistan, and it went badly. In 2003 we started another war in Iraq, and it ended up horribly. Thousands of American soldiers dead. Tens of thousands came back without arms or legs. And nothing, really nothing to show for this huge effort that cost American tax payers trillion of dollars. Afghanistan is still fighting against the Taliban. Iraq is a horrible mess, while Iran has extended its influence there.

## **We are not safe**

In the meantime, thanks to irresponsible saturation media coverage, Islamic terrorism is portrayed as a looming threat. We are told that we are under daily attack. Tomorrow it may be our turn to be targeted by a crazy jihadist. Yes, this perception is wrong. And yet many believe this to be factually correct.

***And who can fix any of this? Who can make us once again prosperous, safe and proud? Not the Washington, DC GOP crowd. And not even experienced, battle tested, Republican Governors who after all can point to a record as chiefs executives. They are all yesterdays' people.***

### **A huge opening**

So, none of the above.

And so here is a huge opening for Donald Trump.

He jumped on the national scene as the new "No-Nonsense", "I'll tell it like it is" brand of leader. And this is his message. *"I am rich, because I am successful. And I am successful because I am smart. If you elect me, I'll put all my talent to work, and I'll fix America, in no time; trust me. The traditional politicians are in the pockets of the special interests who fund their campaigns. And these people are not just corrupt, they are also unimaginative, weak and stupid. I am the best"*

### **Attitude, not policies**

Well, this is about it. Yes, there may be Trump policy positions papers on this and that. But I bet that very few Trump supporters could name any.

They simply like "the Man". They like the fact that he is self-assured and unscripted. And yes, they like that he is blunt, indeed at times vulgar and openly offensive when attacking his opponents. Who cares anyway? Those Washington

professional politicians do not deserve any respect.

Well, now we understand how a deep “disappointment”, created a space for Trump. And it follows that when disappointed voters no longer believe their leaders, they are likely to be also angry, and worried about their future. Hence the craving for someone entirely different.

### **Immature reaction**

That said, this is incredibly immature. I understand disappointment. To a degree. The problem is that many voters do not understand that broader issues, such as “lack of innovation” that leads to “lack of new jobs”, may not have quick political solutions. Certainly no short term fixes. You may elect whomever you want, but the issues will still be there. Because they are rooted in systemic weaknesses that cannot be resolved in a short time.

### **Angry voters**

Furthermore, being angry is not a good argument for blind faith in a populist with zero public policy experience. Electing a President entails a lot more than savoring the thought that he will kick the old guard out.

### **This is show business**

Finally, the Trump phenomenon demonstrates how politics is now deeply blended with entertainment. Nobody cares about well-crafted policy positions. Nobody cares about a good resume. People care about how the candidates look on TV.

They want to see who wins the verbal duels. They wait for the clever punch line. In other words, this is the triumph of appearance versus substance. This is why outrageous statements get an applause. This is show business. And in show business the unusual entertainer quite often has an edge.

### **Trump's support**

Now, let's look at Trump's large support. In the early primaries he has done very well. However, is the 32% to 34% he is getting Trump's floor, the base on which he will build an even wider support? Or is it his ceiling?

I tend to believe that this is a ceiling. Many polls indicate that Trump has very high unfavorable numbers. In other words, while 30% of Republican primaries voters really love him, most of the others really dislike him. Besides, in other polls, Trump is no one's second choice. In other words, at the moment the chances of extending the considerable Trump base do not look that good.

This of course may change. If he keeps winning, even with only 30 or 35% of all votes cast, (remember that there will a number of "winner takes all" primaries), the rest of the party faithful may agree that he is not so bad after all. People want to back a winner.

### **Fragmented Establishment**

At the moment Trump's victories look a lot bigger because the "Establishment" has come to this crucial political battle quite disunited. In a word: just too many candidates that caused a fragmentation of the "non Trump" votes.

Which is to say that being number one with 35% looks positively great when number two is way behind, at 22%, while number 4 or 5 are in single digits. Well, now Chris Christie is gone and, after his South Carolina debacle, Jeb Bush also left the scene. This creates an opportunity for consolidation of the Moderate/Establishment votes around one candidate, most likely Marco Rubio.

But this is not happening fast enough. Ohio Governor John Kasich is still hanging on, (God knows for what reasons). And this makes it a lot more difficult for Marco Rubio, the best placed among the more palatable candidates, to become the rallying point of the traditional Republicans who rightfully

see Trump as a calamity and a guarantee of a major defeat in November.

The Establishment Republicans may still have a chance to coalesce around Rubio, this way making him a much stronger candidate. But this window of time will close very soon.

### **Will Trump mania fade?**

Who knows, may be the "Trump mania", based on Trump's behavior rather than his policies, may fade. It is true that in this celebrity saturated American culture, the shelf life of at least some celebrities is not that long.

Still, this may not be an issue for Trump. He does not have to campaign for another year. He needs to keep his momentum going for just a few more months. After that, he may have secured enough delegates to win the GOP nomination.

And that would be an extraordinary achievement for a complete outsider.

### **Winning the White House**

But at that point the real fight begins. At that point the battle will be about convincing, not just a majority of the Republican base, but more than half the Nation that he is the best leader for all Americans.

And that is a very high bar. His hard-core base of 35% or even 40% angry Republicans, as loyal as it can be, will not be enough to get Trump into the White House.

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# Bernie Sanders For President?

**WASHINGTON** – It is truly bizarre that a significant percentage (more than 30%) of potential Democratic voters are considering Vermont Senator Bernie Sanders a serious candidate for the White House. So serious that, according to the polls, he might even win in the early Iowa and New Hampshire contests.

## **Ultra-liberal**

But how is this possible? Senator Bernie Sanders is an unreconstructed, old-fashioned ultra-liberal (in fact he calls himself a socialist) who proposes silly leftist reforms, wealth redistribution via dramatic tax changes, and other pie in the sky egalitarian policies. This stuff is junk.

## **He does not look real**

And yet Sanders is considered a legitimate contender. Nobody is laughing when his candidacy is mentioned. But they should. Indeed, if you watch Sanders on TV and listen to him, he looks like a very credible Saturday Night Live comedian impersonating the stereotype of the crazy old liberal politician ranting about injustice and the rights of the downtrodden masses.

But Sanders is not a caricature. He is real. So real that he shares the podium with Hillary Clinton, the anointed establishment candidate. And he is making life a little difficult for her. If he wins in Iowa and New Hampshire, as he may, this would embarrass Clinton.

Sanders will not win the Democratic Party nomination. I see no path to victory. But the fact is that this elderly gentleman who really looks like the crazy uncle in some old comedy show is actually taken seriously by the public and by the media covering the campaign.

## **Republicans have a much bigger problem**

I do recognize that the Republicans have a much bigger problem when it comes to “strange” candidates. Donald Trump is not just a “curiosity”, a thorn in the side of an establishment candidate. He is actually leading among all Republicans, by wide margins. And the runner-up, Texas Senator Ted Cruz, while slightly more polished, is yet another unreliable populist.

## **Populists with no credible programs**

So, here is the issue. A majority of the Republican and a sizable minority of the Democratic voters seem to have lost their minds. They now believe that populists with fiery oratory (this is what passes for “*authenticity*” these days) but no credible programs would make good presidents.

Of course, it is still very early. Nobody voted yet. Today’s high poll numbers may vanish later on. However, when so many adult Americans express full confidence in would be leaders who peddle fantasies, there is reason for concern.

## **The system does not work anymore**

It is obvious that the established political process is not working anymore. Too many Americans feel alienated. Well, unless we really want to see bizarre outsiders in charge, the traditional political forces should do something –and quickly– to restore genuine confidence in our institutions by putting forward fresh and sound ideas that address real problems, while resonating with the millions of Americans who now feel left out.