

# **America Needs To Invest \$ 3.6 Trillion To Fix Its Crumbling Infrastructure**

**WASHINGTON** – A prominent victim of the policy paralysis caused by Washington’s toxic political climate is America’s basic infrastructure. For the Republicans, any additional public spending is suspect, because all public spending is by definition badly conceived and wasteful.

## **Pork barrel projects**

Of course, there is plenty of anecdotal evidence of egregious “pork barrel projects”, such as “bridges to nowhere” built only because of the political pressure exercised by powerful legislators. All this is true.

However, it is also true that there has been chronic underinvestment in US infrastructure. And I am not talking about ambitious new projects. I am talking about the rather mundane, yet indispensable, upkeep of existing infrastructure, some of it quite old, or decrepit. (The backbone of US Interstate Highway System goes back to President Dwight Eisenhower. We are talking the 1950s! Denver Airport, the last major airport built in the US, opened in 1995. NYC Kennedy Airport Terminal 3 was built 50 years ago).

## **No money for upkeep**

Because of budgetary constraints and political infighting, the US Federal Government does not have a decent plan nor dedicated funding to carry out needed repairs, upgrades and other necessary maintenance to what we have, never mind funding new projects.

This is almost grotesque. We are talking about the United

States of America, still the largest economy in the world. And yet our policy-makers have allowed disrepair to reach crisis proportions.

### **Getting worse**

Indeed, the American Society of Civil Engineers, (ASCE) gives America's infrastructure a D+. Just a bit above failure. The ASCE estimates that we need to invest \$ 3.6 trillion by 2020, just to tread water. In other words this is the bare minimum, not an ambitious growth plan.

And what is Washington doing about all this? Practically nothing. Because of the fierce ideological fight about all taxing and spending issues, Republicans and Democrats cannot agree on taking care of the mundane issues that every City Council has to deal with. *"Yes, if the bridge is too old, we have to fix it, and find out a way to pay for the fix"*. This should not be an issue tainted by ideology.

### **Obama's proposal "dead on arrival"**

In its budget proposal for Fiscal Year 2016, (beginning on October 1, 2015), President Obama included more spending on infrastructure. But this line item is presented in the context of a politically impossible mix of higher spending and higher taxes. No Republican controlled Congress will never approve any budget like this one. And so it is quite possible that the needed higher infrastructure spending item will be killed, along with everything else.

### **No PPPs in America**

But there is more. Beyond this political gridlock, the US tax system effectively penalizes Public Private Partnerships solutions (PPPs) that could allow state and local governments to lease highways, airports and more, to private consortia (often created by pension funds and private corporations) so that they will upgrade them and run them.

The PPP partners get their money back over time, by collecting tolls and fees on the basis of negotiated rates. Via PPPs the local and state administrations no longer have to set money aside for infrastructure spending. Under the terms of the PPPs, the highways, bridges and airports are properly maintained. The general public gets a modern service, while paying for it via a user fee in the form of a toll.

## **Heavy taxes**

PPP solutions are quite common all over the world, notes John Schmidt, an attorney specialized in PPPs, in a [WSJ](#) op-ed piece, (*A Sane Way to Upgrade Bridges, Ports and Transit*, February 3, 2015). But they are virtually unknown in the US. And this is largely because of taxes imposed on tax exempt financing for public infrastructure when something (a highway) is turned over to private partners. The need to pay all debt upfront, and other onerous financial obligations constitute, a major disincentive for more PPPs in the US.

## **Where are the policy-makers?**

And so, here is the picture. Because of Washington politics, we do not allocate funds for the upkeep of the national infrastructure. And because of our punitive tax system we do not have the PPPs that are common in the United Kingdom, Australia, or Mexico.

As a result of this irresponsible approach, US basic infrastructure, much of it built in the 1950s and 1960s, has not been fixed and upgraded. This is disconcerting, but true.

## **No way to stay competitive**

Look, it does not take a genius to realize that this neglect causes public safety issues and huge economic damage. Hard to believe that the US can remain a globally competitive economy with crumbling bridges and airports built 40 or 50 years ago.

---

# Is Wall Street Going To Crash?

**WASHINGTON** – If you believe that US stocks are priced fairly, then the current sharp dip experienced by Wall Street is an opportunity to buy good assets at a discount. But if you believe instead that we are experiencing the bursting of a bubble induced by an unprecedented period of Fed-induced zero interests and by a parallel gigantic increase of the Fed's balance sheet, then you have ground to be scared.

## **High stock prices, modest economic growth**

Here is the picture. After the end of the bad 2008-2009 recession, the US stock market kept going up and up, while the US economy was growing –but only modestly, at about 2% a year. At the same time, Washington did not make even an attempt to cut persistent and absurdly high Federal Budget deficits. Yes, Uncle Sam is virtually broke. But the whole world keeps buying US Bonds, because they are supposed to be a truly safe investment.

## **Europe is sick**

Looking at the global picture, notwithstanding many attempts engineered by the European Central Bank, the Eurozone is really in bad shape. And the broader European Union is not doing much better. Most states carry too much debt. Their economies are at a standstill, or in recession, while unemployment is above 10%.

Does this concern America? Yes, it does, because Europe is still our main trading partner. Most US multinational corporations make more money abroad than at home. If Europe

keeps doing so poorly, expect General Electric, United Technologies and Caterpillar to suffer.

### **China not doing so well**

And what about China? With China one never knows exactly, because of unreliable official statistics. But we know that the era of 10% growth, year after year, is over –for good. Now the real question is whether the cooked up figures –officially growth is above 7%– are in truth closer to 5% or 4%.

Add to this the incredible industrial overcapacity created by unwise “stimulative” economic policies in China. Steel production capacity reached absurd levels, even as the construction boom had ended. While Chinese state banks for the time being will keep supporting virtually bankrupt corporations, they cannot do this for ever.

China’s economic future will be at best a mixed bag. Expect lots of non recoverable bad loans and plant closings. Do not expect China to be the locomotive that will pull ahead global growth.

### **Japan is in decline**

Japan, still the number three world economy, has its own problems. Prime Minister Shinzo Abe is engaged in a heroic, if futile, effort to reignite sustained economic growth.

But Japan has stupendous macro-economic problems. Its public debt is now 240% of GDP. The phasing in of a new sales tax aimed at increasing revenues has frozen purchases, and this has depressed economic activities. Add to the mix a steady population decline and you can figure out that Japan’s long-term economic growth prospects are not that good.

### **Energy stocks hit by low oil prices**

Last but not least, the US and global energy sector is now significantly down because Saudi Arabia decided that this

would be a good time to flood the market with plenty of oil at discounted prices. This may be a temporary phenomenon. But nobody really knows when this downward pressure on oil prices –and therefore on the profitability of oil companies– will end.

Of course, this is great news for consumers in the US and elsewhere. But it is horrible news for Exxon and other energy companies that have seen the value of their reserves reduced on account of sharply lower crude prices. Their stock prices are down, significantly.

For all of the above, this new low prices trend is horrible news for all the investors who believed that energy stocks were “safe”. If you are holding Exxon, Chevron, BP, Shell, Halliburton or Schlumberger stocks, you are not happy.

### **Is this a stock market bubble?**

All in all, if you agree that Wall Street’s recent high valuations were largely the result of a bubble created by years of Fed-induced low interest rates, you have reasons for serious concerns. Those high stock prices cannot be sustained, especially in the light of weak global demand caused by Europe’s endless stagnation and China’s loss of altitude.

### **No help from the Fed**

To make things a lot worse, as noted by David Stockman and other analysts, unlike 2007-2008 the Federal Reserve today has no more ammunition to fight a new financial crisis. Interest rates are at zero, while the Fed has already increased its asset purchases to unprecedented levels.

In this environment of seriously limited monetary policy options, no “soft landing” scenario, in case of a crisis. No bail out. Not even thinkable.

In the past, there was the semi-guarantee that the US

Government had to intervene to save the “too big to fail” financial institutions. This is what happened in 2008. The Federal Government stepped in, in a massive way, and prevented a global collapse.

Now, it is different. The over leveraged Wall Street guys should know that this time they are on their own. Hence the likelihood that, if and when some will start rushing towards the exit, we may see a real stampede.

In other words, if the US stock market took a real dive, hard to see where the floor might be.

---

## Clinton Is Reinventing Herself As A Hawk – Yet America Is Broke

**WASHINGTON** – Hillary Clinton is doing her best to distance herself from the hesitant and timid foreign policy pursued by President Barack Obama, her former employer.

### **Reinvention**

In this world in which prominent people have almost unlimited licence to constantly reinvent themselves, we are supposed to believe that there is no contradiction between the old Clinton, for four years the loyal Secretary of State of Barack Obama, (and therefore the chief implementor of his foreign policy), and the new, “rebranded” Clinton now espousing views that directly or indirectly condemn Obama’s current foreign and security policies as weak and ineffective.

I guess all politicians, as much as other people, have the

right to change views and opinions. The only question is: "At what point this latitude becomes pure opportunistic posturing, something that is guided only by the desire to get elected, as opposed to honest expression of a new belief?" You figure this out.

### **Tough Lady?**

Be that as it may, the emerging picture is that the strongest, (so far), 2016 Democratic presidential contender is reintroducing herself to America as a "Tough Lady" who would deal with international crises and "Bad Guys" (watch out, Mr. Putin) in a more forceful manner. So, all of you independents and hawkish Democrats, rest assured. When Clinton is in charge, the music will change.

### **In the real world, words do not matter**

*This may be good politics. However, in the real world, most of this is just empty posturing. Whatever the ripple effects of this new muscular posture now embraced by would-be president Hillary Clinton, the sad truth is that whatever she says means very little, in the real world.*

*Simply put: America has no more money. As a result, there is no more latitude to do this or that in foreign affairs.*

### **There is no money**

Indeed, let's look at America's long-term ability to influence, (let alone shape) global developments, that is beyond short-term, tactical reactions to what Putin is doing in Ukraine, or what to do about ISIL in Iraq. The stark reality is that America is essentially broke and therefore unable to play a dominant role in world affairs as it used to.

As an old Florentine proverb says: "Senza lilleri e' un si lallera", which means, "If you have no money, you cannot do anything".



## **Federal spending keeps growing**

Sadly, this old home-spun wisdom now applies to America. Mind you, we are not *literally broke*, but we are getting there. This is no secret. While the Federal Budget deficit is getting a bit smaller, we still run huge deficits, year after year. And this means a growing, now colossal, national debt, (now close to 17 trillion dollars). And there is no respite, no "*bending of the curve*" , ahead.

In fact, the opposite. The fiscal picture is bound to get worse. Indeed, anybody who is willing to look at the well established trajectory of US federal spending knows where we are headed.

Simply stated, unless Washington will engage in serious reforms, federal entitlement spending (Social Security, Medicare, Medicaid), now in excess of 60% of all spending, will keep growing, this way crowding out almost everything else. And that inevitably includes defense spending, (currently about 20% of federal spending).

## **We are already cutting defense**

By the way, if you missed it, we are already cutting defense spending –quite significantly, with more to come. Sure enough, America stills spends by far more than most other rich countries. But the fact that the US can be more credible militarily than an essentially disarmed Europe does not mean a lot.

We are quickly losing the capability to quickly dispatch fully equipped expeditionary forces around the world, while keeping them supplied for long periods of time. Whatever you may think about the wisdom of major wars in Afghanistan and Iraq, we have lost the ability to do this again. Likewise, the US Navy has fewer and fewer vessels, and this means shrinking force projection capabilities.

Without getting into the details, it is obvious that when you have less you can do much less.

### **Rhetoric meets reality**

And here is where muscular rhetoric and fiscal reality meet. And, guess what, fiscal reality eventually wins. It always does.

Whatever we may want to opine about Clinton v. Obama and Democrats v. Republicans, a heavily indebted America, trying its best to keep paying Social Security checks while the national debt keeps growing, must lower its global ambitions.

### **No help from Europe**

And forget about better synergies through closer cooperation with our traditional NATO Allies. For a variety of reasons, (mainly political decisions made long ago to spend even more money than we do on social programs), equally if not more indebted Europeans stopped spending on defense years ago. While we allocate about 4% of GDP to defense, they spend on average 2%, with many countries down to 1%. This is laughable.

As Europe's economies are weaker than ours, forget about any changes in this dismal picture. If you add virtually no defense spending to a dominant pacifist sentiment, Europe is a non entity when it comes to staging sustained military operations.

### **Can we change all this?**

So, we are on our own. And we have no money. Sure enough, all this can change. But it would take a brand new political consensus and an engaged national leadership to have a real, as opposed to cosmetic, federal spending reform coupled with tax reform.

Of course, America can be re-energized and its economy can move once again into high gear. But all this would require

many changes in Washington. No chance of any of this happening during the Obama presidency.

### **Can Clinton lead America to greatness?**

Could (reinvented) President Hillary Clinton manage all this? Could she lead on serious entitlement and tax reform, provide more funds for defense and then re-establish America's credibility in world affairs? This is an extremely tall order.

She is certainly smart enough to understand what needs to be done. Should she (or a potential Republican President) fail, then we are back to square one. An impoverished ex-super power has to lower its ambitions.

If you have any doubt, scroll back and re-read from the top: *"Senza lilleri e' un si lallera"*. *"If you have no money, you cannot do anything"*.

---

## **Elon Musk's SpaceX About To Expand With Major Texas Launch Facility**

**WASHINGTON** – Until not too long ago any American project that had to do with space exploration had to have the NASA logo on it. *NASA was space*. Therefore, it was inconceivable to think of any meaningful space project that could be successfully hatched without NASA's direct involvement.

### **No need for NASA**

Well, that era is over. While NASA looks for a new identity and mission in a much more fiscally constrained environment,

*(translation: there is no more money)*, here comes SpaceX, a private venture created years ago by South African-born entrepreneur Elon Musk.

Musk is known primarily as the creator of Tesla Motors, the first maker of all-electric vehicles in the USA. Tesla has the ambition to redefine the auto business. At the moment it makes only super expensive high performance electric cars in California. But it is planning to make cheaper models that will appeal to the average consumers.

## **Tesla and SpaceX**

Well, just as Tesla Motors may soon transform the US (and global) automotive industry, SpaceX may soon displace all our assumptions about what it takes to have a serious and robust space program.

We used to believe that space was too risky, too complicated and too expensive for the private sector. Hence the essential role of NASA. Therefore, many prognostications now indicate that an underfunded, diminished NASA also means the end of American leadership in space exploration.

## **Space is also a business**

Well, not necessarily. SpaceX is the result of Musk's realization that, while space is still about adventure and open-ended exploration, it is also a money-making business. All sorts of companies around the world need to launch satellites into space, (think telecoms, weather services, and more). And so they need to rely on the services of those who have the rockets and the related launch capabilities. Well, SpaceX has already demonstrated that it can provide state of the art launch services in a cost-effective manner.

## **Launching rockets from Brownsville**

And now Musk is looking at the next phase. SpaceX is planning

to set a major new launch facility in Brownsville, a rather poor, mostly Hispanic Texas town sitting right at the border with Mexico. Needless to say, for Brownsville the coming of SpaceX is a golden opportunity to transform the local economy.

Now a backwater with the stigma of being a transit point for Mexican drugs into the USA, Brownsville can soon become a high-tech enclave. Assuming final approval for the construction of this SpaceX launch facility, beyond the new jobs directly tied to it, one can expect all sorts of subcontractors, vendors and suppliers to set up shop in the vicinity. Not to mention the tourism draw that such a brand new high-tech facility would create.

### **Others will follow**

Sure enough, NASA was the US space program. But now it seems that daring entrepreneurs can take a lead role, even without US government backing. Elon Musk is clearly a trail blazer. But there is no doubt that if SpaceX does well by launching more and more satellites from its new Brownsville facility, many other private sector groups will follow.

---

## **Only 63.2% Of Americans In the Work Force, Lowest Figure Since 1978 – Fed Policies Cannot Change This Trend**

**By Paolo von Schirach**

*Related story:*

<http://schirachreport.com/index.php/2013/09/02/disruptive-technologies-like-3-d-printing-will-kill-millions-of-jobs-can-we-adjust-to-this-new-era/>

September 8, 2013

**WASHINGTON** – Lacking any significant public policy initiative focusing on the never healed US economy, most analysts have become Fed watchers. The only game in town is guessing if and when the Fed will phase out QE3, (quantitative easing), and if so, how fast and what it will mean. Such a move will have an impact on interest rates. In fact, belief that the Fed will soon stop the easing program as US employment slowly trends down has already caused long-term interest rate to go up.

### **Fewer Americans are working**

Still, whatever action the Fed will undertake on QE3, the most recent employment data underscore a negative historic trend; and I am not sure that Ben Bernanke and his Fed colleagues sitting in the policy making Federal Open Market Committee, (FOMC), can reverse it just by manipulating interest rates.

Simply stated, while unemployment is going down (we are at 7.3%) and more jobs have been created in August, (plus 169,000), the broader trend shows that fewer and fewer Americans are now in the work force. Even worse, fewer and fewer young adults have a job.

Indeed, the percentage of Americans now employed is the lowest it has been since 1978, when Jimmy Carter was in the White House, and far fewer women were in the labor market. Furthermore, looking at the data, we see that the percentage of Americans aged 16 to 24 now working is only 54.8%, down from almost 70% in the 1970s.

### **Young people without a job**

Sure enough, there may be fewer young people in the work force today because more of them are in college. Still, many analysts conclude that this huge drop indicates that far too many young Americans cannot find a job. And the longer they are out of work, the harder for them to find employment in the future.

Likewise, it is clear now that the lower unemployment numbers (we are down to 7.3%) are deceptive, because the drop is largely due to people who simply stopped looking for work and therefore are no longer counted. Add to this picture the large number of workers who have accepted part-time jobs while seeking full-time positions and we get a rather sad outlook.

### **People out of the job market**

So, here is the future, for a large number of unskilled or semi-skilled Americans. We have a large army of unemployable people, young and old, while many if not most openings are in low skills, low wage sectors. In simple language, for millions of Americans there is no longer an open road leading to the American Dream. No upward mobility. No career ladder. No comfortable, middle class life style.

Can the Fed, all by itself, change any of this? I doubt it. Low interest rates may help stimulate economic activities; but they cannot become a substitute for fundamentals.

*Well, if so, what is missing in America?*

### **Jobs killed by globalization and automation**

No easy answer. Still, I see at least two trends, both of them negative. The first one is a combination of the impact of globalization and automation. The net outcome is loss of employment due to the migration of jobs to low wage countries, (globalization), combined with employment lost due to increased deployment of computer controlled machines and more sophisticated and more affordable robots, (automation). In

other words, especially in manufacturing, you lose your job because it went to China, or because a robot now can do what you used to do.

### **Inadequate public education**

The second trend is the lowering of education standards in America, right when we would need a powerful national surge to boost the reach and the quality of public education. Indeed, precisely because everything is becoming more and more high-tech, whatever good jobs opening there will be in the immediate and long-term future, they do and will require sophisticated expertise. And there is no way to land one of them without command of math and science, and therefore the skills necessary to master complicated programs and state of the art computerized machines.

The automation trend is ongoing and unstoppable. As a result, while we may see a stronger US manufacturing sector—and this is of course good news—do not expect employment growth as a result. Factories do and will employ fewer and fewer people, even as they experience higher demand. In fact, in the not so distant future we shall have completely automated factories, with no workers.

Combine this historic trend with localized production thanks to 3 D printing (*see link above to a related piece*) and other innovation, and we can start predicting the eventual disappearance of factory jobs. Hard to say how long it will take, but we are headed that way.

Of course, we could do a lot more about improving public education, and indeed there are many initiatives. But it seems that we are still way behind, without any real sense of urgency backing new undertakings. Lacking significant progress in this crucial area of “human capital build up”, millions of young (and poorly educated) Americans will be left behind and unable to catch up in this fast-moving world.



## **The future belongs to the super skilled**

Education is indeed most critical. Looking ahead, it is clear that the only way to get a piece of the future is to be highly skilled –*in fact, make that super skilled*. The future belongs to the smart innovators, to those who will create new things, new services or new processes, and many others who will support these efforts.

The others will get the scraps. Sure, we can imagine that even in the future there will be a need for janitors, nursing home staff, store clerks and landscape workers. But those will be, as they are today, mostly dead-end jobs.

---

## **On Syria, Timid West Offers Embarrassing Spectacle**

**By Paolo von Schirach**

Related story:

<http://schirachreport.com/index.php/2013/08/27/america-will-act-in-syria-but-do-not-expect-much/>

August 29, 2013

**WASHINGTON** – I recently argued that America is in no mood to get into another war in Syria. We did poorly in Afghanistan and Iraq, while spending fabulous sums of money, (see link to

related story). Besides, right now the US Government is essentially broke. Indeed, the Pentagon, caught in the middle of the ill-advised "sequester", (automatic, across the board spending cuts that target defense more than any other public spending), is trying to adjust to rapidly declining budgets. Probably the worst possible time to engage in a new conflict. And finally US public opinion does not believe that America must act in order to punish Syria for its use of chemical weapons against civilians. The American public does not want to hear about the Middle East, Muslim countries or any talk of another war, big or small.

### **Evident reluctance to do anything**

I did say that America, acting with British and French support, would "do something" in order to "punish" Syria. However the action would be limited, symbolic and in the end probably irrelevant. Well, it turns out that perhaps I was too optimistic.

Just a few days later, the political signs out of Washington, London and Paris are quite unclear. Certainly I do not detect any determination to act. French President Francois Hollande talks about the need to find a "political solution" for the Syrian mess, while the British Parliament is divided. President Obama, supposedly in the lead, stated in a TV interview that he has not made up his mind, while adding that whatever action may be undertaken it would be limited and not aimed at regime change in Damascus. After this rather tepid statement by a President who is obviously most reluctant to act, we heard from US intelligence officials that it would be very difficult to obtain unequivocal, conclusive evidence that chemical weapons were actually used and that the Syrian Government ordered such action. In other words, we are not quite sure that a retaliation would be justified.

### **Assad should not be afraid**

Well, after this impressive display of outrage and determination, may be President Assad will decide to take a break and go fishing in the next few days. Chances are that, in the end, nothing will be done. If the US and its junior European Allies can find a face-saving exit, possibly with Russian cooperation in the guise of some kind of UN Security Council Resolution promising some sort of (non military, of course) action against Syria, then Obama would be able to say that we have made our point, that Assad has been punished by the international community for his illegal actions, and that all is well.

Well, if this compromise does not work out, then we are back to the symbolic military action. I am convinced that America has the military assets in place in the Eastern Mediterranean (mostly US Navy war ships armed with long-range missiles) to launch an attack against Syria. They can target military installations, command and control centers, critical infrastructure, and a lot more.

### **A limited attack is pointless**

However, short of a prolonged engagement –I mean a real devastating blow that would destroy or seriously impair Syria’s war making capabilities and the ability of the Damascus Government to function– a limited US attack would change very little.

Let’s remember what Carl von Clausewitz wrote a couple of centuries ago. The only purpose of military action is coercion. You use military means to obtain a political goal: i.e. force your adversary to do what it refuses to do. I do not believe that von Clausewitz would have approved of a limited military action aimed at sending a “signal”. And what if the other side does not get our “signal”, in this case a clear warning that any further use of chemical weapons would have devastating consequences? Then what? We send another “signal”?

*War is not about “sending signals”. War is about the complete destruction of the political will of the adversary. Through decisive military action we bend them to our will. Who knows, may be they stopped teaching von Clausewitz at the US military academies.*

## **The West looks weak**

In conclusion, there are two possible scenarios here, both of them indicating Western reluctance and timidity. In the first one, there is some kind of UN inspired “action” that gets Washington, London and Paris off the hook. In the second one, there will be a limited attack against Syrian targets. Such a limited attack will not change the course of the Syrian civil war, while it will be used by all anti-Western Islamists as further evidence of America’s evil intentions against Arabs and Muslims.

You can bet that, hours after the US missile attacks, Syrian TV will display the corpses of women and children killed by Americans Tomahawk cruise missiles. In the end, whatever Washington’s intentions, this is the only “signal” that the other side will get. Is this what we want?

---

# **America Will Act In Syria – But Do Not Expect Much**

**By Paolo von Schirach**

August 27, 2013

**WASHINGTON** – Sadly, the strong words of moral outrage uttered by Secretary of State John Kerry regarding the use of chemical

weapons in Syria are destined to remain just that: words. Sure, some (face saving) symbolic military action will be undertaken. But do not expect much more than that. There are essentially two reasons for this.

### **No money and no will**

Number 1: America is broke. And the Pentagon is even more broke as it has to adjust to the fiscal effects of the "sequester" now in place. In simple language, most of the automatic spending cuts that came into force this Spring because no broad agreement on spending and revenue could be reached between Republicans and Democrats have targeted defense spending.

In this unusually constrained environment it is inconceivable that America will engage in another conflict. Totally inconceivable.

Number 2: there is no special feeling for Syria in Washington. US policy-makers are not totally united on this, but the general consensus is that we do not want to help a Syrian opposition that may be strongly influenced by al Qaeda and/or other Islamic radicals. There is certainly no sympathy for Assad and his dictatorship; but there is no interest in expending US blood and treasure in an effort that will replace him with an even more anti-Western regime.

These two factors, lack of money and lack of an identifiable national interest in entering this conflict, conspire to have a minimal, I suspect mostly symbolic, response to the use of chemical weapons by Syria.

### **Autocrats can breathe easily**

Having said that, this scenario has huge implications for America and its role as a superpower. It is now clear that dictators and autocrats around the world can do pretty much whatever they please, without fear of retribution from tired

and penniless Washington. And this is only a short while after the intervention in the Libyan conflict was justified on the basis of a brand new international law doctrine whereby the international community can and will intervene when a government behaves badly towards its own people, as in Libya's case.

Well, forget about all that. That theory apparently applies only in the case of small countries. Syria is a much, much bigger problem: more people, more weapons, more factions and more foreign supporters, including Russia, Iran and Hezbollah from Lebanon.

### **Who would join America?**

I just do not see a strong "coalition of the willing" led by America about to launch an invasion of Syria. Both Paris and London saw first hand the sorry state of their air forces during the engagement in Libya. They have not forgotten that they had run out of ammunitions just days into the air war. I do not believe that they are any better prepared now. And they know that Syria would be a much tougher nut to crack.

### **Redefinition of the national interest**

So, here is the bottom line. Forget about Pax Americana. America's redefinition of the national interest (a polite way to say retreat) is due to two key factors. In the first place, the stupendously expensive and inconclusive wars in Afghanistan and Iraq have not broadened support for interventions. Secondly, a country with an unresolved fiscal crisis, now getting ready for another nasty political confrontation on how to raise the "debt ceiling", (this "domestic conflict" is about to take place come October), is in no shape and no mood for war.

Sure enough, expect some "action". But that's not the same as "decisive action" aimed at changing the course of the conflict in Syria.

---

# Obamacare Will Not Improve America's Deeply Flawed Health Care System

By Paolo von Schirach

August 25, 2013

**WASHINGTON** – The real problem with soon to be implemented Obamacare is that, contrary to what many believe, it is not “health care reform”. It is just “health insurance reform”. President Obama’s noble goal was and is to extend coverage to the many millions of Americans who have no insurance and to many others who (on account of pre-existing conditions) are denied coverage. Indeed, given the exorbitant costs of even routine procedures, getting sick in America, without benefiting from the shield provided by health insurance, means financial ruin.

## **Improve a bad system?**

That said, the fundamental flaw of Obamacare is that it intends to “improve” a really bad system by making it even bigger and more cumbersome. The law is not yet in force. But all we read about its possible impact on those who are currently insured, on employers who will be forced to pay for insurance, and on young people uninsured is that it may make everything more expensive, while causing other distortions. For instance, as the mandate to provide medical insurance would apply to companies with 50 or more full time workers, we see many employers who are now cutting their labor force down to 49 workers and who hire part time laborers in order to get out of the mandate. So, business decisions are

influenced by Obamacare, and not in a good way.

By and large, as the law is not yet in force, much of what is said now about its long term impact is based on assumptions that may or may not be correct. However, common sense would dictate that it is difficult to improve upon a bad system by making it bigger.

**“Fee for services” is the problem**

*And why is the system on top of which Obamacare will be built so bad ? It is bad because it provides the worst incentives to those who theoretically should be the guardians of high quality care at affordable prices. In America, you have doctors who are in the private sector. And they operate on a “fee for service” basis. The only way in which they make money is to have sick patients in need of care. Of course, doctors want to make money while providing an essential service.*

*The question is: how much money? Well, there is no built-in restraint. And for a very simple reason. You, the patients, need their services. However, most of you do not pay for those services, because you have medical insurance, usually provided for by your employer.*

**Over prescription of “everything”**

Well, then how does this work? What happens is that, even though there are some price ceilings and certain restrictions on reimbursable procedures negotiated with insurance companies, by and large providers manage to overdo almost everything: diagnostics, therapies, surgeries, procedures, prescription medications.

And why do they do this? Because they have a financial incentive to do so, and because they know they can get away with it, in as much as the patient does not pay out of his/her pocket for most of this “care”. The insurance pays.



Therefore the care recipient will not protest. He/she is not going to ask probing questions like: *“Is this really necessary? Are there alternatives to this surgery? How much will this cost? Can I get this cheaper somewhere else?”*

### **Unethical practices**

This set up of *“I treat you; but someone else pays the bill”* is a built-in incentive for unethical practices that essentially boil down to overdoing almost “everything”, from surgeries to physiotherapy sessions. Scores of studies indicate that up to 1/3 of all procedures ordered by doctors in America may be unnecessary. Think of that. We are talking about billions of dollars, year after year, totally wasted on unneeded procedures.

### **Treating chronic diseases**

And this is not all. This system that will always over prescribe has now the fantastic opportunity to treat tens of millions of chronic patients who actually do need care on account of diseases contracted because of a bad life style. America is now in the midst of an obesity epidemic. And obesity caused an explosion of chronic illnesses ranging from Type 2 diabetes to hypertension and all sorts of cardiovascular conditions. Treating all these patients costs now hundreds of billions, with no end in sight.

### **No prevention**

These treatments are horrendously expensive. However, the good news is that in most cases, assuming proper diet and plenty of exercise, these chronic conditions can be reversed. The bad news is that a system with built-in incentives to treat and over treat people provides no financial incentives to physicians to teach patients anything about preventing or reversing diseases.

***The money is in care, and not in prevention.***

## **No way to improve this system by making it bigger**

Well, this is US health care. It takes truly heroic optimism to believe that by broadening this perverse system that blends profit oriented doctors with insurance companies that will always jack up premiums you are going to make it more efficient.

In the end, Obamacare may not be the disaster that its opponents claim it is; but it is impossible that it will amount to a serious reform of a truly bad system.

---

## **Bernanke Says “Highly Accomodative Policies” Still Needed, And Markets Shoot Up**

**By Paolo von Schirach**

July 11, 2013

**WASHINGTON** – No, America, the Fed is not going to remove the highly spiked punch bowl from the party. You misunderstood. In truth, Fed Chairman Ben Bernanke clumsily said something about slowly ending QE3, this way getting everybody scared that the Central Bank induced festivities would soon be over. But, no, he did not really mean it. On the contrary, he just said that the US economy still needs “*highly accomodative policies*” for the foreseeable future. Got that? Not just “somewhat accomodative polices”. No, Mr. Investor, America needs “highly accomodative policies” which means zero per cent interest rates for quite a long time.

**The party will continue**

After hearing the latest from Bernanke, the Wall Street crowd cheered. The stock market shot up. The dollar went down, to the delight of US exporters trying to compete with the equally “highly accommodative policies” of Bernanke’s counterparts in Europe and elsewhere, including accommodation on steroids now pursued by the Bank of Japan.

So, here is the new “rephrased” message. The Fed will not change its course, because the US economy, despite some improvements, is still too weak. Unemployment at 7.6% is too high, growth below 2% is modest, and inflation is not a problem.

### **Fed moves markets**

It is amazing how a US Central Banker, a man who makes about US \$ 200,000 a year, (yes this is the ridiculously low salary of the Fed Chairman), with just a few words can move hundreds of billion in and out of stocks, bonds and currencies.

It is amazing, and also not at all good. Capitalism should be based on market forces that should help all players discover the real value and therefore the appropriate market price of all assets, at the same time allowing for realistic risk evaluation.

### **Interference is not good: you get fake numbers**

As long as Central Bankers keep interfering with the fundamentals, investors will not know the real value of anything. And, what is worse, as of a few years Central Bankers interference is the established “New Normal”. Once upon a time the Fed would act may be once a year in a fashion that would move markets. But we have been living in a Fed induced market place since the Great Recession of 2008.

Today we are experiencing the consequences of the latest Fed pronouncement. As interest rates will stay low, stocks will continue to benefit from a Bernanke premium. To the extent

that interest on US 10 year bonds will adjust down, US borrowers will get the added benefit of lower interest rates on their new mortgages, this way boosting the entire US housing market.

The plain truth is however that the real economy is not performing as well as an all time stock market would indicate. Just like all those records broken a few years ago by baseball players on steroids, all this Wall Street froth is mostly fake stuff.

---

## Washington Now Dominated By Not So Great Scandals – Too Much Focus On Benghazi and The IRS Because There Is Nothing Interesting Coming Out Of The Obama White House – No Major Initiative, No Reform Plan

**By Paolo von Schirach**

May 17, 2013

**WASHINGTON** – The most telling evidence of Obama's weakness is that B or C category "scandals" have monopolized the attention of most media and commentators. We have the resurfacing of the

once dead Benghazi terror attack story. This is something that seemed to have legs during the political campaign last year. Then Romney failed to press it and the Republicans essentially let it go. Now there are new testimonies that have exposed at least one fact: the Obama administration was less than candid in telling the real story as it was unfolding.

### **Benghazi, IRS stories dominate**

Still, all these embarrassing details do not amount to criminal acts. And yet the Obama administration is visibly on the defensive. Add to Benghazi the more recent story of the Internal Revenue Service denying tax free privileges to conservative organizations. We still do not know how bad this is; but the IRS story is dominating the news cycles. And then there is the story of the Justice Department using a very heavy hand against the Associated Press as it investigates a leak of classified information regarding terror activities in Yemen.

### **Nothing else to talk about**

This stuff is serious. But these are not the mega scandals that can signal political death or worse for a sitting President. So why do they dominate the news cycle? Very simple. Because there is nothing else to report. President Obama has lost the initiative. There is absolutely nothing worth talking about coming from the White House. Of course, it is not Obama's fault that Washington is now paralyzed due to divided government. And yet Obama is the incumbent President. There is only one President. And the President is supposed to lead, even when the going is tough. In fact, he is supposed to lead especially when the going is tough.

### **No Big Idea**

And what could Obama do? Well, he could and should articulate a most compelling plan to reform public spending (yes, that would have to include Social Security, Medicare and Medicaid)

and taxes. He could elaborate a national energy strategy. He could articulate a new vision of America's role in world affairs in a multi-polar world. All this is tough, especially in this politically poisonous environment. Yet, who said that being President should be easy? We call "Great" the Presidents that accomplished difficult tasks. All the others get a foot note.

But, so far at least, the President has not even tried to be Great. He proposed nothing major. He has smallish ideas here and there. But, quite frankly, it looks as if the country tuned out. Hence the exaggerated space devoted to the "scandals". There is excessive coverage because there is nothing else to cover.

### **Obama soon to become irrelevant**

As things stand today, probably the only big new legislation coming out of Washington in the next few months will be comprehensive immigration reform. And on this truly important issue President Obama is a follower rather than a leader. The whole idea was launched by a bipartisan group of Senators.

Of course, it is too early to call Obama an inconsequential President. Still, here he is, at the beginning of his second term, and it seems as if he has already run out of gas. Unless he puts forward an ambitious, intelligently crafted agenda that will captivate and energize the Nation, as 2016 approaches, Obama will be less and less relevant.