

# Corruption Is the Norm At The US Department Of Veterans Affairs

**WASHINGTON** – Predictably, retired army general Eric Shinseki, the Secretary of the US Department of Veterans Affairs, resigned, because of the huge scandal involving the VA. Sadly, it has now clearly emerged that senior staff at several Veterans Administration medical facilities routinely falsified wait time records in order to make themselves look compliant with the rules, this way receiving performance bonuses.

## **False records**

Very simply, it would appear that VA senior staff, (this would include several administrators in charge of more than 20 medical facilities), kept fake log books in which they recorded fake numbers regarding the wait time for medical appointments. This way their facilities appeared to be in full compliance with official VA guidelines, while veterans theoretically entitled to care waited for months and months. Allegedly some of them died as they were waiting to see a doctor.

## **Bonuses to everybody**

But, while by itself egregious, this “cooking the books” practice aimed at hiding chronic disservice is only the proverbial tip of the iceberg. On account of their stellar (false) records they created, the same people who kept the fake log books received bonuses.

The performance bonuses were awarded by VA senior staff to other senior staff. Obviously this was part of an insiders’ game in which everybody knew the truth about the fake logs;

but they kept robbing taxpayers anyway by distributing totally undeserved extra compensation to one another.

### **Union staff paid for not working**

And there is more. Some VA Department employees who also serve as senior union representatives do not do any work whatsoever, while collecting their paycheck. They are excused from showing up, because their union responsibilities take precedence.

### **Bogus disability claims**

And we are not finished. The same VA that in practice denies care to veterans, as it makes them wait for months before they can see a doctor, at a different level recognizes as legitimate entirely bogus disability claims. This is done on the basis of an established "presumptive disability" decision-making process.

This means that, in a most liberal fashion, VA physicians agree that if, for instance, you served in Vietnam in the 1970s and today you have a heart condition, the "presumption" is that your heart disease is somehow a consequence of your military service. On the basis of this "presumption" you are entitled to disability benefits, even though in most cases there is zero medical evidence about any "cause and effect" relationship between military services and health conditions that ensued decades later.

Isn't that nice? It is easy for VA doctors to be liberal in awarding taxpayers' money to undeserving veterans. And this helps politically, because veterans organizations are happy when their members get extra cash and therefore they will not stir political trouble on other matters.

### **Theft**

And then there are reports of a brisk business involving stolen pain killers and other drugs at some VA medical

facilities. And there are also cases of medical equipment stolen from some VA hospitals, without any serious investigation. And we could go on and on.

### **Shinseki is the scapegoat**

Given all this mess and the uproar it caused, it is not surprising that Secretary Eric Shinseki had to go. After all, he has been in charge of this utterly dysfunctional VA Department since the very beginning of Obama's first term, (January 2009). The notion that Shinseki could not take corrective actions because he knew nothing about this gigantic mess at the very least raises questions about his management abilities.

That said, it is obvious that this level of corruption at the VA Department cannot be explained only by Shinseki's incompetence. We are looking at a cluster of systemic problems that metastasized over many years.

### **In today's America, no accountability**

And this simple reality opens relevant questions. How is it possible that all this happened in the United States of America? The US is supposedly a solid democracy built around the principle of accountable government. And supposedly we know how to hold people accountable. After all, America is the country that invented, or at least perfected, state of the art management systems.

We know everything about audits, third party controls and monitoring and evaluation of every possible activity. We have a public administration system in which every department has a robust Inspector General Office, while the Federal Government created powerful watchdogs, such as the General Accountability Office, (GAO).

Besides, the US Congress has its own oversight mechanisms through Committees and Sub-Committees that have jurisdiction

on practically every governmental activity.

And finally we have a free media with countless investigative reporting units composed of eager journalists who can go and look for wrongdoing almost everywhere.

And yet, all these “defenses” notwithstanding, we allowed this stunning level of misconduct to breed and expand at the VA, probably for decades.

### **Declining ethical standards**

I do not know how all this happened. But I know one thing. If and when corruption is viewed by those who practice it as routine and normal, while those who are supposed to audit, review and check are distracted or purposely look the other way, then we have entirely lost our moral compass.

Please do remember that the Soviet Union imploded when it became obvious that a similar mixture of corruption, false records, fake statistics, lies and incompetence prevailed not in this or that agency, but throughout the entire country.

### **If this is the new norm, we are done**

Mercifully, we are not there –yet. But the very fact that different administrations, Democrats and Republicans, until today allowed this level of corruption and disservice at the Department of Veterans Affairs is a very bad sign of declining ethical standards.

Chances are that, if we start snooping around, we shall find rot in many other places. Getting rid of hapless VA Secretary Shinseki is easy. But, while politically expedient, this is certainly not the solution to a much broader problem.

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# 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.

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# **AARP Magazine Placed A Good Article On Bill Clinton's Healthy Diet On Page 38 – Why Not The Cover Story?**

**By Paolo von Schirach**

August 8, 2013

**WASHINGTON** – The 38 million strong AARP (formerly the American Association of Retired Persons) is often described as one of the most powerful lobbies in America. It is in fact the voice of the vast army of US pensioners. For this reason AARP is a staunch defender of the status quo when it comes to protecting existing Social Security and Medicare ( federal health insurance) programs and benefits for senior citizens.

### **AARP endorses services**

It should also be noted that the AARP has built alliances with



others who benefit from the status quo, such as companies that sell supplemental insurance that will pay for some of the medical expenses that the federally funded Medicare program will not cover. In other words, while the picture is not entirely clear, the AARP seems to have a bias in favor of keeping a system in which there is a high demand for medical services, some subsidized through federal entitlement programs, and some paid for by patients.

### **Preventable illnesses**

That said, to place all this in context, we should also point out that the extremely high and rising cost of Medicare and of all the additional services offered to Medicare recipients, (some of them with the blessing of the AARP), is in large measure due to the extremely bad personal habits of most Americans –and that certainly includes senior citizens.

Yes, America has become an obese nation. Bad nutrition and lack of exercise are the root causes of many illnesses. And it is a fact that a huge portion of the national health care bill is due to the need to treat totally preventable chronic diseases. And that includes the cost of Medicare for seniors. Yes, it is well known and now properly documented that chronic diseases, such as type 2 diabetes, are totally preventable. Indeed, if most Americans, young and old, embraced a healthy life style in terms of diet and exercise, millions of people would not require medical attention, or at the very least they would require a lot less –and that includes the retirees that make up AARP's membership.

### **Nothing on wellness education**

In this context of high but preventable health care costs, it should be noted that the AARP magazine, the main vehicle used by the association to communicate with its members, does not focus on issues of wellness education and/or advice to seniors on how to stay healthy. Knowing what we know today about the

value of prevention and the importance of spreading information about “wellness” and a healthy life style this silence is rather stunning. Is this reticence due to the fact that AARP does not want to cause problems with all the service providers who benefit financially from a high demand for medical care? I do not know for sure.

### **An article on Bill Clinton’s vegetarian diet**

Still, given this background, I found it interesting that the AARP magazine published a fairly extensive spread on former President Bill Clinton (*My Lunch With Bill*, August/September 2013) focusing on his post-heart surgery super healthy eating habits. The article clearly explains what motivated Bill Clinton to adopt a vegan diet. He avoids meat and fish, processed foods, cheese and dairy products because eating them caused him to develop a serious heart disease that almost killed him. Being a smart man, Clinton finally learned what any American nutritionist can tell you: a mostly vegetarian diet is a ticket to good health and a longer life. And he is a pretty good living advertisement of the benefits of healthy nutrition. Now a senior citizen, Bill Clinton looks positively great. He is lean, healthy and in almost perfect shape.

### **The value of a good life style**

His secret? His secret is simple: lots of veggies and fruits. The article provides details on what Clinton eats every day and it includes Clinton’s advice to all Americans to follow a similar healthy eating regime. He clearly explains how healthy food equals a healthier, mostly disease free, life. Coming from a well respected, intellectually gifted former President involved in all sorts of worthy causes, I would say that Clinton’s message is both credible and pretty compelling: *“America: Change your diet. Adopt good eating habits in order to stay healthy and live longer”*.

And yet, while the AARP magazine editors published the piece

with some relevance, they put singer Gloria Estefan on the cover of the August/September issue, and not Bill Clinton and his diet.

And why is that? Clearly making the Clinton diet the cover story would have forced millions of readers to really focus on it. Whereas, by relegating it on page 38, this story can be viewed by many readers as a "color piece" on the somewhat bizarre eating habits of an ex President with a rather nerdish reputation. *"Alright, this is interesting. Well, if eating carrots and broccoli works for him, let him do it. As for me, well, pass the ribs and corn bread, if you please"*.

**Why so little effort to educate seniors?**

***The AARP magazine has an enormous reach. I praise them for publishing this story on Bill Clinton's healthy diet. However, if they were really serious about wellness education and its transformative effects, they could do a lot more. They talk mostly to millions of senior citizens, most of them with health issues. If they really wanted to help them, they should educate them on the life changing value of healthy eating. And do consider the compounded effects of a healthier America. This would translate into a lower demand for health care services and consequently a much reduced national health care bill. In case you wonder how big that bill is, it amounts to a stunning 17.5% of GDP, well over 1/3 higher than what other rich countries pay for health. And yet Americans are unhealthy and do not live long lives.***

**Prisoner of the status quo?**

The only reason for not educating seniors about wellness is that the AARP may be prisoner of a really cynical calculation whereby there is nothing to be gained by upsetting the status quo, including the interests of all the medical insurance providers who benefit from AARP endorsements. As for the average AARP members, let them eat poorly so that they

will have to go to the doctor who will prescribe cholesterol lowering medications.

Even though it is manifestly stupid to spend money to treat a condition that could be easily prevented, the fact is that doctors and pharmaceutical companies do not make any money when people are healthy. Under the present –horribly wasteful– system some people make lots of money.

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# **The State Is Not A Competent Entrepreneur – Huge Distinction Between Awarding Grants And Running Companies**

**By Paolo von Schirach**

August 5, 2013

**WASHINGTON** – *“The state is the real engine of innovation”*. Under this strange FT headline (August 5, 2013) we read a review by economics commentator Martin Wolf extolling the brilliance of a book by Sussex University economist Marianna Mazzucato titled *“The Entrepreneurial State”*. Wolf tells us that, while it might sound preposterous, it is in fact true that public –as opposed to private– investments are at the foundation of major technological revolutions that have transformed our world. Think of jet engines, teflon, the internet, and so on.

**The critical role of the state in funding R&D**

Indeed, contrary to what free market capitalism dogma would like you to believe, the state does good things. In fact, the state performs a role that the private sector would routinely shun: investing in open-ended basic science projects that do not have a compelling economic rationale.

Fine. This is all true. We know that most of the electronics and IT discoveries were made through the aid of government grants. And, yes, there was and there still is an irreplaceable role for open-ended basic R&D that is not tied to a marketable product that will bring in a cash return for the investors.

### **Entrepreneurial State?**

But, while Martin Wolf does not say so, some readers may inadvertently confuse the quite separate roles of grant making and running an enterprise. I have not read the book. However, the title "*The Entrepreneurial State*" conveys the notion of enterprises run by public bodies. I believe that it is important to draw a sharp distinction between "funding" and "managing". Funding research is one thing. Running an enterprise quite another.

### **Washington is not running GM**

In the US experience, the Federal Government played and still plays a critical role in funding R&D. But Washington, with very few and limited exceptions, has no record in running anything. Even in the most extraordinary case of the recent, (and truly gigantic), General Motors bail out, while providing the massive liquidity injection that saved GM, Washington did not send Department of Commerce and Transportation bureaucrats to run the company. It left management in the hands of professionals.

### **The Soviet Union should have been a real leader**

More broadly, think of this. If the state were a

natural entrepreneur, then the Soviet Union should have been the most successful economy. During Communism the state run everything, from car factories to barber shops. And surely the Soviet Government ability to direct scarce resources into mostly military R&D was in some measure quite successful. Russia did build impressive tanks, jet fighters and ICBMs.

But, overall, despite its technological successes the state proved to be a lousy entrepreneur and a horrible manager. In the end, the whole country collapsed under the weight of colossal inefficiencies.

And even in mixed Western economies, like France or Italy, on balance the state proved to be a mediocre to bad entrepreneur. Otherwise, exploiting the advantages of abundant state funding for R&D, all state-run conglomerates should be world-class sector leaders.

### **Awarding Grants and Enterprise: not the same**

I fully agree with Wolf that it is important to debunk the ideologically biased and false notion whereby the state is by definition incompetent, and therefore it should stay out of any and all economic activities. We know that the state did and still does perform an invaluable function by funding research in areas that the private sector would not touch.

But there is a huge distinction between awarding grants and being an entrepreneur.

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# **Mediocre July Jobs Report**

# Points To Lower Standards Of Living In The US

By Paolo von Schirach

August 3, 2013

**WASHINGTON** – The latest US jobs figures are alarming. Sure, we added 162,000 new jobs in July. While these numbers are not wonderful, more people working is progress. On the surface this growth looks at least decent. The unemployment rate actually went down a bit, from 7.6% to 7.4%. Even though this is largely due to people who stopped looking for work and dropped out, this is the lowest jobless rate we have had since 2008.

## Lousy jobs

So, why the unhappiness? Very simple: we are not creating great or at least decent jobs. We are creating mostly lousy, low paying jobs, mostly in retail and in the hospitality industry. On top of that, the percentage of part-time jobs for people who would really like to have full-time employment is growing, while the average worker has shorter work days.

Look, if you were jobless, getting something is surely better than having nothing. Still, these new jobs figures are part of a trend that indicates at best economic stagnation, (we know the economy grows at a mediocre 2% a year), and at worst downward mobility. And this is a problem.

## Education, education

Here are the hard facts. In America, if you have a very good education and a super degree from a super university you have good chances to get into a vibrant sector, perhaps a into an industry leader, a GE or an IBM perfectly at ease in the

globalized economy. If you are really smart, you will move up and do very well financially. You will have the money to give your kids the same excellent education that gave you a major advantage in life. The problem is that there are very few of you. Very, very few who are doing and will be doing well.

### **Mundane jobs**

Indeed, if you only have a so-so degree, then you will be competing for mundane administrative jobs that now pay far less than they used to. Without top qualifications, your chances to move up are small. And if you only have a high school degree, then your chances of getting anything decent, let alone climbing the socio-economic ladder, are really poor. You get part-time jobs in bad times. In good times you get a low paying job in retail, health care or equivalent. And that's about it.

### **Good-bye to the American Dream?**

If you do not even have a high school degree, then your chances of ending up in jail are much higher than you having any kind of career. This is what the July jobs numbers indicate. Unless we shake up our truly mediocre public education system, while at the same time creating a more robust pro-growth policy environment, it is good-bye to the American Dream.

America used to be the land where everything was possible. In large part this was due to affordable, quality public education. Now the rich get their own high quality private education and the opportunities that it opens up. The uneducated get little, often times just the crumbs.

Given these trends, the already horrendous income gap between the rich and a somewhat impoverished middle class is going to get wider; and we shall live in an overall poorer country marked by even deeper socio-economic divisions. This is not a



good prospect for what used to be the most dynamic and optimistic society on earth.

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# **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.

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**Leaving Aside The Details Of  
The Unfolding Political  
Battles, America Is  
Fundamentally In Denial About**

# **The Severity Of Its Fiscal/Economic Predicament – President Obama Has No Plan – He Does Not Lead**

[the-subtitle ]

**By Paolo von Schirach**

January 4, 2013

**WASHINGTON** – Deep down all individuals engaged in self-destructive behavior know that they they should stop today and immediately embrace healthier life styles. The drug addict knows. The alcohol dependent person knows. The smoker knows. The obese knows. And yet in most cases knowledge alone is not enough. Bad habits are deeply rooted and resilient. And it is easy to invent reasons for making changes “later”.

## **I’ll make changes later**

In large part this is because people are only vaguely aware of the long term, cumulative impact of their bad habits. As they do not fear them enough, they do not take action. Yes, if I keep smoking I may get cancer. But not necessarily. Yes, my obesity may lead to type two diabetes, but may be not in my case. And so on.

## **America just like a substance abuse patient**

If we look at America, its conditions are pretty much the same: chronic self-destructive behavior and denial about its consequences. America is a country that for decades indulged in bad habits –over spending financed by more and more borrowing– while neglecting the good habits –investments in education, R&D and new enterprises.

As a result this indebted nation is now under performing. It is fiscally challenged –high annual deficits, enormous national debt– while its economy, even though not horrible, is mediocre. Growth at 2% is better than Europe's; but lower than the historic 3% average. Unemployment at 7.8% is down from dramatic levels but still much higher than a historic norm around 4-5%.

### **We know what the problem is**

All sane people knows that these conditions are bad and that they are trending down. More deficits mean larger debt; a tepid economy means erosion of our competitiveness in global markets. All experts know this. All reasonable policy-makers know this. All business leaders know this. And yet, just like the average Joe who knows he should stop drinking today, America looks at its conditions and says: *"Yes, I should do something. But let me think about it"*.

In essence, this is our predicament: bad behavior with no sense responsibility. Instead of taking action, denial and more denial. We know that the politics are horrible. But the politics are horrible because of denial; because different players developed their own rationalizations and favorite narratives as to the causes of this dangerous predicament. And so, lots of finger pointing and little serious action.

### **Obama missed a chance to lead**

The Fiscal Cliff talks that just ended with a partial deal could have been an opportunity for a Grand Bargain. A freshly re-elected President Obama could have taken the lead and said to his Republican opponents in Congress:

*"Let's get together on this. This is about our Country's future. Let's set aside ideology and do the right thing. Yes, the rich should pay more into the system. This is fair. But we also recognize that long term entitlement spending is unsustainable. In order to make sure that the safety net will*

*be there for those who really need it generations from now let's reconfigure these programs. Yes, some people will pay more and get less. But the truly needy will be fine. We also have to find better ways to properly match our national security priorities and our sky high defense spending.*

*By the same token, let's simplify our complicated and multi-layered tax system riddled with special treatments, exemptions and loopholes. Let's make it simple, user friendly, fair and business friendly.*

*And finally let's engage in a national all out effort to vastly improve public education standards in America. We all acknowledge that our future depends on how smart and innovative all our kids are going to be. Let's give all of them the very best we can. This is a resourceful country. We do not lack intellectual capital. Let's deploy it so the all children get the best education our collective brain power can provide".*

### **Petty quarrels about taxes**

Imagine if President Obama had said this on the night of his re-election. He would be a hero and a real leader. But the President chose to turn this opportunity into a petty political battle about higher taxes for the rich. This easy populist remedy worked well with public opinion.

But the President knows better. It is totally disingenuous to say that our national predicament is mostly about the rich not paying their fair share of taxes. All experts and all policy-makers know that higher revenues, while not an insignificant contribution, would do very little to fix our fiscal problems, let alone our economy. Taxing the rich is all about political symbolism. It is not about serious policy-making.

### **More of the same**

And now? Well, now expect more of the same. The President has

not come out with a “Plan” about reforming taxes and spending while addressing American long term competitiveness. May be he thinks he does not need to. May be, just like the smoker who plans to quit but not just now, Obama is waiting for a better moment.

### **Slow moving crisis can be ignored**

The tragedy in this situation is that we are not facing impending disaster. We are not about to go over another, bigger Cliff. We are just slowly sinking into feeble mediocrity of high debt and low growth. This deterioration is happening so slowly that most people can pretend it is not happening at all.

As a Nation, we are still in denial, and that is the real problem.

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**Obama Won The “Fiscal Cliff”  
Political Battle – He  
Convinced America That  
Problems Will Be Solved With  
Higher Taxes For The Rich –  
Very Clever, But Untrue – US  
Needs Entitlement Reform, New**

# Taxes Will Solve Nothing

[the-subtitle ]

By Paolo von Schirach

December 22, 2012

**WASHINGTON** – So far at least, it would appear that President Obama would rather be a successful leader of the Democratic Party as opposed to being remembered as a great President.

## **Exploit GOP vulnerabilities**

The way he is conducting the “Fiscal Cliff” negotiations shows that his main intent is to exploit to his advantage the (rather silly) Republican anti-tax pledge. By saying that he would agree to have some unspecified spending cuts, as long as the GOP would accept up front tax rates increases for the wealthy, Obama started a fight among House Republicans. Some would accept Obama’s terms, assuming (or just hoping) that their surrender on taxes would lead to a deal on real spending cuts. But many Republican House members would never, ever agree to support higher taxes.

With his caucus split into two camps, Speaker Boehner cannot deliver the votes of his own troops. He is weakened as a leader, the GOP is divided and Obama can say that the unreasonable Republicans are the only obstacle to a balanced deal that would fairly distribute the burdens of deficit reduction.

## **Obama framed the argument: the rich have to pay more**

Nice job, Mr. President. The Republicans are in a pretty bad spot because Obama framed the issue and they could not do it. Speaker Boehner did say that America has a spending problem rather than a lack of revenue problem. But this did not sway public opinion.



Right now, thanks to President Obama's unwillingness to properly describe America's structural deficit and debt crisis, not enough voters really understand how serious our \$ 16 trillion debt problem is. Furthermore, very few realize that most of our deficits are caused by large entitlement programs (Social Security, Medicare and Medicaid) that were designed in a different era, at a time in which nobody could fathom how much they would end costing today. Which is to say that we shall never successfully "bend the spending curve", this way starting a debt reduction process, without restructuring entitlements so that they can become self-sustaining. And yes, any serious reform will mean that future recipients will end up getting smaller benefits, and a later age.

### **No straight talk about entitlement reform**

Obama has yet to say any of this publicly. My hunch is that he never will, because it would be politically inconvenient. Instead the President managed to convince a majority of Americans –opinion polls indicate this much– that to the extent that we do have a deficit problem, this should be reduced by having rich Americans pay higher taxes –their "fair share"– at the same time tweaking spending a little bit, here and there.

Our central problem, as the President described it, is that the rich are not paying enough. Now, it may very well be true that the rich should pay higher taxes. However, this is not our central problem. If Obama were serious about deficit reduction, he would recognize that higher taxes for the rich do not even begin to resolve our structural deficits. But the President insists on higher taxes for the wealthy because this embarrasses the GOP, not because it is an indispensable component of any serious fiscal reform plan.

### **Obama won the battle**

So far at least Obama won the political argument. The GOP lost. The Republicans are now blamed as the ideological obstructionists who are preventing a fair deal. I am not sure how they can get out of this box. Probably they cannot.

So, Obama and the Democrats are winning. Good for them. But America loses. Our structural fiscal and debt crisis will not go away simply because President Obama chose to describe it in a way that it is politically convenient for him and for the Democrats.

### **The deficit/debt crisis will get worse**

Without serious reforms that will have to include downsizing, the cost of our large entitlement programs will rise more and more. And new taxes will not solve the problem. At some point America will no longer be in a position to borrow the money necessary to pay for Social Security, Medicare and Medicaid. And that is when we become just like Southern Europe: another exhausted country burdened by unsustainable social spending that progressively absorbed most of our national wealth.

Sure enough, we may be a long way from becoming another Greece or Spain. Most likely Obama, having completed his second term, will be gone from the scene. But his lack of leadership on entitlement reform for the sake of short term political gain will be remembered.

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# **An Urgent Appeal By Elder Statesmen: Out Of Control US**

# Federal Debt Will Undermine American National Security

[the-subtitle Put country first and fix fiscal policies]

*U.S. national security in the 21st century rests on both economic and military strength, for our military might and diplomatic muscle ultimately depend on a vibrant economy. Unless we change course, our huge and growing debt will undermine our economic growth, our military strength, and our global leadership.*

*Our leaders should use the consensus against going over the fiscal cliff as an opportunity to agree now on a framework for significant fiscal reform in 2013. Another “kicking of the can” – the lowest common denominator of what both parties can currently accept, without any structural reforms that truly address the nation’s problems – is not acceptable. We must reassure our own citizens and businesses, the international financial markets, and the greater global community that America will address its fundamental challenges and maintain its leadership role in the world.*

*At a minimum, the resolution of the fiscal cliff by the end of the year should have the following components:*

- *The Objective: Our fiscal goal must be to stabilize the debt as a share of the economy, and put it on a downward path for the longer term. We cannot continue to grow our national debt faster than our economy if we want to maintain our global leadership. Any solution which does not meet this simple test is insufficient.*
- *The Framework: To achieve this objective, our leaders should decide on a fiscal framework that results in substantial deficit reduction over the next 10 years and structural changes to our fiscal policies that*

*eventually balance the budget over the long term, including:*

- ◇ Specific levels of revenue, spending and deficits over the next 10 years, and parameters for longer-term fiscal reform, including future levels of debt as a share of the economy, and a date by which the budget must balance.*
  
- ◇ Tax reforms to raise more revenues, encourage growth and enhance progressivity – and it must be decided how much should be done through eliminating deductions, increasing rates and/or more fundamental changes to our tax code.*
  
- ◇ Changes to entitlements to put them on a sustainable long-term path, as well as changes to defense and other discretionary spending, while protecting the most vulnerable and preserving sufficient resources to invest in the future.*
  
- ◆ In our judgment, advances in technological capabilities and the changing nature of threats make it possible, if properly done, to spend less on a more intelligent, efficient and contemporary defense strategy that maintains our military superiority and national security.*
  
- The Process: Congress and the President should agree on an expedited process to enact legislation reflecting this framework in 2013, including appropriate default and enforcement mechanisms that ensure we will achieve the targeted result.*

*In a time of division and drift, the true test for America is neither military nor economic – it is political. We ask our elected officials from both parties to assert genuine*

*leadership, communicate to the American people what needs to be done, and make pragmatic policy decisions to power our nation's economy, democracy, and role in the world. It will require courage, shared sacrifice and a willingness to compromise and make the tough choices essential to setting a new course for our nation. It summons the truest form of patriotism – putting our country first.*

(Signatures)

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# **Romney Condemned By Fellow Republicans For Stating That The Democrats Won Because They Give Stuff To Voters – Yes, Politicians Should Be More Tactful; But The Fact Is That America Has Become An Entitlement Society**

[the-subtitle ]

**By Paolo von Schirach**

November 19, 2012

**WASHINGTON** – In the make believe world of politics in which telling the truth is a silly (in fact outrageous) idea Romney's post-election commentary to his supporters is yet

another inexcusable gaffe. Imagine that: Romney stated that he lost to President Obama because the Democrat had the irresistible electoral appeal of delivering free stuff to voters.

### **A horrible thing to say**

What a horrible things to say. Think of that: Romney had the audacity to suggest that notoriously fair minded American voters would rather elect a President who promised to keep the gravy train running than an opponent who promised to reduce benefits because they are bankrupting the Nation. How could he even suggest that voters rather like getting benefits.

And now it is clear: Romney really means it. His most recent analysis simply reconfirms what he had already said about the "47%" who feel entitled to get favors, money, subsidies and what not.

### **Do not offend voters**

While candidate Romney's first gaffe was explained away by other Republicans during the campaign, now that he is dead meat the latest one inspired righteous (and let me add totally fake) outrage. You just do not go around offending the voters, intoned wise men like Louisiana Governor Bobby Jindal. You do not tell half the American electorate that they are just a bunch of leeches. This is really stupid, etc. etc.

### **Truth is: US has become an entitlement society**

Fine, we get it. If you are in politics, you want votes and so you have to be nice to voters. Still, even if we agree that what Romney said was totally tactless and politically dumb, (showing that he never was a natural politician), the simple fact is that what he said is mostly true.

Just like Western Europe, America has become an entitlement society. So much so that entitlement spending is now about 60%

of total federal outlays. Contrary to popular beliefs, willfully reinforced by the Democrats, Social Security and Medicare recipients do not get back in benefits what they contributed in payments during their active years. It is an open secret that these mega programs do not pay for themselves. They are subsidized.

Add to them the steep increase in the number of disability pensions recipients, Medicaid, food stamps, expanded unemployment benefits and what not and you see how a large and growing percentage of Americans have become somewhat dependent on Washington's largess. And, yes, those who get stuff are more likely to vote for the candidates who offer it than for those who argue that, unless the programs are reduced, they become unaffordable.

### **Obama re-elected because he promised to protect social spending**

And the Obama camp message during the campaign was based on this simple understanding of voters sentiments. They successfully painted Romney-Ryan as the crazy –in fact bloody minded– ideologues bent on destroying fully deserved entitlement programs, while Obama-Biden would protect them. And the Democrats clearly won the political argument.

Now, I fully agree with Governor Jindal and other Republicans that this basic fact cannot be the only foundation of any appealing, revamped Republican political message.

### **Populists only?**

That said, if politics is only about blandishing voters, while consciously avoiding any discussion of the hard issues, including the fact that this Nation is about to be crushed by unsustainable debt caused mostly by unaffordable social spending, then the political process is destined to be the exclusive territory of clever populists totally comfortable with the simple notion that in order to get votes you hide the

truth.

While the populists get the votes, witness Obama's success, America's serious problems are not dealt with today, and this signals bigger troubles ahead. We may not like to hear the truth about unaffordable social spending, but the deficits and debt they generate will come back to bite us.