



AUSTRIA CONNECT

2012

Introductory Remarks

During 2007-2009 Austrian exports to the US exports dropped significantly but since then they have done brilliantly. Exports from Austria to the rest of Europe are down slightly, but up to the US. Also, the range of products has improved. Before the crisis, the X3 BMW (produced in Graz) was the big Austrian export story but now that number is down, diluted by the increase in other products. Currency has been favorable for investment. Now 4.5 billion Euros are invested here in the US from Austria. 110 Austrian companies have invested large sums, but this is not an accurate number because it counts only investments made directly from Austria. In fact, many Austrian companies invest abroad by way of Luxembourg. Indeed, on paper Luxembourg has more money invested in the US than Germany!

Seneca said, "If you don't know what port you are sailing to, no wind is favorable." In US politics today, there is no clear port but a lot of wind. Lots of business decisions are affected by politics. That's why the US political situation is the subject of the conference.

Individual Company Descriptions

Plansee – Plansee has 1.5 billion Euros in sale and 6,000 employees. It is based in Reutte, Austria, in the Tyrol, to make use of hydro power. In the US, it is based in north central Pennsylvania. It is focused on tungsten and molybdenum and other high-performance materials. It is vertically integrated. 1,000 people work in Pennsylvania. The company mines worldwide and represents about 1/3 of world capacity.

Schenker – Schenker began 1872 in Vienna as a rail consolidation company. Now it is part of Deutsche Bahn with 95,000 employees in 130 countries. Worldwide only parts of Africa are not covered by Schenker. The company is #1 in Europe rail and land; #2 in airfreight worldwide and #3 ocean worldwide. It began in 1947 in USA and has 6,000 employees here in 45 offices.

Unicredit – This bank is #3 in Germany with 157,000 employees. In the US it supports core clients from Austria and helps investors enter the US market. Its motto is "Not at home but like at home."

Hoerbiger – Hoerbiger makes compressors valves. Its US operations began in 1963. It was also caught off guard by the 2008/9 downturn. It expected growth during this period but was off budget by 45%! It had too much inventory and too large a work force. It is now back to the level of 2006 - before a big growth spurt. But Hoerbiger's CEO vowed not to be caught unawares again. Now it does its own macro economic data forecasting and has become quite confident in its ability to predict sales. It projects a dramatic upturn in 2013; down a bit in 2014.

RB – This bank is part of Raiffeisen Bank. It is the largest bank in the Austrian market, with 30% market share. RB also banks in eastern Europe. It has been in the US since 1980 and has offices in New York and Danbury, CT. It has special expertise in precious metals.

Erste - Erste is another Austrian bank, engaging in lending and liability management. It uses its familiarity with companies' non-public information to analyze risk and lower costs to customers.

LATE MORNING SESSION

Petersen Institute - 1/2 of the world economy is due to emerging market countries. The world as we knew it is gone. But the Trans-Atlantic economy still constitutes the other 1/2. The US has invested 3x more in Europe than in Asia and the European ration is 8:1. The Trans-Atlantic relationship is not just economic but also political and cultural.

Hans Peter Manz, Austrian Ambassador to the US, spoke on the Trans-Atlantic Future. The Trans-Atlantic market place has been the world's economic engine for decades, but there have been substantial differences in the last 20+ years. The emergence of new markets is not cause for panic. Market share is not important so long as the companies are successful, making profits. Statistics are important but should focus on value added, not so much on the raw growth rate. 2-3% growth in the US and Europe is significant per person vs. 10% in China. The complexities of the world have not so much increased as become more apparent. We know things faster and the information has an effect. For example, the Swiss have been very prudent over the decades. They did everything right. But as a result their currency goes up in value and now the national bank spends billions to keep it from going through the roof. So we are all in the same boat.

A majority of the countries in the world are not democratic. This factor keeps us closer together.

Trans-Atlantic relations go back to the Cold War era. That time has ended (although not for everyone). We have no common enemy to bind us together. Some have suggested creation of an Atlantic-Basin, including South America and Africa, but that is too ambitious. Are the EU and the US really that close? Economically the relationship is clear. But we are no longer on the same political page.

Europe took a different political path from the US. This path was approved by the US but not adopted at home. The US did not want militarism to rise again in Europe. Since the split over the Iraq war, the alliance is tattered. Confidence is broken in many places. NOT because Europeans want to become a major power. That will not happen. The amount of spending to get Europe to equivalent US military power would be much too much for Europe to accept. From the US perspective, the European problem is solved. With whom are we (as Europeans) talking? The US gave up its isolation in 1917, but then withdrew and saw the aftereffects of that withdrawal. Then the US came in again and this time stayed around. The idea was to stabilize Europe with NATO: "Keep the US in, the Russians out and Germany down." So now how much does the US have to invest? Not much. The economy has been working well for decades. [No mention made of the Euro Crisis at all.] The EU doesn't need US political support.

The US took on more than even the sole remaining super power. We are not yet in a multipolar world. Some applicants for power may not make it. But does it matter? From the US, you have been #1 and now there are others vying for that position. But the US is still the strongest. Does the US have the will to exercise power and lead. Europe has adopted a post-modern approach - soft power coupled with

flexibility and tolerance. This makes it hard to play power politics. The European approach is a strength and a weakness. Some take it as a sign of weakness and try to exploit it. Some talk of free trade agreements. But there are huge obstacles – still possibly a step by step and sector by sector approach could bring results. But removing obstacles makes life easier.

As to energy policy – in particular, shale gas and fracking – for Austria the answer is no way, contrary to what is happening here. Europe and Austria are more densely-populated and the mind-set is greener. Also, the people of each region – US and EU – have different future scenarios.

The EU's biggest worry is that the US is turning its interest to Pacific. This trend began already with George H. W. Bush (the last trans-Atlantic president). The Pacific is beyond Europe's zone of projection. The rise of China's power puts EU-US common values in question. When the European Commission negotiates contracts with Africa, it focuses on gender equality and minority rights. Europeans want to be green and social and innovated and tell everyone to be like them. In contrast, the Chinese government agency comes in and puts the money on the table.

Western, developed economies are finally facing structural changes that were so long covered – in the US by mortgages and financial innovation and in Europe by transfers. The digital revolution has changed what we are best suited to produce.

Q+A -

It's been a dry spell for 3 years to get anything done with the US government. Congress has been a problem. The fiscal cliff will be extended, perhaps 6-12 months. The lame duck session (when representatives who have been defeated still hold office) is too weak. Perhaps by March of next year some movement is possible. WHEN President is Obama reelected, he will not get an overwhelming new mandate. There will be no landslide. Republicans will have nothing to gain by blocking him since he will not have a 3rd term.[But a successful 2nd term will make another Democrat more likely and anyway not shrink government.] But this presidential administration has been very hermetic and has to open up. Possibly it will hold more conversations with Congress. Perhaps it will have a more realistic view of what is happening in Europe. In part due to election politics. Republican paint Europe as source of all bad programs. Very few Americans actually go to Europe or analyze it honestly.

The European construction is not beautiful. The EU is an ugly beast but it works.

The root causes for financial crisis goes back to the 1980's and US financial market de-regulation. Money began to play with itself. We all know what happens when you play with yourself. You go blind. Deregulation was in lieu of real growth. Tony Blair said the future is financial services, not manufacturing. Look at where the UK is and where we are..... Everyone was looking for a 10-15% return. There is no way to achieve that.

In the 1990's there was a push to get a bigger mortgage for the same monthly rate. This created the bubble. Will we permit that again? Now Austrian Banks have to raise new capital and it is painful. The Republicans talk about getting rid of the regulations which are not even in effect. Otherwise, these bubbles arise every 20 years. Financial markets used to be complementary to the real economy. Structural problems go deeper. The workplace is changing. There is not even a debate about what skills are needed. Social security has to change. Lifelong employment by one company will not happen again.

R+D and innovation have been the big issue. Developed countries cannot compete on the basis of cost, so have to be ingenious.

Martin Regalia – Vice President and Chief Economist, US Chamber of Commerce

The talk covers three issues – 1) the underlying economy,** fiscal cliff and longer run issues of the US debt and deficit.

The economy has been growing for 3 years but at only 2.2%, a poor rate. Normally we come back faster than the normal growth rate. This time we dropped significantly in 2008/9. It was one of the steepest and longest downturns we have faced. In both 1974-5 and 1982 we came back quickly. But not this time. Our growth rate has been below the prior recoveries. They were 6-9%. Those rates put people back to work quickly, in 1 to 3 years. At our current pace, we are still 4 years from reaching our prior employment level.

Why is this recovery different? US consumption has been 2/3rds of our economy and consumption is driven by income and net worth. But neither of these is growing now. Wages stagnate and too few jobs mean not much income. In the past we enacted tax cuts and artificially stimulated the economy, putting more money in consumers' hands. The current stimulus was supposed to be made up 40% of tax cuts, but it wasn't. [No explanation offered as to why not or what portion tax cuts DID make up.] 60% was largely green energy projects. [Again no details.]

We suffered a huge decline in net worth. Some say we face a “new normal” but that implies that old experience does not apply and we cannot predict the future based on the past. However, we really have the same old economy.

On the financial asset side, we have recovered, with the stock market passing the 2007 high mark yesterday. But we have not recovered on the real assets side. A great deal of our problem is housing. We have not significantly reduced household debt. The debt just stopped growing. With current low interest rates, we have given debtors a big boost, but we cannot keep doing this. So consumption has lagged.

Once housing prices begin to go back up, then spending will return. But not until. The real asset side of the economy is more evenly dispersed. We HAVE seen the bottom in housing. Prices are up. Starts are up. Even in Phoenix, San Diego and Las Vegas prices have stopped dropping. But we overbuilt and experienced a DECLINE in household formations, so new demand is not coming online at the old rate. We also have home financing problems. The government decided that everyone should have a house. So people were encouraged to buy homes who should not have. Government said lenders should loan money to buy houses. The result was a huge overhang in subprime loans. You seldom market in the US as “sub prime”. The terms were antithetical to building a financial asset. We are still a few years away from something positive.

Regarding investments, they are more predictable and quantifiable and so economists like them. Government can provide incentives to invest now instead of next year. But there was no underlying demand to support. We mainly moved up investment. Customers are failing to show up. Consumption adds 2% to the growth rate. Investments are only 15% of the economy. 85% of the economy is growing at only 2%.

Shipping and box production are good economic indicators. They are not declining. So Ben Bernanke would not have not announced QE3 if he had thought something else was not going on. If we go into another recession, it's due to impending fiscal cliff.

TRADE – The dollar has weakened. This was good for US exports. But faltering economies elsewhere have hurt our exports.

LABOR MARKETS - 8.5 million jobs were lost. 4 million have come back. We are 4.5 million short. We need to add 80,000 jobs a month just to keep even with the population growth. Unemployment has dropped to 8.1% because people have left the workforce. They went back to school or retired. Last month, 368,000 people left the work force. How do we get people back to work? We have to grow faster than the base line 2%. Indeed, we need 4.2% growth for a year to have a big effect. We now have the lowest labor participation rate since 1981. On November 6th, the rate may be below 8%, but not by creating jobs buy by driving people out of the market.

Looking at those who stopped looking for jobs based on age, we see that all groups other than workers 55 and older dropped. So the decline in work force participation is not due to early retirement.

FISCAL CLIFF -

The Bush tax cuts were extended for 2 years. Then the debt ceiling crisis came – with Republicans refusing to raise the ceiling. The ceiling is based on past spending, not future spending. When the problem could not otherwise be solved, Congress created the Super Committee to find \$1.2 trillion in cuts. But they could not agree. So they put in a plan for “sequestration” - across the board cuts. This sort of cut is very hard to manage. The cuts are so draconian that no one wants them. \$500 billion will be cut - 4% of GDP. If we go over the cliff, we certainly have a recession, a loss of 1 million jobs.

We have spent too much, so we have a big debt. Without adjustment, the debt to gdp will continue to grow as a percentage. We need to stabilize the debt for 5 years and then begin to reduce it. Debt holders will not be willing to continue to hold US debt. Interest rates on our \$9 trillion owed to others will go up.

Q+A

Some unemployment is due to the absence of the right qualifications – but this is anecdotal information. Our traditional labor mobility is reduced by the housing market. Workers cannot sell their homes and move. The upper Midwest has demands for energy extraction and skilled labor and not enough people are moving there.

As to the recently announced QE3, we see very little inflation. Oil prices went up after the announcement. Section 13.3 of Fed Reserve Act permits the Fed to lend to whomever it wishes. When QE2 (\$2 trillion in assets purchased) was implemented, excess reserves went up, so banks held on to the additional amounts. Banks did not lend out these extra funds. The Fed pumped the money out but the banks then gave the money back to the Fed and made risk free interest! So it was a subsidy to the banks for 18 months with no benefit to the general economy.

Wall Street thinks the US will NOT go over the fiscal cliff. The results are just unthinkable. But what would motivate a lame duck session of Congress to deal with the problem. That scenario presumes that the representatives NOT elected will do the “heavy lifting” for the people who beat them; they will solve the difficult problem and let their successors take the credit.

Ben Bernanke may well think that the lame duck Congress will NOT deal with the problem and so he has to act. But how do we know the QE3 will not also go to the banks' reserves just like the other QE funds?

Obama is the most anti-risk president ever. You NEED risk to generate profits. True, we went too far in taking risk, but we should not swing back to a no risk stance. The Fed permits the banks to take their no-risk position by the QE and redeposits and still make a profit.

Regarding the fiscal cliff, the Super Committee did not bring any particular new problems to light. The debt and deficit problems were already clear. The US social security problem can be fixed by permitting retirement first at an older age. Cost control under Medicare is a bigger problem. The Super Committee showed that pressure does not produce results. The US needs spending and tax reform; how much revenue do we have to raise? What is the ratio of total revenue and total spending to gdp? If we have only a 2% budget deficit, we would not have a problem.

Norman Ornstein, Resident Scholar, American Enterprise Institute

Mr. Ornstein began with a series of political jokes.

- The weather this morning was 82 and foggy. Just like Clint Eastwood. [A reference to the odd performance of Mr. Eastwood at the Republican Convection.]
- Donald Trump had to cancel his appearance in Tampa. Who says nothing good comes from hurricanes.
- Michele Obama's speech at the Democratic Convention – Fox News called it, "Not the worst." High praise indeed!
- Mitt should have selected Newt to balance the ticket - a Mormon and a polygamist.[Referring to Newt Gingrich's having had 3 wives.]

In the last 43 years Washington has never been so dysfunctional. This observation applies in other parts of the world, too, not just the US. Canada could be the exception. The common thread is a world economy that is not performing and a major financial crisis. How do we get an economy moving again? Financial stimulus worsens the debt problem and then you have to pivot and reduce spending.

Normally if businesses have it too easy, they become bloated and then have to purge their inventories and lay off workers. This is painful and hard on government since it reduces tax revenue. But the current crisis did not result from normal causes. There are deep problems with the US political culture. Over the last 25 years our two political parties have become like parliamentary parties. In 1969, the Democrats were the big tent majority – including people through the full range from conservative and moderate to liberal. Rural conservatives were in solid control of the South. The other half of the Democratic Party

were urban liberals. The Republicans were also heterogeneous, with 30% in the North East and New England on the East Coast and Washington, Oregon and California out West. They were moderate conservatives. But the regions changed - the South transformed itself and became Republican. The North East and West Coast became Democrats, now with few conservatives. So, the two parties became oppositional and consistent. Our political system and culture do not accommodate this type of party.

Furthermore, we now have a majority opposed by a minority. Our culture accepts the legitimacy of the majority. In the UK, people accept the actions of the government. Here it does not work that way. We do not have a separate election for a government. The 3 branches are elected separately. Also, the culture is different – the Constitutional framers created a “Congress” – from the word to come together. “Parliament” is from “parlay”. In the US, our framers thought of the country as an extended republic. Different people with very different lives came together. Back then, some Americans would not see another human being for months. How did the government get these back woods types to accept government decisions? The answer was to bring them together face to face to reach a consensus. Hopefully the consensus was broad, but even if not, the loser accepts the decision of the majority as legitimate. Former Senator Daniel Patrick Moynihan says we do not do broad social policy without broad support.

In first 2 years since the last election, President Obama had control of all parts of government [except the Supreme Court]. But today you cannot govern even with a majority. Now you need 60 votes - even for to have your nominations accepted.

Look at the amount of legislation during that period. It included the stimulus, health care, credit card, Lilly Ledbetter equal pay for women and Dodd-Frank. But because it was all done by one party with a united opposition, it was seen as illegitimate. So there is today a continuing attempt by the Republicans to make these laws seem illegitimate. Republicans try to block everything.

Representative Eric Cantor says the House of Representative has left Washington until after the election. They passed 61 laws - the smallest in years. 1/3 of the laws simply name post offices. Also, the down grade of US credit resulted from the do nothing attitude of the Republicans. Even the famous “Do Nothing” 80th Congress (1947-49) campaigned against by President Truman created the Marshall Plan. This one has done even less.

Now nothing will be done until after the election. Senator Mitch McConnell’s effort to delegitimize the government worked in the bi-election. Now people do not know whom to hold accountable – the Democrats or the Republicans.

You cannot throw most of these elected officials out of office because they hold safe seats thanks to Gerrymandering.

As parties become parliamentary, the movement of the two parties has been asymmetrical. Democrats moved a little left by reason of the loss of so called “blue dog” (conservative) members. Republican on the other hand have become radical, not merely conservative. They do not try to “conserve” the culture. Republicans want major change. The Democrats want the status quo. The Democrats want government to work and to make changes at the margins.

Partisanship is built in to our system, but it has now become tribalism. At some point, you come together. But now the parties speak of each other in terms of "enemies." You do not have 2 seasons – campaigning and governing - it is a permanent campaign. It is not a question of the policy but who proposes it. You oppose an idea today even if you were for it before.

Senator McConnell wanted a bi-partisan commission to deal with the debt. In 2010, the President got behind the commission. But then Senator McConnell and 7 other Republicans voted against their own legislation. They did not want Obama to get the political victory which would have resulted.

Regarding health care - there was a bi-partisan proposal - it moved in the direction of non-employer provided coverage. A lot of people say it would have been better than Obamacare. It started out in the Senate with 16 supporters. But when President Obama supported it, all 8 Republicans dropped their support.

Furthermore, all of the business models of media have changed. This compounds matters. People can access any point of view they want. There are no filters. They can then get their message amplified. So this encourages tribalism. The tribes create their own facts.

These factors make it hard to predict the election. We are split 1/3-1/3-1/3. And of the middle 1/3, 80% are split and lean equally left and right. Of the very small rest - you have a few moderate Republicans and others who are also split. Many of the others are totally unengaged. They don't know anything. They think things are worse than they are. And many of those make no difference. They are in the wrong states, i.e. their votes are meaningless. Only 8-10 states make a difference. This is 2% of the population. The paths to 270 votes in the Electoral College for the reelection of President Obama are multiple but the path is limited for Mitt Romney. Winning by a big margin in many states will make no difference to Mitt Romney. One of the swing states, Ohio, is affected by Romney's Wall Street Journal editorial, "Let the Auto Industry Go Bankrupt." He will have a hard time winning Ohio. Obama currently has a 65% chance of winning. But a lot can happen. Early voting begins soon. Other factors which may affect the outcome include the debates, the Middle East, Libya, China and the Euro -Italy, Spain and Greece and how Germany reacts.

If President Obama is reelected, but with Republicans still in control of the House but not the Senate, we will continue with the status quo. If so, lots of Republicans in the Senate COULD say it needs to solve some problems. The House will be more difficult. Obama may let's put off the fiscal cliff for a few months. He may come back to the Simpson Bowles Report as the basis for some compromise.

If Romney wins, the government will be very different. His Vice President Paul Ryan thinks there will be a narrow window to push through the repeal of as much Obama legislation as possible and used the tax reconciliation process to avoid having to have supermajority to pass. This is how the Bush tax cuts were passed and why they had to expire. Ryan also hopes to make permanent tax cuts and make the House Ways and Means Committee come up with loopholes to be closed. Then increase spending on the military and cut Medicare 30%. Almost all government programs would be cut by 40%. This included air traffic control, food inspection, homeland security – they would all be all cut. If so, a lot of programs will be cut completely. Then there will be a backlash. It will be like Governor Scott Walker in Wisconsin who tried to beat down public employee unions. It would be a great experiment.

Voters want this stalemate to end. They want their representatives to solve the problems. It would be difficult for any system but has become even more difficult due to the factors discussed.

Q+A

The reconciliation process is not supposed to be able to increase the deficit. The Republicans think the parliamentarian will support them or they will simply re-write the rules. Some will resist, but in the Senate the split could be 50-50 with the Vice President breaking tie. But the Republicans would need ALL 50 votes. There are a few moderate Republicans - Susan Collins for example. To vote with the Democrats would mean becoming an outcast in your party.

Americans want to balance budget but have no idea what that means.

There is some desire to change the filibuster rule and not require 60 votes in the Senate. The (blocking) minority would actually have to show up. But Mitch McConnell does not want to change the rules. First the Republicans will try reconciliation. They think like Dick Cheney and his vision of Iraq - once we topple the old administration and the people taste freedom, they will love it. This makes the Senate a dysfunctional body.

What does it take to abolish the filibuster? It is not in the Constitution or the Senate rules. There is a procedure known as "moving the previous question". The Senate had this rule. In 1805, Aaron Burr (then Vice President and therefore presiding officer of the Senate) made a speech. He suggested cleaning up the Senate rules and made specific proposals including ending "moving the previous question." These rule changes were adopted. But without "moving the previous question", you could not stop someone from talking. In March 1917, 5 Senators made a filibuster to keep the US out of WWI. It takes a 2/3rds vote of the Senate to change the rule. By the way Senators are elected – 1/3rd every 2 years – this becomes almost impossible. Could it be by another mechanism? It was last changed in 1975.

Regarding the fiscal cliff, avoiding it may be more a wish than reality. A main reason for this problem is that the business community did not pay proper attention. Businessmen constantly come to the US Chamber of Commerce to propose legislation or complain about regulations. But no CEO has ever made an appointment at the Chamber to talk about the fiscal cliff. So the business community too has been caught up in the tribalism. Some businessmen are active in the Senate looking for Simpson Bowles solution. But not in House. There is no sense of urgency - the stock market keeps going up. The fiscal cliff could be the Democrat's only leverage – to get the tax cuts to expire. Then, after they have expired, Obama says, "Let's but taxes for all except those making \$250,000 a year or more." It would be difficult for the Republicans to vote against a tax cut. The higher rates would cut the deficit.

The swing states will be plastered with ads for one or the other candidate from now until November 6th.

Some Senators ARE by nature problem solvers. We can find 75 Senators who will sign on for the Simpson Bowles plan. But the House is different. They all fear the Club for Growth, that it will defeat any Republican who votes for a Simpson Bowles based plan. Until John Boehner puts forth a plan that he knows will get the support of less than 1/2 his party, we will not have action.

Maya MacGuineas – President of the Committee for a Responsible Federal Budget

Being so close to a financial crisis may finally bring about action. That would be good. Finally, the federal budget is front page news. Paul Ryan has helped focus attention on this subject. Years ago, Ms. MacGuineas wrote a Financial Times editorial on what to do when the US does not issue any more debt, due to the surplus. Those times have passed.

The debt ceiling increase was tied to Simpson Bowles. The debt commission did come up with a good plan. It was practical. It was big enough to solve the problem. It would not have derailed the problem. It was a game changer. But nothing happened.

Having a reserve currency has been a curse because it removes the market pressure on the US. We are the safe currency. The markets reward us for our risky behavior. We have been underinvesting in our public infrastructure. Our finances are addicted to cheap capital. We are now at debt equal to 70% of GDP and heading towards 90%.

We want to spend money but not pay for it. Our budget is 16% investment and 84% consumption. For Americans over 65 we pay \$7 for every \$1 spent on our children.

Politics are remarkable. We have never faced a more toxic time. When Standard + Poor's downgraded US debt, it was not so much about our actual financial situation as about the ability of the government to deal with it. Neither a Republican nor a Democratic plan can pass. So normally there would be compromise. But parties are so entrenched that no compromise is coming. How can there be a deal without compromise?

Simpson Bowles was not supported by administration. But many people began talking about it. The US economy had "bubble hopped" from technology to housing to consumer debt. Now we are in a government debut bubble. Where can we go from here? We need a business investment lead recovery. US companies have capital, but they need stability to be willing to put it to work.

Recall that we almost defaulted. The business community did not speak up. It did not cut spending or slow health care cost growth. The health care costs are mainly due to technology and an aging population.. A lot of countries are ahead of us in these respects. We have to deal with life expectancy. AARP (the American Association of Retired Persons) is very influential. The United States Chamber of Commerce [where we were meeting] is very important, too.

Tax revenue has to go up, too.

The problem is so big that it requires ALL the factors to be dealt with, not just a few. We have \$1.3 trillion in lost revenue due to tax loopholes. Our tax code is a major problem.

We created the fiscal cliff problem ourselves. Our system does not permit dealing with hard decisions until we have to. The voters will criticize Senators and Congressmen and ask why they didn't do better unless they finally buckle at the last minute. But the cliff is an "action-forcing opportunity".

So, what happens on Nov. 7th, the day after the election? December 31st is when things will get decided. But there is no real strategy to use during that brief period.

Going back to Simpson Bowles - that's starting point. During the lame duck period, we may see a "mini-deal" with cuts up to \$1 trillion. Then the issue could go to the various committees with 6 months to figure out the key levers to change. If we do not get it done then, there is a crude tax reform ready. Crude, but enough to move others. Policy makers will not make hard choices. We are outsourcing these hard decisions. Democracies should not work this way.

One result of this problem is that Standard and Poor's comes by to consult on the budget. That is a new development. Credit markets will begin to show fear about 2 months before the deadline. We are paying a price by not acting now. Possibly we will punt and extend the tax cuts for some fixed period. The 2010 extension of the tax cuts was a disaster and was not really bi-partisan.

This election will be a nail biter. Both Obama and Romney want to do a debt deal, but their parties make it difficult. Senators want to offer the voters a sweetener to make the legislation work. But the government has already given away all the sweeteners.

Q+A

This discussion has been on the federal level, but the states have huge health care and pension liabilities. We cannot compare the budgets of NY and California because their rules are so different. Even experts are not experts on both federal AND state budgets. What happens if a state defaulted? States are separate legal entities, but when this scenario is roll played, the federal government always decides to bail out the states. Currently there are 30 risky states.

There's interplay between fiscal and monetary policy, but hard to figure it out. We are interdependent with China.

President Obama had a chance to deal with this problem for 4 years, but he did not do much. On the other hand, he was faced with a polarized Congress. If reelected, he would try again.

Romney would like to do a deal - he's a businessman. He wants to solve the problem.

Obama's plans are reasonable, but too small. And they are dressed up with gimmicks.

Romney has not explained how he would expand the tax base. It's a secret plan. He has to get more specific. Who would be better at getting the two parties together? Some Republicans think only spending cuts will do it. Some Democrats will cut programs but those programs have to be structurally changed. Some Republicans will put in more money but only if the entitlement plans are fixed. It's a terrible job to have as President. A solution will cause GDP problems.

SCIENCE TALK

The 2nd day of the Conference – actually, two back-to-back conferences - was devoted to science and to encouraging Austrian scientists currently in the US to return to Austria. It presented a window into how science, industry and academics operate in Austria, why young Austrians may not want to go back and what Austria is doing to try to change that dynamic. This was the 9th such conference and the organizers understand that this must be a long term initiative. The participants get travel money from Austria and

come from all over the US. Austria estimates that there are 1,000 Austrian scientists in the US. Approximately 200 attended.

Austria needs more engineers to support its growing medium and high-tech industries. They include automobiles, Dreamliner components, GPS systems (being bought in the US for the first time), valves, and computer parts. The shortage of engineers is being filled in part by Spanish immigrants. Science has become dramatically more important to the Austrian economy in the last 50 years.

Disincentives to returning to Austria include:

- Limited opportunities for university positions and then murky career paths once in a university position. ["The US career path is tough but clear. In the EU the path is tough but unclear. In Austria it is maybe not so tough, but is very unclear."]

- Hostility from colleagues who stayed in Austria and consider those who went to the US to have been on vacation.

 - Poor access to well-equipped laboratories.

 - Popular Austrian attitudes regarding basic research and science in general.

 - Attitudes about failure - which actually is part of the learning process.

However Austrian scientists face fewer problems in returning than Germans do, whose German pension system requires painful adjustments to take into account years spent abroad.

Using scientific citations per capita as a guide, Austria ranks #15 in the world, close to Germany (#16) and the US (#11). Ranking in the top positions are countries which might be considered similar to Austria - Switzerland, Sweden, Denmark and Finland.

Heinz Engl, Rector of the University of Vienna explained that:

- The University has 91,342 students. About 14,000 start each year but only 8,000 graduate, so 6,000 drop out. The University provides very little guidance along the way. A new requirement for continuing to small seminars is passing 3 rigorous exams early in the process. This requirement should weed out weak students and improve the student-professor ratio. The University is the second largest employer in Vienna (the City is #1), with 9,500 employees, of which 6,800 are scientists. It will experience a large turnover in the next 5 years, with many senior professors retiring. It recently hired 40 new professors, 10 from Germany and some from the US (mainly Germans teaching here).

In a breakout session, I sat with two government officials (Friedrich Faulhammer, General Secretary of the Federal Ministry for Science and Research, and Christoph Kratky, President of the Science Funds) and about 8 social scientists – a philosopher, political scientists, public health worker and museum curators. They complained about the lack of funding for study in the US. The representatives of the Austrian government explained that the two educational systems do not match up. The Austrian is essentially free to all comers, including those from outside Austria, but the US is pay as you go. An Austrian scientist explained that she had come to the US on an athletic scholarship but then pieced together other US funding sources.

The Conference was held at the American Association for the Advancement of Science. It sponsors a program to use science as a means of international diplomacy, including countries with which the US

otherwise does not have good relations. See www.sciencediplomacy.org. [This reminds me that in the midst of WWI England and Germany cooperated to carry out one of Einstein's experiments. It was successful.]

CHROMOSOME SEGREGATION - ANGELIKA AMON, MIT

When mistakes happen in desegregation, diseases result.

1. Problem - what does it mean to have the wrong number of chromosomes. (aneuploidy)?

There are many types of aneuploidy. Having one is haploidy. We normally have diploidy as humans. If we have one too many, then it is trisomy. If one too few, then it is monosomy. A third possibility is high-grade aneuploidy - these are characteristic of cancers. There are other mosaic aneuploidy and constitutional aneuploidy. Constitutional means the whole organism has the wrong number. If it is mosaic aneuploidy, then only some parts have the characteristic - that is a characteristic of cancer. If the parts don't line up properly, then, upon splitting there may be extras or too few. Missegregation is pretty common. What is the impact of having the wrong number of chromosomes?

Study in this area began in 1902 with Marcella O'Grady and Theodore Boveri. They considered the question What is the impact of having the wrong number of chromosomes. They experimented with embryos. They concluded that aneu was "bad news." In 1929, Barbara McClintock also studied this phenomenon in corn. In 1959, Jerome Lejeune showed that Down Syndrome was due to trisomy 21. But Down Syndrome is one of many problems that result. Aneu is a leading cause of miscarriages and mental retardation. All autosomal monosomies and most autosomal trisomies are lethal. 90% of solid tumors are aneu....

So, is it one particular gene or is it the sum of many genes which cause the problems? For Down Syndrome, they develop Alzheimer's early. So one gene on Tri 21 - that causes Alzheimer's to occur already in the 40's vs. the more normal occurrence in the 80's. Down Syndrome researchers think it's not any one gene. There are many problems associated with Down Syndrome and they are not all caused by the same one gene. But the problems are interrelated.

Gaining or losing a single chromosome is very detrimental. This is true also in plants. But cancer is something that grows and grows until it takes over. The chromosomes make the cell grow BETTER. So what happens to otherwise normal cells when they have the wrong number of chromosomes?

Several ways of studying this have been developed. But there are also common traits, regardless to the number or location of the wrong number.

1 systems. Use Baker's yeast or brewer's yeast (same?). The way the cells divide the same way as human. If something shows up on yeast, then move to mice. Cell division is quite basic. Yeast does work as a model for other growth. So scientists use this method. researchers introduce the chromosomes. They create the wrong number of chrom at each point on the string. So they grow the cells in a dish.

SO these are artificially created wrong numbers. We know how to do this with drugs. The inhibitor interferes with the segregation.

Aneuploidy causes proteotoxic stress. Cell is protein. They have 3 dimensions. If misfolding, then they aggregate and begin to interfere. This is the stress. These cells get stuck in a particular phase of the dividing process. Parkinson and Huntington's are formed by these aggregations. The cells die and it causes the symptoms.

We can actually see the aggregations in the cells.

Autophagy is induced upon chromosome mis-generation. Where does the stress come from (proteotoxic) - The extra chromosomes are active and make more.

Working Hypothesis. Aneuploidy leads to excess protein production. This swamps the normal process.

If aneuploidy causes a problem in all cells, can we exploit it in cancer therapy. Can we find drugs which inhibit proliferation of bad cells and leave the rest alone? We do not know HOW they work, only that they DO work. They moved from aneuploidy cells to cancer cells. Hard to find proper control cells. Colon cancer comes in two types: MIN and CIN. Min are not very aneuploid. CIN is. So these are sort of controls. Yes, there was a differential effect.

Mice can be caused to grow cancer cells by injection of human cancer cells. So from observation we think the drug does affect the aneuploidy form of cancer.

10% of adult neurons in the brain are aneuploid. There is also a connection to Alzheimer's. Aneuploidy could contribute to protein aggregation characteristic of neurodegenerative diseases such as Huntington's, Parkinson and Alzheimer. Also polyQ.

Most cells of the body do this, but they cause disease only if in the brain. Well, the brain cells do not grow much. Heart muscles never turn over though - but they do not seem to cause disease.

MISC. COMMENTS / OBSERVATIONS

Some recent developments in Austria are related to fracking - mainly valves and compressors.

The US military is undergoing a major reorganization focused on restoring a more normal role for military reserves and reducing costs. [This comment from an American Pentagon employee who attended the Conference.]

US recycles 7% of plastic. Germany 19%.

An Austrian working in Mexico City said he had joined a country club just so he could walk safely outside. But another said that the real danger was mainly near the US border.

AUSTRIAN SCIENCE 2

AVL Affenzeller - powertrain engineer. Auto parts market in Austria has experienced dramatic growth - from sales of 75 million Euros in 1989 to 830 million today. Austria produces a wide array of parts, including transmissions and batteries. Austrian engineers work on "system optimization", not just

individual components. They also work on various aspects of electric cars, such as energy generation through braking. This company alone is looking to hire 40 engineers.

The US used to be the world leader in engineering, but now the ratio is 1/3rd US, 1/3rd Europe and 1/3rd the rest of the world.

Jost Bernasch works on driving simulation. He works on BMW projects in Spartanburg and at Clemson University. His firm has grown from 17 in 2003 to 211 today. Their goal is efficient, holistic vehicles. Work at his institute can lead to a habilitation at an academic institute with which his company is connected.

Sabine Herlitschka works at Infineon Austria. They make chips, including for iPhones. They even supply the US Printing Office. 1/2 of their 26,000 employees are in Asia. Annual sales exceed 4 billion Euros. Of their people working in Austria, 205 come from other countries. [However, since they are based in Munich, one wonders what portion of the 20% is German.] Infineon hired 420 people last year.

Anton Plimon represents the Austrian Institute of Technology. It employs more than 1,000 scientist and technical employees.

Ingolf Schaedler - A country does not reach the top scientific level by government or industry alone. A country needs both. Austria has changed its view about research and now supports it. Austria supports research in areas such as water, climate change and population growth.

Panel Discussion - The issue is not whether to network but how to get the most benefit from networking. A company cannot build competence all by itself; it needs reliable partners.

BREAK OUT SESSION

Minister - Until 2001 the Ministry supported research directly. It has changed and its research budget has been combined with other programs and given to a central agency. Austria has also undergone a series of budget cuts. Austria does face still the problem that the public does not understand the benefit of basic research.

As to social sciences, such as sociology and philosophy, they hardly existed in Austria after World War II. The center of this discipline moved to the Anglo Saxon countries. Very little was left in Vienna and none at all in the provinces.

Universities have strict rules regarding post doctorate studies and hiring. Educational institutions in Austria [and probably Germany and other countries offering higher education at state cost] are controlled by a federal law. Once an academic has left the state system, it is difficult to get back in, even for the very gifted.

Austria does cooperate with some US institutions and finances many projects, but it pays only for what is done in Austria, not for what is done in the US. Austrian support for Austrians studying abroad is very limited. Certainly, study abroad for social scientists is frowned upon. "Why should a philosopher go to England or the US to study philosophy?" These students stay in Austria but they do not get jobs. Career

advancement and study abroad are dependent on the personal recommendation of a particular professor.

Stipends all have a historical context. The Marshall Fund comes out of the Marshall Plan and Cold War Europe. One participant was the daughter of an Austrian who studied in the US as an "ex-enemy student." This turned into the Fulbright Program. Asia is now on the radar and Austria sends more students to China than to the US.

As noted elsewhere, Austria has a different student financing model than the US. Austria pays for students who study in Austria.

Rudolph (Rob) Houck
rhouck@rhoucklaw.com