



OBSERVATIONS HEARD AT RECENT CONFERENCES AND LECTURES

November 19, 2009

The following are observations made (mostly by others) at two recent conferences, both organized by the Atlantik-Bruecke, and at two lectures. More complete, but unofficial, transcripts of those conferences and one of the two lectures are attached.

PRESIDENT OBAMA and the NEW ADMINISTRATION

Obama has the biggest agenda since President Johnson (1963-68). At home, there are the financial stimulus and health care, then next year climate change and immigration. Abroad, there are Afghanistan, Iraq, Israel, Iran, etc., etc.

He has been spending too much time meeting with Europeans with nothing to show for it. He may soon shift to other countries which promise more results. Europe is not much help for many of the problems facing the US. Obama does not have particularly good, personal relations with Brown, Sarkozy, Berlusconi or Merkel.

HEALTH CARE

The US current health care system grew up post WWII and is no system at all. Many Americans equate health care with communism. The estimates of the cost of proposed legislation are not reliable and the program will probably cost more and savings will be smaller.

GLOBAL WARMING

The 8-year vacuum in Washington meant air regulation was on a state and regional level. Bush focused solely on oil, despite the suitability of Texas for wind and solar energy.

Lack of support and a regulatory framework in Washington has given other countries, in particular Germany and China, years of advantage in developing alternative energy markets and technology which the US may not be able to make up. Politicians talk of cooperation on a technology level, but why should German companies simply give their hard-won technology to American competitors?

China sees that global warming and related environmental changes pose a real danger and limit to its growth.

Coal power relies on old plants; their costs have been written off, thereby lowering the cost of the power they produce. There will be some nuclear advances, but mainly confined to upgrading existing plants, not building new ones.

The Copenhagen Conference comes too soon (December 7) after Obama's election to produce results. The trick is to portray it as a step forward and not as a failure. If it is viewed as a failure, politicians will have a harder time supporting legislation in this area.

25-30 of the 40 Republican Senators do not accept the idea of global warming.

Nancy Pelosi invited Chancellor Merkel to speak to Congress in part to address global warming, a topic the Republicans did not want to hear about.

Global warming makes the Arctic more interesting for several reasons: transportation and minerals but also pollution, which concerns Canada. Germany owns large shipping companies and wants to sell drilling equipment there. It objects to the possessive attitude of Sweden and Denmark regarding the Arctic.

TERROR

In the US, smaller attacks like in Madrid, London and Mumbai are more likely than large ones like 9-11. These may come from US citizens trained abroad. Our actions have helped terrorists recruit.

Another attack would be a disaster for Democrats. Republican demagogues would blame Obama and claim justification for torture and reduction of civil rights. [Republicans claim the recent shootings at Ft. Hood, Texas, were terrorism, in part in order to claim that President Obama has not kept Americans safe from terrorism.]

Unemployment and illiteracy feed terrorism. Piracy and terror are a combination of "greed and grievance." A realistic goal is to keep the threat of terrorism at a distance. Terrorism is a long-term condition, like a chronic disease. It cannot be eliminated. How do we control it; how much can we tolerate?

ECONOMY

US unemployment (currently about 10.2%) will continue to rise.

If this were a normal US recession, US economic growth in 2010 would be 6%, but Fannie Mae expects only 3% growth, fueled mainly by the stimulus. Job loss is the greatest since WW II. Furthermore, bonuses of those working have declined, overtime has declined and people holding two jobs remain "employed" despite having lost one job.

Only 11% of US labor is involved in manufacturing. 15% works for the government (including military service).

95% of the US housing credit market comes from the government, not banks. Housing inventory is about double the normal. The percentage of American who own their own home has dropped from 69.2% to 67% and may go to 65%. Each 1% equals 1.1 million households.

There is a danger that countries will see improvements in their economies and cut off the stimulus before the economic recovery is self-sustaining. Then we have the worst of both worlds. The US recovery is only about ¼ along.

Deflation is a larger threat than inflation.

Each country's economy is different. The US economy is 70+% consumer driven while China's is only 40%. Stimulus projects have to be tailored for each economy. Some (Germany's) projects primarily help only the local economy. Others require imports and benefit a larger area. Stimulus projects are not necessarily wasteful or costly. Each depends on its own merits. Some projects break up long term bottlenecks and will produce real wealth and returns.

The economies of Eastern Europe have been hard hit. Poland's less so.

US OPPOSITION

"The Republicans don't know what they are doing." – Sandra Day O'Connor, former Supreme Court Judge and Republican appointee.

Most Republican Senators do not accept the idea of global warming, just as they did not accept acid rain.

The Republican Party is trying to purify itself while the Democrats are having to deal with their "big tent."

The relationship between the parties is poisonous and uncivil. Leaders of the two parties do not speak to each other.

US GOVERNMENT GENERALLY

The 2010 census is important because voting districts will be reallocated, making them "safe" for the party in power.

The SEC claims to be competitive in its salary levels. [But a look at its website shows that its salaries are very low and not attractive, especially to candidates who have high law school loans to pay off.] The SEC views this as ensuring "new blood" and "a service mentality." [Others see it as resulting in inexperienced and timid regulators.]

WAR / DEFENSE

In World Wars I and II, soldiers sent home postcards, which arrived weeks later, censored, and were possibly passed around in small circles. In Viet Nam, we saw the war on TV. Today messages and images arrive instantly and can be viral in minutes.

The \$40 billion tanker (in-flight refueling) acquisition is being re-bid with the rules changed to clearly favor Boeing, despite EADS's superior product. Secretary Gates not only re-started the process, he fired the Secretary of the Air Force who was critical. So, there will be no opposition from the military. Favoring Boeing may not even produce more jobs here.

Democracies are not well suited to pursue long wars, especially if they do not understand the goals.

NATO

The US is less supportive of NATO. What use is it? Ambassador Boyden Gray [not present] says NATO focuses only on military aspects of problems and pushes out civilians and civilian solutions. People who are not generals have little to say.

AFGHANISTAN

The West has not defined or agreed on its goals or its tactics. People may say that we did not go into Afghanistan to send girls to school, but without education, the country will remain the same and revert when Western forces leave and the Taliban reemerges. Transforming a society takes generations.

The problem is not just Afghanistan or Afghanistan and Pakistan but Afghanistan, Pakistan and India, with some China thrown in. Pakistan supports the Taliban because Pakistan fears that Afghanistan and India will become friendly and encircle Pakistan. Pakistan has its troops engaged facing India, not in the region where the Taliban is influential. Pakistan is also threatened by India's economic growth. The Pakistan army is the only source of stability in Pakistan.

Withdrawal would be seen as a Taliban victory and would be destabilizing to Pakistan.

Afghanistan is not Iraq. It has 150% the area and 130% the population. Its population is more dispersed, less urban. Its infrastructure is much less developed. For example, Saddam Hussein's 50 palaces all had landing strips. US planes could fly right in. Not so in Afghanistan.

If the US and its allies are to stop alienating the Afghan population, they cannot use air strikes because of collateral damage. This means relying on infantry to fight a "retail" war. This style of warfare gives the Taliban the advantage.

America's initial goal was to wipe out Al Qaeda training bases in Afghanistan. It has done this. There are now perhaps 100 Al Qaeda members in Afghanistan vs. 500 in Yemen.

The Afghan drug trade is significant. It destabilizes Iran and Russia. At the same time, it shows that Afghanistan regions cooperate. The South (where the poppies grow) cooperates with the North (where the crop is processed, using chemicals supplied by European companies). The Taliban derives about

\$600 million a year from production. [The Pentagon estimates \$400 million.] These funds buy a lot of influence among the locals.

Germany provides much of the airlift and logistics for the troops of many countries engaged there.

Engagement of the Taliban and Iran in the solution may be necessary.

We complain about corruption in Afghanistan, but not long ago insider trading and bribery were common in Germany. Price fixing still occurs. Nepotism in a society still dependent on family structure for organization (like Afghanistan's) is not surprising.

BRICS

The BRICs are lumped together, but they are quite diverse. China and Brazil have similarities. Russia is not comparable to them. It is barely comparable to India.

Not just Pakistan but also India is fragile, with many internal points of division.

The development of the BRICs will affect international institutions. New players will not just want to be in the game; they will want to change the rules. There are too many European countries with too much influence in these groups.

RUSSIA

Russia is less strong than it was a year ago. It thought it would not be affected by the economic crisis, but it was wrong. It is pleased to see the US tied down in Iraq and Afghanistan. This gives Russia more freedom of movement. But Russia also does not want instability on its southern border. Drugs from Afghanistan flow into Russia (also Iran). Russia knows that it has been overtaken by China and possibly by India. Chinese immigrate illegally into Russia. Russia is under populated, with only 130 million people and an aging population in an area 50 times the size of Germany.

Russia feels humiliated by its dependence on natural resources. But it wants to monopolize energy in the region, so it opposes pipelines it cannot control.

CHINA

Although China's economic growth is impressive, it will take 40 years for it to accumulate real wealth.

China uses its vast dichotomy between rich and poor to provide cheap labor for exports.

The EU is unhappy that China may replace it in importance. Japan is uneasy about China's development. China's statistics are very unreliable. Its military spending is probably 2x reported. However, much of its army is intended to control the domestic population.

China's population is aging, in contrast to India's.

China is searching the world for raw materials and has 98% of the world's tungsten. (The EU has to get its tungsten by recycling ammunition.) Rare metals ("spice metals") are essential to much technology. There are 30 spice metals in a cell phone. China does not export these metals; instead it uses control of them to permit it to make value added products.

America's preoccupation with its wars, economy and health care mask tensions with China over trade.

China is now the #2 market for BMW and Audi, a sign of China's unequal wealth distribution.

China has an interest in stability in India and Pakistan.

INDIA

India looks at China's experience and wonders about the benefits of democracy.

Indian exports totaled 2.5% of world trade in 1949. Now they are 1.5%.

India is buying up pharmaceutical companies worldwide.

WORLD RELATIONS

The West's power is in decline, but mainly because other countries are developing. World literacy has been an important factor.

Most countries are less involved internationally, but the US has increased its involvement albeit at great cost.

TRADE

Trade barriers no longer take the form of tariffs but rather national regulations disguised as science or safety. American labor unions use labor regulations and environmental issues to block trade.

Agriculture, especially in the EU, is a central factor in trade restraint. The EU uses genetic engineering and irradiation as means to block imports.

Many Canadians wish Mexico was not in NAFTA.

GERMANY

Germany is still looking for a permanent seat on the UN Security Council. [This despite comments that Europe is over-represented in international organizations.]

Some Germans still call for greater socialism and even communism.

The retirement income of the average German retiree is higher than the net income of the average 35-year old.

A description of the fall of the wall is like blind men describing an elephant. Conservative Americans say Ronald Regan did it ("Mr. Gorbachev, tear down this wall!") West Germans say it was Ost Politik. East Germans say they did it in the streets. Poles say they did it, along with the Pope. Mike Meyer (former Newsweek bureau chief for Germany) makes a case for a small group of Hungarian politicians, who saw a chance to push Gorbachev. The Soviet Union was in such poor economic condition that the new Hungarian leaders were able – by framing their requests in financial terms – to get the flexibility they wanted from Gorbachev. They used it to open the border with Austria.

CANADA

The UK's entry into the EU (1973) resulted in loss of trade for Canada and made it dependent on the US. Canada has no other market for its oil. If NATO fails in Afghanistan, Canada will become still more dependent on the US. *

Canadian government regulation of its banks kept them from being hit badly by the current financial crisis. The government did not have to prop them up. This gives them an opportunity to expand.

Canada will withdraw its troops from Afghanistan by the end of 2011.

Canada does not want its tar sands to be known as "dirty oil."

Canada is more attractive than the US to Germans as investors.

Canadian provinces create their own barriers and inefficiencies. They reduce the mobility of highly educated service providers. They determine whether Canadian reservists returning from Afghanistan have a right to their old jobs. They don't.

ISRAEL

Israel's hard line makes movement in the whole region more difficult. The more time the US spends engaged there, the less energy it has to devote to Iran.

Some members of Congress have relations to Israel that go back decades. Administrations come and go. So Congress and especially the Senate have great influence. Israel can ignore any particular US administration.

MISC.

Having groups with multiple cultures can bring creative solutions, but when speed is important, they slow down the process. Single societies work better when there is a deadline.

The diversity of higher education is declining under the influence of US universities.

By 2015 the EU will represent only 5% of the world's population.

The EU has no “hard” power so it emphasizes “soft” power and issues lending themselves to soft power solutions.

Some world economies “imperfectly” deregulated from being state economies. This may have protected them from greater risks.

“Time” means different things to different people. To business people, it often means measurement and deadlines. To politicians, it means “timing” – when opportunities may arise.

At its current birth rate, each generation in Spain declines by 50%. Amsterdam’s immigrant population is about 50%.

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