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THE SQUIRREL'S NEST 2009

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THE SQUIRREL'S NEST

WEDNESDAY, DECEMBER 30, 2009

ARABIA FELIX: YEMEN THEN

Arabia Felix, Lucky Arabia, or present day Yemen, was at the heart of some of the most profitable commerce at the time of Emperor Augustus.

Incense, frankincense, was used extensively in Rome to mask the smell of burning flesh when they immolated their dead, a common Roman practice. It was a gateway north towards Rome and Byzantium, through the Red Sea as well as the trade routes through Mecca and of Medina, and south across the Indian Ocean to India and China.

It was a hub of global commerce with its own resources as well and Sanaa the capitol city was a beautiful hub of wealth and fine architecture.

The Historian Strabo, known for his books on geography stated about Arabia Felix, the following"

"The country of the Sanaaei (Arabia Felix), a very populous nation, is contiguous, and is the most fertile of all, producing myrrh, frankincense, and cinnamon. On the coast is found balsamum and another kind of herb of a very fragrant smell, but which is soon dissipated.

There are also sweet-smelling palms and the calamus. There are snakes also of a dark red color, a span in length, which spring up as high as a man's waist, and whose bite is incurable.

On account of the abundance which the soil produces, the people are lazy and indolent in their mode of life. The lower class of people live on roots, and sleep on the trees. The people who live near each other receive, in continued succession, the loads of perfumes and deliver them to others, who convey them as far as Syria and Mesopotamia. When the carriers become drowsy by the odor of the aromatics, the drowsiness is removed by the fumes of asphalt and of oat's beard.

Mariaba or Sanaa, the capital, is situated upon a mountain, well wooded. ... The people cultivate the ground, or follow the trade of dealing in aromatics, both the indigenous sort and those brought from Ethiopia; in order to procure them, they sail through the straits in vessels covered with skins. There is such an abundance of these aromatics, that cinnamon, cassia, and other spices are used by them instead of sticks and firewood.

By the trade in these aromatics both the Sanaaeans ... have become the richest of all the tribes, and possess a great quantity of wrought articles in gold and silver, as couches, tripods, basins, drinking-vessels, to which we must add the costly magnificence of their houses; for the doors, walls, and roofs are variegated with inlaid ivory, gold, silver, and precious stones. . ."

Arabia Felix prospered for centuries until the beginning of the seventh century, when Rome no longer burned their dead, they were buried, the demand for their product decreased, Byzantium was at war with Persia, Aden was ruled by Romans, Ethiopian Christians, Jews, and then Persians. The trade routes slowly faded.

Posted by Terry McGarty at [5:19 PM](#)  

Labels: [Commentary](#)

IMAGINE CABLE COSTING \$1,000 PER MONTH!

There is a battle brewing in New York City over the FOX local channel, Channel 5, demanding to get paid \$1 per subscriber from Time Warner. The [NY Times](#) reports:

"The News Corporation is threatening to remove its Fox stations from Time Warner Cable systems at the end of this week if the cable company does not agree to pay sizable subscriber fees, the same way it does for cable channels. In negotiations, the News Corporation is pushing for about \$1 a month for each subscriber, potentially setting a precedent for broadcasters that are seeking a new revenue stream to offset advertising declines."

Now I like Murdoch and I also was a Group President at Warner Cable almost thirty years ago so I have a set of divided loyalties in this fight. Yet as a consumer I think it is stupid.

Let's see. We have Cablevision and the fighting Dolans getting an arm and a leg for the MSG network already. You see I never ever watch sports. I went to one baseball game in my life, it was with the Brooklyn Dodgers and yes in Brooklyn. Never again. Never saw a football game, saw two or three basketball games. You see in my world sports is getting exercise, climbing mountains, cycling, swimming in heavy surf, and the like, not sitting with a stuffed tummy and a beer, I don't drink the stuff.

So why should I pay for MSG. I can even give up FOX in New York and see Family Guy reruns on the dozens of other channels. House has gotten dull, he should be sent to a good institution, and I have never seen the other reality shows. So why should I pay for FOX if I never watch it. If the CATV company was charged \$1 for every channel times all its subs then I may be paying for one channel at a time by at the rate in excess of \$1,000 per month, most going to the content providers! Insane.

You see, it is these tipping points, I really hate to use such a well worn phrase, but it does apply here, the tipping point is reached. Stop cable, keep broadband, and then use only Internet content which is free! Disintermediate the FOX and MSG owners. There is a point that Mr. Murdoch must come to understand when the customer just says no more and goes elsewhere.

You see just a few weeks ago in the same [NY Times](#), they had shown everyone how to disintermediate cable content. The author states:

"Although the initial investment was costly, totaling \$550, it took only a few months to recoup the money. Back in the olden days of cable we were forced to shell out a relatively standard \$140 a month, for television service alone. This cost gave us access to a digital video recorder and hundreds of unwatched TV channels.

Contrast this with today, where our only expense is \$9 a month to stream Netflix videos from the Web and the \$30 a month that we always spent on an Internet connection. O.K., maybe that's not completely accurate. When the wireless keyboard died a few weeks ago I was forced to spend another \$4 for two new AA batteries. We've not yet recovered from that financial loss.

We still come home from work and watch any number of shows, just like the people who continue to pay for cable. We just do it a little differently, starting the computer and then using services like Hulu, Boxee, iTunes and Joost. Another interesting twist to this experience is that we're no longer limited to consuming traditional programming. With these applications we can spend an entire evening flicking through videos from YouTube, CollegeHumor or Web-only programs."

The old business model for broadcast TV was give it away and make money by advertising. The new one is charge everyone whether or not they look at it and again charge for advertising.

Somewhere in this new model is a class action lawsuit!

Posted by Terry McGarty at [2:04 PM](#)  

Labels: [Broadband](#), [Telecom](#)

[NET NEUTRALITY: GOING TO THE EXTREME](#)

I have been discussing Net Neutrality for over five years now. The issue should be simple. First, the packets to and from me should be secure and not open to any form of inspection or discrimination by any intermediary. Second, if I send a hundred pound packet I should pay 100 times more than if I send a one pound packet, thereabouts. Simple.

Not quite. First the FCC has no authority here, really. Yet that has not stopped them from issuing an NPRM and in turn starting the rule-making. Yes it will be thrown out by the DC Circuit. But that has never stopped the FCC before. They have the reputation to keep of being the most Luddite group in DC, and that is truly saying something. One may have thought Martin rather heavy handed, well just look at the crowd now.

Now on to the most recent venture, the attempt to make Google adhere to net neutrality in searching, whatever that is. Yesterday in the [NY Times](#) some member of what appears to be a disadvantaged company, also called a flop by some, bemoans the fact that he alleges that Google did not treat him and his company properly, whatever that means. He states:

"Today, search engines like Google, Yahoo and Microsoft's new Bing have become the Internet's gatekeepers, and the crucial role they play in directing users to Web sites means they are now as essential a component of its infrastructure as the physical network itself. The F.C.C. needs to look beyond network neutrality and include "search neutrality": the principle that search engines should have no editorial policies other than that their results be comprehensive, impartial and based solely on relevance."

You cannot make this up! Search Neutrality! How about the First Amendment to the Constitution. Must the Times allow equal time on Page 1 for dissenting opinions? I think not. Google has a service, if you do not like it go somewhere else. The FCC has even less authority here my poor disgruntled young person! At least in net neutrality as I had discussed it there is over a thousand years of common law in bailments to hang your hat on. What is the basis of your claim? Oh I forgot, this is the generation where every student is on the honor roll and every student is a winner at sports. Not like that in life!

This whining young person then continues:

"Google's treatment of Foundem stifled our growth and constrained the development of our innovative search technology. The preferential placement of Google Maps helped it unseat

MapQuest from its position as America's leading online mapping service virtually overnight. The share price of TomTom, a maker of navigation systems, has fallen by some 40 percent in the weeks since the announcement of Google's free turn-by-turn satellite navigation service. And RightMove, Britain's leading real-estate portal, lost 10 percent of its market value this month on the mere rumor that Google planned a real-estate search service here."

Let me tell a short story. I used Rand McNally's map service for years and paid a fee. Then they decided to change it, increased the fee, which I paid, and then destroyed all my old data. I had no reason to stay, I told them as much, went to Google, because it was better, not free, better! If Google had a bad search engine, such as in my opinion the Bing system, I would have gone elsewhere. I use Google, I like Google, I am making an economic decision.

We will watch the FCC go through the movements of being the protector of the consumer in the neutrality of everything wars. Perhaps they should try neutrality amongst religions, having Hindus, Christians, Jews, and the like all have equal footing, perhaps that would eliminate world conflict!

The rules to control net neutrality already exist in common law. They are the common law common carriage rights. We do not need some unbalanced FCC getting in the middle. The Government seems incapable of doing anything except spending money. In my experience the only competent branch of the Federal Executive is the Military, most of the time, not always. For example, just look at the three stooges from last weeks flight to Detroit. We want these minds controlling our information flow now, not really, let the market do that, please.

Posted by Terry McGarty at [1:42 PM](#)  

Labels: [Broadband](#), [FCC](#), [Internet Neutrality](#)

TUESDAY, DECEMBER 29, 2009 **RUSSIAN OIL AND THE PACIFIC**

I remember in the early 1990s after the opening of Russia having many conversations in DC with both Government officials and Halliburton folks, specifically Brown and Root, about developing strategic relationships with Russia to get the oil pipelines to the Pacific coast and having the US and Russia being in a position to strategically control key elements of the global oil markets, the US with production and distribution, Russia with extraction and distribution. Of course the answer was that Russian oil has no value and if they want anything from the US they will pay us.

Thus I was interested in the article from the [Moscow Times](#) today which states:

"Russia expanded its foothold on the Asian energy market with the click of a mouse Monday. Prime Minister Vladimir Putin pressed a button to get Siberian oil flowing into the first tanker for delivery to an Asian customer, in Hong Kong, from Russia's Pacific coast. In addition to China, supplies will also target Japan and South Korea. The ceremony completed four years of work to construct the East Siberia-Pacific Ocean pipeline and the Kozmino port, worth a combined 420 billion rubles (\$14 billion) to ease the industry's reliance on the European market.

“It’s a strategic project because it allows us to enter the completely new, growing and promising markets of the Asian-Pacific region,” Putin said at the launch. “It’s a great present to Russia for the New Year.”

The foray into the Asian oil market follows Russia’s arrival as a major supplier of liquefied natural gas, or LNG, for its eastern neighbors earlier this year. The Gazprom-led Sakhalin-2 project — with Shell, Mitsui and Mitsubishi as partners — started shipping the gas, chilled to a liquid for loading into tankers, from Russia’s offshore fields in the Pacific in February.

As it expands into new markets, Russia is keeping abreast of the global trend of diversification among both energy buyers and sellers, which will make the business more competitive worldwide, said Elena Shadrina, a visiting energy researcher at the Norwegian Institute for Defense Studies.

“No supplier or consumer will have a dominant position,” she said by telephone from Oslo. Europe is trying to offset its dependence on gas imports from Russia by looking to buy more from Africa, while Turkmenistan began exporting its gas to China earlier this month, ending Russia’s role as its only major buyer. Asia, in turn, has been seeking alternatives to supplies from the Middle East.

Russia’s progress in eastward expansion has been spectacular, defying doubts that the country has sufficient oil reserves and investment, Shadrina said.”

Russia clearly has no further use for the US and the great window of opportunity was lost. Strange that both Government and industry here in the US were clueless. Putin is a shrewd and perceptive action driven leader whose return is most likely to occur soon. The expansion of these resources will further strengthen his position.

Posted by Terry McGarty at [5:41 PM](#)  

Labels: [Russia](#)

SATURDAY, DECEMBER 26, 2009

JAPAN: AND WE THINK WE ARE IN TROUBLE

Yesterday we reported on the progress of China's growth. They are seeing a GDP growth rate almost at 10%. And that is with their currency pegged to the dollar. Whereas Japan seems to be faltering.

The [Japan Times](#) reports:

“The Cabinet approved a ¥92.30 trillion initial budget Friday for fiscal 2010 — the largest ever — allowing Prime Minister Yukio Hatoyama to fulfill his goal of winding down the drafting process by year’s end. But the size of the general-account budget is larger than Hatoyama was hoping for, stoking long-simmering worries about Japan’s fiscal health. By comparison, the initial budget for fiscal 2009 was ¥88.55 trillion and relied on unprecedented levels of fresh debt issuance and nontax receipts. The economic slump is projected to bring tax revenues down to ¥37.40 trillion, the lowest since fiscal 1984. As a result, the Cabinet will have to issue ¥44.30 trillion in new government bonds — an alarming increase of 33.1 percent on the previous initial budget. The latest amount equals the sum of the bond issuance planned by the previous government for the initial budget, and the first extra budget for fiscal 2009.”

Japan seems to be rapidly sinking in its own debt. That is a harbinger for the US. Also if Japan in 2010 falls behind China in GDP, which we expect, then the US is next. We anticipate a GDP for

China in 2010 of well in excess of \$5.5 trillion whereas the US is at best to hist \$14.5 trillion. If China continues to grow at almost 10% rate then we see the passing of the US by 2020. China is stressing entrepreneurial growth whereas the US is destroying it under the current Administration. the coming year should prove interesting.

Posted by Terry McGarty at [5:36 AM](#)  

Labels: [China](#), [Japan](#)

FRIDAY, DECEMBER 25, 2009

SEEING OUT OF DIFFERENT GLASSES

I [recently reviewed the book by Cassidy on How Markets Fail](#). I thought it was well written but clearly biased against capitalism and rant with misconceptions of reality. Apparently many of those who read the review agreed.

Today in the [NY Times](#) the author states:

"John Cassidy, a writer for [The New Yorker](#), knows his Minsky and he knows financial markets too. The result is a lengthy book, "How Markets Fail: The Logic of Economic Calamities," that brilliantly dissects much of what has passed for economic wisdom, and decries the lack of humility from those whose theories helped cause the disaster."

Well, not really so brilliant. Again see the review. Cassidy is in my opinion an anti capitalist and his book takes certain events and in my opinion twists them to his purpose. Reading some of the comments on my review will also be helpful here. The Times article ends with:

"Mr. Cassidy asks, "What do you suppose that refers to? Builders constructing homes for which there is no demand? Mortgage lenders foisting costly subprime loans on little old ladies of limited education?" Nothing so specific, says Mr. Cassidy. Textbook economics overlooks such inconvenient realities. "In the world of Utopian economics, the latest crisis of capitalism is always a blip.""

Well, as I note it is not capitalism, but it is the clumsy heavy handedness of Washington. A current excellent example is in [Zero Hedge](#) today recounting a Barney Frank and Maxine Walters play on our money which goes to their benefit. Cassidy clearly has is axe to grind but I all too often wonder where reason and the truth are to be found.

Posted by Terry McGarty at [3:17 PM](#)  

Labels: [Commentary](#), [Economy](#)

CHINA AND ITS ECONOMY

China continues to move forward despite the world's economic woes. [Bloomberg](#) reports:

*"Gross domestic product was 31.405 trillion yuan (**\$4.6 trillion**) last year, the statistics bureau said at a briefing in Beijing today. That compares with a previous 30.067 trillion yuan and the World Bank's estimate of **\$4.9 trillion** for Japan."*

[The People's Daily](#) also states:

"China has revised its gross domestic product (GDP) growth rate for 2008 to 9.6 percent from 9 percent, the National Bureau of Statistics (NBS) said today. That raised GDP for 2008 to 31.4045 trillion yuan from the previous figure of 30.067 trillion yuan, NBS director Ma Jiantang told a press conference. The new figure amounted to about 4.59 trillion U.S. dollars, at the exchange rate on Dec. 31 of 2008. The revised volume for the agriculture sector was 3.3702 trillion yuan, accounting for 10.7 percent of GDP, down from 3.4 trillion yuan. The figure for the industrial sector was put at 14.9003 trillion yuan, accounting for 47.5 percent of GDP, was larger than the earlier figure of 14.6183 trillion yuan. The service sector figure was 13.1340 trillion yuan, accounting for 41.8 percent of GDP. It was up from 12.0487 trillion yuan.

The [GDP for the US](#) as of 1-1-2008 was \$14.44 trillion. However China also seems to be making great strides in energy efficiency. As reported by the [National Bureau of Statistics of China](#) they state:

"In 2008, the total output of primary energy was 2.65 billion tons of standard coal equivalent, of which, the output of coal was 2.8 billion tons (in kind); that of crude oil, 195.05 million tons; natural gas, 80.3 billion cubic meters. The total energy consumption was 2.91 billion tons of standard coal equivalent. By the end of 2008, of the total industrial enterprises above designated size, 48,637 enterprises conducted science and technology activities, accounting for 11.6 percent; 27,278 enterprises conducted R&D activities, accounting for 6.5 percent; there were 3,092 thousand people engaged in science and technology activities, up by 68.2 percent over that in 2004.

The total input in science and technology activities reached 594.17 billion yuan, up by 147.4 percent over that in 2004; of this total, the input in research and development (R&D) activities which represent the independent innovative capacity of enterprises totaled 307.31 billion yuan, up by 178.2 percent over that in 2004. The intensity of the input in R&D was 0.61 percent, and it was higher than that in 2004, which stood at 0.56 percent.

Among the large and medium-sized enterprises, 37.1 percent of them were engaged in science and technology activities, and 24.9 percent were engaged in R&D activities. The total input in R&D reached 268.13 billion yuan, the intensity of input was 0.84 percent, and it was higher than that in 2004, which was 0.71 percent.

The information such as: water consumption, status of informationization, education attainments, technical titles, and skill degrees of employees, and share-holding status, jurisdiction and business birth record of enterprises were all covered by the census.

Meanwhile, according to the accounting system of and the results from the Second National Economic Census, as well as in line with international convention, the preliminary estimates of 2008 GDP have been revised. The main results are: The total GDP was 31,404.5 billion yuan in 2008, of this total, the value added of the primary industry was 3,370.2 billion yuan, accounting for 10.7 percent of the total GDP; that of the secondary industry was 14,900.3 billion yuan, accounting for 47.5 percent of total GDP; that of the tertiary industry was 13,134.0 billion yuan, accounting for 41.8 percent of total GDP.

In addition, according to the results from the economic census, the total energy consumption in the year 2008 has been revised to 2.91 billion tons of standard coal equivalent, which was 2.12 percent higher than the originally released preliminary data. Revisions have also been made accordingly to total energy consumption figures for the period of 2005 to 2007. Basing on the revised energy consumption data from 2006 to 2008 and GDP estimate of 2008, the unit energy consumption of GDP for the year of 2008 was down by 5.2 percent over that in the previous year, or 12.45 percent lower than that in the year 2005."

China stands to make great progress in the next ten years. If they continue to grow at this rate and if the US manages to destroy its entrepreneurial base, by 2020 we expect the Chinese GDP to exceed that of the US.

Posted by Terry McGarty at [2:52 PM](#)  

Labels: [China](#)

[MERRY CHRISTMAS](#)



From Luke 2

2:1 εγενετο δε εν ταις ημεραις εκειναις εξηλθεν δογμα παρα καισαρος αυγουστου απογραφεσθαι πασαν την οικουμενην

2:2 αυτη απογραφη πρωτη εγενετο ηγεμονευοντος της συριας κυρηνιου

2:3 και επορευοντο παντες απογραφεσθαι εκαστος εις την εαυτου πολιν

2:4 ανεβη δε και ιωσηφ απο της γαλιλαιας εκ πολεωσ ναζαρεθ εις την ιουδαιαν εις πολιν δαυιδ ητις καλειται βηθλεεμ δια το ειναι αυτον εξ οικου και πατριασ δαυιδ

2:5 απογραψασθαι συν μαριαμ τη εμνηστευμενη αυτω ουση εγκυω

2:6 εγενετο δε εν τω ειναι αυτους εκει επλησθησαν αι ημεραι του τεκειν αυτην

2:7 και ετεκεν τον υιον αυτης τον πρωτοτοκον και εσπαργανωσεν αυτον και ανεκλινεν αυτον εν φατην διοτι ουκ ην αυτοις τοπος εν τω καταλυματι

1. FACTUM EST AUTEM IN DIEBUS ILLIS EXIIT EDICTUM A CAESARE AUGUSTO UT DESCRIBERETUR UNIVERSUS ORBIS
2. HAEC DESCRIPTIO PRIMA FACTA EST PRAESIDE SYRIAE CYRINO
3. ET IBANT OMNES UT PROFITERENTUR SINGULI IN SUAM CIVITATEM
4. ASCENDIT AUTEM ET IOSEPH A GALILAEA DE CIVITATE NAZARETH IN IUDAEAM CIVITATEM DAVID QUAE VOCATUR BETHLEEM EO QUOD ESSET DE DOMO ET FAMILIA DAVID
5. UT PROFITERETUR CUM MARIA DESPONSATA SIBI UXORE PRAEGNATE
6. FACTUM EST AUTEM CUM ESSENT IBI IMPLETI SUNT DIES UT PARERET
7. ET PEPERIT FILIUM SUUM PRIMOGENITUM ET PANNIS EUM INVOLVIT ET RECLINAVIT EUM IN PRAESEPIO QUIA NON ERAT EIS LOCUS IN DIVERSORIO

1 And it came to pass in those days that a decree went out from Caesar Augustus that all the world should be registered.

2 This census first took place while Quirinius was governing Syria.

3 So all went to be registered, everyone to his own city.

4 Joseph also went up from Galilee, out of the city of Nazareth, into Judea, to the city of David, which is called Bethlehem, because he was of the house and lineage of David,

5 to be registered with Mary, his betrothed wife, who was with child.

6 So it was, that while they were there, the days were completed for her to be delivered.

7 And she brought forth her firstborn Son, and wrapped Him in swaddling cloths, and laid Him in a manger, because there was no room for them in the inn.

Posted by Terry McGarty at [4:08 AM](#)  

Labels: [Commentary](#)

THURSDAY, DECEMBER 24, 2009

THE HEALTH CARE BILL AND A THOUGHT

We now have the Christmas Eve Cecil B DeMille event of the passing of health care in the Senate. There is the high drama of ever DeMille film with the exception of the elephants. The problem I still have is a logical one.

Let me lay out some facts:

1. Let us assume for simplicity that health care costs us \$2.5 trillion in 2010. Close so one should not quibble.
2. Let us look at the laws and note that anyone going to an emergency room must not be denied service, expensive as it may be.
3. ER service is very expensive, so if they went to a local physician then it should cost less.
4. We are now requiring all to have health care, and to some degree pay for it. That means that more money comes into the system to get cheaper care, going to a local physician, and also having the patient pay something for it. Somehow this means that the costs are lower and the inflow of funds from the patient are higher.

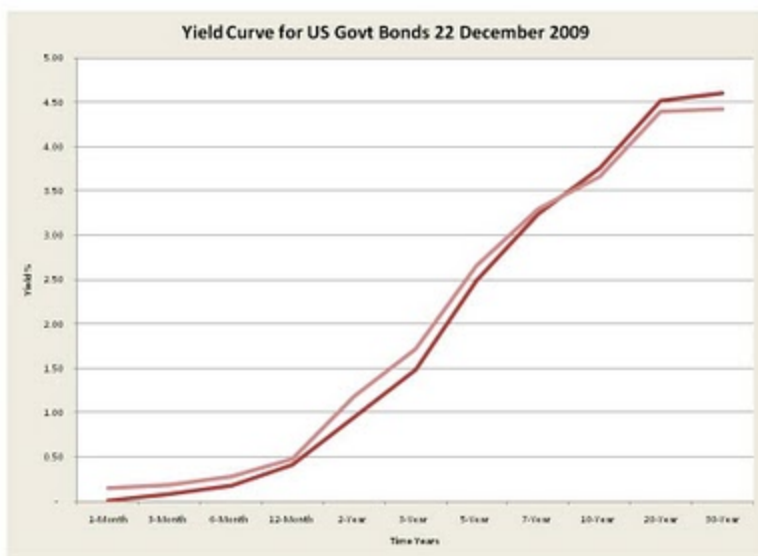
5. Thus why do we need to spend a single penny more than what we are now spending, in fact it should be less. So if this logic holds any water. just using the facts, then where is the money going?

Good question. Think about it. Then look at Nebraska, Florida, Michigan and the list goes on. The only sensible step was Bernie Sanders and Public Health Clinics, a low cost proven way to deliver health care. It's a shame, they are destroying one of the prime engines of economic growth for the 21st century. Wonder what the history books will say a hundred years from now?

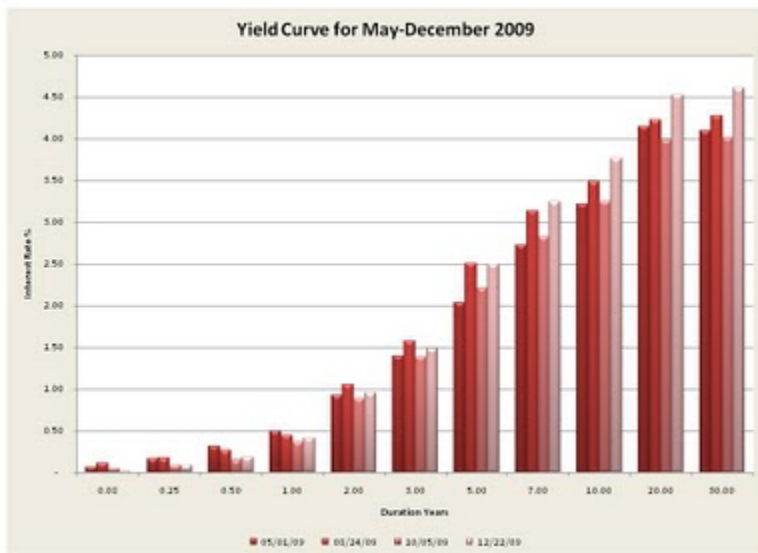
Posted by Terry McGarty at [9:52 AM](#)  

Labels: [Health Care](#)

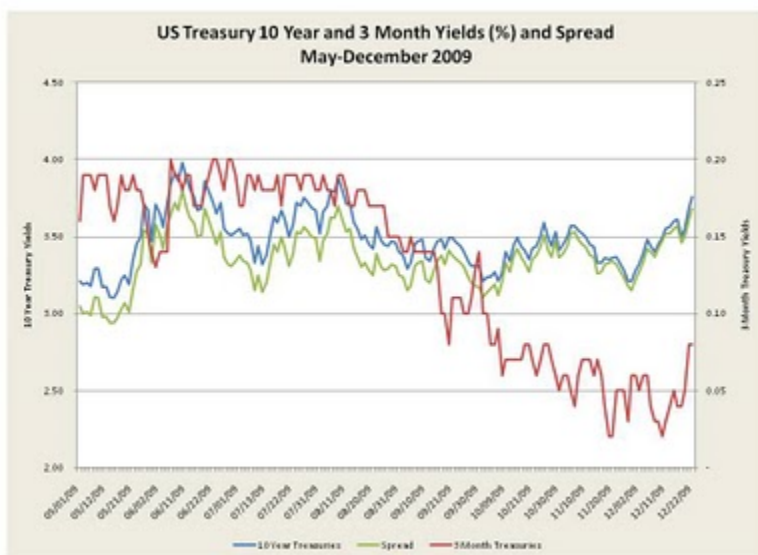
TUESDAY, DECEMBER 22, 2009 **UPDATE ON THE YIELD CURVE**



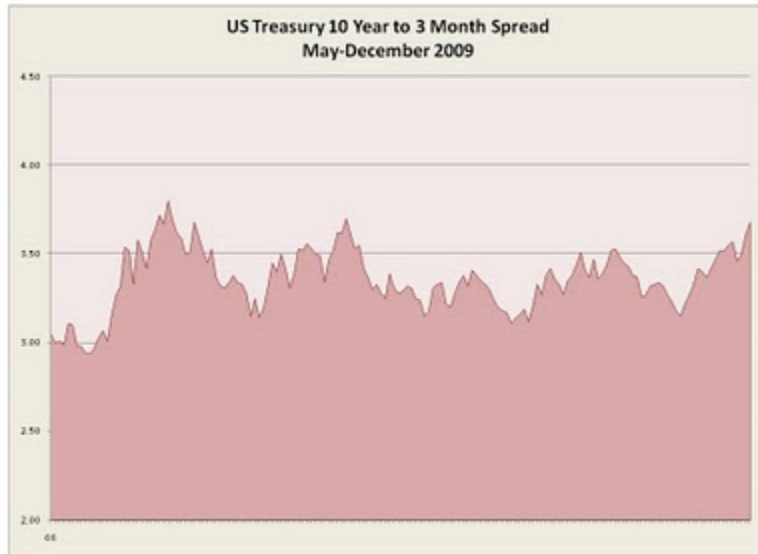
The yield curve as of today is shown above as compared to October. Note the increase at the top end and the decrease at the bottom. It is the steepest yet.



The data above depicts the key elements over the past nine months. The yield for the long term debt is increasing at the top end. The low end is still dominated by easy money from the FED.



The curve above depicts the rapid decline at the low end while sustaining the high end or long term growth.



The spread of the 10 year and 3 month rates is shown above. We see that spread peaking again.

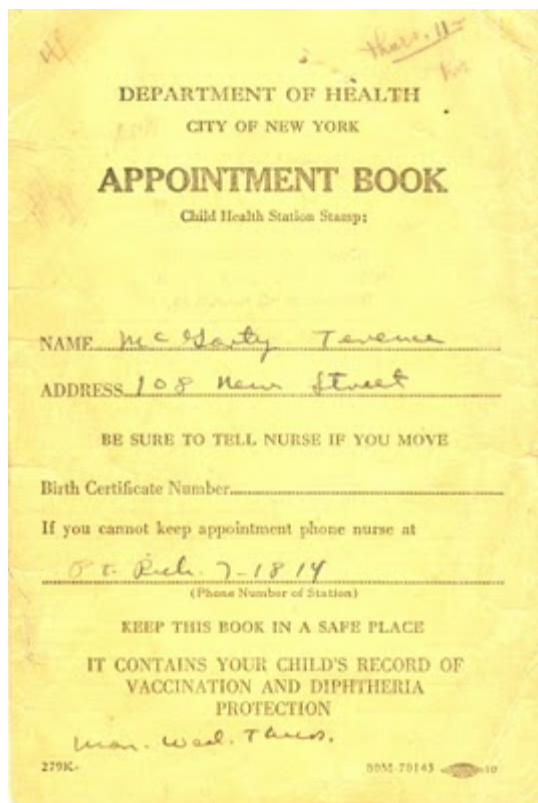
We anticipate continued growth in the top rates as inflationary pressure grows.

Posted by Terry McGarty at [4:16 PM](#)  

Labels: [Economy](#)

MONDAY, DECEMBER 21, 2009

THANK YOU TO SENATOR SANDERS



[Senator Bernie Sanders](#) got a Community Health Care Center provision in the Health Care Bill. His announcement states:

"A \$10 billion investment in community health centers, expected to go to \$14 billion when Congress completes work on health care reform legislation, was included in a final series of changes to the Senate bill unveiled today.

The provision, which would provide primary care for 25 million more Americans, was requested by Sen. Bernie Sanders (I-Vt.).

He said the additional resources will help bring about a revolution in primary health care in America and create new or expanded health centers in an additional 10,000 communities. The provision would also provide loan repayments and scholarships through the National Health Service Corps to create an additional 20,000 primary care doctors, dentists, nurse practitioners, physician assistants and mental health professionals.

Very importantly, Sanders also said the provision would save Medicaid tens of billions of dollars by keeping patients out of emergency rooms and hospitals by providing primary care when then needed it."

We have argued for this for the past year. Shown above is my card from the 1940s in New York City. My grandmother, the former head of the Socialist Party in New York and a Physician at the Seaview Hospital for TB patients on Staten Island in the 1920s was insistent that I get health care along with the others in a public facility. The card accounts for my weight, height, inoculations and the like. I remember the white enamel furniture, clean crisp nurses, and the starched white coat physicians.

Despite the fact that I most likely disagree with everything else Bernie believes in, I think, this is a wonderful step. It provides for child care and preventive care. Yes it is care for those who

cannot afford it, but it can be good care and can prevent many of the problems we see later in life if done properly.

The problem is that those well off will still get their better care from cash up front Park Avenue physicians but the issue is so what if we can get care to those who need it when it counts the most. Frankly the cost is quite low considering what it would cost if not provided when it should have been.

So, thanks Senator, you did not get the handouts that others got, you gave to those who need a solution that many have sought. It can represent a great platform to build upon!

Posted by Terry McGarty at [6:26 PM](#)  

Labels: [Health Care](#)

HOW MANY REALLY DIED?

The [Urban Institute issued a report](#) last year stating that hundreds of thousand were dying in the US because they had no health care. In the report they contend:

"In 2002, the Institute of Medicine (IOM) estimated that 18,000 Americans died in 2000 because they were uninsured. Since then, the number of uninsured has grown. Based on the IOM's methodology and subsequent Census Bureau estimates of insurance coverage, 137,000 people died from 2000 through 2006 because they lacked health insurance, including 22,000 people in 2006."

The essence of the Urban Report analysis was a simple formula:

$$DT=(PI \times X) + (PU \times X \times 1.25)$$

where DT is the total deaths in some group, and X is the percent in a group dying if they were insured and PI is the number in the group insured and PU the number uninsured. The report assumes that the death rate for the uninsured is 25% greater than insured no matter what. The report then spends pages using the formula for every possible variation under the sun. The key question is where did the 25% come from?

The answer one would guess is from the Institute of Medicine Report, IOM, [Care Without Coverage](#), 2002. That report contends that the reasons are due to:

1. Primary Prevention and Screening Services

Uninsured adults are less likely than insured adults to receive recommended health screening services (e.g., mammograms, clinical breast exams, Pap tests, colorectal screenings). And when they do receive these preventive services, it is not as often as recommended by the U.S. Preventive Services Task Force. The disparities in whether someone uses these vital services holds even after accounting for the possible influence of age, race, education or having a regular source of care.

2. Cancer Care and Outcomes

Uninsured cancer patients generally have poorer outcomes and die sooner than persons with insurance. Without timely preventive screenings, diagnosis is delayed. As a result, when cancer is found, it is relatively advanced and more often fatal than it is in persons with health insurance coverage. For example, uninsured women with breast cancer have a 30 to 50 percent higher risk of dying than women with private health insurance. Furthermore, once diagnosed, treatment disparities persist. For example, uninsured women are less likely to receive breast-conserving surgery.

3. Chronic Disease Care and Outcomes

Uninsured adults are less likely to have regular checkups and a usual source of care to help manage their disease than is a person with coverage. For the five chronic conditions that the Committee examined (diabetes, cardiovascular disease, end-stage renal disease, HIV infection and mental illness), uninsured patients have worse clinical outcomes than insured patients.

3.1 Diabetes: Uninsured adults with diabetes are less likely than those insured to receive the professionally recommended standard of care for monitoring blood glucose levels and other complications. Uncontrolled blood glucose levels puts persons with diabetes at increased risk of hospitalization and additional complications

3.2 Cardiovascular Disease: Despite the fact that having a usual source of care improves medical management, 19 percent of uninsured adults diagnosed with heart disease and 13 percent with hypertension lack this ongoing relationship

3.3 End-Stage Renal Disease (ESRD): The clinical goals for treatment of kidney disease are to slow the progression of renal failure, and prevent or manage complications and co-existing diseases

3.4 Human Immunodeficiency Virus (HIV) Infection: One positive effect of health insurance for HIV-infected adults is obtaining a regular source of care. Without health insurance, many wait more than three months after diagnosis to have their first office visit.

3.5 Mental Illness: Mental illness represents a major but often underestimated source of disability. It contributes as much to disability as does cancer or heart disease. As is the case with other diseases, the uninsured are less likely than those with coverage to receive the desirable level of mental health care.

Let us examine these causes.

First, preventive screening does help. One of the problems with those having no insurance is also a reluctance to seek medical advice and the primary reason often is fear of finding out that one is ill. Frequently there is the hiding effect, namely if I do not check out the problem it will go away. It may not be the problem of there being no care available. Many clinics provide mammograms for example, yet the fear is if it is positive then what? There are also significant cultural fears as well. In effect fear and cultural predispositions may dominate on the outcome and not just lack of insurance.

Second the cancer care outcomes seems highly unjustified. True those with resources will seek out say Memorial Sloan Kettering rather than just their local surgeon. That is a resource driven solution as well as a family support one. On the other extreme one often sees in lower income families the demand to keep a person alive at all costs where in more well off families there are advance directives! In effect there are many forces at play and the blank assertion made is problematic at best!

Third, the chronic diseases are for the most part self inflicted. Diabetes and its sequellae, including renal failure, caused mainly by Type 2 Diabetes, are personal choices. As reported this week in [Science](#):

"NATION OF FLAB

Obesity is edging ahead of smoking as a health hazard in the United States, say researchers at the National Bureau of Economic Research in Cambridge, Massachusetts. A team led by Susan Stewart, a researcher who studies aging, has come up with some hard numbers on the skyrocketing problem: In the past 15 years, smoking has decreased by 20%, but the number of fat Americans has increased by 48%. By 2020, the team calculates that obesity will rob an 18-year-old of 0.7 years of life on average and 0.9 years of "quality of life." The average gain for an individual from not smoking—0.3 years—is more than offset by the loss of more than a year from weight gain, the authors reported last week in The New England Journal of Medicine. Even if obesity increases level off to as little as 0.15% per year, they'll swamp overall gains from nonsmoking by 2020."

And yes, the obesity problem is highest in the lowest income groups and in the uninsured. Thus this self inflicted disease and resulting costs are due to choice and not failure to have insurance. It is in fact the providing of food stamps used for the purchase of high carb food which drives this effect.

Thus the problems in 3.1 through 3.4 are for the most part self inflicted. As for mental illness, it is often covered by Medicaid and its problems are the result of the changes to health care since the 1960s when most mentally ill were released to live on their own. I am not objecting to that but stating that the decision had costs.

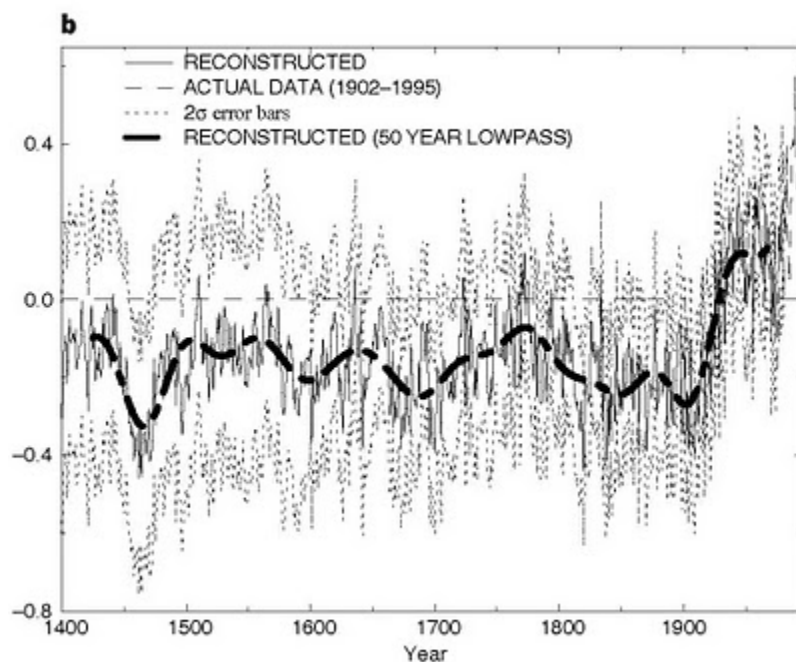
Thus the IOM report has I believe many deficiencies. It failed to look at the totality of causality. It looked at best at some data and jumped to a conclusion. It did not holistically look at a complex system which has problems and at people who have responsibilities. For example should we have to pay for the costs of a three pack a day smoker? Probably not. How does an economy solve that? Tax the cigarettes and keep the money separate for payment of resulting costs. Simple, but Congress would never do that. They would spend the money and then complain.

The problem with IOM type reports, having been on many such a committee, is that all too often they are written by staff with minor input by the group. The group at best meets periodically and all have "day jobs". This is a systems problem and it will become a more costly problem as we expand health care. It demands a systematic study with facts not just assertions.

Posted by Terry McGarty at [7:53 AM](#)  

Labels: [Health Care](#)

HOCKEY STICK, KARHUNEN-LOEVE, AND IF AND IF AND IF



The above is the now well quoted and often questioned hockey stick from [Mann et al](#) from Nature in 1998. Simply stated Mann et al made the following calculations:

1. They took data from a variety of sources that they contend reflects the temperature at some time.
2. These data sets then had an inferred T at some time t and at some location x.
3. Now each of these data sets had some variability due to several factors:
 - a. The inference of temperature from say tree ring size may not be one to one
 - b. the actual measurement may have an error
 - c. there may be other factors driving tree ring size
 - d. and on and on
4. They then used what is called the Karhunen-Loeve approach to obtain a single curve by weighting each of the multiple inferred curves. For example if they had ice cores, tree rings, and water height, then they could infer the temperature in say 1492 as:

$$T(1492) = a \text{ Tree } (1492) + b \text{ Ice Core } (1492) + c \text{ Water Height } (1492)$$

This is quite simplified but one can get the idea. A good reference is the book by Fukunaga on Pattern Recognition.

5. Then they selectively smoothed the data and as with the Karhunen-Loeve approach they used the series with the largest "eigen values" or the series which would give the smallest statistical error.

So far so good. Yet there are many ifs here. For example take tree rings. As with the old Karhunen-Loeve approach which I know and have used extensively over the years, I also know a bit about growth in plants having spent the last twenty five years measuring and modelling that effect. You see there is not a one to one relationship between temperature and growth. Rain, soil conditions, insects, fires, drought, and the like play an equal if not more dominant effect. I have tried to find the underlying physiological models but they are still not well worked out yet. Thus if you rely upon a dendrologist to give you reasonable accuracy on tree ring width and annual temperature you are "shingling the roof in the fog" as I am fond to say.

The along comes [McKittrick and McIntyre](#). They start the critiques by actually looking at the data. They state:

The database used by MBH98 contains the errors and defects listed below. We detail each of these points in this section, then in Section 3 we show how correcting these errors and defects affects the calculation of the Northern Hemisphere average temperature index using MBH98 methodology.

(a) unjustified truncation of 3 series;

(b) copying 1980 values from one series onto other series, resulting in incorrect values in at least 13 series;

(c) displacement of 18 series to one year earlier than apparently intended;

(d) unjustified extrapolations or interpolations to cover missing entries in 19 series;

(e) geographical mislocations and missing identifiers of location;

(f) inconsistent use of seasonal temperature data where annual data are available;

(g) obsolete data in at least 24 series, some of which may have been already obsolete at the time of the MBH98 calculations;

(h) listing of unused proxies;

(i) incorrect calculation of all 28 tree ring principal components.

And they conclude:

"The MBH98 hockey stick-shaped NH temperature reconstruction discussed here has been extremely influential in discussions of 20th century global warming. Together with a pre-1400

extension derived in Mann et. al. (1999) and a spliced instrumental temperature series, this index figured prominently in the IPCC Third Assessment Report (IPCC 2001) and numerous other publications. However, the dataset used to make this construction contained collation errors, unjustified truncation or extrapolation of source data, obsolete data, incorrect principal component calculations, geographical mislocations and other serious defects. These errors and defects substantially affect the temperature index."

Their work upon review has substantial merit. The work of Mann becomes highly questionable Mann makes the types of assumptions as:

If a tree ring can be accurately measured

and

If the ring width is a one to one mapping to the annual temperature in a year

and

If the other data can be similarly represented

and

If one can then select the sole single largest eigen value for the series

Then.....a hockey stick.

[McKittrick](#) then continues, and clearly starts to dismantle the Mann report as follows:

"The hockey stick debate is about two things. At a technical level it concerns a well-known study that characterized the state of the Earth's climate over the past thousand years and seemed to prove a recent and unprecedented global warming. I will explain how the study got the results it did, examine some key flaws in the methodology and explain why the conclusions are unsupported by the data. At the political level the emerging debate is about whether the enormous international trust that has been placed in the IPCC was betrayed. The hockey stick story reveals that the IPCC allowed a deeply flawed study to dominate the Third Assessment Report, which suggests the possibility of bias in the Report-writing process. In view of the massive global influence of IPCC Reports, there is an urgent need to bias-proof future assessments in order to put climate policy onto a new foundation that will better serve the public interest."

Thus the whole basis of the Copenhagen meeting and the need for the Cap and Trade becomes problematic at best. So as my snow piles up before Christmas and my little squirrel friends hunker down from the cold, one may still question the Mann data and wonder what all the fuss is about.



I really can't wait till Spring!

Posted by Terry McGarty at [6:03 AM](#)  

Labels: [Cap and Trade](#)

SUNDAY, DECEMBER 20, 2009

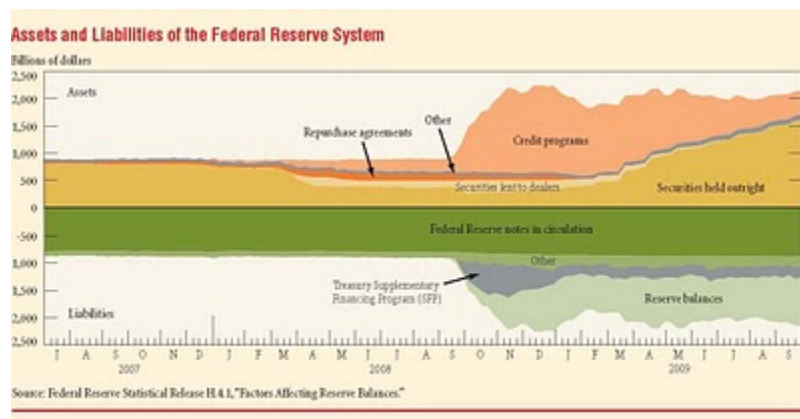
THE FED AND EXCESS RESERVES

We have been discussing the excess reserve issue for almost 9 months. Banks are holding massive amounts in excess reserves. The [FED has just issued a report](#) to try and calm fears that these reserves are on the one hand not delaying the recovery by not being lent out and on the other hand not being stored up and when let loose create a massive amount of inflation.

The report starts by saying:

"The buildup of reserves in the U.S. banking system during the financial crisis has fueled concerns that the Federal Reserve's policies may have failed to stimulate the flow of credit in the economy: banks, it appears, are amassing funds rather than lending them out. However, a careful examination of the balance sheet effects of central bank actions shows that the high level of reserves is simply a by-product of the Fed's new lending facilities and asset purchase programs. The total quantity of reserves in the banking system reflects the scale of the Fed's policy initiatives, but conveys no information about the initiatives' effects on bank lending or on the economy more broadly."

They then show the balance sheet of the FED graphically which we reproduce below:



The above really shows the "junk" that the FED loaded onto its public balance sheet. It fails to show all of the off balance sheet junk as detailed by Prins.

They continue:

"Some commentators see the surge in excess reserves as a troubling development—evidence that banks are hoarding funds rather than lending them out to households, firms, and other banks. Edlin and Jaffee (2009, p. 2), for example, identify the high level of excess reserves as the "problem" behind the continuing credit crunch—or, "if not the problem, one heckuva symptom." Other observers see the large increase in excess reserves as a sign that many of the steps taken by the Federal Reserve during the crisis have been ineffective. Instead of restoring the flow of credit to firms and households, they argue, the money the Fed has lent to banks and other financial intermediaries since September 2008 is sitting idle in banks' reserve accounts."

They conclude:

"We began this article by asking, Why are banks holding so many excess reserves? We then used a series of simple examples to answer this question in two steps.

First, we showed that the liquidity facilities and other credit programs introduced by the Federal Reserve in response to the crisis have created, as a by-product, a large quantity of reserves in the banking system.

Second, we showed that while the lending decisions and other activities of banks may result in small changes in the level of required reserves, the vast majority of the newly created reserves will end up being held as excess reserves.

The dramatic buildup of excess reserves reflects the large scale of the Federal Reserve's policy initiatives; it conveys no information about the effects of these initiatives on bank lending or on the level of economic activity.

We also discussed the importance of paying interest on reserves when the level of excess reserves is unusually high, as the Federal Reserve began to do in October 2008. Paying interest on reserves allows a central bank to maintain its influence over market interest rates irrespective

of the quantity of reserves in the banking system. The central bank can then scale its policy initiatives according to conditions in the financial sector, while setting its target for the short-term interest rate in response to macroeconomic conditions.

This ability to separate short-term interest rates from the quantity of reserves is particularly important during the recovery from a financial crisis. If inflationary pressures begin to appear while the crisis-related programs are still in place, the central bank can use its interest-on-reserves policy to raise interest rates without necessarily removing all of the newly created reserves."

I still believe that this is necessary but highly risky. It does argue that Bernake should stay since he is balancing these balls. Another FED head would have to relearn this magic and the potential for error would be massive.

The problem is less the Reserves than the FED Balance Sheet. Further it is the off Balance Sheet contingencies which are massive. As we have already noted the talk of inflation becoming a positive policy to manage the debt is growing. That will be deadly to the economy.

This report is worth the reading. It details the views of the FED and that is important. It also shows the downside and it is that potential which is worrisome.

Posted by Terry McGarty at [4:28 PM](#)  

Labels: [Economics](#), [Economy](#)

USING INFLATION: ECONOMISTS NOW CHIME IN

In a posting on [Vox by Aizenman and Marion](#), the two economists, one from my favorite strongholds of intellectual fortitude, Dartmouth, remember who comes from there folks. The article states(see also [NBER Working Paper 15562](#)) :

"As the US debt-to-GDP ratio rises towards 100%, policymakers will be tempted to inflate away the debt. This column examines that option and suggests that it is not far-fetched. US inflation of 6% for four years would reduce the debt-to-GDP ratio by 20%, a scenario similar to what happened following WWII."

It then continues:

"Many observers worry that the debt-to-GDP ratios projected over the next ten years are unsustainable. Assuming deficits can be reined in, how might the debt/GDP ratio be reduced? There are four basic mechanisms:

- 1. GDP can grow rapidly enough to reduce the ratio. This scenario requires a robust economic recovery from the financial crisis.*
- 2. Inflation can rise, eroding the real value of the debt held by creditors and the effective debt ratio. With foreign creditors holding a significant share of the dollar-denominated US federal debt, they will share the burden of any higher US inflation along with domestic creditors.*
- 3. The government can use tax revenue to redeem some of the debt.*
- 4. The government can default on some of its debt obligations.*

Over its history, the US has relied on each of these mechanisms to reduce its debt/GDP ratio. In a recent paper (Aizenman and Marion 2009), we examine the role of inflation in reducing the Federal government's debt burden. We conclude that an inflation of 6% over four years could reduce the debt/GDP ratio by a significant 20%."

They then look at the statistics we have looked at over the past year. The debt of the Government falls into three categories. Namely:

1. Debt held by public, like China. This is \$7 trillion and growing.
2. Debt held by itself, like the Medicare funds it purloined. This is \$6 trillion and growing.
3. Contingent debt it most likely may have to incur due to guarantees. Nomi Prins in her work *It Takes a Pillage* has provided fantastic documentation on this issue. There is about \$12 trillion or more! [See Prins web site](#).

Thus we are at \$25 trillion and growing at about \$1.5 trillion a year! The GDP is about \$14 trillion so just right now we are at 179%. We beat Greece!

So when these wizards of academe present their scheme from the days of Jimmy Carter, they are clueless as to the consequences. It will cause a collapse on all those retiring on fixed incomes, and with the Baby Boomers at that stage, it will destroy a whole generation. Fortunately I am older and planned a bit better but these characters just seem not to understand the problem of inflation. It is destructive in ways which can never be recovered. It would destroy the US as a power.

They conclude:

*"The current period shares two features with the immediate post-World War II period. It starts with a large debt overhang and low inflation. Both factors increase the temptation to erode the debt burden through inflation. **Even so, there are two important differences between the periods. Today, a much greater share of the public debt is held by foreign creditors – 48% instead of zero.** This large foreign share increases the temptation to inflate away some of the debt. **Another important difference is that today's debt maturity is less than half what it was in 1946 – 3.9 years instead of 9.** Shorter maturities reduce the temptation to inflate. These two competing factors appear to offset each other, and the net result in a simple optimising model is a projected inflation rate slightly higher than that experienced after World War II, but for a shorter duration.*

The temptation to inflate is frankly reduced by the holding of foreign debt. Mainly due to the fact that one will not have future borrowers if they feel you are diluting their investment. Or they will drive the interest rates well above inflation. The short term nature is in and of itself a hedge against any longer term inflation. Finally all borrowers of note are anticipating a substantial inflation and are positioning themselves. As we noted two days ago the CPI and PPI rates were at 5.6% and when you adjusted for the increases in productivity and reduction in hourly wages ten at the employee level they were already seeing a 7-9% inflation now!

In the simulations, we raise a concern about the stability of some model parameters across periods, particularly the parameters that capture the cost of inflation. It may be that the cost of inflation is higher today because globalisation and the greater ease of foreign direct investment provide new options for producers to move activities away from countries with greater uncertainty. Inflation above some threshold could generate this uncertainty, reducing further the attractiveness of using inflation to erode the debt.

Again this is somewhat of an understatement. If we were to start an inflationary trend, and frankly the current Administration has done just that, then we would see loss of our markets abroad and imports being the last stand of low prices would then inflate. China would drop the dollar so quickly that it would shatter the US economy.

Moreover, history suggests that modest inflation may increase the risk of an unintended inflation acceleration to double-digit levels, as happened in 1947 and in 1979-1981. Such an outcome often results in an abrupt and costly adjustment down the road. Accelerating inflation had limited global implications at a time when the public debt was held domestically and the US was the undisputed global economic leader. In contrast, unintended acceleration of inflation to double-digit levels in the future may have unintended adverse effects, including growing tensions with global creditors and less reliance on the dollar."

Yes, the unintended consequences would be catastrophic. But, they have already begun!

Posted by Terry McGarty at [9:29 AM](#)  

Labels: [Economy](#)

[ONE YEAR AGO TODAY](#)

Well it was a year ago today that I started writing this blog. I had no idea where it would take me but it was an interesting trip. In a sense it is a chronicle of the current Administration and it meanderings about the fields of our society. It has focused on health care and economics, broadband and foreign affairs, and a few general comments and observations.

A year ago we were in a mess. Today it is just messy but getting worse. A set of contradictions. So what will the next year bring? Always a good question. We just finished the Copenhagen meeting. I remember Copenhagen well since when I lived in Prague and commuted to New Jersey I almost always took the last flight from Europe to NJ via Copenhagen. I have a fondness for the airport and an amazement for the volumes of liquor consumed by the Scandinavians on that flight. But I digress, for as I sit in my globally warmed home at 20 F and with 18" of snow to clear in the next few hours, I always wonder.

As to the economy, I wonder how this economy will ever recover with the wild people driving it into long term debt. My poor grandchildren! Perhaps they may read through this in the future and see that a few were concerned for them.

As for health care, it appears as if they will pass something, yet something which we have been arguing all year has many fatal flaws. Politics is a mess. So too is health care today. But you cannot expect one mess to fix another, can you?

So we begin the second year. Where will we go this time? Stay on for the ride to the many thousands who have tuned in over time.

Posted by Terry McGarty at [4:46 AM](#)  

Labels: [Commentary](#)

[SATURDAY, DECEMBER 19, 2009](#)

[LATEST CBO ON SENATE PLAN](#)

The [CBO Report](#) on the latest [Senate Plan](#) has been released. We make some observations here.

"Provisions Regarding Insurance Coverage

*The legislation would take several steps designed to increase the number of legal U.S. residents who have health insurance. Starting in 2014, the legislation would establish a requirement for such residents to obtain insurance and would in many cases impose a financial penalty on people who did not do so. The bill also would establish new insurance exchanges and would subsidize the purchase of health insurance through those exchanges for individuals and families with **income between 133 percent and 400 percent of the federal poverty level (FPL)**. Policies purchased through the exchanges (or directly from insurers) would have to meet several requirements: In particular, insurers would have to accept all applicants, could not limit coverage for preexisting medical conditions, and could not vary premiums to reflect differences in enrollees' health. The options available in the insurance exchanges would include private health insurance plans and could include two national or multi-state plans operated under contract with OPM."*

It continues:

"Starting in 2014, most nonelderly people with income below 133 percent of the FPL would be made eligible for Medicaid. The federal government would pay all of the costs of covering newly eligible enrollees through 2016; in subsequent years, the federal share of spending would vary somewhat from year to year but would average about 90 percent by 2019. (Under current rules, the federal government usually pays about 57 percent, on average, of the costs of Medicaid benefits.) In addition, states would be required to maintain current coverage levels for all Medicaid beneficiaries until the exchanges were fully operational; coverage levels for children under Medicaid and CHIP would have to be maintained through 2019. Beginning in 2014, states would receive higher federal reimbursement for CHIP beneficiaries, increasing from an average of 70 percent to 93 percent. The legislation would also provide states with additional CHIP funding in 2014 and 2015."

This is a massive expansion of Medicaid:

Now as for Medicare:

"Provisions Affecting Medicare, Medicaid, and Other Programs

Other components of the legislation would alter spending under Medicare, Medicaid, and other federal programs. The legislation would make numerous changes to payment rates and payment rules in those programs ...those provisions would reduce net direct spending by \$483 billion over the 2010–2019 period.

Permanent reductions in the annual updates to Medicare's payment rates for most services in the fee-for-service sector...

Setting payment rates in the Medicare Advantage program on the basis of the average of the bids submitted by Medicare Advantage plans in each market...

Reducing Medicaid and Medicare payments to hospitals that serve a large number of low-income patients...

The legislation also would establish an Independent Payment Advisory Board, which would be required, under certain circumstances, to recommend changes to the Medicare program to limit the rate of growth in that program's spending...

Reductions in subsidies for non-Medicare benefits offered by Medicare Advantage plans

Changes to payment rates or methodologies for services furnished in the fee-for service sector by providers other than hospitals, physicians, hospices, and suppliers of durable medical equipment that is offered through competitive bidding..."

Posted by Terry McGarty at [2:56 PM](#)  

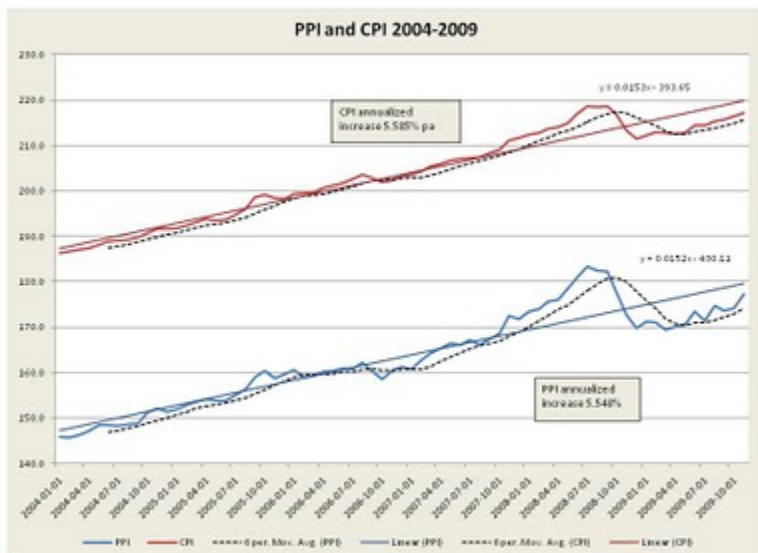
Labels: [Health Care](#)

FRIDAY, DECEMBER 18, 2009

[MORE ON PPI AND CPI](#)

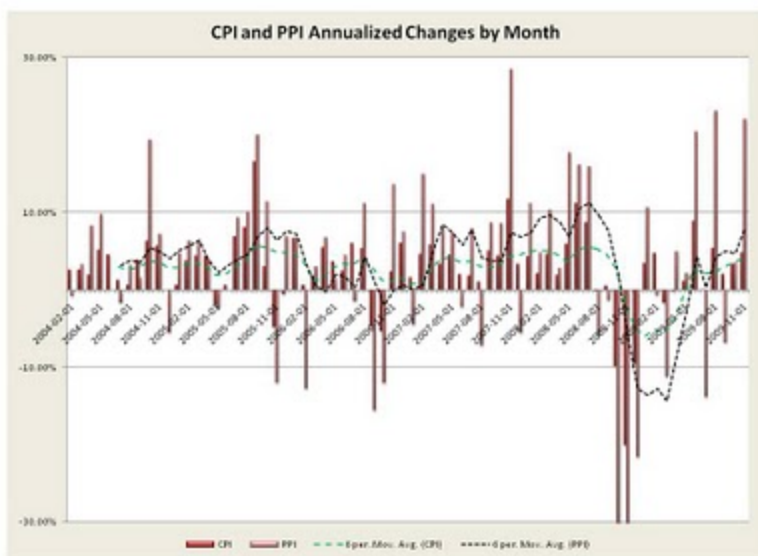
The economy seems to be stabilizing, yet there is the uncertain look forward due to the massive societal changes being made in Congress. We look here are a few current statistics which may assist in determining where we may be going in the short term.

The first chart below is the combined PI and CPI data.



The PPI is now increasing at a more rapid rate than the CPI. The annualized rates are now back to 5.8% for both and the pre and post bust periods have appeared to have gone by. Both seem to be tracking back to the common trend lines. The problem is that both are at a 5.8% increase while the Fed holds interest rates at the all time lows. This is a dangerous trend.

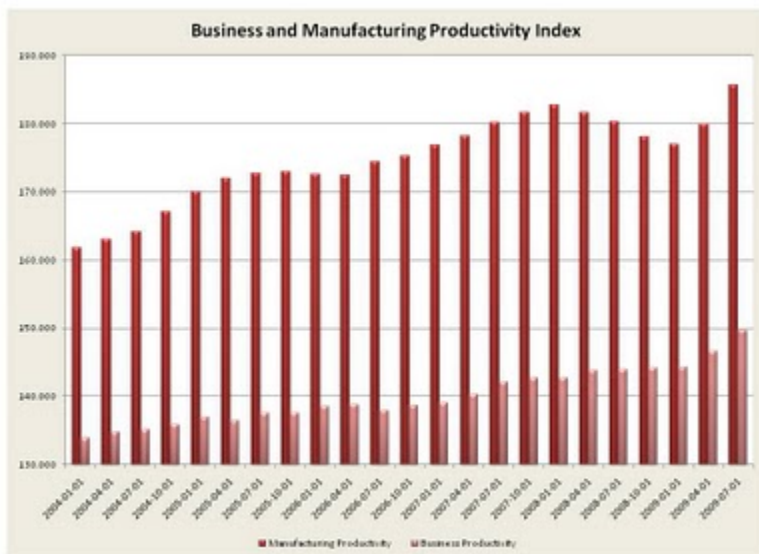
Now we show the rates of change for both below:



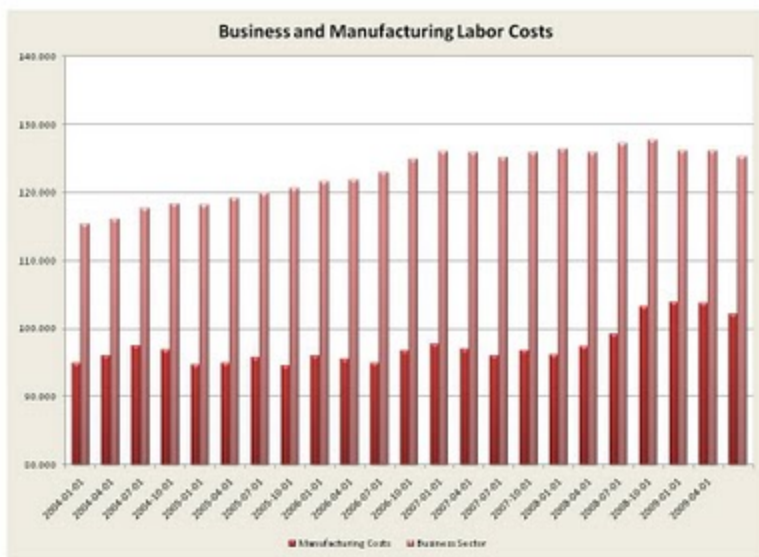
The polynomial trend lines show the increasing rates again. The drops in the economy are clearly shown and the pull out is also obvious. The concern again is the rapid upswing of both indices.

The next is the productivity indices as shown below. They are at all time highs which means the workers are working at maximum and when they get "exhausted" and new hiring occurs then we

can expect now money to flow, demand to build, CPI and PPI to grow more rapidly and then inflation to occur.



The following chart is the pay indices.



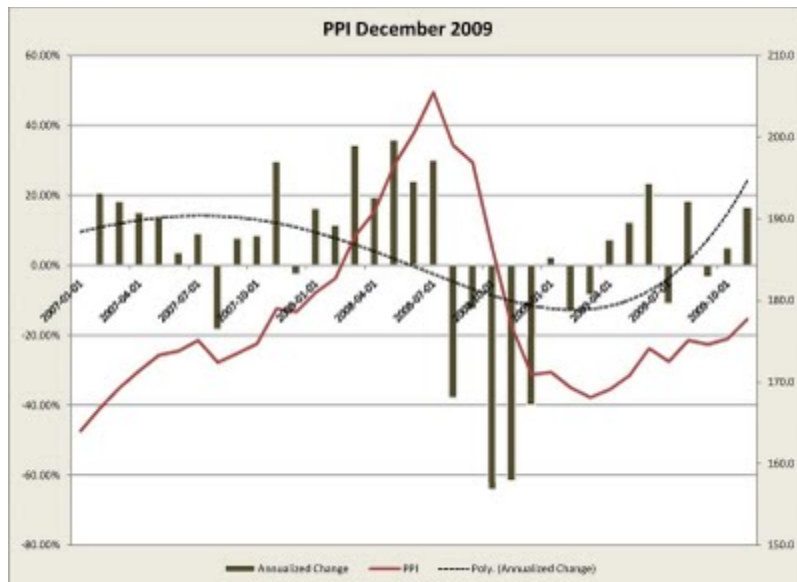
As we would expect they are dropping, even as productivity rises. The recession has put downward pressure on salaries and yet the costs are moving upward. This double direction causes a substantially greater effective inflation. With prices rising and compensation dropping and unemployment rising, there is an effective real current inflation rate well in excess of 7%. When the economy makes the turn in employment we expect to see this in the actual price index numbers as well.

Posted by Terry McGarty at [6:21 AM](#)  

Labels: [Economy](#)

TUESDAY, DECEMBER 15, 2009

[PPI AND INFLATION](#)



The PPI today showed an annualized rate of increase in excess of 16%. In the above data, through November, we see the growing increases over the last two quarters in the PPI despite the downward pressure on the consumer. The PPI is a leading indicator of inflation and portends latent inflation which we have been anticipating on the other side of this recession due to the actions of the current Administration.

The [Financial Times](#) states:

"US stocks failed to break into positive territory after a surprise jump in the producer price index sparked inflation concerns. Disappointing manufacturing data from the state of New York also gave investors another reason to pause after Monday's rally."

This we believe will be the first step in seeing a potential inflationary trend moving into 2010 creating a stagflation situation reminiscent of the past.

Posted by Terry McGarty at [4:32 PM](#)  

Labels: [Economy](#)

[A NEED FOR A LITTLE BIT OF LOGIC](#)

I was listening to Senator Bernie Sanders yesterday bemoaning the fact that health care was increasing because, and I assume only because, insurance companies were raising their rates. That statement is akin to saying that coffee is increasing in price because and only because the local super markets were raising their prices. Perhaps they raised their rates because the coffee suppliers increased their rates and this due to the fact that the growers increased their rates and so forth.

Logic would dictate that at least Senator Sanders would articulate that if the prime and sole cause of increasing health care was the insurance companies and their single handed rate increases, then why is Medicare increasing, no insurance company there. The insurance companies are merely reflecting their costs. Just look at the profit margins, they are not banks.

That is the problem with this whole discussion. Bending the curve is complex and it becomes more complex when those in Congress make inane statements that have no logical basis, happens on both sides, just picking on Bernie this time!

Posted by Terry McGarty at [12:31 PM](#)  

Labels: [Health Care](#)

[THE POLAR BEAR: TOP OF THE FOOD CHAIN](#)



The [Christian Science Monitor](#) has a photo of Oxfam demonstrators in Copenhagen dressed as "friendly" polar bears. They want to save the polar bear. Well let me relate a tale of the polar bear.

In February, I believe, 1968, while at MIT, we were doing some work on measuring the aerosols in the upper atmosphere. We were using as vehicles the X 15 and the SR 71, if available. In addition there were sounding rockets launched, from amongst other places, Churchill in the North West Territories, in northern Canada, by Hudson Bay, the western side.

In 1968 this was still an outpost, reached only by RCAF flights from Ottawa. Thus upon landing, the props blowing the snow in a blizzard like fashion, the doors opened and one could see the Quonset huts, World War II artifacts, lights aglow, and the crew chief shouted across the running props:

"Jump and run like hell for the door!"



Accustomed to following orders I promptly ran like hell into the open and welcoming hut. After settling down I asked the crew chief why the running. Then he said, as any old crew chief would:

"The bears, sonny, the bears."

I probed a bit more and found out that the polar bears had become accustomed to "eating" the nice morsels running off the incoming flights. They had lost a few in the past month. I had trouble believing this but I felt what the heck, I will act accordingly. I never saw a polar bear, yet at night you could hear them, like giant black bears, rummaging thru the trash. I knew they were there.

Then some 30 years later I was to find that indeed the polar bear was the largest cause of death in Churchill by far! Thus the legend seemed to be true. It was then that I realized that PETA notwithstanding we humans were not at the top of the food chain, the polar bear was. They can come to like humans, not as fatty as seals, yet we are accommodating their tastes as we get a bit more rotund as a species, yet tasty none the less.

Thus why cry over a loss one step above us in the carnivore food chain. Does Oxfam even know. Why does PETA not protest the polar bear?

Posted by Terry McGarty at [10:45 AM](#)  

Labels: [Cap and Trade](#), [Commentary](#)

[REMEMBERING MRS. KAHN](#)

The first Head Nurse I remember, one that molded my thinking for a lifetime, was Mrs. Kahn. I never knew if she had a first name. She wore the starched white nurses "dress" with the super starched nurses cap, with a deep blue band and a small medallion from whatever school she attended. She struck fear in the hearts of all who came near her for the first time, medical students notwithstanding. It was always "Yes, Mrs. Kahn" or "No, Mrs. Kahn". That was the way everyone spoke to her, even the Chiefs.

She knew Medicine better than any seasoned physician and her role was to protect the patient, from students, and even from physicians from time to time. Mrs. Kahn was God's personal agent on earth ensuring that health care was provided properly.

That is why today in reading the [NY Times article](#) by Dr. Valinoti I was somewhat pleased to see that there is a vestige of concern for the patient. In some offices from time to time the assistant comes out and screams "Terrence". Now for those of you of a certain ethnic background, the calling of you by your first formal name, "Terrence", "Richard", "Jonathan", and the like is generally done by one's mother, and when one's mother was seeking to invoke some form of guilt therapy for failure on the part of the son in complying with some unspoken but to be understood rule of behavior. Otherwise it would have been "Terry", "Dick", "Jon" and the like. Safe and secure names showing acceptance and not pending doom. Thus when the appellation from some office assistant is in the tone of a maternal reprobation one responds poorly.

Now back to the good Dr. Valinoti. She states:

"This got me thinking of how, in my own career, I have always been addressed as "Dr. Valinoti." Freshly minted M.D.'s, some as young as 25, get a title of respect while seasoned nurses in the hospital are Betty, Kaye or Nancy. I remembered the absurdity of this situation when, as an intern, I was addressing critical care nurses with decades of experience by their first names while they deferentially called me "Doctor." These were women who had started their careers when I was still playing with Barbie dolls, yet where were their professional titles? Like most things in medical training, I got used to it, and it became second nature"

Well Mrs. Kahn would have never allowed that. It was not that Mrs. Kahn ever said a thing. Her presence, her aura, demanded it. She stood bolt upright, shaming any Marine in her stature, and her visage as well as dress just exuded authority. In those days even the physicians white coats were starched. No one would ever think of wearing scrubs and looking as if they had just jumped out of bed. In addition the attire was proper and the contact with the patient was correct. I remember in an old copy of Harrison's 5th Edition a whole section on how to properly address the patient, as Mr., Mrs, or Dr. or Rev. Now many office personnel speak as if they were still in high school. Thus one can see the change even in Dr. Vallinoti.

Valinoti continues:

"Regardless of whether I am "Anne Marie" or "Dr. Valinoti" to a patient, I rarely call a patient by his or her first name. As a rule, patients who are my senior are always "Mr./Ms./Dr." Patients I meet for the first time are always addressed by their title, even teenagers (it seems silly, I know). Although many patients introduce themselves by their first name, I would never presume to address them as such without their specific permission. And even then, frankly, I find it hard to call a man old enough to be my father "Frank" or "Jim." It is akin to my habit of still addressing old friends of my parents by their formal titles....But doctors do this at their own peril. A physician friend of mine experienced this firsthand when he made the mistake of calling a woman of a certain age by her first name during a visit. "That's Mrs. White, thank you," she told him, icily."

Yes, good for Mrs. White. If one is paying for a service then one deserves respect. This is not an oil change. In many cases it is one's very life. Perhaps the Senators should put a section in the new Bill to deal respectfully with patients, like customers! We should call it "**Mrs. Kahn's Law: The Patient's Respect Act of 2010**"!

Posted by Terry McGarty at [5:40 AM](#)  

Labels: [Commentary](#), [Health Care](#)

[IS THIS A SIGN OF THE FUTURE: CHINA HAS MORE IPOs](#)

The [China Daily](#) reports:

"China has outstripped the US in the amount of money raised from stock listings, underscoring the region's stronger economy and a resurgence in investment."

Companies have raised nearly \$52 billion from initial public offerings on exchanges in Hong Kong and the Chinese mainland so far this year, according to financial research firm Dealogic. That's about twice as much as the some \$26.5 billion in American IPOs. In 2007, the amount of money raised from IPOs in Hong Kong and the mainland also exceeded the US total.

Hong Kong alone has drawn more than \$27 billion this year, making the southern Chinese financial center the world's top city for equity capital raising for the first time, according to Dealogic's records dating to 1997. Since 2000, Wall Street has led every year except for 2006, when London was the destination of choice."

This is a dramatic move for the Chinese markets. The US markets will continue to fall and this lack of monetization for US companies will result in a potential collapse of the US entrepreneurial market.

Posted by Terry McGarty at [4:35 AM](#)  

Labels: [China](#), [Economy](#)

TRUST BUT VERIFY

In the late 70s when I was working on the Comprehensive Test Ban Treaty, CTBT, in the Carter Administration, the issue was how did one verify that the other side was not cheating. The problem was that large explosions could be monitored but small ones could not, easily. One needed many small seismographs located all over and some were even in Soviet territory.

But frankly that was the hard part. One you had the sensors there in country so that you could fairly well determine if a violation had occurred. Violations were simply an explosion of a weapon, a low yield and low profile weapon. We knew the seismic signatures and thus with high predictability we could make a definitive determination if an single event occurred.

But CO2 emissions, and total CO2 caps in turn, present a dramatically more complex problem. It is not one smokestack, not one city, not one type of event, it is an entire social system, a total ecosystem. It is a complex society and its total emissions or sources less sinks! We do not yet fully understand the physics of this, no less the chemistry, but we now want to monitor it by some less than precise manner and thus control a country's total economy. And just how was that to be accomplished?

[NASA was to have launched a satellite](#) almost a year ago and at the time as described by Reuters a year ago it was:

"The \$278 million program launches its satellite on Feb. 23. For two years, the satellite will cover all of the Earth every 16 days. During each 16-day cycle, the satellite will take 8 million measurements of carbon dioxide.

Japan this month launched a satellite to measure carbon dioxide and methane, another greenhouse gas. Both launches come as about 190 nations try to agree on a successor climate change treaty to the Kyoto Protocol, which binds wealthy nations -- not including the United States -- to emissions targets through 2012.

NASA said the Japanese and U.S. satellites use different technology, fly in different orbits, and have slightly different missions. The Japanese satellite is focused on monitoring sources of carbon dioxide for treaties, while the U.S. effort focuses on what happens to the gas.

The U.S. technology measures light bounced off the planet. Carbon dioxide absorbs light in some frequencies, so the less light detected, the higher the concentration of carbon."

However the satellite, the Orbiting Carbon Observatory or OCO in NASA speak, failed it launch. [As stated by NASA:](#)

"A NASA panel that investigated the unsuccessful Feb. 24 launch of the Orbiting Carbon Observatory, or OCO, has completed its report.

NASA's OCO satellite to study atmospheric carbon dioxide launched aboard a Taurus XL rocket from Vandenberg Air Force Base in California on Feb. 24 at 1:55 a.m. PST, but it failed to reach orbit.

The Mishap Investigation Board led by Rick Obenschain, deputy director at NASA's Goddard Space Flight Center in Greenbelt, Md., verified that the Taurus launch vehicle fairing failed to separate upon command. The fairing is a clamshell structure that encapsulates the satellite as it travels through the atmosphere. The failure to shed the fairing mass prevented the satellite from reaching its planned orbit and resulted in its destruction.

The board identified four potential causes that could have resulted in the fairing not separating:

-- A failure of the frangible joint subsystem. A frangible joint is an explosive device that provides instantaneous separation of flight vehicle structures while maintaining confinement of explosive debris.

-- A failure in the electrical subsystem that prevented sufficient electrical current to initiate the required ordnance devices.

-- A failure in the pneumatic system, which supplies pressure to thrusters which separate the fairing.

-- A cord snagged on a frangible joint side rail nut plate. "

NASA has announced additional flights but funding is a concern. As announced in [Nature today:](#)

"The US Congress is ratcheting up demands for NASA to launch Earth-monitoring satellites that could help to verify the emissions targets currently being debated in Copenhagen...In a US\$447-billion spending bill approved on 13 December (see [Table 1](#)), lawmakers told NASA to spend \$50 million in fiscal year 2010 on a replacement for the Orbiting Carbon Observatory (OCO), which crashed into the ocean near Antarctica in February after a rocket failure. "It looks like there is a future here," says David Crisp, the mission's principal investigator at the Jet Propulsion Laboratory in Pasadena, California. But by adding the OCO to NASA's already long list of Earth-science missions — and with no promise of future funding — some Earth scientists worry that Congress is asking the agency to do too much. Berrien Moore, director of Climate

Central, a think tank in Princeton, New Jersey, says that he was both "pleased and worried" by the OCO funding because of the additional burden on the mission programme.

By measuring levels of atmospheric carbon dioxide, the OCO could provide baseline emissions data and act as a proof-of-concept that carbon sources and sinks can be monitored from space. The observatory would measure CO₂ changes to a precision of 1 part per million at a resolution of about 3 square kilometres — nearly 30 times that of the Japanese Greenhouse gases Observing Satellite ... which launched in January. Replacing the OCO will cost about the same as the original \$280-million mission, says Crisp; if funding continues to be granted, the observatory could be launched as early as 2013.

That would require a much bigger budget for fiscal year 2011, but because NASA is one of several science agencies not included in a targeted doubling of basic-science funding ... it may well face a flat budget next year. "Or worse," says Moore."

Now for the current issues and Copenhagen. The [NY Times reports](#) the disagreement with the US and China on this very issue, verification. The article states:

"And the Chinese refusal to accept verification measures could also lead to calls for punitive tariffs on Chinese goods coming into the United States. The House bill allows for the imposition of tariffs on goods from countries that do not constrain their carbon output. A group of 10 Democratic senators wrote to Mr. Obama two weeks ago warning that the Senate would not ratify any treaty that did not protect American industry from foreign competitors who do not have to meet global warming emissions limits.

That threat could, paradoxically, help drive the Chinese to cement a deal here, an American official said. "Their No. 1 motivation is to avoid border tariffs," the official said."

Or it could drive the Chinese towards a Japanese position in 1936-1941! The Chinese have a reasonable position for a country which is developing. Verification has and will remain a sticky point if it requires access to the sovereign territory of a nation. Especially is such intrusion would by necessity have to be as excessive as one imagine for CO₂ monitoring. Japan did not like the pushing around it got in the 1930s and that in some ways led to the ability of the military to take control. I am NOT saying that the US forced Japan into its grossly immoral acts but that it may very well have set the stage for those who did.

Hopefully we are not as reckless with China, a nation which holds our debt! Verification is always intrusive. It means that you do not trust the other. That may be true but ironically the level of trust must be high before verification can work. Ironic, but the old "trust but verify" of Reagan was really the equivalent of the old dictum, "Don't trust anyone, not even your father!"

Posted by Terry McGarty at [3:44 AM](#)  

Labels: [Cap and Trade](#), [China](#), [Climate Issues](#)

MONDAY, DECEMBER 14, 2009

[MEDICARE EXPANSION AND THE PRESS](#)

As of tonight it appears from the [NY Times](#) that the Democrats may abandon the absurd idea of Medicare expansion. We have demonstrated that it is absurd for two reasons; first, it creates a "free ride" for that group on the backs of those who have paid in and second it creates along with everything else an almost 85% Government coverage of health care. The Times states:

"Senate Democratic leaders said Monday that they were prepared to drop a proposed expansion of Medicare and make other changes in sweeping health legislation as they tried to rally their caucus in hopes of passing the bill before Christmas. After a tense 90-minute meeting on Monday evening, Senator Max Baucus, Democrat of Montana and chairman of the Finance Committee, was asked if Democrats were likely to jettison the Medicare proposal. "It's looking like that's the case," Mr. Baucus said, indicating that the provision might be scrapped as a way of "getting support from 60 senators.""

But the worst part is the vile attacks on Senator Lieberman by the left wing writers of the Washington Post. As noted by [Michael Cannon of CATO](#) who states:

"Blogger Matthew Yglesias has a response to my post on Ezra Klein's slander that Sen. Joe Lieberman (I-CT) is okay with the mass murder (or the mass negligent homicide) of hundreds of thousands of uninsured Americans. Yglesias claims that only one of the three studies I cited speaks to what he claims is the central point: the Institute of Medicine's estimate of how many Americans die each year because they lack health insurance. Yglesias is incorrect. The central point/threshold question is whether giving the uninsured health insurance will save lives. All three studies speak to that point, and all three all cast doubt on the intuitively appealing idea that giving uninsured people health insurance ipso facto saves lives."

Specifically [Klein in the Post](#) states:

*"To put this in context, Lieberman was invited to participate in the process that led to the Medicare buy-in. His opposition would have killed it before liberals invested in the idea. Instead, he skipped the meetings and is forcing liberals to give up yet another compromise. Each time he does that, he increases the chances of the bill's failure that much more. And if there's a policy rationale here, it's not apparent to me, or to others who've interviewed him. At this point, Lieberman seems primarily motivated by torturing liberals. **That is to say, he seems willing to cause the deaths of hundreds of thousands of people in order to settle an old electoral score.**"*

Frankly that is well out of bounds. First the IOM study does not really state that. Second the IOM study is one of the "shingling the roof in the fog" studies that goes well beyond assuming elephants had wings. Third the statement by Klein is just wrong and in my opinion appears deliberately wrong solely for the intent to accuse a good man. This is the reason the Post and the others may just disappear from the scene.

There are valid reasons to not allow this expansion of Medicare. Yet there is no reason to behave the way Klein has. Perhaps his mother may speak to him, young little boys must not act that way...

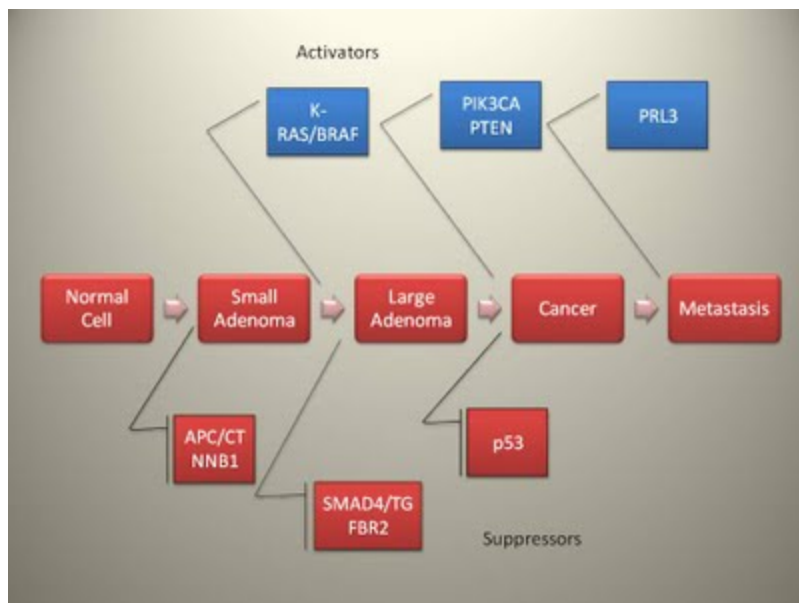
Posted by Terry McGarty at [6:15 PM](#)  

Labels: [Health Care](#)

SUNDAY, DECEMBER 13, 2009

[AN INTERESTING ADVANCE IN NANO TECH](#)

As we have written before, the future of medicine as we know it will be driven by genetic technology. Take cancers for example. In the classic Vogelstein model of colon cancer there are several steps from dysplasia to metastasis.



First, the APC/CTNNB1 step which leads to a small adenomas.

Second the K-RAS/BRAF step to a large adenoma.

Third, the PIK3CA/PTEN step blocking p53 as well to a cancer.

Fourth, the PRL3 step to metastasis.

The above for the most part are proteins that are blocked, activated, or just disappear or occur. See my [review of the nice little book by Bunz](#). It is worth the read.

This will be very important in staging as well in assessing the early stages of cancer. But the question is how to measure the presence or absence of these proteins to see if the pathways were activated.

Along comes nano technology and a wonderful paper by Stern et al in [Nature Nanotechnology](#) which states:

"Label-free nanosensors can detect disease markers to provide point-of-care diagnosis that is low-cost, rapid, specific and sensitive. However, detecting these biomarkers in physiological

fluid samples is difficult because of problems such as biofouling and non-specific binding, and the resulting need to use purified buffers greatly reduces the clinical relevance of these sensors. Here, we overcome this limitation by using distinct components within the sensor to perform purification and detection. A microfluidic purification chip simultaneously captures multiple biomarkers from blood samples and releases them, after washing, into purified buffer for sensing by a silicon nanoribbon detector.... This study marks the first use of label-free nanosensors with physiological solutions, positioning this technology for rapid translation to clinical settings."

Simply the technique used nanotechnology, small nano beads with the ability to have specific protein bind to the surface or have surface markers activated and then as the nano particles pass through the system they are withdrawn and measured for the presence of the offending proteins or their absence. Brilliant approach and potentially a low cost way to stage and detect cancers.

At the same time in a current paper in [Science by Bertotti et al](#) the authors details the pathways and their complexities. They state:

"Tumor onset and progression require the accumulation of many genetic and epigenetic lesions. In some cases, however, cancer cells rely on only one of these lesions to maintain their malignant properties, and this dependence results in tumor regression upon oncogene inactivation ("oncogene addiction"). Determining which nodes of the many networks operative in the transformed phenotype specifically mediate this response to oncogene neutralization is crucial to identifying the vulnerabilities of cancer.... We found that Met blockade affected a limited subset of Met downstream signals: Little or no effect was observed for several pathways downstream of Met; instead, only a restricted and pathway-specific signature of transducers and transcriptional effectors downstream of Ras or phosphoinositide 3-kinase (PI3K) was inactivated... Inhibition of Ras-dependent signals and PI3K-dependent signals also resulted in cell-cycle arrest, whereas cells in which Met was inhibited proliferated when Ras or PI3K signaling was active. These findings uncover "dominant" and "recessive" nodes among the numerous oncogenic networks regulated by receptor tyrosine kinases and active in cancer, with the Ras and PI3K pathways as determinants of therapeutic response."

The ability to better understand the pathways and then using nano technology to measure their activation, and then to combine these with sophisticated imaging to localize them allows for both early detection and for the staging of early developmental cancers. The trends presented in these two articles are what I believe are the initial steps which demonstrate true viability of the control of cancer in the early and remediable states.

This approach will, if combined with the multi-modality imaging which is contemporaneously being developed, will permit massive changes in the way we treat disease. Hopefully the new health care bills do not kill things like this. This approach can empower physicians to deal with problems before they become ones requiring hospitals and large institutions. The physicians can become the true police of the body, seeking out the attackers and neutralizing them before any harm is done.

Posted by Terry McGarty at [1:29 PM](#)  

Labels: [Health Care](#)

[JUST HOW MUCH WAS THAT BILL?](#)

The web site from [The Hill](#) states:

"The Senate passed a huge end-of-the-year \$1.1 trillion omnibus spending measure Sunday afternoon by a vote of 57-35. ...The bill, which includes \$447 billion in appropriations for a number of cabinet departments and \$650 billion for Medicare and Medicaid, combines six of the 12 annual spending bills Congress had been unable to pass separately because of Republican concerns that the measure is over-inflated and exceeds the cost of inflation in its government budget increases."

In contrast the [NY Times](#) states:

"The Senate on Sunday sent President Obama a \$446.8 billion measure funding much of the federal government, leaving Congress free to try to sort out a remaining tangle of year-end business....The vote for the huge spending bill, which actually totals more than \$1 trillion when required spending for social programs is added in, left one spending bill remaining – a \$600 billion Pentagon measure that Democrats hope to use to carry along some of the more contentious remaining items."

Now it is worth reading the two presentations. The Hill, not really a partisan site states the facts up front, \$1.1 trillion. The Times hides the other \$600 billion at the bottom of the article. Surprise? Not really.

The question is why \$600 billion for Medicare. Remember that Medicare is really self funded, thus the reason for the appropriation is to allow Congress to again take from Medicare, this time \$100 Billion more than it will spend! You cannot make this up! They are now not only taking what was paid into Medicare for Medicare but are placing Medicare in Debt! Neither news reports state that.

Posted by Terry McGarty at [1:16 PM](#)  

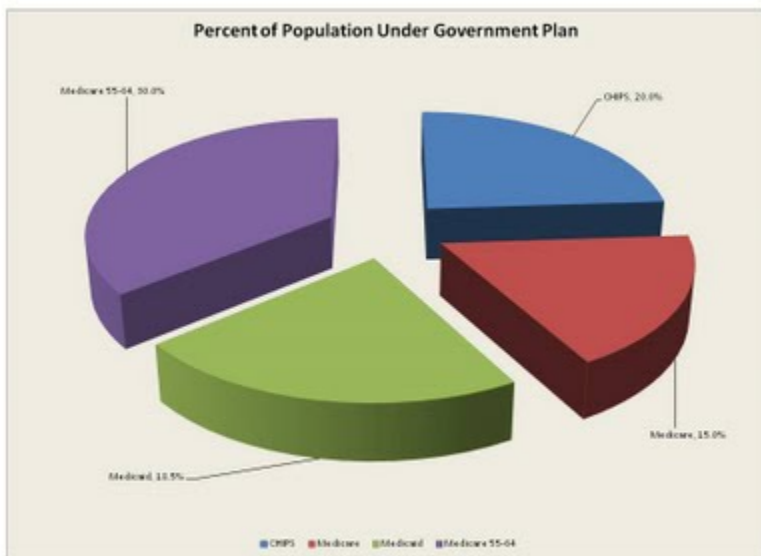
Labels: [Economy](#), [Health Care](#)

[A SIMPLE DEMOGRAPHIC ANALYSIS](#)

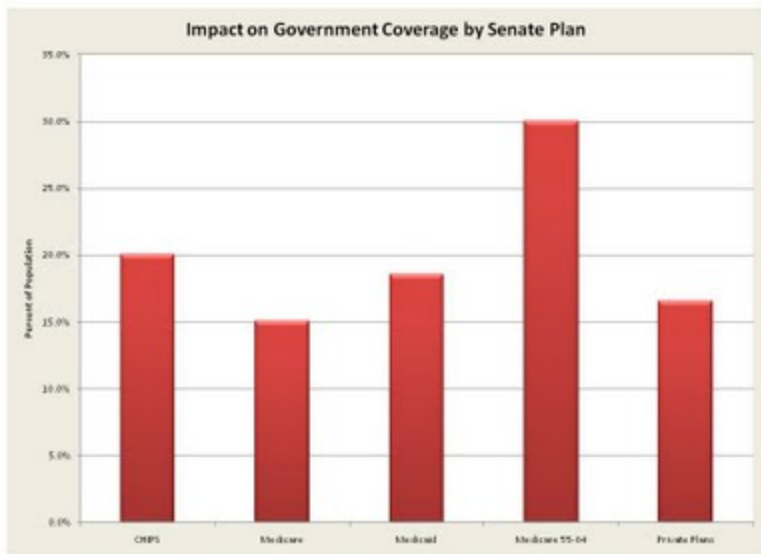
As we look at the new Senate Bill we see several interesting trends:

1. Medicare stay the same for those over 65 yet the payments are reduced 15-20% making it begin to look like Medicaid.
2. Medicaid is expanded to a greater percent of the population.
3. The CHIP program covers more children in a Government Plan
4. Medicare is expanded to 55-64 year old group who have not paid in fully and will live more years.

The results is in the charts below:



The net result is that just slightly more than 15% of the population is not covered by a Government Plan! We show this below.



Does anyone see what has happened. If this Bill passes as structured it is one giant step to a nationalized health care plan. Who need a public option. The only ones getting health care outside the Government are those in the middle ground and the companies providing it will soon withdraw it and force the remaining 17% into some Government Plan.

This will become the National Health Service of the UK, or worse. Would some one please show these numbers!

Posted by Terry McGarty at [12:59 PM](#)  

Labels: [Health Care](#)

SATURDAY, DECEMBER 12, 2009

[GOOD CATCH BY THE CANCER ACTION NETWORK](#)

In the Senate Bill, on page 16, in Sec. 2711 the Bill states:

"SEC. 2711. NO LIFETIME OR ANNUAL LIMITS

(a) IN GENERAL. —A group health plan and a health insurance issuer offering group or individual health insurance coverage may not establish—

(1) lifetime limits on the dollar value of benefits for any participant or beneficiary; or

(2) unreasonable annual limits (within the meaning of [section 223 of the Internal Revenue Code of 1986](#)) on the dollar value of benefits for any participant or beneficiary."

The second clause is the killer. Some staffer under some Senator got this clause in most likely written by some insurance company and handed over by some lobbyist at some time!

In a [WBZ \(Boston\) report](#) they state:

"As currently written, the Senate Democratic health care bill would permit insurance companies to place annual limits on the dollar value of medical care, as long as those limits are not "unreasonable." The bill does not define what level of limits would be allowable, delegating that task to administration officials.

Adding to the puzzle, the new language was quietly tucked away in a clause in the bill still captioned "No lifetime or annual limits."

The 2,074-page bill would carry out President Barack Obama's plan to revamp the health care system, expanding coverage to millions now uninsured and trying to slow budget-busting cost increases. A tentative deal among Senate Democrats to back away from creating a new government program to compete with private insurers appears to have overcome a major obstacle to the bill's passage.

Officials of the American Cancer Society Cancer Action Network said they were taken by surprise when the earlier ban on annual coverage limits was undercut, adding that they have not been able to get a satisfactory explanation.

"We don't know who put it in, or why it was put in," said Stephen Finan, a policy expert with the cancer society's advocacy affiliate."

The [Cancer Action Network](#) response is as follows:

“People with cancer are very encouraged that their concerns have been heard about a provision currently in the Senate health care reform bill that could subject patients to a sudden termination of coverage for critical care. After discussions with senior White House and Congressional staff this afternoon, we are confident that our concerns will be resolved and the bill strengthened.

“The Senate bill prohibits insurers from establishing ‘unreasonable’ annual limits on coverage and gives the Treasury Secretary the authority to define what that means. As cancer patients and survivors know, the definition of ‘unreasonable’ may differ dramatically depending on whether a person is healthy or in active treatment for cancer. The American Cancer Society Cancer Action Network (ACS CAN) has expressed concern that a vague ‘unreasonable’ standard would leave people with cancer at risk of having their care cut off when they need it most.

“We are working with the White House and Congress to strengthen the Senate bill by eliminating annual limits on benefits and preserving the bill’s existing ban on lifetime limits. This improvement will ensure that people with cancer and other life-threatening diseases receive quality coverage that provides access to the care they need, when they need it.”

This is just another example of how this whole health care bill process is fraught with pitfalls. The Senate Bill must be read line by line for any room allowed will then permit the HHS to write the Administrative Law which will result in the death of millions in total agony! Welcome to health care reform.

Posted by Terry McGarty at [4:41 AM](#)  

Labels: [Health Care](#)

FRIDAY, DECEMBER 11, 2009

[HR 3590, THE CMS ACTUARY AND MEDICARE](#)

The [CMS Actuary](#) released a report to Congress on the costs of HR 3590 and the impact on Medicare. It clearly shows what we wrote this morning that the expansion to the 55-64 year old group to Medicare access would be quite costly.

Let me expand what I wrote this morning.

1. If we expand the Medicare coverage to those 55-64 and we demand parity to what is there now for those who paid more than they will ever get in return then they will have to pay \$8000 pa per person.
2. The Government will limit payments to those under 400% of the poverty line. Thus even if the amount were to be \$8000, the actual amount would be well less than \$3000. This means for every enrollee there would be a \$5000 pa added burden.

3. If we assume that the enrollees are about 40 million in this program as anticipated by the Actuary's report, then this is another \$200 billion per year added to the deficit. And that amount is growing at 4-6% pa! Are these people insane!

We are deeply concerned about this specific proposal. It will destroy Medicare as we know it, it will also have a bifurcating effect on the provision of health care, good service for those who can pay and poor if not incompetent service for the others. It will like Greece, where if you slip the provider some added incentives you get to go around the line and get care. Otherwise you just sit and wait, and wait, and wait.

Posted by Terry McGarty at [4:03 PM](#)  

Labels: [Health Care](#)

[HOW TO RUN AN INTELLIGENCE NETWORK: TO CATCH A TERRORIST](#)

The [red balloon contest](#), an interesting idea from DARPA and the MIT winners. As the MIT press release states:

"On Tuesday, Dec. 1, members of the MIT Media Lab's Human Dynamics Laboratory received an e-mail with a \$40,000 proposition. The U.S. Defense Department's Defense Advanced Research Projects Agency (DARPA) was holding a competition that weekend: on Saturday morning, 10 large red weather balloons would be raised at undisclosed locations across the United States; the first team to use social media — like online social networks and communication systems — to determine the correct latitude and longitude of all 10 would receive \$40,000."

The solution from the Media Lab was to use social networking, pay the people who built the network if they were successful and then to filter out the bad reports.

The problem was to locate all of the 10 balloons in lat and long and to do so as quickly as possible. That needed many observers.

The following questions were asked and answered:

1. What type of network works quickly? A social network using the Internet.
2. What motivates people to build a network? Money and fame. They paid every team that got a correct sighting a cumulative of \$4000, thus the total \$40000 went to the teams. The payment structure went to the "team" and the team leader got half, thus \$2000, and then downward so that the sum was the \$4000. Simple infinite sum equation. This is the Mary Kay, Tupperware, Avon school of marketing, a pyramid where everyone gets something. A tried and true approach.
3. How was the data validated? How could you trust a sighting. People lie, they make errors, they report things which are in error or not even there. The MIT report states:

"One of the questions that the lab hopes to get a quantitative handle on is how to filter out reliable and unreliable reports. Pickard says that of the balloon sightings reported through the

team's website, about half contained inaccurate data, and some of those were intentionally faked. "There were other teams who were actively trying to deceive us," Pickard says. "We talked to them afterwards, and they said they had fun spamming us with false information." The researchers will look for patterns that provide a kind of statistical signature for false reports. As an example, Pickard points to one of the methods the team in fact used to weed out fakes: if several balloon reports came in that specified the same general geographical area but varied slightly as to the GPS coordinates, they were likely to have come from people who'd seen the balloon firsthand but hadn't had an opportunity to track down its precise location. When, on the other hand, several reports came in with exactly the same GPS coordinates, they were likely to have had a common source, such as a posting on the Internet, which may or may not have been reliable."

This filtering is the most important approach. Suffice it to say there are many algorithms to use but by having many eyes on the ground, and knowing that people never see the exact same thing, this approach is quite valid.

By the way, this is the way MI6 and the KGB used to function. Many eyes, each with a small payout, lots of data and filtering. Namely eyes on the ground. The thousands of invisible people, the maids, cleaning help, waiters, cab drivers, guards, stewardesses, and the like. The people we think invisible, and yet open to all sorts of information. The eyes on the ground. The US intelligence system never really bought into this, we have Billion dollar satellites and the like, not thousands of cleaning ladies with great eyes and superb filtering systems.

This is a great example of finding a low cost and real time approach to intelligence. It is a shame that this was destroyed during the Carter Administration and has never really gained currency in the US intel world. Eyes in the shadows are very powerful tools, the adversary uses them always.

Posted by Terry McGarty at [8:40 AM](#)  

Labels: [Commentary](#)

MEDICARE FOR 55-65: GRESHAM'S LAW GONE WILD

I suspect that Congress has not done a bit of analysis on the impact of the inclusion of those under 65 into Medicare. Sounds goo, one would think, yet perhaps a simple back of the envelope analysis will help. Yes, numbers do mean something.

Let us go back to what we analyzed a few months ago, namely the current Medicare plan.

1. If one started work in 1970 and in 2005 retired at 65, then during that period you contributed to the Medicare plan at the rate of 3% of your gross salary per year.
2. If the contributions had been wisely set aside in a very conservative bank account, yet they were not, Congress stole them, you would have had in the fund \$165,000 at that time.
3. You would have a 12 year life expectancy and thus at the current Medicare costs of \$12,000 per person per year, if that money were to be placed in an annuity it would have generated \$19,000 per year and you would have overpaid for any benefits you would have received.

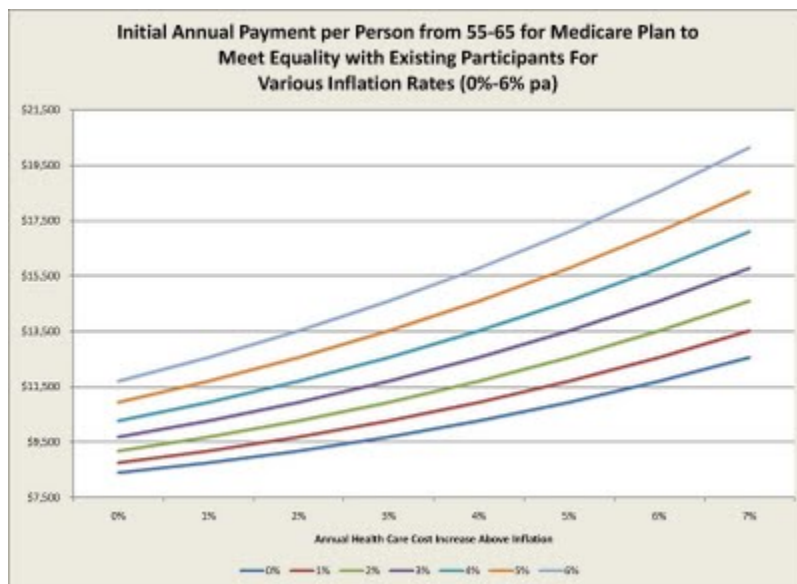
This analysis is for an average employee, not for a minimum wage person or any professional. But on average it applies.

Now let us go to the absurd idea of having the 55-65 "buy in" to Medicare. The New Testament tale of the first shall be last and the last shall be first and that each worker gets paid the same no matter how long they work in the fields does not apply here, I would argue. This is not religion and it is simple economics.

Now for the analysis.

1. Assume we open the program up for those 55-65.
2. Assume we allow for a "buy in" which is neutral and equal to those who are 65 and over. Namely the new buy in crowd pays an amount per year so that they have equity with those who paid in all their life.

The result is below:



Using the simple method of matching net present values of cash flows, and factoring in health cost inflation and inflation itself, the above depicts the cost per year from 55 to 65 to buy in at an equity basis depending on the variables. Namely if there is no cost increase in health care above inflation and in fact there is no inflation then the cost is \$8000 per year per person, what we see as the existing costs. No surprise there. However if we see a 3% health care cost rise above inflation and a 3% inflation then the price to buy in becomes \$12,000! Otherwise the system disadvantages those who already paid in!

This is another slight of hand by Congress. This is another slap in the face to those on Medicare.

Now to the Gresham's Law issue, bad money driving out good. Here what will happen.

1. If this is done, then those on the new buy in system will result in a doubling of the number on Medicare.
2. Medicare will drive down reimbursements to providers to control costs.
3. Congress will "charge" a low buy in costs thus making it attractive but no where cost neutral.
4. Excess losses to Medicare will result in further provider cost reductions.
5. Quality Providers will leave the Medicare system as they have left Medicaid.
6. The existing 65 and overs who have contributed beyond their current reimbursements will get pushed out of the quality care they have paid for.
7. The 55-65 will get a "free ride" for a short period then they too will have reduced care.
8. The bad money Medicare System will push out the good money Medicare System and at the same time the new "bad" system will become the single payer public option and all the progressives will be happy and those in the system will be suffering the pain.

As they say, one cannot make this up. And where is the Press on this one, out to lunch. The reason, it requires a simple 30 line spread sheet and an ounce of understanding, the Press has none, never did, never will. Thank God it is soon to disappear!

Posted by Terry McGarty at [6:25 AM](#)  

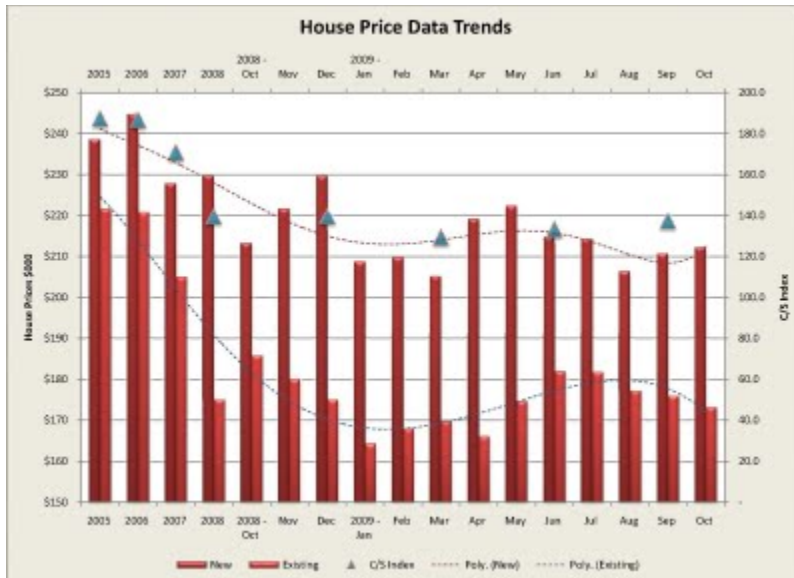
Labels: [Health Care](#)

MONDAY, DECEMBER 7, 2009

[HOUSE PRICES AND THE RECESSION](#)

The prices of houses is considered to be a form of leading indicator of recovery from the recession. It is a psychological measure of the confidence people have looking forward.

We look here at both new and existing home sales as well as the Case Shiller Index. We show this below:



To some degree this is reading tea leaves. The new home price bottomed out again in August, from a similar low in March. The rebound thus far since August is no where as robust as was March. The CS index has remained somewhat flat just below 140 which is well below the almost 190 of 2005.

There clearly does not appear to be any progress in this area. Existing homes have recovered from January yet continue to decline in price. The detailed analysis of defaults and sales of the defaults still weighs the bundle. Using this data point one sees little progress.

Posted by Terry McGarty at [7:19 AM](#)  

Labels: [Economy](#)

[THERE HE GOES AGAIN](#)

[Mankiw at Harvard](#) posts a note on his blog supporting his Pigou friends who are promoting a Carbon Tax.



First, we now have the mess of lack of any credibility in the science based upon the less than ethical and professional conduct of some large group involved in the basic data. Not to mention the complexity and uncertainty of the science. You see as an avid botanist I frankly love CO₂, and last year was a bust for me so I am a bit up in arms.

Second, they oppose cap and trade, which as we have shown here is really tax and spend on pork. That is the Markey and Waxman approach.

Third, they support a tax. The Pigou approach. Well if you tax, my good friend Mr Economist, you take money from the economy which would go to entrepreneurs and place it in the hands of politicians who "give" it to their friends. This makes no sense, Pigou notwithstanding.

Fourth, those taxed have no control of their usage. When it is cold, as it is now, one needs to heat their residence. You can turn the thermostat down, I do, you can wear a heavy set of clothing, I do, you can drive a small car, I do, you can go green, I do, since I grow thousands of plants and hundreds of trees, but what do all the people do to make a change, just nothing, they are at the whim of the auto and power companies. It is not like calorie consumption or tobacco, where you tax at the point of decision. You are taxing way down the food chain. Makes no sense to me, but I am just a humble engineer, not a brilliant economist.

Perhaps Shakespeare was wrong, you know about the lawyers and all. He may have thought differently if he had met economists.

Posted by Terry McGarty at [4:43 AM](#)  

Labels: [Cap and Trade](#)

[DECEMBER 7TH, A DAY WHICH LIVES IN INFAMY](#)



The above is the Finance Building in Manila in March of 1945 after the Japanese were captured. This was all that was left of what was once a monumental structure. This is taken from the records I used to write [DD 649, a book commemorating the men on that ship](#), including my father, who rarely if ever spoke of the time. The men on my father's ship were the crew of the destroyer USS Albert W Grant, which was a key player in the Battle of Surigao Strait off Leyte in October 1944. They returned after repairs in March 1945.



The above is the crew men of the Albert W Grant, DD 649, just before the battle of Leyte. James Bradley yesterday in the [NY Times](#) published a piece stating the history of what he saw as the seed which led to Pearl Harbor. Bradley begins the article as follows:

"SIXTY-EIGHT years ago tomorrow, Japan attacked the American naval base at Pearl Harbor. In the brutal Pacific war that would follow, millions of soldiers and civilians were killed. My father — one of the famous flag raisers on Iwo Jima — was among the young men who went off

to the Pacific to fight for his country. So the war naturally fascinated me. But I always wondered, why did we fight in the Pacific? Yes, there was Pearl Harbor, but why did the Japanese attack us in the first place?"

It is always good to ask the question, again and again, for every conflict has a beginning, a small, and at the time inconsequential act, driven often by the egos of those in power.

If one reads the Bradley piece, he appears to attribute the cause to the arrogant and ignorant acts of Teddy Roosevelt who sided with Japan against Russia and through Teddy's back channel communications with the Japanese placed the Russians at a disadvantage and in turn set the course for Japanese expansionism. This was especially true of "giving" the Japanese the Korean Peninsula. Or as Bradley states:

"To signal his commitment to Tokyo, Roosevelt cut off relations with Korea, turned the American legation in Seoul over to the Japanese military and deleted the word "Korea" from the State Department's Record of Foreign Relations and placed it under the heading of "Japan." "

Thus the American President, the first to receive a Nobel Peace Prize for the effort, while in office, sowed the seeds for the next conflict. As Bradley continues:

"It was for his efforts to broker the peace deal between Russia and Japan that a year and a half later Roosevelt became the first American to win the Nobel Peace Prize — and one of only three presidents to do so while in office (the other two are Woodrow Wilson and President Obama, who will accept his prize this week). No one in Oslo, or in the United States Congress, knew the truth then.

But the Japanese did. And the American president's support emboldened them to increase their military might — and their imperial ambitions. In December 1941, the consequence of Theodore Roosevelt's recklessness would become clear to those few who knew of the secret dealings. No one else — including my dad on Iwo Jima — realized just how well Japan had indeed played "our game." "

Bradley seems to be making many subtle points. First, Teddy was in many ways a naive man, one driven by his personal ego and persona, one who came to office young, and highly inexperienced. He did things almost on a whim, and tried to align himself with the world view he created which had little grounding in reality. He knew nothing of Japan and the Japanese. He was surrounded by people who for the most part knew even less. Second, the nature of what a President does is often hidden for years, if not forever. It is only through glimpses gathered decades or centuries later that we can patch the sequences together and determine the ultimate causes of disasters. Third, patterns do repeat, again and again.

On this 68th anniversary of Pearl Harbor, we should keep some of these in mind. Japan was not a victim, it was not forced to act, in fact it was aided and abetted like a spoiled child into moving in a predictable manner to do what it did. Can that be said of all such attacks?

Thus Mr. Bradley, in honor of your father, mine, and the millions of others who fought and served this country, we think again of that day the lessons from history we had better learn.

Posted by Terry McGarty at [4:12 AM](#)  

Labels: [Commentary](#)

FRIDAY, DECEMBER 4, 2009

[KRUGMAN AND THE MEDICARE REALITY](#)

In today in the [NY Times](#) my "favorite" economist, good ole Krugman, states:

"Are we talking about real savings, or just window dressing? Well, the health care economists I respect are seriously impressed by the cost-control measures in the Senate bill, which include efforts to improve incentives for cost-effective care, the use of medical research to guide doctors toward treatments that actually work, and more. This is "the best effort anyone has made," says Jonathan Gruber of the Massachusetts Institute of Technology. A letter signed by 23 prominent health care experts — including Mark McClellan, who headed Medicare under the Bush administration — declares that the bill's cost-control measures "will reduce long-term deficits.""

Well as I stated yesterday after reviewing Gruber, he is wrong. The devil is in the details. Let me restate a few facts:

1. Comparative Clinical Effectiveness is in and of itself a good and necessary process. It has been done and continues to be done in the profession. The problem is a centralized Government controlled and dictated CCE effort which the Bills, all of them, mandate. The problem is you do not want a rigid process controlled by some GS 13 dictating what can and cannot be done, no less paid for,
2. Medicare is in default because the money was stolen by Congress. Any economist should know this. It is NOT because Medicare is running out of money, the money was taken. Look at the US debt my economist friends, follow the money. It was spent on the type of Krugman like excesses which got us where we are today!
3. Gruber is all opinion. He has not as best as I can determine by looking at his work detailed any numbers, laid out any plan, analyzed any alternatives. Somewhere and sometime you must back up your generalities with facts. I have done so, read my reports and my books. here are facts and audit trails. I am no Brit hiding temperature data. Gruber just fails on that account in my opinion.
4. Cost control is half of the problem. Demand control is the other half. Where is that discussion. We have incorporated that in our plans and the Government has not done so as not to offend. Offend away I say, tax the fatty, the smoker, the drug user, and those whose lifestyle choices cost the rest of us. Yet for those who face a catastrophic illness, the child with ALL or osteosarcoma, the adult with multiple myeloma, the young person with multiple sclerosis, they should be treated with care, dignity, and should not be thrown to the economic wolves.

Krugman says that the Bills are great and will reduce costs because:

"First, the uninsured in America are, on average, relatively young and healthy; covering them wouldn't raise overall health care costs very much.

Second, the proposed health care reform links the expansion of coverage to serious cost-control measures for Medicare. Think of it as a grand bargain: coverage for (almost) everyone, tied to an effort to ensure that health care dollars are well spent."

What is he saying in the above? First by taxing the young we use that money to pay for others. Second by taking money away from the old we reduce the burden on the Government. None of this reduces costs. This is typical Krugman in that it moves money from the taxpayers pocket to the Government. The good Professor would never make it in a real company. One must reduce costs as well as reduce demands. We have shown repeatedly how this is done. Krugman has, as best I can ascertain, never addressed the demand side, nor has Gruber, I believe. In addition when either of these gentlemen address costs, they do so by removing money, not by any means that a rational business person would do.

Academics have for the most part never had the burden of meeting a payroll. I can see that as I have returned to academia. The nights I spent worrying about some switch, some customer, in some hotel room in Athens, or Moscow, is not something these people have ever experienced. It is the "duty" one has when one must provide for one's employees, one's troops, and the like which gives a person the perspective of reality. That is a truly foreign element to almost all academics. Thus one seriously questions their preachings and their wisdom.

Posted by Terry McGarty at [9:01 AM](#)  

Labels: [Health Care](#)

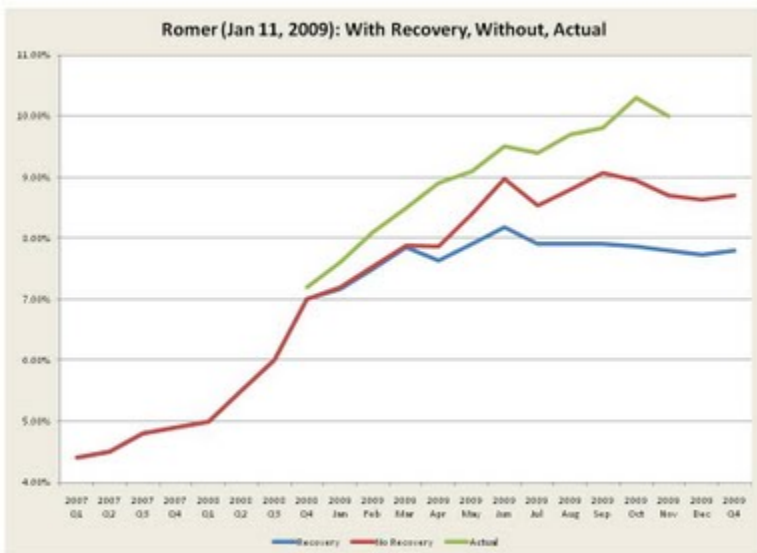
[THE ROMER CURVE UPDATE: DECEMBER](#)

As we are wont to do each month when the [Employment Summary](#) is released we present the actual to the Romer curves from January. It is one of those things a Director would do at a Board Meeting to remind the other Directors of the less than sterling work on the part of some of the management. However with Sarbanes Oxley I suspect that Director would do it once and if that Management person were not terminated the Director would be duty bound to resign. Well we can't seem to do that with Government types.

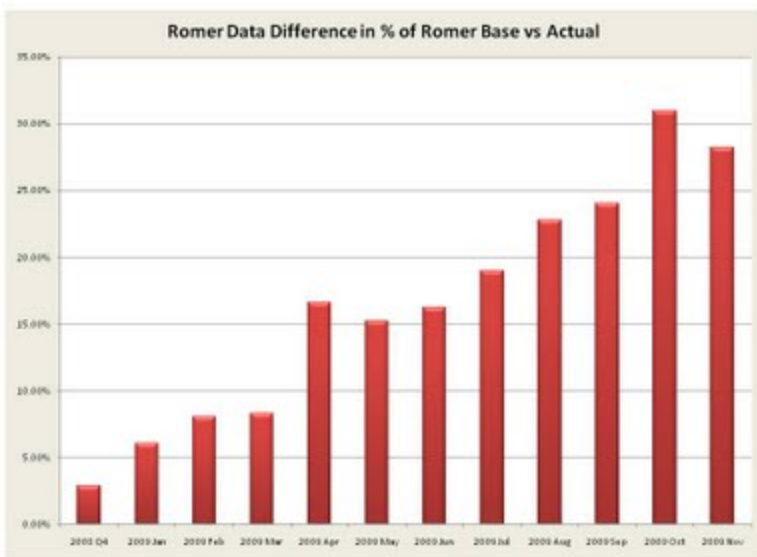
The BLS states:

"The unemployment rate edged down to 10.0 percent in November, and nonfarm payroll employment was essentially unchanged (-11,000), the U.S. Bureau of Labor Statistics reported today. In the prior 3 months, payroll job losses had averaged 135,000 a month. In November, employment fell in construction, manufacturing, and information, while temporary help services and health care added jobs."

We now show below the data plotted against the Romer model that she distributed last January. The data speaks for itself.



The chart below shows the error between budget and actual.



Posted by Terry McGarty at [6:02 AM](#)  

Labels: [Economy](#)

[CARTERFONE, CABLE TV, SET TOP BOXES: A NEW BARRIER TO ENTRY](#)

The [FCC has issued a notice](#) which is directed at allowing third party cable converters. Well folks it is about time. It was mandated by the 1996 Telecom Act and yet the FCC had done nothing in 13 years. It took them over 100 years for the telephone to move from a black box to what we have today.

The problem is simple, historically for a century it was illegal to connect anything to the telephone network. You had to take whatever the boy from Bell gave you and then you "leased"

it for life. In real dollars you paid every month their full cost of the device, the phone, but you did that all your life. A license to steal. Now the CATV companies, yes it include Comcast, the new devil in the play, charge you what is in my opinion an extortionary amount per month for a box which you should have integrated into your TV set or better as a card on your PC, and you can buy it at any discount web seller. But no, even though the law required the FCC to make this so!

But salvation may be near with the notice. It may take ten years but at least it appears to be happening.

The FCC notice is prefaced by saying:

"In this Public Notice, we seek comment on how the Commission can encourage innovation in the market for video devices that will assist the Commission's development of a National Broadband Plan pursuant to the American Recovery and Reinvestment Act of 2009 (Recovery Act), and serve the goals of Section 629 of the Communications Act of 1934, as amended. Internet video has proven to be tremendously popular. In March 2009, viewers streamed nearly ten billion videos and averaged three hours watching video on the Internet. Subscription video services, including traditional cable services provided by many companies, video services offered by companies traditionally considered telephone companies, and Internet-based subscription services, use or plan to use Internet Protocol ("IP") to deliver their video content. As the popularity of IP delivery of video continues to increase, we believe that new applications will emerge, Internet use will increase, consumers will have more viewing options, and more viewers will want to access Internet content on their televisions.

In addition to Section 629's statutory mandate that the Commission adopt regulations to assure a competitive market for navigation devices, we believe that video devices are an important part of developing a National Broadband Plan. Although 76 percent of U.S. households have personal computers, 99 percent have television sets. The convergence of the television and content delivered by IP makes this a critical time to promote innovation in set-top devices that could support the Commission's effort to drive broadband adoption and utilization. Accordingly, the Commission wishes to consider taking an active role in formulating a solution that will spur the development of a retail market for nationally portable video devices that will work across all delivery platforms, including MVPD platforms and broadband-based video platforms. We seek comments on the following specific issues to help us better understand these issues as we develop a National Broadband Plan."

Let me take the reader back 20 years to what I wrote then about the telephone business. As I had written in those days of telephone, namely in 1990:

""Consider what was written by a Bell System polemicist in 1977 at the 100th anniversary of the Bell System at MIT. The author was John R. Pierce, Executive Director at Bell Labs, who stated:

" Why shouldn't anyone connect any old thing to the telephone network? Careless interconnection can have several bothersome consequences Accidental connection of electric power to telephone lines can certainly startle and might conceivable injure and kill telephone

maintenance men and can wreak havoc with telephone equipment Milder problems include electrically imbalanced telephone lines and dialing wrong and false numbers, which ties up telephone equipment. An acute Soviet observer remarked: "In the United States, man is exploited by man. With us it is just the other way around." Exploitation is a -universal feature of society, but universals have their particulars. The exploitation of the telephone service and companies is little different from the exploitation of the mineral resources, gullible investors, or slaves." (deSola Pool Ed, Pierce, pp 192-194).

This may equally be applied to the position of may in the LEC and IEC areas towards the use of INet voice and specifically the software. The readers should note that this was written nine years after the Carterfone decision and five years before the announced divestiture. Pierce had a world view of an unsegmentable telephone network. This paper has the view of a highly segmentable communications system. The world view of the architecture has taken us from "slavery" of Pierce to the freedom of the distributed computer networks of today. Kuhn has described technologists as Pierce as the "Old Guard", defenders of the status quo. They defend the old paradigms and are generally in controlling positions for long periods of time.

The Computer Scientists view has been epitomized in the quote, "Every Packet is an Adventure". This is said with glee, in that each data packet is set out across the network and it is through the best of hacking that the Computer Scientist saves the packet from the perils of Scylla and Charybdis. The third view is that of the user, who is interested in developing an interconnect capability that meets the needs and minimizes cost. This is minimization of both obsolescence and cost strategy."

I continued:

"The other problem of the RBOC and LEC mentality is the abhorrence to alien attachments. The were also called alien interfaces. Interfaces were originally called "Alien Attachments". In Kahn (II p. 140-145,) he discusses the history of the interface leading up to the Carterfone decision. The most significant position in CPE control was the Hush-A-Phone debate from 1921 to 1946. The Bell System at that time took total and full control over the quality of the delivery of the service of voice. The Hush-A-Phone company provided a mechanical cup device that could be placed over the mouthpiece of the telephone to assist in making the conversation more private. AT&T took the position that it interfered with the network and the quality of service and battled this for 25 years. Such is not the case today."

Now the same applies for CATV providers. The FCC poses the following questions.

A. What technological and market-based limitations keep retail video devices from accessing all forms of video content that consumers want to watch?

The answer is simple, the CATV guys have what is in my opinion an inappropriate monopoly, a tying arrangement, read Sherman and Clayton! With Comcast owning NBC one wonders what politician would dare threaten that!

B. Would a retail market for network agnostic video devices spur broadband use and adoption and achieve Section 629's goal of a competitive navigation device market for all MVPDs?

The answer is also simple, apply Carterfone to cable. Simple, precedent exists. Make the "boxes" open source. That would be a step in breaking the monopoly!

C. Can the home broadband service model be adapted to allow video networks to connect and interact with home video network devices such as televisions, DVRs, and Home Theater PCs via a multimedia home networking standard?

Yes, anything can be done but now with the cable guys. Just look at wireless, there is competition, albeit an oligopoly, yet the iPhone would never have come from a monopoly. The answer is breaking the monopoly of the cable companies.

D. What obstacles stand in the way of video convergence?

Hopefully this is a rhetoric question. The FCC has the answer in front of their face! Comcast and the other members of the cartel!

For the Record, Section 629 of the Act states:

SEC. 629. COMPETITIVE AVAILABILITY OF NAVIGATION DEVICES.

(a) COMMERCIAL CONSUMER AVAILABILITY OF EQUIPMENT USED TO ACCESS SERVICES PROVIDED BY MULTICHANNEL VIDEO PROGRAMMING DISTRIBUTORS-

The Commission shall, in consultation with appropriate industry standard-setting organizations, adopt regulations to assure the commercial availability, to consumers of multichannel video programming and other services offered over multichannel video programming systems, of converter boxes, interactive communications equipment, and other equipment used by consumers to access multichannel video programming and other services offered over multichannel video programming systems, from manufacturers, retailers, and other vendors not affiliated with any multichannel video programming distributor. Such regulations shall not prohibit any multichannel video programming distributor from also offering converter boxes, interactive communications equipment, and other equipment used by consumers to access multichannel video programming and other services offered over multichannel video programming systems, to consumers, if the system operator's charges to consumers for such devices and equipment are separately stated and not subsidized by charges for any such service.

(b) PROTECTION OF SYSTEM SECURITY- The Commission shall not prescribe regulations under subsection (a) which would jeopardize security of multichannel video programming and other services offered over multichannel video programming systems, or impede the legal rights of a provider of such services to prevent theft of service.

(c) WAIVER- The Commission shall waive a regulation adopted under subsection

(a) for a limited time upon an appropriate showing by a provider of multichannel video programming and other services offered over multichannel video programming systems, or an equipment provider, that such waiver is necessary to assist the development or introduction of a new or improved multichannel video programming or other service offered over multichannel video programming systems, technology, or products. Upon an appropriate showing, the Commission shall grant any such waiver request within 90 days of any application filed under this subsection, and such waiver shall be effective for all service providers and products in that category and for all providers of services and products.

(d) AVOIDANCE OF REDUNDANT REGULATIONS-

(1) COMMERCIAL AVAILABILITY DETERMINATIONS- Determinations made or regulations prescribed by the Commission with respect to commercial availability to consumers of converter boxes, interactive communications equipment, and other equipment used by consumers to access multichannel video programming and other services offered over multichannel video programming systems, before the date of enactment of the Telecommunications Act of 1996 shall fulfill the requirements of this section

Thus it does seem clear that the FCC has the express authority. The pending acquisition of NBC's content creates a clear and present danger to any form of compliance and any ability for competition to exist in the content business. Why, I wonder, does not Assistant Attorney General Varney use the power of her Antitrust Division to see that this is not allowed?

Posted by Terry McGarty at [4:58 AM](#)  

Labels: [Broadband](#), [CATV](#), [FCC](#)

THURSDAY, DECEMBER 3, 2009

[THE MIT VIEW ON HEALTH CARE: EAST CAMPUS](#)

In the [NEJM article by Gruber](#), from the MIT faculty, not engineering so don't worry folks, he makes the current administration's case for the bills making their way around the District. I thought it worth a few words on the good Professor's thoughts. Thank God I am on the main part of campus because it must be the water over on the east side, never could figure that out. But to the words:

*" One common refrain of opponents of reform is that it **represents a government takeover of health care**. But reformers made the key decision at the start of this process to eschew a government- driven redesign of our health care system in favor of building on the private insurance system that works for most Americans. The primary role of the government in this reform is as a financier of the tax credits that individuals will use to purchase health insurance from private companies through state-organized exchanges."*

As we have argued before and as we have seen recently, the camel's nose in the tent, called Government Mandate CCE efforts is the process by which this control will evolve. No mammograms, no treatment for prostate cancer if you are over 70, and the list goes on. I have

demonstrated how this works in the Brit's National Health Service. It is the backdoor approach to rationing and Government control. You do not have to own the store if you supply the goods. Gruber just seems not to see this, yet politically one suspects that he would not.

Gruber continues:

*" A second criticism is that the **bills are budget busters**. This is simply incorrect. Both bills **are completely paid for** — indeed, both would reduce the deficit by more than \$100 billion over the coming decade. And the CBO estimates that both would reduce the deficit even more in the long run, particularly the Senate bill with its strong cost-containment measures. Some argue that the bills won't reduce the deficit because **Congress won't follow through on its cost-reduction plans, as it has failed to do with the sustainable-growth-rate program for Medicare's physician payments**. But this one example has been ridiculously overused, given the sizable Medicare reductions that Congress has made in the past; the proposed reduction in Medicare spending is less than half of the percentage reduction enacted in 1997, for example."*

First, there is the reality that Congress always has overspent. It has never demonstrated an ability to control giving itself more goodies. One can use Popperian Falsifiability as a tool to validate this theory, it has never happened. As for Medicare, this is a gimmick, in that one must first remember that almost all Medicare recipients get back less than they pay, Congress has absconded with the money, just look at the non-public portion of the more than \$12 trillion debt. Gruber just seems to be oblivious to the facts.

Second, the Medicare reductions were ways to keep the Medicare Fund flowing while those in Congress emptied the till every year. Congress will do whatever it can to keep the till filled to support their pork. And are they spending it now!

Gruber then continues:

"The bills are also said to impose unaffordable mandates on individuals. Without the individual mandate, fundamental insurance market reform is impossible and we cannot cover the majority of the uninsured. But an individual mandate without financial assistance for low-income families is unethical."

Gruber does have a point. It must be like auto insurance. There are, and I hate to use the term, externalities here. If one gets ill with no insurance all pay. There is an equity argument here but there still is a Constitutional issue to be determined.

He then continues:

*" Some argue that the **bills would harm the privately insured**. But although a primary focus of reform has been on helping the uninsured, the bills also deliver enormous benefits to the privately insured. Americans who previously purchased insurance in an overpriced, unpredictable nongroup insurance market will have the ease and certainty of buying through an organized marketplace where insurance loads are lower, prices do not vary according to health status, and preexisting conditions cannot be excluded from coverage."*

The problems with the current system are simple:

1. Company plans are not taxed and individual plans are.
2. Insurance companies are not covered by Antitrust laws, like baseball, fishing co-ops and farm co-ops. That should be stopped.
3. Insurance is controlled and regulated at state levels and it should be national, allowing "interstate" competition.
4. Tort reform is essential.
5. The insurance should be with the person and not the job, like all other insurance policies. This is another Democrat artifact of market distortion.

I hate to lecture an economist but it is the absurd market structure not the lack of a Government plan which is the problem.

Finally he states:

"Some critics also argue, however, that the bills don't do enough to control costs. This argument ignores fundamental reforms in the Senate bill in particular, which includes a four pronged attack on health care costs.

First, it imposes a tax on high-cost insurance plans that will put pressure on insurers and employers to keep the cost of insurance down, while delivering \$234 billion in wage income to workers over the next decade.

Second, it includes funds and a structure for comparative-effectiveness research that will provide the information necessary to guide our health care system toward care that works and away from care that doesn't.

Third, it establishes a Medicare advisory board with the power to set rates (subject to an up-or-down vote by Congress) if costs grow too rapidly. Finally, it sets up an innovation center within the Centers for Medicare and Medicaid Services and launches pilot projects to explore alternative reimbursement and organizational structures that could transform the delivery of care."

First, the tax on the high cost plans will never see the light of day. The Unions will kill this. It is at best specious to think otherwise. Now he uses the CCE and Medicare cuts as the core.

Second, again as an economist of sorts where is his demand reduction argument. We have repeatedly shown as now has [Cutler et al in NEJM](#), that obesity and smoking, the preventable costs, can and should be focused upon. Gruber seem oblivious to that element.

Third, CCE as we have argued above, it is just wrong. No one in their right mind would think that the Government should decide on what procedures a physician should use on a patient. Medicine, like any science, is just that, a testing of methods, rejection and acceptance and change. It is not like the climate academics who seem to be outright liars. Physicians see patients die if they are in error. It happens quickly. Economists suffer no such fate. They just say the stimulus was not big enough! CCE controlled by the Government as in the Bills before us will kill medicine plain and simple. Gruber just is clueless on this fact.

Fourth, cramming down Medicare costs will do to Medicare what it has done to Medicaid. Almost any and all competent physicians will not take Medicaid patients. There is no payment available to accept them. Even if they can charge something reimbursement takes years! One can see this happening now. Fewer physician will or can take a Medicare patient. With the cram down on Medicare, that will place the Medicare recipients, people who have PAID my dear Professor, more than they will ever get back, my dear Professor, and the result will be a drastic diminution of Medicare services. It is economics 101!

Thus Gruber and his polemic fall upon a pile of, in my opinion, falsities, half truths, which if enacted will as I have said before destroy medicine as we know it.

Posted by Terry McGarty at [2:22 PM](#)  

Labels: [Health Care](#)

WEDNESDAY, DECEMBER 2, 2009

[THE CONFLICTS IN COMPARATIVE CLINICAL EFFECTIVENESS](#)

There were two articles today regarding the mammography flap. The first was in [Science](#), an article somewhat balanced in favor of the HHS group assigned to deal with CCE, namely AHRQ. The article states:

"Such turmoil in the medical ranks could become more common if an evidence-rich kind of analysis backed by the economic stimulus bill takes off. It's known as comparative effectiveness research (CER), and it received a windfall of \$1.1 billion in February under the American Recovery and Reinvestment Act. CER employs methods similar to the approach that produced the new advice on mammography.

CER draws data from many sources to reach an evidence-based judgment on the value (or lack of value) of medical techniques and strategies. The process must be rigorous, according to a definition of CER hammered out in June by a federal coordinating group. Its scope is broad, ranging from comparing drugs in a clinical trial to studying behavior modification methods to dissecting the impact of health policies. The aim is the same, however: to survey a patient's choices and determine which course works best. The results of a CER study are somewhat like a consumer's guide and often as confusing."

The last sentence is the key. It is all too often confusing. The article also highlights Carolyn Clancy, the career civil servant, albeit trained as a physician, who heads up AHRQ, what was once an obscure branch hidden in the Medicare and Medicaid area, and now becoming the

potential focal point for the rationing one could envision under the new health care bill, the good Congressman Dingell and his complaints to the contrary notwithstanding.

As for Dingell one should remember that he was the one who persecuted [David Baltimore a decade or so ago](#) when David was the then head of Rockefeller, and one could envision that the pressure on that brilliant mind and all those around him may have delayed cures for decades as well. Thus Dingell brings a somewhat unclean baggage to the health care debate.

The Science article continues:

"The health care reform bills now before Congress may also determine how CER is managed. The House of Representatives—passed bill and the version drafted by Senate Democrats both seek to reduce friction over CER findings by ensuring that the government consults with stakeholders—patients, doctors, and industry representatives—before making big investments in CER or acting on research findings. But the House and Senate proposals differ on who calls the shots. The House plan would rely essentially on AHRQ to set research policies, with input from advisers. The Senate approach would vest authority in an independent, nongovernment corporation."

In either case the CER effort in AHRQ or its successor will become the [Harrison's](#) of medicine in the new era if the Democrats have their way.

Also today as the Radiologist meet in Chicago at RSNA a panel of real practicing physicians, ones with real patient's lives in their hands came forth with their assessment of the mammography issue. As reported in [Aunt Minnie](#):

*"A panel of breast cancer screening experts today told a special news briefing at the RSNA annual meeting that the new U.S. Preventive Services Task Force (USPSTF) guidelines recommending against routine annual mammograms are flat-out wrong. RSNA members who peppered the briefing applauded as the University of Cincinnati's Dr. Mary Mahoney, vice-chair of the RSNA Public Information Committee, introduced the panel members, saying **"These truly are the experts in mammography. It's unquestionable: Mammography saves lives."***

The panel members were expressing their dissatisfaction with the newly revised guidelines from the USPSTF that recommend against routine mammography screening for average-risk women in their 40s. USPSTF also recommends women ages 50 to 74 have mammograms every two years instead of every year."

One can now see the divide beginning. For here is a meeting of the men and women on the front lines of medicine who see the day to day impact of the result of mammography, not some Government panel of alleged non experts, reporting to career Government Civil Servants. The good Congressman Dingell should pay attention to this a bit more. The facts really do speak differently, and as he blundered in the David Baltimore case, perhaps he is doing so again here.

The report from RSNA goes on:

"The net effect of the new guidelines is that screening would begin too late and its effects would be too little. We would save money, but lose lives," said Dr. Stephen Feig, professor of radiology at the University of California, Irvine and president-elect of the American Society of Breast Imaging.

The breast-screening panel said the guidelines would represent a major setback, wiping out decades of progress.

"Deaths from breast cancer have dropped by 30% since 1990 when mammography screening beginning at age 40 became more widespread," said Dr. Daniel Kopans, professor of radiology at Harvard Medical School."

The debate will continue on this issue but if the Government has its way many lives will be lost. As we reported last week, the same process is common practice in the UK. Hopefully it does not become so here. Hopefully, at last, physicians will begin to speak out and not line up in white coats for a photo op!

One need just read what Dingell placed on [his web site](#) today:

"Based on the evidence to date, the USPSTF now advises that women between the ages of 40 and 49 should decide on an individual basis whether or not to get periodic mammograms, a change from their 2002 population-wide recommendation that women should get routine screening. Other new recommendations include biannual instead of annual mammograms for women age 50 to 74; a statement of insufficient evidence for the need for mammograms for women over 75; and new advice against teaching of breast self-examinations.

"These recommendations were based on scientific studies, not political agendas or cost cutting measures. Some of the panelists today disagree about the final recommendations, but we can all agree is that the evidence to date is inconclusive about the effectiveness of traditional mammogram screenings, especially for women in the age group of 40 to 49. Furthermore, we can all agree that the decisions for these types of diagnostic screenings should be made between individuals and their doctors.

"I want to remind all of my colleagues that our purpose today is not to politicize or attack the USPSTF. Instead, we are here to understand the recommendations, and the science that guided the decision making of the task force. "

First the Congressman is wrong. The [USPTF states on its web site](#):

"The USPSTF recommends against routine screening mammography in women aged 40 to 49 years."

The Congressman is grossly misrepresenting what was said. Someone should have fact checked the web site. In plain English this says no mammograms between 40-49! None! Second, if one looks behind the RSNA talks one sees volumes of evidence. As to making this political,

Congressman Dingell had done that to the extreme with Dr. Baltimore, a Nobel Prize Winner in Medicine, one of the real Nobel prizes!

This small skirmish is but the first of many as Congress tears apart the health care system as we know it.

Posted by Terry McGarty at [5:13 PM](#)  

Labels: [Health Care](#)

TUESDAY, DECEMBER 1, 2009 **HOBBS, LIBERTY, AND TODAY**

Professor Skinner has written a delightful book on Hobbes, entitled [Hobbes and Republican Liberty](#).

Hobbes seems to come in and out of favor. In many ways he is seen as a sycophant to the King in his writings. Skinner uses the comparison of liberty as view in the classic republican sense to that as developed by Hobbes. For Skinner the classic republican liberty is that of the free man, as compared to the slave, one whose actions are limited by a free man. Skinner then takes this concept and draws the line to and through the development of English law.

Skinner develops the liberty theme in Chapter 1 and on pp 34-35 he details some of the strengths and weaknesses of Hobbes and his approach. In reading Skinner one sees more clearly the jumps to faith used by Hobbes, the definitions without any basis in demonstrable fact of evidence that Hobbes uses in his constructions. This is in sharp contrast to Locke who is soon to follow. Specifically on p 35 the discussion of the equality of natural liberty to natural right is worth the reading. Skinner does the concepts justice.

On p 48 Skinner makes some telling comments. For example he states: "*Politics, we are being reminded, is pre-eminently the arena in which fortune holds sway*" He then continues with the statement: "*Hobbes is one of the earliest English philosophers to write in a similar way (as to Aristotle) of "politics" as the art of governing cities.*"

Chapter 3 details the concept of liberty in the act of living in a real city. On p 79 Skinner states a telling statement: "*For Hobbes, accordingly, the puzzle remains; what can it possibly mean when someone claims to be a free man while living under a monarch, in which the fullest rights of sovereignty will inevitably be held by the king himself.*" This is the quandary of Hobbes. Rather than rejecting the king outright, he struggles to justify liberty on the one hand and the almost divine right of the King. Skinner works elegantly through that tension.

In Chapter 5 Skinner deals with liberty in the context of Hobbes in the Leviathan. On p 127 he details Hobbes as follows defining liberty; "*Liberty or freedom, signifieth (properly) the absence of Opposition (by Opposition I mean the Impediments of motion; and may be applied no less in Irrational and Inanimate creatures...*"

The last is the culmination of freedom as per Hobbes, the ability of water to flow unstopped down a brook, no more no less. Chapter 6 takes this and carries it through a discussion of liberty and political obligation and finally Chapter 7 moves through the present.

Skinner has done a superb task in detailing Hobbes in an historical context and at the same time detailing the ever present issue of what makes a free man. Hobbes is an apologist for the central authority, in contrast to Locke and the other who follow. The whole basis of our Revolution in the United States was freedom as being free from Government oppression and oversight. Hobbes justifies that alternative view, albeit in a less than convincing manner.

Yet why Hobbes and why today? Liberty and freedom are concepts near and dear to the United States and its founding fathers. They for the most part rejected Hobbes and followed Locke. Freedom is why people came to the United States, why it separated from England and why it has come to where it is today. In many ways we may be losing that view. Yes, Health Care is important, but not to the point at which we lose that freedom. Yes, the economy is important, and again not to the point of losing freedom.

Posted by Terry McGarty at [7:34 AM](#)  

Labels: [Books](#)

[A LESSON FROM NATURE: A POSSIBLE HELP FOR HEALTH CARE COST REDUCTION](#)



In a recent article in [Nature](#) they authors report in their study:

"The study found that 90% of bacteria in the guts of the outdoor piglets came from the phylum Firmicutes. Most of these were lactobacillaceae, known for their health-promoting effects, and for their ability to limit intestinal pathogens such as Escherichia coli and Salmonella. In contrast, the Firmicutes bacteria made up less than 70% and just more than 50% of the gut flora

in indoor and isolated bred pigs respectively. The pigs also had much smaller proportions of bacteria from the lactobacillaceae family....

Kelly argues that the similarities between the organisms found in human and pig guts and their comparable size in organs, makes pigs a good model animal to study. In future studies, she hopes to further identify the types of organisms that are associated with health."

So perhaps the Congress could include a "pig like health" clause in their legislation, perhaps people who live in mud huts should get a discount for living a healthier lifestyle. Indeed, this is a clear example of comparative clinical effectiveness, dirty pigs, and humans by inference, live healthier lives.

In fact we can use this study in Comparative Clinical Effectiveness to solve two major problems of the current Administration.

First, housing, since it is healthier to live outdoors in the mud, then there is no need for any housing support, in fact houses make for sick people.

Second, reducing the load on health care and thus improving its ever increasing costs can be achieved also by sending everyone outside in the mud. Two birds with one stone. And it costs nothing!

That is why I love the Brits, this must be now part of the new National Health Services directives, outside in the mud! Great idea.

Oh whatever!

Posted by Terry McGarty at [7:15 AM](#)  

Labels: [Commentary](#), [Health Care](#)

[**UPDATE ON THE ECONOMY**](#)

As we approach the year's end it is worth a review of what has happened over the past few quarters. I present here some useful metrics of what may have transpired since we yet know the true outcome, we may be just in the eye of this storm with more to come.

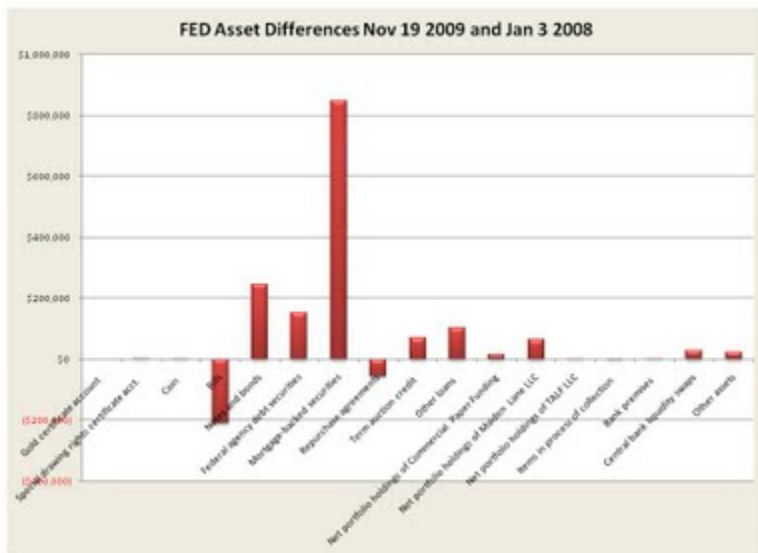
First we present the FED Balance Sheet, BS, from January 2008 and the latest. We show this below. Careful study of this will reveal how the FED has assumed great debt, albeit listed as assets, which in reality is the junk it took off the books of the banks. In return they got money and placed much of it in their reserve accounts, earning interest. Thus banks get interest yet pay no interest. Good deal if you can get it. They can.

	January 3, 2008	November 19, 2009	Difference
Assets			
Gold certificate account	\$11,037	\$11,037	\$0
Special drawing rights certificate acct.	\$2,200	\$5,200	\$3,000
Coin	\$1,959	\$2,037	\$788
Securities, repurchase agreements, term auction credit, and other loans	\$642,300	\$1,094,607	\$1,152,307
Securities held outright	\$740,627	\$1,776,818	\$1,036,191
U.S. Treasury1	\$740,627	\$776,527	\$35,900
Bills2	\$227,841	\$19,423	(\$208,418)
Notes and bonds3	\$512,787	\$750,104	\$245,317
Federal agency2	\$0	\$153,049	\$153,049
Repurchase agreements4	\$90,750	\$0	(\$90,750)
Term auction credit	\$40,000	\$109,456	\$69,456
Other loans	\$4,923	\$109,532	\$104,609
		\$15,043	\$15,043
		\$26,349	\$26,349
		\$15,766	\$15,766
		\$22,951	\$22,951
		\$231	\$231
Items in process of collection	\$3,021	\$729	(\$2,292)
Bank premises	\$2,134	\$2,228	\$94
Other assets5	\$64,711	\$87,764	\$23,053
Interdistrict settlement account	\$0	\$0	\$0
Total assets	\$926,573	\$2,212,219	\$1,285,646
Liabilities			
Federal Reserve notes outstanding	\$1,009,663	\$1,076,925	\$67,262
Less: notes held by F.R. Banks	\$217,979	\$197,567	(\$20,412)
Federal Reserve notes, net	\$791,684	\$879,357	\$87,673
Reverse repurchase agreements1	\$40,909	\$0	(\$40,909)
Deposits	\$47,428	\$1,205,820	\$1,158,392
Depository institutions	\$29,768	\$1,109,269	\$1,079,500
U.S. Treasury, general account	\$7,277	\$62,309	\$55,032
U.S. Treasury, supplementary financing account		\$14,999	\$14,999
Foreign official	\$98	\$2,957	\$2,859
Other	\$296	\$16,286	\$15,989
Deferred availability cash items	\$4,014	\$2,624	(\$1,390)
Other liabilities and accrued dividends	\$5,249	\$12,684	\$7,435
Total liabilities	\$889,356	\$2,160,391	\$1,271,035
Capital			
Capital paid in	\$10,446	\$25,362	\$6,916
Surplus	\$10,332	\$21,431	\$3,129
Other capital	\$475	\$6,024	\$1,954
Total liabilities and capital	\$926,573	\$2,212,219	\$1,285,646

We then show how the assets are broken out on the current BS. This is below:



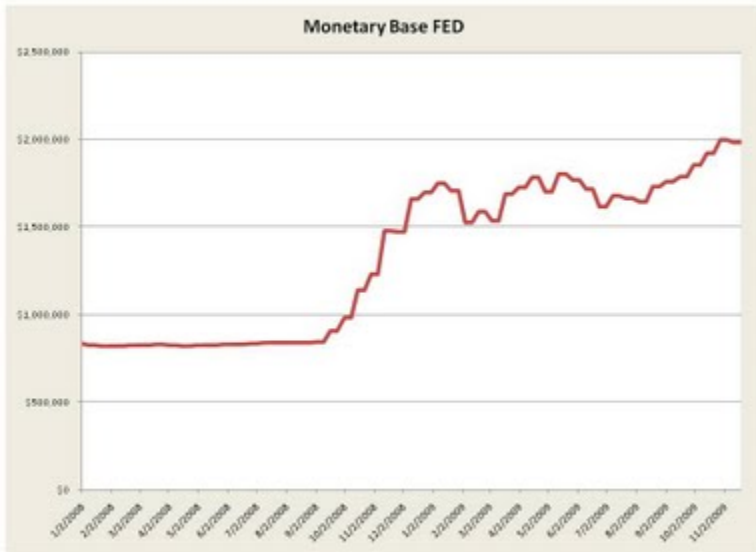
The chart below depicts the difference in the FED assets. The red spike is the junk the FED has placed on its asset side of the BS, the junk taken off the banks BS.



We have always been concerned about inflation so we monitor the following. This is one of several metrics. It is the ratio of M1, the simplest and most volatile measure of money in the system, to the monetary base which is cash plus reserves at the banks. As we have seen in the case of M2/MB ratio we examined months ago this also shows a drop but what is worrisome is the continuing decline. It had stabilized but it now is declining again. Why, most likely an increasing MB due to excess reserves. The banks still are not lending. No lending, no spending, no economy.

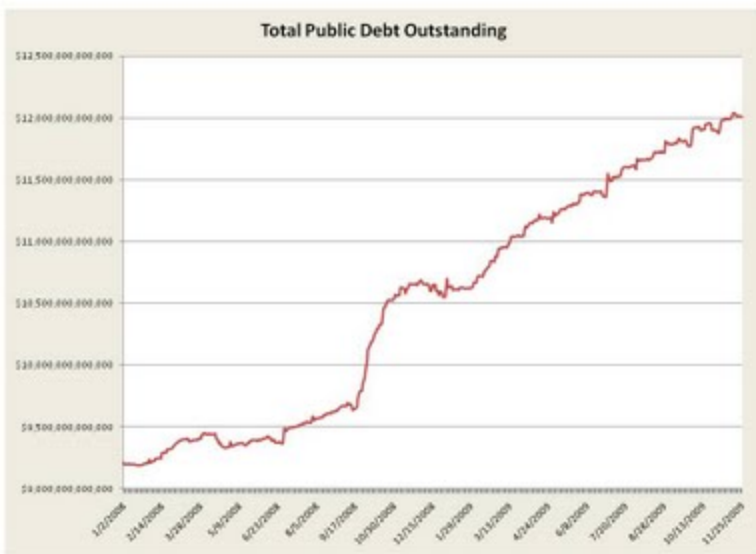


Yet when we look at the MB we see the following.



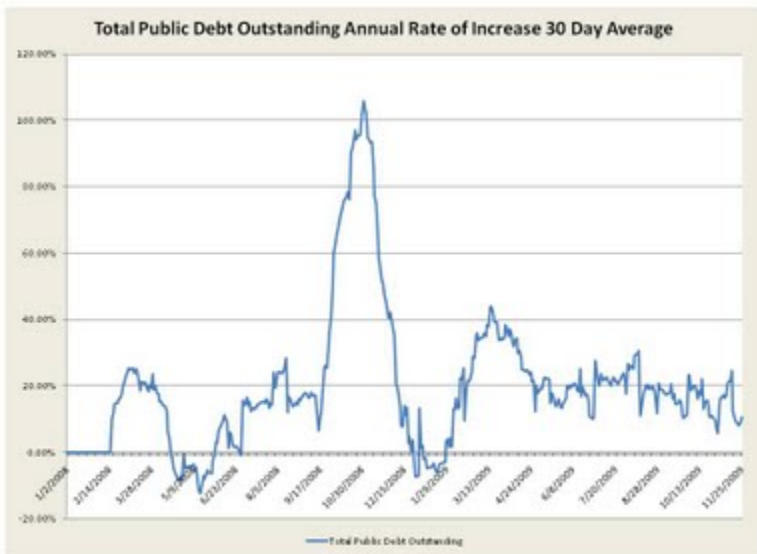
The MB has again increased which accounts for our above assertion. This is a real concern since the reserves just increase.

The real problem is as follows, the total public debt. It is now well above \$12 trillion and the current Administration is clueless as how to handle it. We have the same team which almost bankrupt Harvard at the helm.

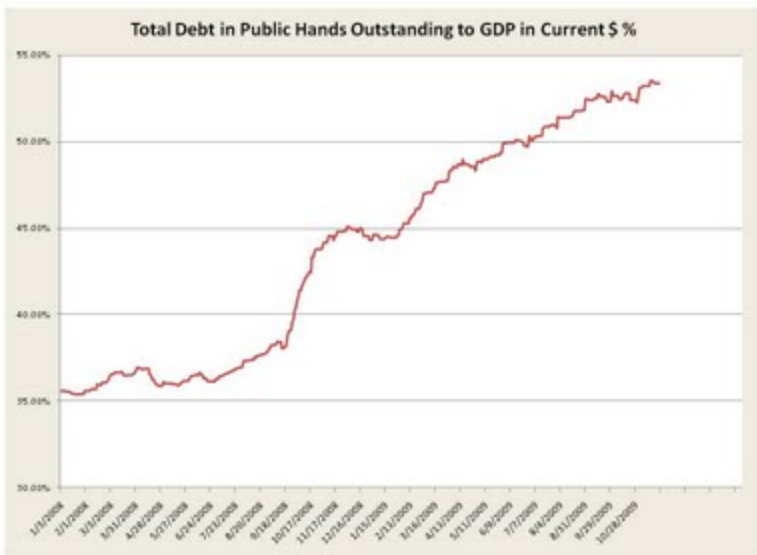


We do not see any pressure for near term inflation but the exploding debt is not the least bit helpful, despite what Krugman and his ilk contend. This must be paid off, and further the cost of it will soon increase. Government programs do not generate wealth. Job Summits are just great meetings for fund raisers. Real jobs are created by entrepreneurs, not corporate executives. Sorry guys, you have the wrong group.

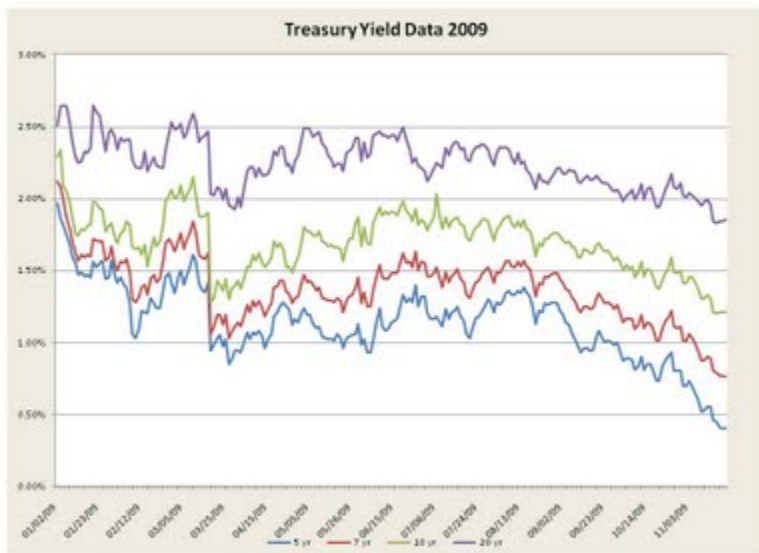
The only hopeful sign is that the spikes in increase are slowed as we show below.



We separate out the debt in the hands of the public below. That means China and the others.



The cost of the debt is the ongoing question. The following is the Treasury yield curves for the past period. One should note that they are downward, a good sign, yet the spread is increasing greatly and the short term drops more than the long term. We are borrowing short term so that when we see the need for long term we may face an inverted yield curve, a bad thing indeed.



How well do we fare with others, look at the following currency curves.



The above shows the ups and downs but the Euro and Yen are of concern.

Finally we ask if anyone in the US has any sense. The answer is that people are saving more. See the chart below.



Thus in summary we have the following:

1. The FED is loading up on bank junk.
2. Banks still are no lending.
3. People are saving more, giving the banks even more not to lend.
4. The current Administration is spending like there is no morrow, and they are lucky with low short term rates.
5. Currency pressures may likely increase rates and even invert the yield curve.

What does this mean? Most likely more pressure to spend at the Federal level making this worse. It may also mean a double dip. That is the concern. Finally the long term looks quite poor.

Posted by Terry McGarty at [6:22 AM](#)  

Labels: [Economy](#)

FRIEDMAN AND FREEDOM: THE NON HOBBSIAN VIEW OF LIBERTY

I thought I would start December with a reflection on Milton Friedman. In the Introduction of his classic, *Capitalism and Freedom*, he says from the outset:

"In a much quoted passage in his inaugural address, President Kennedy said: "Ask not what your country can do for you - ask what you can do for your country." It is a striking sign of the temper of our times that the controversy about this passage centered on its origin and not its content. Neither half of the statement expresses a relation between the citizen and his government that is worthy of the ideals of free men in a free society. The paternalistic "what your country can do for you" implies that a government is a patron, the citizen the ward, a view that is at odds with the free man's belief in his own responsibility for his own destiny. The organismic "what you can do for your country" implies that the government is the master or the deity, the citizen a servant or votary. To the free man, the country is the collection of individuals who compose it, not something over and above them..."

The free man will ask neither what his country can do for him nor what he can do for his country. He will ask rather "What can I and my compatriots do through the government" to help us discharge our individual responsibilities to achieve our several goals and purposes, and above all, to protect our freedom?"

Hobbes was one of the first modern political thinkers to address liberty in a modern context. He dealt with the problem of freedom in a monarchy. His views were initial attempts but frankly wrong. He was trying to justify the existence of a monarchy while at the same time establishing that men were free. Friedman is the anti-Hobbes, the one who articulates true freedom. Thus as I begin the month that will culminate in my having been at this for a year I thought it worth the while to remind my reader of what Friedman wrote in 1962.

Posted by Terry McGarty at [5:30 AM](#)  

Labels: [Commentary](#)

MONDAY, NOVEMBER 30, 2009

[MAYBE ECONOMISTS TALK THAT WAY: WHICH IS WHY THEY SEEM ALWAYS WRONG!](#)

On the [ABC Sunday talk show](#) hosted by the former Clinton staff person had Paul Krugman of the NY Times as a guest and he states about the Brits and their alleged malicious and deliberate data manipulation as follows:

"PAUL KRUGMAN, NEW YORK TIMES: All those e-mails -- people have never seen what academic discussion looks like. There's not a single smoking gun in there. There's nothing in there. And the travesty is that people are not able to explain why the fact that 1998 was a very warm year doesn't actually mean that global warming has stopped. I mean, that's loose wording. Right? Everything is about -- we're really in the same situation as if there was one extremely warm day in April. And then people are saying, well, you see, May is cooler than April, there's no trend here. And that's what -- the travesty is how hard it has been to explain why that's bad reasoning."

I have seen academic discussions, I have participated in academic discussions, even with emails. At least at MIT, in the engineering department, it is the facts and the logic that trumps all. You can present a theory but you better be able to back it up with facts. Macro economists have perpetually swung equations around with little prognostic effect. In fact I have seen better witch doctors. Just look at how they fight over competing theories none of which seem to work.

Even more so look at Harvard under the Summer reign, as described in today's [Boston Globe](#). They state:

"Through the first half of this decade, Meyer repeatedly warned Summers and other Harvard officials that the school was being too aggressive with billions of dollars in cash, according to people present for the discussions, investing almost all of it with the endowment's risky mix of stocks, bonds, hedge funds, and private equity. Meyer's successor, Mohamed El-Erian, would later sound the same warnings to Summers, and to Harvard financial staff and board members...."

In the Summers years, from 2001 to 2006, nothing was on auto-pilot. He was the unquestioned commander, a dominating personality with the talent to move a balkanized institution like Harvard, but also a man unafflicted, former colleagues say, with self-doubt in matters of finance."

This is the same team which is guiding us through the calamity we are in now. If I ever tried to hire any one of these characters as a CFO in a start up, the Board would fire me on the spot. When your own money depends on the decisions you make, you find people with a proven track record.

Now back to the Brits in that school somewhere in the hinter lands of the British Isles, East Anglia. Well its not Oxford or Cambridge, so what could one expect? The emails boil with petty anger and incessant ranting of their intents to control the facts, hide and or destroy anything which contradicts their theory, and they work as if driven by some religious belief. And for this they want another 20% of our economy to dry up! What right do they have, what stupidity does the scientific community have to allow this to occur. Yet it is the same scientific community supported by Government contracts, the community whose research is supported if and only if they tow the line.

One should look towards Karl Popper and his theory of science and his principle of falsifiability. The discussion of [Karl Popper on the Stanford Philosophy](#) web site, a useful summary, states this theory as follows:

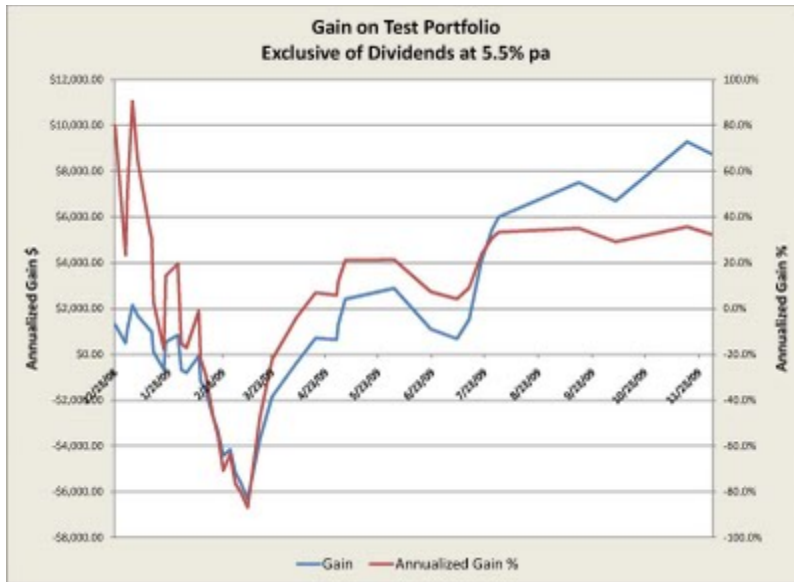
"These factors combined to make Popper take falsifiability as his criterion for demarcating science from non-science: if a theory is incompatible with possible empirical observations it is scientific; conversely, a theory which is compatible with all such observations, either because, as in the case of Marxism, it has been modified solely to accommodate such observations, or because, as in the case of psychoanalytic theories, it is consistent with all possible observations, is unscientific."

One can thus simply state that, based upon what we know of these characters at East Anglia, that they have just allegedly been falsified by the Popper approach and the theory should be thrown out the window with last night's bed pot and its contents! Yet we have the apologist Krugman, for reasons that go well beyond any human reason justifying their actions. One truly wonders why this is done, yet as a macro economist one would suspect that reason and reality were never truly in reach.

Posted by Terry McGarty at [4:55 PM](#)  

Labels: [Cap and Trade](#), [Commentary](#)

[THE BASELINE PORTFOLIO; ONE YEAR LATER](#)



The Baseline Portfolio we started a year ago, to the day, is shown below. It has amassed a 32% annual return on face value plus a 5.5% return from dividends. This is a total of about 37% up from December 1 of 2008. The only element still down is Verizon for reasons we cannot fathom. Yet this portfolio does memorialize the ups and downs of the year, especially just after the current Administration took over. More on that on the morrow.

Posted by Terry McGarty at [4:21 PM](#)  

Labels: [Baseline Portfolio](#)

SUNDAY, NOVEMBER 29, 2009

[GLOBAL WARMING, DEER, AND JAPAN](#)



Daylilies, or Hemerocallis, are indigenous to China, Korea and Japan. In the recent article in the [Mainichi Newspaper](#) they state:

"Global warming brings deer and destruction to Oze National Park wetlands.

The Nikko Yellow Daylily, a perennial flower that grows all over the grassy wetlands here, turns the fields into a yellow carpet come July. Last year, however, there were almost no flowers to be seen, and it wasn't just the late spring frost that was to blame. It was deer, who came with big appetites to ravage the wildflowers...

Destruction caused by deer feeding was first observed in Okunikko in 1991, and since then the thousands of Shirane Violets that once bloomed on nearby Mt. Shirane have been almost wiped out. Meanwhile, bamboo grasses have also fallen prey to the deer, and are being replaced by plant varieties the animals are less partial to. An Utsunomiya University study found that, as vegetation types changed, the number of butterfly species in the area dropped from 69 in the 1980s to 26 in 1996. The Mt. Shirane deer also increased around the base of the mountain, and went searching for new feeding grounds...

*Deer normally inhabit plains and grasslands, but starting in the Meiji period, overhunting and development drove the animals into the mountains. Restrictions on hunting, combined with logging transforming forest into grassland, gave the deer new feeding grounds. Furthermore, it is snowing less, **the number of hunters is dropping, and wolves became extinct, allowing deer numbers to increase.**"*

The last paragraph details the problem, deer, not global warming. I have been hybridizing daylilies for 25 years and have kept detailed environmental as well as breeding records. I, unlike the Brits and their destroyed temperature data, have retained mine. The problem is man and the explosion of deer due to man's intervention with the natural predators. There are now three to five times the number of deer in New Jersey than there were at the time of the Revolution. They are like rodents, eating and destroying the flora at a voracious pace. Frankly they do more damage to flora than any other effect.

The reason is that they have no natural enemies, not even man. Worse they are protected by man. They are vectors for Lyme disease and other diseases. They eat local plants when small, and the result is that other forms of vegetation survive, forms which in turn drive out the local plants. The problem is not global warming but the failure to control deer.

In fact in the New York and New Jersey area we have seen lowered temperatures and greater precipitation in the last 25 years. Our latest [annual report](#) details all of these effects. Reading articles like this makes one wonder if the "researchers" have a clue what they speak of. I think of Popper and his theory of science and that to Popper if one can show the contrary, an exception, then that suffices to deny the theory. I believe that the data we develop for the past 25 years is prima facie evidence of the deniability axiom.

There is no clear data or evidence of any kind that "global warming" is driving the deer to eat the daylilies. In fact there is clear evidence that the deer have expanded due solely to their loss of

predators. They have moved to the top of the food chain. In fact the deer destroy the flora and if one recognizes that the flora absorb CO2 then the deer are a proximate cause of the increase in CO2! Perhaps then the logical conclusion is that the deer are the cause of global warming and not the opposite as stated by the Japanese academics! In fact the deer are uniformly and globally destroying high CO2 consumption flora almost everywhere. One should remember sources and sinks of any substance, including CO2. If man is the primary source of CO2, which may be debatable now that the Brits are revealed for what the Brits have always been know for, then plants are the primary sinks. The primary source of destruction of plants I contend is not man, but deer, yes you heard me, deer.

Thus the conclusion is also clear. Get rid of the deer. Enforce the second Amendment, get everyone out there this time of year and shoot a deer! Bambis are disease carrying CO2 increasing monsters! Oh well, at least I tried.

Posted by Terry McGarty at [6:34 PM](#)  

Labels: [Commentary](#)

[MCLUHAN, GOOGLE, AND THE REDEFINING OF "FACTS"](#)

In 1992 I wrote a [paper on the philosophy of Multimedia Communications](#). That was after a 12 year period of trying to make changes in the rapidly evolving area, both at Warner Cable and NYNEX, now Verizon, as well as having taught the topic at MIT for two years. At the time I wrote:

"Peter Drucker, in his biographical sketches of his contemporaries, remarks on his first encounter with McLuhan. It was during a presentation that McLuhan was making on the results of his do doctoral studies. His presentation reflected upon the impact that the printing press has had upon the university system in the late Middle Ages. He contended that the modern university came into being in the sixteenth century because of printing, which changed not only the method of instruction but, more importantly, what the university intended to teach. He further contended that the cultural results of this period had little to do with the Renaissance and was all a direct result of the printing press.

To quote Drucker, who paraphrased McLuhan;

"Did I hear you right," asked one of the professors in the audience, "that you think that printing influenced the courses that the university taught and the role of university all together." "No sir," said McLuhan, "it did not influence; printing determined both, indeed printing determined what henceforth was going to be considered knowledge."

Thus this led to McLuhan's famous phrase that the medium is the message. Specifically, as we developed a new medium for human communications, we dramatically altered the nature of the information that was transferred and the way in which the human perceived what was "truth" and what was not. The television generation of the 1960's was an clear example of the impact of television versus film in portraying the war in Vietnam as compared to the Second World War.

The perception of these two events was determined by the difference of the two media that displayed them to the pubic masses. Television allowed for a portrayal that molded more closely to the individual humans impact of the events as compared to films overview of the groups

involvement's. Both media deal with the same senses but they are different enough to have determined two different outcomes of the wars. This conclusion is a McLuhanesque conclusion but is consistent with the changes that McLuhan was recounting in the 1960's in his publications."

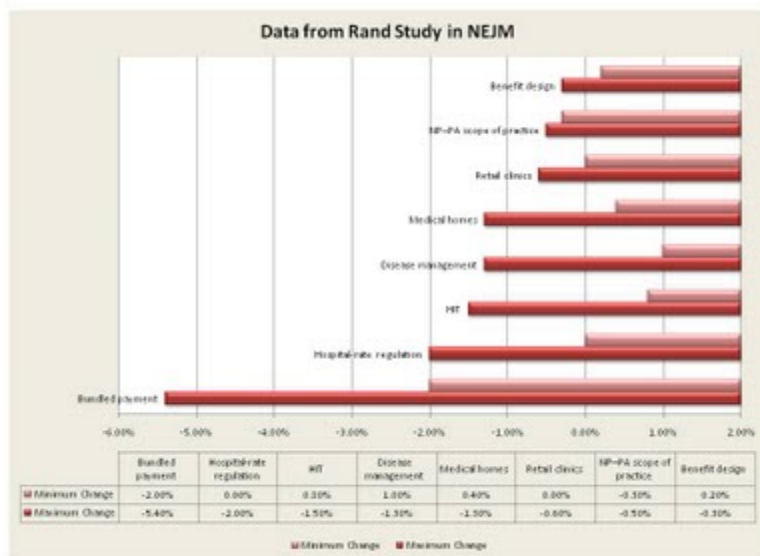
Thus with Google and the like, the statement that the media will define what is truth, knowledge, fact, is more compelling than ever before. One just need read Auletta's recent commentary on Google to see two things. First the change predicted by McLuhan is happening again, and second, that Auletta does not see the historical context and misses the insight of McLuhan.

Posted by Terry McGarty at [12:33 PM](#)  

Labels: [Broadband](#), [Commentary](#)

COST REDUCTIONS: FACTS AND FANTASY

In a recent [NEJM article](#) a Rand group presented results from a recent study they performed regarding means and methods to reduce costs. The chart below is our rendering of those results from that article.



As they speak about the need to reduce costs they state:

" To achieve this goal, spending on health care over the next decade would have to be reduced by 6.2% from the amount the Centers for Medicare and Medicaid Services estimates the country would otherwise spend. This proposed reduction provides a framework for evaluating the options now under consideration. We recently produced quantitative estimates of the likely impact of 12 policy options for reducing health care spending in Massachusetts, 2 and we have extrapolated from that work to produce estimates for the country as a whole. We identified 8 options that evidence suggests have the potential to reduce spending and are broadly applicable to the United States. For these options, we developed high and low estimates..."

We show these 8 options above. Note the following as we have discussed many times:

1. Bundling: This is another term for "cram down" on physicians. It is the bright spot in the legislation since everyone is hanging their hat on it. Simply a bundling is the taking of say a hospital and giving it the core responsibility for caring for a specific health care event, such as an MI. The hospital then chooses all the physicians and it may most likely choose those who bid the lowest price to belong to the bundle. It is akin to the Government using equipment supplied by the low price bidder, you often get what you pay for. Besides bundling breaks the relationship between a patient and their physician and also institutionalizes the hospital's way of doing things. It will result in a stagnation of medical care improvements. The hospital administration will cram lower costs down on the physicians it selects. If patients hated HMOs they will come to truly despise hospital administrations.

2. Rate Regulation: This is nothing more than cost control. You control costs then you reduce services then you ration. Simple. I really begin to like these Rand Geniuses, they come us with such a brilliant group of suggestions! Let us keep going.

3. HIT: Well Rand has been pushing this for years. Yes it ultimately has a use, and yes it will improve health care but as one learns in medical school, if all else fails listen to the patient. Osler was not wrong. I have been watching the younger physicians hiding at their terminals or now their iPhones, as if they were practicing medicine. Or the middle age docs typing like crazy, two fingers, just like me, and not looking at the patient, not once. HIT will evolve and it will arrive, but not in anytime frame for any cost savings. Sorry Rand, that's life.

3. NP-PA: This is just triage, we see it all the time in the emergency room. Yet there is the question of where to triage with whom. Triage with a nurse may be less cost effective than triaging with a physician. For example if we triage with a physician then the second step may be the correct one whereas if we triage with a nurse there may be many more intermediary steps and quality drops as well. This has been demonstrated anecdotal but should be studied. The issue is that Rand just assumes the answer is correct and just uses the lower costs.

4. Medical Homes: This may have some value as I have studied them. This is for the chronically ill person, Type II Diabetes and the like.

In summary, these are all wishful thinking with little if any facts to back them up, and with indeed many examples to demonstrate their clear lack of effectiveness. The problem is Rand feeds this stuff to the Administration and then Congress and somehow it is considered ex cathedra. Rand does provide a "warning" in the last paragraph but one would suspect that such a warning belies the strength of the picture. Congress just does not read, anything! Including health care bills. One should be very careful of "*shingling a roof in the fog*".

Posted by Terry McGarty at [9:43 AM](#)  

Labels: [Health Care](#)

[THE EFFECTIVENESS OF SCREENING FOR CANCER](#)

Cancer is a complicated disease. This is an understatement. Yet there is at the gross level some simplicity. There are a few basic facts.

1. Cancer is generally clonal, one cell goes wild and keeps reproducing.

2. The reproduction rate is not quite doubling, some progeny do not survive, thus depending on the status of the tumor the growth rate is between 1 and 2 per generation. Sometimes it is less than 1 and it even regresses.

3. When there are 10E6 cells the tumor can be seen under CAT or MRI. When there are 10E9 cells it is palpable, when there are 10E12 the patient dies. Almost.

4. Cancer growth and evolution is a classic epigenetic systems process in cell growth and replication. The cell loses its ability to die, it just keeps growing and replicating itself with its functionality reduced to it replication and nothing else.

This is the simple story of cancer. We show a simple model for 4 cancers below.

Cancer Growth Rates

The following are 4 significant cancers and their possible growth rates.

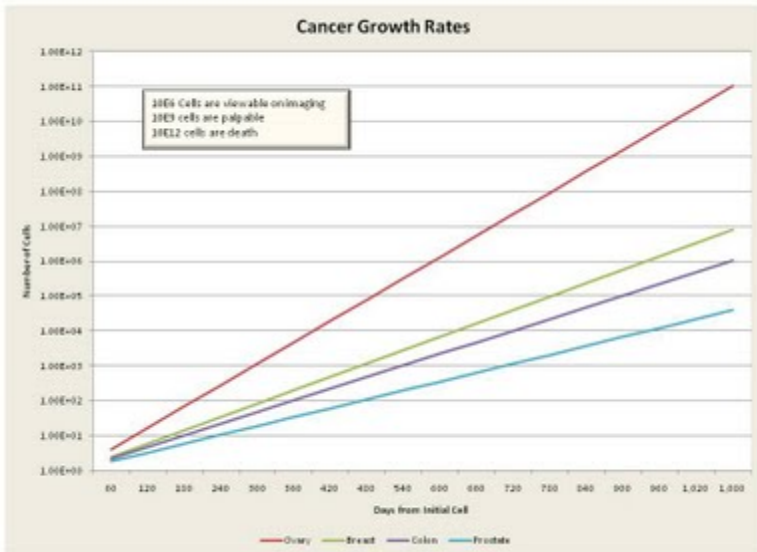
The growth is predicated on two factors; the increase rate per generation, usually less than doubling, and the total number of generations.

Also 10E6 cells are viewable under CAT or MRI, 10E9 cells are palpable and 10E12 cells usually result in death.

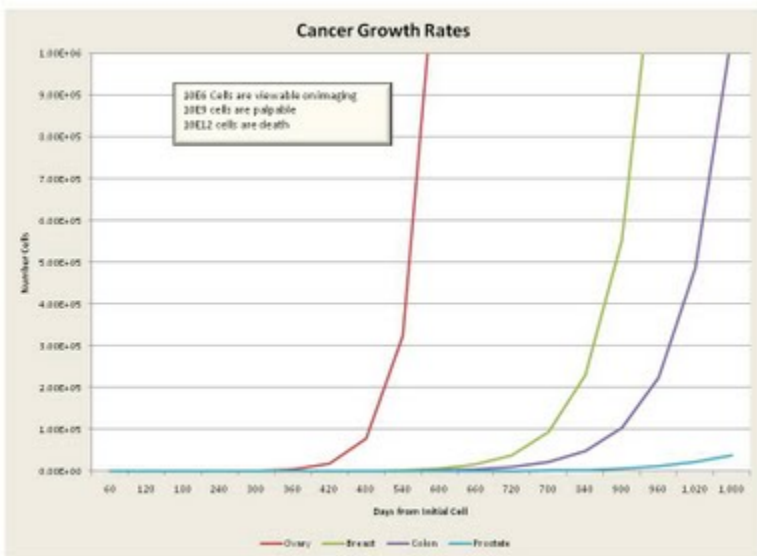
We see slow prostate growth and fast ovarian growth.

Time (Days)	Ovary	Breast	Colon	Prostate
0	4.16E+00	2.27E+00	2.71E+00	1.23E+00
170	1.99E+01	1.97E+00	4.67E+00	3.24E+00
180	6.87E+01	1.45E+01	1.01E+01	5.92E+00
200	2.89E+02	1.80E+01	2.70E+01	1.09E+01
300	1.15E+03	3.27E+01	4.70E+01	1.92E+01
360	4.79E+03	1.98E+02	1.03E+02	3.29E+01
420	1.92E+04	4.79E+02	2.25E+02	5.52E+01
480	7.92E+04	1.19E+03	4.74E+02	1.00E+02
540	3.23E+05	2.79E+03	1.02E+03	1.80E+02
600	1.30E+06	6.79E+03	2.27E+03	3.37E+02
660	5.44E+06	1.63E+04	4.78E+03	6.33E+02
720	2.20E+07	3.97E+04	1.02E+04	1.19E+03
780	8.79E+07	9.50E+04	2.23E+04	2.08E+03
840	3.54E+08	2.29E+05	4.87E+04	3.79E+03
900	1.42E+09	5.52E+05	1.06E+05	6.79E+03
960	5.70E+09	1.30E+06	2.29E+05	1.27E+04
1020	2.31E+10	3.19E+06	4.88E+05	2.39E+04
1080	9.25E+10	7.89E+06	1.07E+06	4.39E+04
1140	3.70E+11	1.89E+07	2.37E+06	7.99E+04
1200	1.47E+12	4.53E+07	4.90E+06	1.47E+05
1260	5.84E+12	1.10E+08	1.06E+07	2.69E+05
1320	2.30E+13	2.69E+08	2.29E+07	4.93E+05
1380	9.17E+13	6.47E+08	4.94E+07	9.08E+05
1440	3.67E+14	1.59E+09	1.07E+08	1.68E+06
1500	1.46E+15	3.74E+09	2.30E+08	3.07E+06
1560	5.79E+15	8.93E+09	4.97E+08	5.61E+06
1620	2.30E+16	2.18E+10	1.08E+09	1.02E+07
1680	9.14E+16	5.27E+10	2.37E+09	1.89E+07
1740	3.61E+17	1.27E+11	5.12E+09	3.49E+07
1800	1.43E+18	3.07E+11	1.08E+10	6.40E+07
1860	5.62E+18	7.42E+11	2.34E+10	1.18E+08
1920	2.20E+19	1.79E+12	5.08E+10	2.17E+08
1980	8.79E+19	4.33E+12	1.09E+11	4.02E+08
2040	3.47E+20	1.04E+13	2.38E+11	7.40E+08
2100	1.37E+21	2.52E+13	5.19E+11	1.33E+09
2160	5.40E+21	6.19E+13	1.13E+12	2.42E+09
2220	2.13E+22	1.50E+14	2.49E+12	4.42E+09

Note that in this model we assume rapid growth for ovarian cancer and slow growth for prostate. This may not always be the case. For example there are certain prostate cancers which grow very aggressively, the reasons are not yet known. We show the growth below in two scales.



The above is on logarithmic scale and the one below is linear.



This shows two factors. One is that certain cancers grow so quickly that one must have to screen on a quarterly basis to have any effect. That is very costly. Second some cancers grow so slowly that screening will result in surgeries that are not necessary since the cancer will never grow large enough to kill the person. Thus between too fast and too slow are many others, and too fast may not be too fast and too slow may not be too slow. That is the conundrum.

In a recent [JAMA article](#) the authors state:

"Early detection may not be the solution for aggressive cancers because many may not be detected early enough for cure. Some small "curable" breast cancers, categorized as low risk by National Institutes of Health criteria, have a high mortality risk when analyzed using prognostic molecular profiles such as the NKI 70 gene test. Biologically aggressive cancers present with a higher stage despite screening. Interval cancers, those that present clinically between routine screens, have a higher growth fraction and are more likely to be lethal compared with screen detected cancers. In the neoadjuvant I-SPY (Investigation of Serial Studies to Predict Your Therapeutic Response With Imaging and Molecular Analysis) trial, in which the mean tumor size was 6 cm (accrual 2003-2006 in the United States), 91% had poor prognosis biology²⁷ (using the NKI 70 gene test), which is much higher than the 33% poor prognosis proportion in women undergoing routine screening.²¹ Of women undergoing routine screening in the I-SPY TRIAL, 85% of the malignancies were interval cancers and only 15% were screen detected, suggesting that locally advanced cancers reflect the growth curve.... Similarly, the most lethal prostate cancers are those with rapidly increasing...

Screening is most successful when premalignant lesions can be detected and eliminated as in the case of adenomatous polyp removal during colonoscopy screening or cervical intraepithelial neoplasia ablation by colposcopy after detection by pap smear. Perhaps most important is that screening for cervical and colon cancer and the removal of preneoplastic lesions have been accompanied by a significant decrease in their invasive cancer counterparts; this has not been seen in breast and prostate cancer. Ductal carcinoma in situ, rare prior to widespread screening, now represents 25% to 30% of all breast cancer diagnoses (>60 000 new case-diagnoses annually are not included in the invasive cancer statistics), the majority of these lesions are low and intermediate grade. Ductal carcinoma in situ is considered to be a precancerous lesion and standard of care is excision and adjuvant treatment. However, after 2 decades of detecting and treating DCIS, there is no convincing evidence of substantial reduction in invasive breast cancer incidence. The 2002 decrease in incidence leveled off in 2005 and is attributed to a reduction in postmenopausal hormone therapy use, not DCIS removal."

The authors then suggest actions which we have detailed earlier in our [BOOK on Health Care](#). they rephrase them as follows:

Biomarkers to Differentiate Significant- and Minimal-Risk Cancers. To help move toward a more effective solution, the first step is a change in mindset in scientific discovery efforts and clinical practice

Reduce Treatment Burden for Minimal-Risk Disease. Many diagnosed tumors will follow an indolent course for the patient's lifetime⁴² or are probably cured with surgical excision alone.

Develop Tools to Support Informed Decisions. Information about risks of screening and biopsy should be shared with patients before screening. At the time of cancer detection, risks and benefits of treatment for specific biological subtypes should be shared

Focus on Prevention for the Highest-Risk Patients. Ultimately, prevention is preferable to screening by reducing the risk that a patient will have a diagnosis, experience undesirable effects

of treatment, and confront the specter of recurrence. For both breast and prostate cancer, available agents are proven to reduce cancer risk: finasteride and tamoxifen or raloxifene.

Demonstration Projects: Tactics for the New Strategy. To reduce morbidity and mortality from breast cancer and prostate cancer and to execute the proposed strategy, a comprehensive approach, using large demonstration projects to create a learning system, integrating both clinical care and research is needed. By spanning the spectrum from screening to treatment and survivorship, learning from diagnosis, treatment, and outcomes can be applied to developing tailored strategies for screening and prevention."

The problem is a bit more complex, however. It requires screening first, then staging. Screening is a difficult one since what is known today about the genetics of cancer growth for the most part reflects what is activated in a rapidly growing cancer. There are certain genetic predisposing genes but the problem is what turns them on and when.

Posted by Terry McGarty at [6:09 AM](#)  

Labels: [Health Care](#)

SATURDAY, NOVEMBER 28, 2009

A DIFFICULT CHOICE: RATIONING OR A RATIONAL DECISION

[Cancer Research UK](#) relates the tale of the refusal of the National Health System to pay for a cancer drug which has been shown to be effective against primary liver cancer and kidney cancer. The bottom line is the drug costs \$4500 per month and extends life 4 months. That is \$18000 for the life extension.

The article states:

"Firstly, this treatment is expensive. Although the drug's manufacturer (Bayer) have offered the NHS a 'buy three get one free' deal, they are unable (or unwilling) to lower the drug's price to a level that the NICE appraisal committee feels able to accept. Bayer's efforts to lower the price to about £3,000 per month still do not bring it within NICE's limits of what it regards as an acceptable use of taxpayers' money. NICE have talked about the other treatments that the NHS could buy for its money. And, to an extent, they have a point...But as our chief clinician Professor Peter Johnson pointed out on BBC's Today programme this morning, sorafenib works. Most patients with advanced liver cancer can't be operated on – and surgery is the only treatment that can cure the disease. For people for whom surgery is not a suitable option, there are no alternative treatments – and average survival is about eight months as a result. Clinical studies shown that sorafenib can extend people's lives for an extra four months on average. And as part of the appraisal process, NICE heard from doctors who have experience of using this drug and who have seen in practice the benefit that it can give."

This is a difficult ethical choice. The Brits do their analysis with QALYs and this using their analysis just falls outside the bounds. Is 4 months of life worth \$18000? Should we even ask that question? What if the patient or their family were to pay half, one quarter, three quarters? Is there any middle ground? We have discussed before the position of those in the current Administration based upon their own words, and those words imply that they would not pay, not a penny.

This is also akin to the current breast cancer debate. Frankly there is no simple answer here. Life has value, yet four months, with significant discomfort may or may not be valuable, to the person to whom it matters, the patient. This question posed here is worth discussing, and not creating a health care system which prohibits its discussion.

Posted by Terry McGarty at [5:20 PM](#)  

Labels: [Health Care](#)

THURSDAY, NOVEMBER 26, 2009

HAPPY THANKSGIVINGS



Happy Thanksgivings to all, including my backyard friend above. It is always good to see such fearless an attitude.

Posted by Terry McGarty at [5:35 AM](#)  

Labels: [Commentary](#)

MONDAY, NOVEMBER 23, 2009

COMPARATIVE CLINICAL RESEARCH AND THE DARK SIDE



The [New England Journal](#) has published a brief article bemoaning the CER, CCE, words in the Senate Bill. They state:

"Although most observers agree on the value of funding CER, many are unaware that embedded in the legislation are provisions ceding substantial influence to the medical products industries that have a major interest in the outcomes of such research. In the currently proposed legislation, there are two general constructs for the conduct of CER. The Senate Finance Committee bill mandates the creation of an entirely new private–public research entity and, owing to industry lobbying, guarantees industry three seats on this entity’s 15-member governing board, as well as representation on its methodology committee (the relevant portion of the bill, begins on page 1129).

*This approach contrasts with that generally taken by science agencies in the United States, such as the National Institutes of Health (NIH) and the Agency for Healthcare Research and Quality (AHRQ), which have strict conflict-of-interest rules to ensure that science is free of inappropriate commercial influence. Unlike the Senate Finance Committee bill, the bill from the Senate HELP Committee and the versions developed in the House make the AHRQ responsible for CER, thereby recognizing and preserving the independence of the scientific process. The Finance Committee bill also includes language requested by industry lobbyists (pages 1138–1139) that **threatens to withdraw federal funding for 5 years from any investigator who publishes a report on research funded by the proposed institute that is not “within the bounds of and entirely consistent with the evidence.”** Determinations regarding such consistency would*

be made by the newly created research entity, which would have industry involvement both in its governance and in study design. To allow scientists — and their institutions, which receive the support for the conduct of research — to be punished for the publication of work that is not approved by this entity is essentially to cede authority over the dissemination of government-funded research to a body that is at least partially controlled by persons with a potential commercial interest in its outcome. This move would be a major retrograde step that would both inhibit the conduct of CER and call its integrity into question. In addition, because researchers and their institutions will seek to avoid such punishment, this provision is likely to result in prolonged arguments, taking place out of public view, regarding which data are acceptable to publish, thereby impeding and delaying publication. The American public, which would be paying for this research, deserves better."

We have been following this since HR 3200 and before. The CER/CCE will "kill" medicine as we know it. Only what the Government says is true will be allowed and those with differing views will be persecuted. I suspect that hidden in the IRS related text they will be driven to extremes. One should read this Bill very carefully, which does take time, but given what damage it will do to this country and its people it is worth the effort.

Posted by Terry McGarty at [8:50 AM](#)  

Labels: [Health Care](#)

MONDAY, NOVEMBER 23, 2009

[THE IRS, HEALTH CARE, THE SENATE BILL, AND A NEW TAX CODE!](#)

In counting the number of pages devoted to the *Internal Revenue Code* in the *Senate Health Care Bill* **I have counted 105 pages**, and have read most of them. This looks like a new tax bill, yes it does mention health care, but it seems in the **105 of 2074 pages total, that is 5% of the Bill**, we have added dramatically to the IRS Code. This Bill may be a bane for physicians and patients but will be a boon for tax attorneys and accountants! Thanks Congress, you have done it again!

Posted by Terry McGarty at [6:56 AM](#)  

Labels: [Health Care](#)

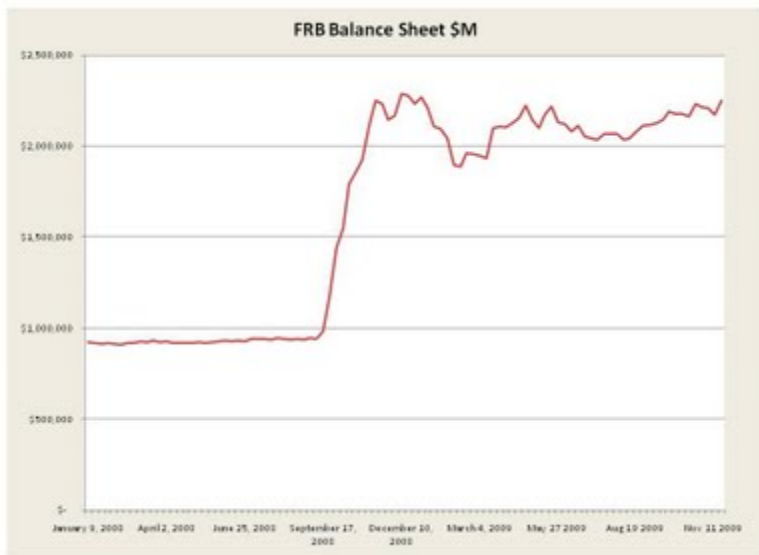
FRIDAY, NOVEMBER 20, 2009

[THE FED, THE BANKS, AND RECOVERY](#)

In June of this year we wrote a [White Paper](#) on the FED Balance Sheet and the impact on Bank Excess Reserves. We are revisiting that discussion almost six months later. At the time we noted the enormous excess reserves and we noted further two things. The holding of them by the banks would retard any recovery, as we have seen in the continued unemployment stats, and that the excess money when released could cause significant inflation. The good news is no inflation and the bad news is slow recovery. We also noted that the uncertainty from the White House and Congress would result in a slow if not a negative response from small business which would further slow recovery if not result in a second dip.

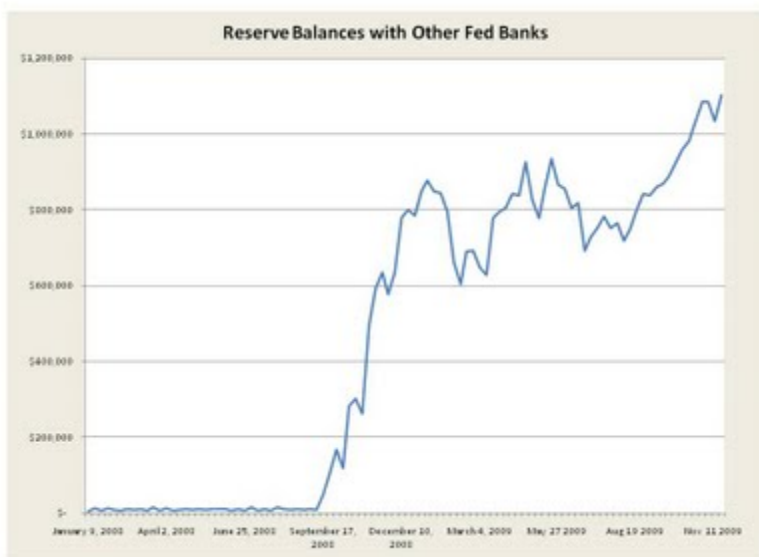
We now look at the data again.

1. The FED's Balance Sheet continues to expand as shown below.



In June we hoped for a slow drop but in fact we see it continues to rise.

2. The Reserve Balances still increase as the FED pumps money into the Banks. We show that below.



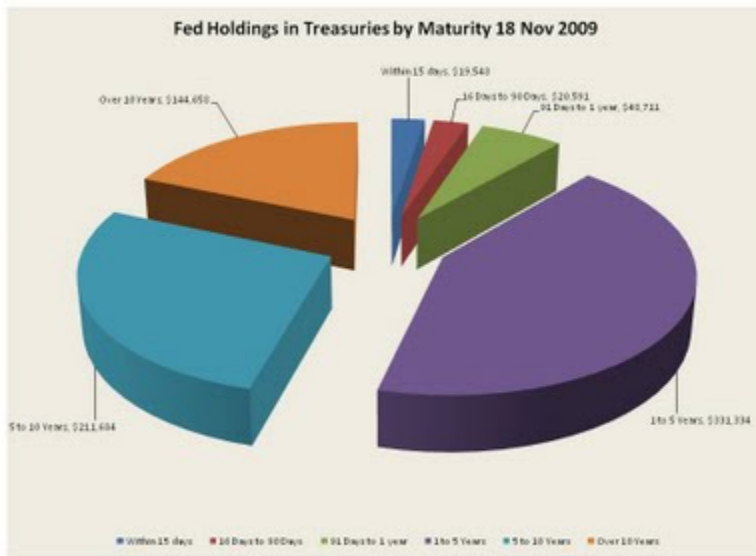
In fact there has been a growing increase since August for reasons we cannot know at this stage. The data is just not there.

3. The FED holdings are shifting. The shift may be an indication of a change. We first show the distribution in June and now the one for November. These are shown below back to back.

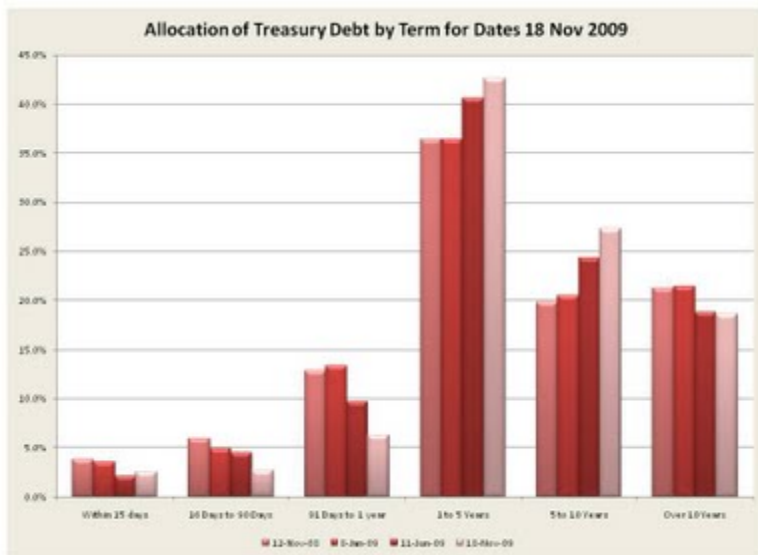
For June we had:



For November we have:



We summarize these below for the past year:

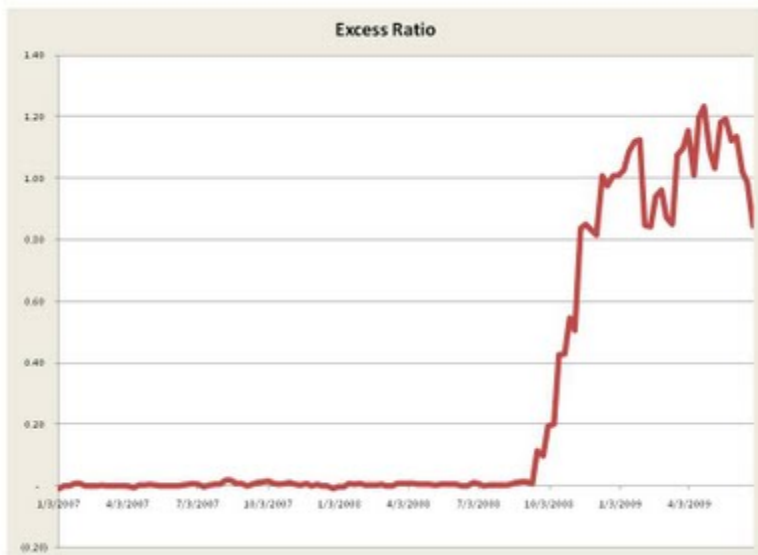


There is a clear growth in shorter term and a decline in the long term. The trend is noticeable in the mid term yields. However there is a decline in the very short term. This may be good for mid term low inflation.

3. The Monetary Base is still a concern. The ratio of M2 to the MB is still low and declining. Frankly we had hoped for some improvement here but it is not doing so. There is no significant loan action and the Banks Balance Sheets are still weak. We show this below:



4. The Excess Ratio is still high but it seen as declining. We show this below.



These bank reserves are still much too high yet the latest numbers show a healthy decline from the summer and in fact seem to be returning at least to last fall values. These should be watched carefully.

5. The ratio of cash to checkable deposits in M1 is still volatile and on average reduced. This may not be a serious problem yet. We show this below:



The conclusion is that we are long way from a recovery. The money is still frozen and people are not spending. The uncertainty in business and the consumer driven from the chaotic actions of the Congress will most likely keep things this way through 2010. We are now looking at a 11.5% max unemployment number. We had estimated a 10.5% but the slowness in a monetary readjustment is a concern.

Posted by Terry McGarty at [7:24 AM](#)  

Labels: [Economics](#), [Economy](#)

[THE BREAST CANCER DEBATE: THEY JUST KEEP DIGGING A DEEPER HOLE](#)

It is reported in the [WSJ today](#) that the Vice Chairman of the Federal Government Rationing Board, the AHRQ, has said:

"Diana Petitti, a professor in biomedical informatics at Arizona State University who is vice-chairwoman of the panel -- the U.S. Preventive Services Task Force -- said she felt its conclusions were misinterpreted. "The task force is not against women having mammograms in their 40s," Dr. Petitti said in an interview. Instead, she said, it is in favor of women in that age range deciding on their own, after consulting with their doctors, whether to undergo regular screenings."

Excuse me madam, but the patient always made the decision, they were never forced into anything, that process ended in May 1945 in Germany. Either these people never listen to what they say or worse they actually said what they think. The physician can make a suggestion, a recommendation, but the physician does not tell the patient what to do.

Let me review the facts:

1. True fact, more women will die if the recommendation is followed.
2. Yes, there are false positives. We all have gone through that process eventually in life. Better a false positive than a false negative. Does the patient suffer some traumatic result, yes for a while, is there the possibility of some damage, sometimes, and does it cost, yes, but what if the patient wants to pay themselves.
3. This is rationing pure and simple, it is the beginning of what we can expect from a Government controlled plan.

Posted by Terry McGarty at [3:58 AM](#)  

Labels: [Health Care](#)

THURSDAY, NOVEMBER 19, 2009

[ANOTHER MODEST PROPOSAL](#)

I just returned from the hospital after watching a few procedures and thought of a wonderful way to reduce health care costs and at the same time improve quality. I checked this out with the nursing staff, and yes indeed I did have to run fairly quickly in the opposite direction, it did strike a chord. Here it is, and I offer this great idea free of charge to all the Democrats.

Pay minimum wages to all health care workers, make it law, but then allow the patients to pay tips, yes that's correct, tips. If the patient is satisfied, well, they should show it. Tips are paid by patients and the minimum wage is what the Government pays to the staff, and yes even the hospital. So if a good doc saves your life, how about a \$15,000 tip. Yes, you heard me, a good fat tip. The IRS would love this, NOT.

In addition, tips may be paid before and/or after a procedure. For example if you have a very nice care and you want to get out of the garage quickly, you may tip the parking attendant say \$20

when you arrive, so that they remember you. It works, you will get great service. In New York, if you do that, then after some event, even if you arrive after 100 others, somehow your car comes up next! Great service. So consider tipping your surgeon beforehand, that way there is a clear economic incentive. Let the surgeon know that there is more where that came from. And the tips can be in cash, or even gold bars, so that it becomes inflation proof. A new market can be made for tip insurance, and perhaps CDSs for tips. This can jump start the economy, in a heartbeat!

So I also tried this out on the staff at the local restaurant near the hospital, they thought it was great, and they said that all those fat egotistic ner'e do well Wall Street Bankers, why they could give say a \$20,000,000 tip, a mere 0.1% of their bonus this year alone! And the folks who can't cough up a tip, why the staff gets to know who those folks are, and the next colonoscopy, why they will remember the experience all too well.

So my readers, rush to your local Senator and Congressperson and tell them, shout it out, tips!, yes tips are the solution.

Thank God I don't practice.

Posted by Terry McGarty at [10:49 AM](#)  

Labels: [Health Care](#)

WEDNESDAY, NOVEMBER 18, 2009

[THE SENATE HEALTH CARE BILL](#)

The Senate Democrats have just posted the [Health Care Bill](#). It is even longer than the House Version. It is not clear what it is called since it seems in this version to be called:

IN THE SENATE OF THE UNITED STATES—111th Cong., 1st Sess.



H. R. 3590

To amend the Internal Revenue Code of 1986 to modify the first-time homebuyers credit in the case of members of the Armed Forces and certain other Federal employees, and for other purposes.

Then it continues:

(a) SHORT TITLE.—This Act may be cited as the “Patient Protection and Affordable Care Act”.

Hopefully this is just a page 1 error. Not a good sign. Or is this just a back door way to get this legislation passed with just 50 votes, it is an amendment to a House tax bill for the Armed Services funding of their housing needs. What a dirty pool bunch of folks! Enjoy it over the Thanksgiving holiday!

Posted by Terry McGarty at [6:23 PM](#)  

Labels: [Health Care](#)

[THE DEBT, THE PRESIDENT, AND CHINA](#)

The [Financial Times Reports](#) with a headline "*Obama warns on US public debt pile*" that in an interview with a FOX correspondent that the US may face a second recessionary slump resulting from the excessive debt. One is tempted to say "You can't make this stuff up!" It is not as if

anyone has not been screaming about this for the past year. Yet one suspects that there may have been some lecturing in the wood shed by the Chinese as regards to the less than sterling economic policy rendered from the White House. The venue, namely FOX, the former outcast, and the statement, namely curtailing Government spending, is interesting to say the least.

The FT gives the following quote:

"It is important though to recognise if we keep on adding to the debt, even in the midst of this recovery, that at some point, people could lose confidence in the US economy in a double-dip recession," said Mr Obama."

The issue simply is that the debt, and its ongoing growth, is a direct result of the current Administration. The FT further states:

"The timing of Mr Obama's remarks, which came at the end of his trip to China, is likely to fuel speculation that his Chinese hosts delivered stern private warnings about the consequences of continuing high US budget deficits. China, the biggest foreign holder of US Treasury bonds, has become increasingly vocal in its fears on the value of its dollar assets."

This is akin to the CEO of some start-up meeting his investors who see his business running out of funds with nothing to show for it and having the "come to meet the Lord" meeting. The problem is that anyone experienced in the real world would and should have seen this much earlier. Hopefully the Bankers to the US, namely China, got the message across.

Posted by Terry McGarty at [2:14 PM](#)  

Labels: [Economy](#)

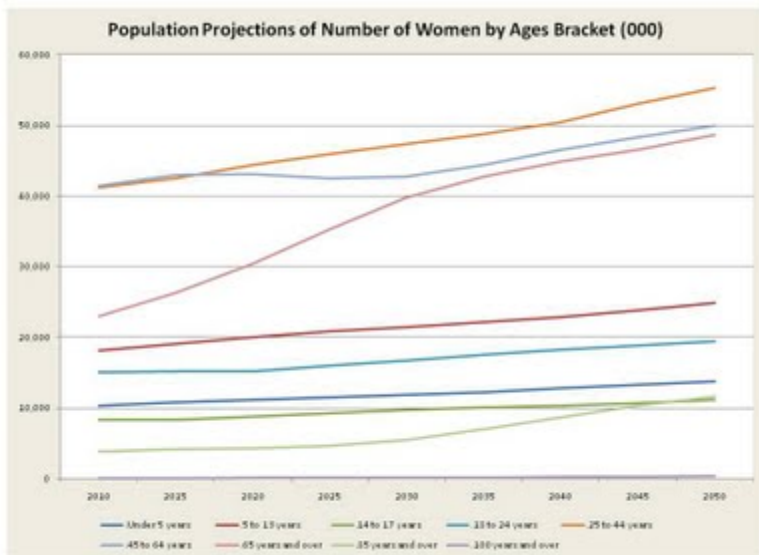
[THE BREAST CANCER DEBATE AND HR 3962 CCE](#)

The recent report by the Agency for [Healthcare Research and Quality](#) modifying the recommendations for breast care screening has created a firestorm. I address the issue here from two perspectives. As a simple engineer at heart I look at the numbers in a quick back of the envelope manner and show that the increased deaths in this now uncovered group is substantial. Second I look at what this recommendation is really all about. Bottom line it is the beginning of the new health care regime under HR 3962 and its progeny. Namely reduction in care, increased mortality, and thus lower costs. One need merely think how many women would be removed from Medicare if proper care was removed at earlier ages.

In contrast the [Dean of Harvard Medical School](#) has stated that the current Bill will most likely make things worse.

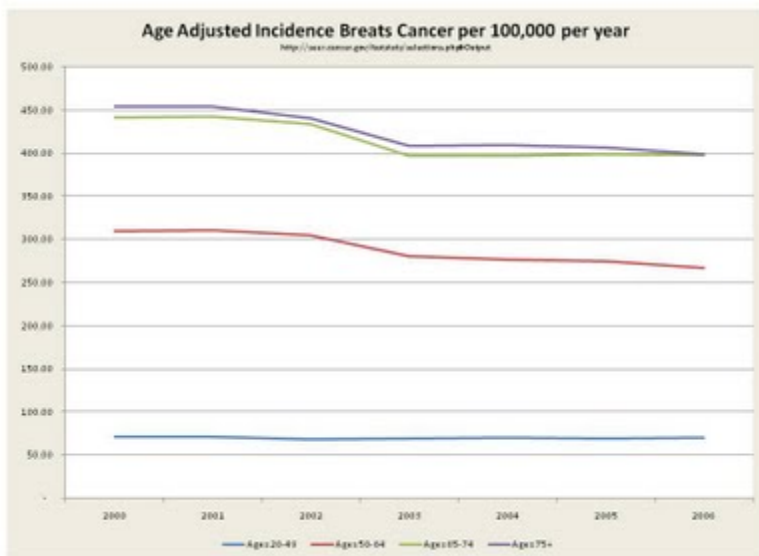
To do a simple analysis one need spend no more than an hour getting data from [NCI SEER](#) and then doing a few calculations. We use that data and do them here.

1. First we look at the demographics of women in various age groups obtained from the census projections. These are shown below.



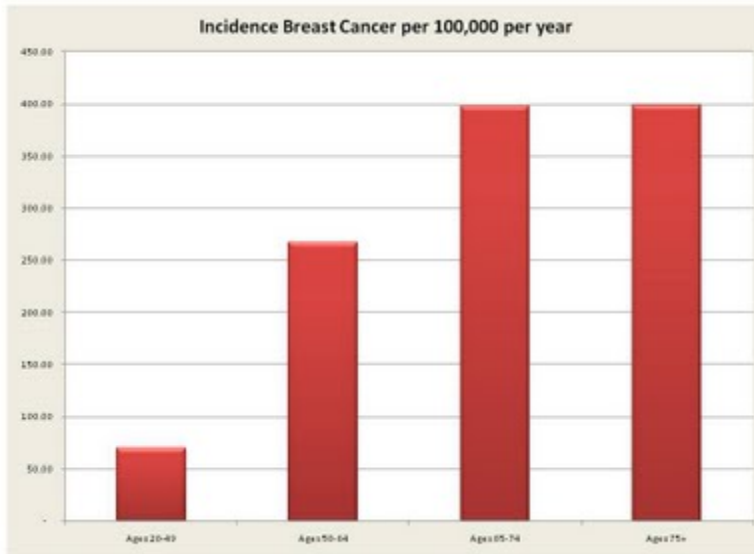
This is our base. Our target will be the group removed by AHRQ. Namely the under 50 group of women. The number in that group from 2010 to 2050 is shown above.

2. Then we look at incidence data taken from SEER. We did this quickly so we have grouped data but that is reasonable for what we need to do. We show this below.



The above is over time which shows a decline. We will neglect that decline in incidence on an ongoing basis which is not unreasonable for this analysis.

Thus we use the 2006 incidence as shown below.

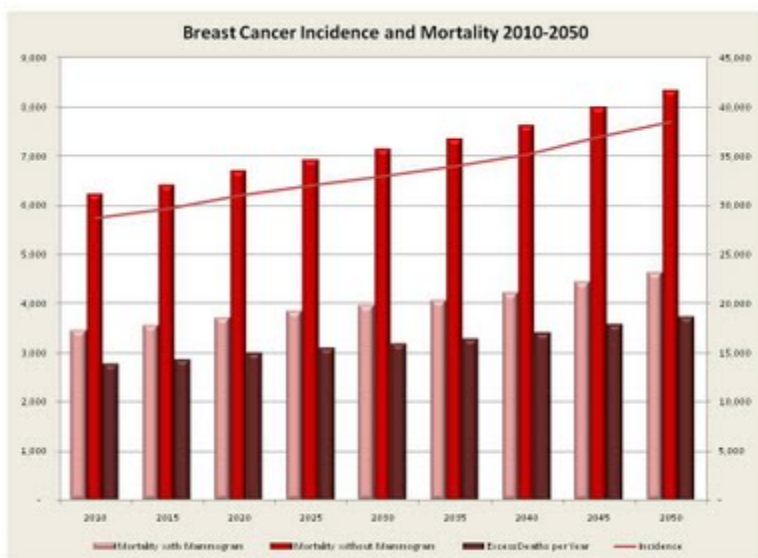


3. Now we ask what is the mortality rate and what had mammography done to reduce mortality. This we show in the following Figure.



Namely for this group it has reduced mortality by 50%. Not a bad result. Namely we can state that in the early 1970s with no mammography and the treatment at that time the mortality was twice as high. We can also say that if we remove mammography we increase mortality by a factor of two in this group.

4. Thus what can we conclude. If we take the population data and use mortality rates with and without mammography we can plot the total mortality over the next forty years with and without mammography and the excess deaths as a result of this recommendation. We do so below.



5. The conclusion is that many more women will die needlessly. Simple, 45 minutes on the computer, no brainer! So why would anyone want this to happen, since almost all of us have women in our families who have suffered through this. Dumb.

The AHRQ argument is that it leads to false positives and makes women uncomfortable. So does a high PSA for men, and so does a colonoscopy. Yet the benefits to survival and quality of life are tremendous.

My fear is that AHRQ is the camel's nose in the tent for Comparative Clinical Effectiveness and Government control over health care procedures. If every procedure becomes mandated then we need less physicians and we can have a nurse practitioner say "no" just as much as we can a physician. If we loved the HMO days I suspect we will just love CCE and Government controlled health care.

As Dr. Flier states in his aforementioned WSJ article:

"In discussions with dozens of health-care leaders and economists, I find near unanimity of opinion that, whatever its shape, the final legislation that will emerge from Congress will markedly accelerate national health-care spending rather than restrain it. Likewise, nearly all agree that the legislation would do little or nothing to improve quality or change health-care's dysfunctional delivery system. The system we have now promotes fragmented care and makes it more difficult than it should be to assess outcomes and patient satisfaction."

What especially concerned me was seeing an interview with a Dr. Gregory, one of the AHRQ panel members, last night and her less than lucid and knowledgeable responses to objections to the conclusions. It was a terrifying interview, for people like that can dramatically change health care to the worse.

Posted by Terry McGarty at [5:49 AM](#)  

Labels: [Health Care](#)

MONDAY, NOVEMBER 16, 2009

[BASELINE PORTFOLIO UPDATE](#)

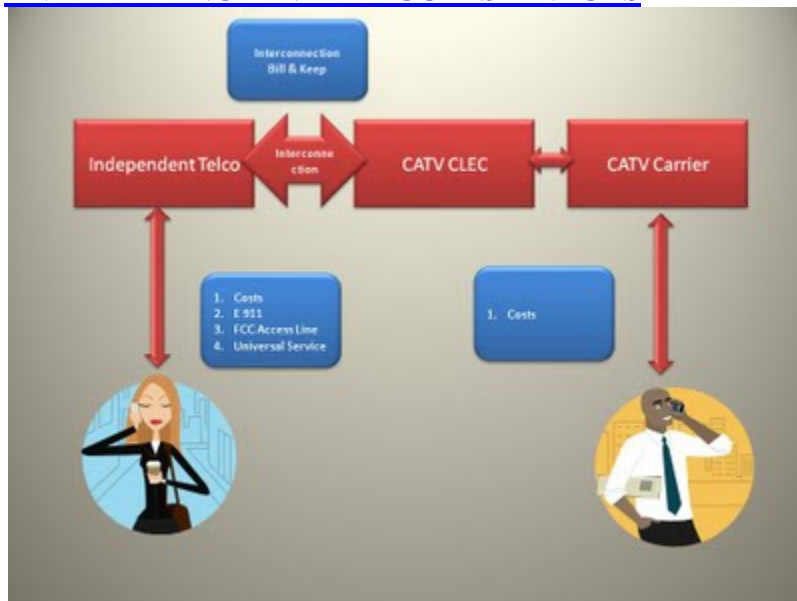


We have updated our portfolio which we introduced December 1 of last year. It is averaging a 40% annualized rate of return from that date. It was originally a \$25,000 bundle of stocks in core businesses and it has gained almost \$9,500 in gain and \$1,500 in dividends. We are tracking this since it represents the bundle of typical stocks. If interested look at prior Baseline Portfolio listings.

Posted by Terry McGarty at [5:28 PM](#)  

Labels: [Baseline Portfolio](#)

[AN IMBALANCE IN TELECOM SERVICES](#)



There is a strange imbalance in local telephony. Consider the chart above. If a local common carrier provides local telephone service it must pay E 911, Universal Services and FCC Interconnect Fees. In reality the customer pays these as line items on their bill. Now the CATV company provide the identical services but has no obligation for these charges. Yet the CATV company sets up a separate common carrier shell to get bill-and-keep interconnection, namely no cost, with the local telco. Thus the CATV company will always be less if its costs are comparable. This puts the wireline common carrier at a disadvantage.

Now the FCC has ruled as follows:

"FCC 04-27 MEMORANDUM OPINION AND ORDER Adopted: February 12, 2004 Released: February 19, 2004

3. The Act defines "telecommunications" as "the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." "Telecommunications service" is defined as "the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used." "Information service" is defined as "the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information via telecommunications, and includes electronic publishing, but does not include any use of any such capability for the management, control, or operation of a telecommunications system or the management of a telecommunications service."

Thus both are really providing the same service. Yet why the difference. One of the rulings was the Pulver Free World Dialup, FWD, decision which states:

"22. We find that even if some form of an end-to-end analysis were deemed applicable to FWD, FWD would be considered an interstate information service in accordance with our "mixed use" doctrine. Where separating interstate traffic from intrastate traffic is impossible or impractical, the Commission has declared such traffic to be interstate in nature. Based on the record in this proceeding, it is evident that it is impossible or impractical to attempt to separate FWD into interstate and intrastate components. This "impossibility" results from the global portability feature of an FWD member's unique identification number, enabling that member to initiate and receive on-line communications from anywhere in the world where it can access the Internet via a broadband connection. Moreover, FWD's technology does not enable Pulver to determine the actual physical location of an underlying IP address. Finally, it is evident that more than a de minimus amount of FWD's offering is interstate. Therefore, we would analogize the FWD offering to those previously deemed exclusively interstate by the Commission where it has applied its "mixed use" rule."

Thus the FWD decision allowed the door to open for the VOIP types of services. Convolved reasoning, yes, but it is the FCC.

Now the next decision was the Vonage Decision. It consists as follows:

"FCC 06-94 REPORT AND ORDER AND NOTICE OF PROPOSED RULEMAKING; Adopted: June 21, 2006 Released: June 27, 2006

14. On November 9, 2004, the Commission adopted the Vonage Order, in which it preempted an order of the Minnesota Public Utilities Commission (Minnesota Commission) that applied Minnesota's traditional "telephone company" regulations to Vonage's DigitalVoice service – an interconnected VoIP service under the definition subsequently adopted by the Commission. Without classifying Vonage's service as either an "information service" or a "telecommunications service" under the Act, the Commission held that DigitalVoice cannot be separated into interstate and intrastate communications for compliance with Minnesota's requirements without negating valid federal policies and rules. The Vonage Order made "clear that this Commission, not the state commissions, has the responsibility and obligation to decide whether certain regulations apply to DigitalVoice and other IP-enabled services having the same capabilities." The Commission further indicated that it intended to "resolve important regulatory matters with respect to IP-enabled services generally, including services such as DigitalVoice, concerning issues such as the Universal Service Fund" in the IP-Enabled Services proceeding.

15. Since the Vonage Order, the Commission twice has adopted regulations for certain provider of IP-enabled services. On May 19, 2005, the Commission adopted its first Report and Order – the VoIP 911 Order – in the IP-Enabled Services proceeding. In that order, the Commission defined a particular category of IP-enabled services – "interconnected VoIP services" – as services that (1) enable real-time, two-way voice communications; (2) require a broadband connection from the user's location; (3) require IP-compatible customer premises equipment; and (4) permit users to receive calls from and terminate calls to the PSTN. Declining to determine the statutory classification of interconnected VoIP services at that time, the Commission asserted its ancillary jurisdiction under Title I of the Act to require interconnected VoIP service providers to supply 911 emergency calling capabilities to their customers. On August 5, 2005, the Commission adopted another order in which it determined that providers of interconnected VoIP services, as defined in the VoIP 911 Order, are subject to the Communications Assistance for Law Enforcement Act (CALEA). The Commission's decision that CALEA obligations apply to interconnected VoIP services was consistent with the approach taken in the VoIP 911 Order, in that the decision rested in part on the fact that interconnected VoIP services allow customers to originate calls to and receive calls from the PSTN."

This opened the E 911 requirement but in a slow roll manner. It also opened up the CALEA requirement as well. There should be some resolution in equity between these carriers. We see that many rural telephone companies which had survived on interconnection fees as subsidies for rural telephony are being driven out of existence by this simple arbitrage of the CATV company. We have specifically seen companies such as Comcast ruthlessly use this Trojan Horse attack to drive customers to their system, We believe that the Fairpoint collapse was a result of this type of arbitrage. We would like to see the FCC resolve this on some basis of equality. Clearly the Universal Service Fee is a tax and should frankly be eliminated as should the FCC Line Charges. The E 911 should be the same for all.

Posted by Terry McGarty at [4:51 PM](#)  

Labels: [Broadband](#), [Telecom](#)

"HOW MARKETS FAIL": A REVIEW

"How Markets Fail" by John Cassidy is but one of a growing number of books attempting to explain both the world of finance and its underpinnings and the resulting collapse of the financial markets. The book is exceptionally well written and deals with all of the critical elements of what got us where we are today. Yet it is worth considering the many issues he discusses in light of other factors.

The book is divided into three parts as presented by the author in the first Chapter. Part I is a review of the classic economists and up to the present. Part II is the behavioral economists and their influence in understanding herd dynamics and stickiness in the market. Part II focuses on the current crisis.

Much of what is written is written well albeit with a strong political bent. For example just out of the box the author states on p. 9 in his introduction of Part I that "Markets encourage power companies to despoil the environment and cause global warming; health insurers to exclude sick people from coverage; computer makers to force customers to buy software programs they don't need; and CEOs to stuff their own pockets at the expense of their stockholders." Now if that quote does not set the stage for all to come nothing else will. It is clear that the author has a strong bias against the free market and denies any personal responsibilities on the part of the individuals. It is a restatement of the victimization approach to economics. He believes that the market, whatever that may be, makes the decision to dump polyphenols from a GE plant into the Hudson. In reality it was the management, the people in GE who did that, not the market. Yet, this theme that capitalism is the forcing function or deus ex machine for all the evils of mankind seems to continue throughout the book.

On p.11 he states that "The subprime boom represented a failure of capitalism in the presence of bounded cognition, uncertainty, hidden information, trend following and plentiful credit." That is in part true but it was the legislation and the regulatory environment that stimulated this process and yes the greed and outright dishonesty of many who participated. Greed and capitalism are not a one to one mapping. Greed has existed in every environment, suffice it to say that it is one of the seven deadly sins.

On p. 12 he calls the problem that Prince had at Citi as an example of the Prisoner's Dilemma. Frankly it was not even close in a game theoretic sense. It was Rubin along with Prince working with the residual of the Sandy Weill collection of companies in a highly leverage state in a financial downturn that most likely led to their downfall.

On pp 17-18 the author speaks towards the issue of having knowledge but not having the ability to conceive of the consequences. He uses Pearl Harbor as an example. Frankly there were many such examples of how this was anticipated ranging from the Navy's War Plan Orange to the well read book by Hector Bywater, The Great Pacific War, detailed in the 1920s the actual plan of the Japanese. In fact the Japanese planning organization actually use the Bywater plan in its own effort. The same types of issues could be said about the attack on 9/11, data was there but

"management" was clueless. In fact the collapse of 2008-2009 was presaged by the same market and housing and banking collapse of 1987. Then we had a 25% one day drop in the DOW, a 20-25% drop in housing, and the S&L collapse. The difference was that then people held a reasonable amount of equity in their homes and 401Ks were not as prevalent. The Government took the actions to move from a risky position to a riskier one. Thus it was not the Market but the Government whose hands are dirty. Cassidy seems not to consider that.

On p 23 the author starts his use of Galbraithian dicta. This in and of itself sets the tone. Galbraith in his three books for public consumption on his view of economics, American Capitalism, The Affluent Society, and The New Industrial State, makes the assumption that the battle is between the poor defenseless consumer and the massive impenetrable corporations. It requires the use of "countervailing power" to balance the interests and that is where the need is for all benevolent and all knowing Government is seen as the arbiter of fairness and justice in such transactions. Per Galbraith and the author, the Market is both inefficient and lacks a Rawlsian justice in its allocation of what is produced.

On p. 38 the author details how Hayek was considered a "right wing nut" when he was a student at Oxford in the early 1980s. Well it was Oxford, what more need be said. Hayek's proposition that markets are aggregators of information was an essential and critical observation as was his understanding that centralized organizations had problems dealing with the division of knowledge (p. 41). In fact one need look no further than to an entrepreneurial company versus a large corporation to see the effect of this gross inefficiency of central planning, and the best example is the old Soviet economy, centrally planned, yet incapable of functioning.

On pp 63-68 the author has an interesting and lucid discussion of Arrow's welfare economics. One should remember that Arrow is the uncle of Larry Summers, now in the White House, and once the Treasury Secretary. This discussion is used as a justification of redistribution economics. Namely the basis of the distribution of wealth generated by some is definable by some hypothetical utility function which in turn holds across all people. This utility function has certain mathematical characteristics that are assumed to reflect reality. The net result is that markets, namely free markets, can generate what are termed efficient outcomes, and that efficiency and equity, again a Rawlsian justice schema, can be achieved. Arrow's analysis is just that, and analytical schema. The results are just as good as the assumptions, thus one should beware that the assumptions are just that, assumptions.

On p 65 the author gives a somewhat backhanded compliment to Johnnie von Neumann, a man who amongst those who know and understand his magnificent contributions consider him one with few if any equals. The author calls him "some sort of genius". He was a genius, not "some sort of". He was brilliant and a true polymath with seminal contributions across the spectra of human knowledge. The author then goes on to characterize von Neumann's life as "loquacious and virulently anti-communist, he drank heavily, told off color jokes, was married twice, and died of cancer..." One is amazed as to the cavalier and heavy handed characterization of the life of a person who has so great respect and has made so great a number of contributions. This one statement is a classic example in my opinion of the less than fair, equitable and knowledgeable writing on the part of the author.

On p 78 the author begins to take focus at Friedman and his monetary theory analysis. He states "Friedman liked to invoke the ancient "quantity theory of money" which many of his critics considered hopeless out of date" Frankly the Friedman theory of money was not ancient, it was an new innovation. In fact the theory of money in and of itself was less than ancient, for economists as such had been around at best in some form since the 1650s.

On p 81 the author begins his critique of Friedman and uses the example of the elimination of Federal regulators. That was actually the work of Alfred Kahn and was documented in his classic work, *The Economics of Regulation*. It was in the Carter Administration that the antitrust suits against AT&T and IBM were started and it was Asst Atty General Baxter under Reagan who dismissed one and settled the other. AT&T was a monopoly and it had a strangle hold on the US telecommunications business. The explosion of entrepreneurial spirit and innovation in telecommunications and the information age was the direct and immediate result of its splitting.

On p 91 the author speaks of the Black Scholes model. He states: "Some of the mathematics used in these theories is pretty befuddling which explains why there are so many physicists and mathematicians working on Wall Street..." Well let me set the author straight, these equations arose from engineers, from the likes of Norbert Wiener and Rudy Kalman, from Stratonovich in Russia and Ito in Japan, and from my book written in the late 1960s, *Stochastic Systems and State Estimation*. They were used to model and design estimation and control systems. As engineers, we frequently warned people about the limits of models and the concerns of instabilities. Black and Scholes appear to have taken little heed of those issues resulting most likely in the collapse of Long Term Capital Management. One should note that the "equations" which were the underpinnings of the Black Scholes model were also used by the engineers who designed the navigation and guidance systems for the Apollo space missions. But as ones used by engineers they had engineered into them safety margins to assure against the instabilities of real life. Unlike the engineered solutions of Apollo, the Black Scholes approach were used by bankers who ran them to the edge, to the edge of the envelope if you will, and thus these models when applied suffered from the smallest of perturbations and instabilities and thus collapsed.

On p 193 he infers that Volker was the architect of the 19% interest rates. Actually they were the legacy of Nixon and the collapse of gold, Ford and the total lack of confidence, and finally Carter and his gross mishandling of the economy and the final oil crisis. Volker inherited these and then righted them, albeit with high unemployment.

On p 115 the author introduces the Pigou Club of Mankiw at Harvard. Simply this is the group which says that you tax the thing you do not want to happen. This is the way the economist thinks. Rather than solving the problem, you tax it. An engineer would try to find a way to remedy it. The result is the engineer's approach is lower cost, social and otherwise. One should wonder why China's senior officials are mostly engineers whereas we in the US have mostly lawyers with economists in the shadows.

On pp 118-124 the author tackles the Coase approach to life. Coase looked simply at the problem of unintended consequences, their costs, and the remedies thereto. For example a railroad company has tracks and the grass adjacent to the tracks catches fire and burns the wheat of a farmer. The courts may allow a law suit to be filed and the jury may rule in favor of the farmer

who gets paid for the damage. If however the farmer loses the suit he may get together with other farmers and then they may pay the railroad to fix the problem. Either way there is a "free market" solution to the problem, yet the costs may flow one way or the other. The author clearly dislikes Coase and his free market approach. He uses the aforementioned GE and Hudson River example. He then follows Coase with the obligatory Global Warming issue on pp 123-124.

On p 128-133 the author starts looking at antitrust issues. Antitrust laws were there to protect competition and not competitors. They were designed to protect the system not the incumbents. The author speaks of Baumol and his view that monopolies did not need to be exposed to competition but the threat of competition. It was Baumol along with Willig who developed the theorem of interconnection pricing, the Baumol-Willig Theorem, which was an ad hoc propitior hoc argument to sustain the AT&T monopoly by allowing the incumbent to collect a "tax" from the competition based upon the premise that AT&T had more customers and that in and of itself had value as some externality. This was in many ways at the heart of the failure of the 1996 Telecom Act whose goal was to allow competition to exist. The author again returns to Galbraith and his book, *The New Industrial State*, which claims that corporations are dominant controllers of the economy run by technocrats. It is ironic that at most half of the companies Galbraith cites are even in existence today. Their "power" did not keep them from going out of existence. The entrepreneurs, the true engines of growth in the economy, came along and redefined the business under their feet. Consider the telecommunications equipment manufacturers, there is now not a single one in the US, they are just gone. He states Galbraith's claim, "the initiative in deciding what is produced comes not from the sovereign producer, through the market, ... rather, it comes from the great producing organization which reaches forward to control the markets that it is presumed to serve and, beyond, to bend the consumer to its needs..." This was Galbraith's view, and it reflects a 1960's mentality. It however has clearly been shown to have been broken by the mass development of new entrepreneurial businesses, from Microsoft, Apple, and Google.

On p 130 he states, "Then there is high technology sector, where monopoly is endemic." That is clearly false by example. The high tech market is very fluid with new entrants changing the landscape day by day. Yet Intel has a hold, but there is Qualcomm and many others who have disintermediated the broad base of semiconductors for uses well beyond just computation. He continues speaking about the concept of "network externalities" which means that having more users one gets to retain position. That is at best questionable. Just look at wireless versus wireline. The wireline side dominated the business until 2004 when wireless took over. This violates the Baumol-Willig Theorem and lets one see that externalities can be shifted again and again. They are not sustainable barriers to entry.

On p 137 he speaks of the Internet and uses the term "package switching (sic)" It is "packet switching". This was a seminal disintermediation introduced into the telecommunications world view. The story told by one of the Internet founders is that they tried to get AT&T to work with them but AT&T through its arrogance as a monopoly player wanted to control it all. AT&T did not understand that ARPA could reinvent communications, which it did, and this resulted in the never ending decline of the old AT&T.

On pp 158-159 he speaks of insurance and speaks of Arrow stating that the Government should run insurance. That is questionable. Well one should examine the Arrow paper more carefully.

He states that health care is a service and as such is different. Ken Arrow, in his well read paper entitled Uncertainty and the Welfare Economics of Health Care, states the following special characteristics of health care in his view:

"A. The Nature of Demand The most obvious distinguishing characteristics of an individual's demand for medical services is that it is not steady in origin as, for example, for food or clothing, but irregular and unpredictable..."

My simple answer is that there are many people in such a service business, just look at the plumber. Look at the lawyer. Look at the electrician. There are lots of businesses out there that are the same in their demand characteristic as health care. Arrow continues:

"B. Expected Behavior of the Physician: It is clear from everyday observation that the behavior expected of sellers of medical care is different from that of business men in general. These expectations are relevant because medical care belongs to the category of commodities for which the product and the activity of production are identical."

Consider lawyers, they are service providers. There are hundreds of professions, accountants to name another, where the product and the activity are the same. The definition is the personal services industry, it even has an SIC code! But this was an 1963 article, in the days of Galbraith, where economists viewed the world as large corporations against the common man! Prof Arrow, in my opinion, is in error with this attempt at both generalizing and specializing. Arrow continues in his paper:

"C. Product Uncertainty: Uncertainty as to the quality of the product is perhaps more intense here than in any other important commodity. Recovery from disease is as unpredictable as is its incidence. In most commodities, the possibility of learning from one's own experience or that of others is strong because there is an adequate number of trials."

One need just go to a civil or criminal trial, especially with a jury, because the practice of law is similar, the outcome is always unpredictable.

The author makes many other statements and I chose just a few to counter. The writing is exceptionally good, smooth, and explanatory, but the twist in his presentation is an obvious and transparent attempt to justify his political position. Free markets do work, entrepreneurial behavior is the key element to our success, and the goal of the Government should be to take all actions as is necessary to defend and support that effort. This book seems to ignore that goal. Yet it is worth reading to gain insight, and the book is one of the best out there. My favorite book in this area is the recent one by Donald MacKenzie, *An Engine, Not a Camera* (MIT Press, 2008) which is a superb tale by a highly respected expert in the field. [An Engine, Not a Camera: How Financial Models Shape Markets \(Inside Technology\)](#) The two should be read side by side.

Posted by Terry McGarty at [12:26 PM](#)  

Labels: [Books](#), [Economics](#)

SUNDAY, NOVEMBER 15, 2009

[AN INTERESTING QUOTE FROM THE CMS REPORT ON MEDICARE](#)

In reading the CMS report that I wrote on previously I thought it worth while to list a specific quote from page 8.

"Over time, a sustained reduction in payment updates, based on productivity expectations that are difficult to attain, would cause Medicare payment rates to grow more slowly than, and in a way that was unrelated to, the provider's costs of furnishing services to beneficiaries. Thus, providers for whom Medicare constitutes a substantive portion of their business could find it difficult to remain profitable and might end their participation in the program ... jeopardizing access to care for beneficiaries. While this policy could be monitored over time to avoid such an outcome, so doing would likely result in significantly smaller actual savings than shown here for these provisions."

Does anyone ever read these documents. What this is saying is the following:

1. These numbers make no economic sense. Physicians have costs, they are not charitable institutions. They have spent hundreds of thousands getting educated. That money has to be repaid. They spend tens of thousands on insurance. That must be paid. They spend hundreds of thousand annually on staff and overhead. That must be paid. Who pays this?
2. This then is clearly a political game to shift costs. It does not reflect any reality.
3. Medicare beneficiaries who paid more than they ever will get back will again be taxed by the Government and left to wither on the vine.
4. Medicare practitioners may end up being those who could find patients no where else. In fact they may have poorer quality of care.

One hopes that someone in Congress is reading this!

Posted by Terry McGarty at [6:08 PM](#)  

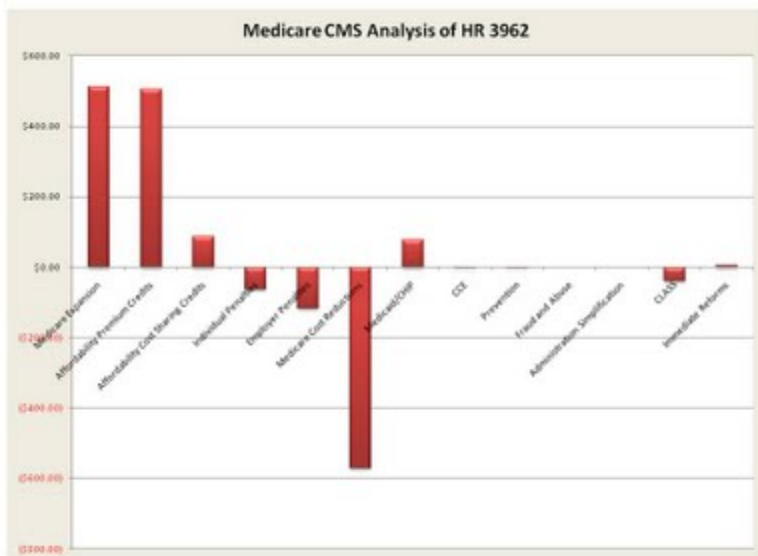
Labels: [Health Care](#)

[THE CMS REPORT, HR 3962, AND THE FUTURE OF MEDICARE](#)

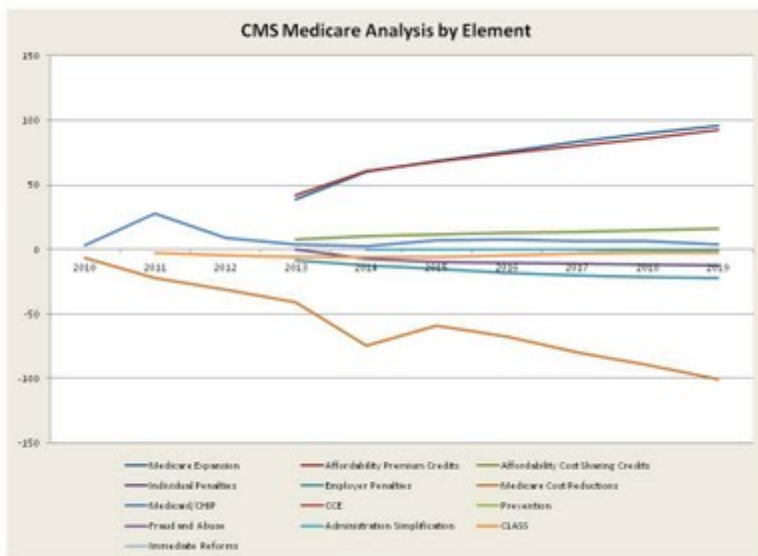
The Centers for Medicare and Medicaid Services filed [a report to Congress](#) on Friday the 13th regarding the costs of and implications to Medicare as a result of HR 3962. We look at that report here and further examine some of its implications. This is a bit long for a normal posting but the data we believe requires some analysis.

First we use the referral to The Hill since we cannot readily find this on the CMS web site. Second this report is not readily usable as is all other Government reports, it is protected from any cut and paste and any analysis without substantial processing. We suspect that such was done deliberately to slow any real time analyses. However we have no data to validate that assumption.

Now for the first bit of data. The chart below shows the total costs of HR 3962 over the period 2010-2019. Note that Medicare expansion and Affordability payment account for the largest added costs. Second the cost reductions are almost all on Medicare. This will be the key point in the analysis. Also note the added savings from both individual and employer payments.

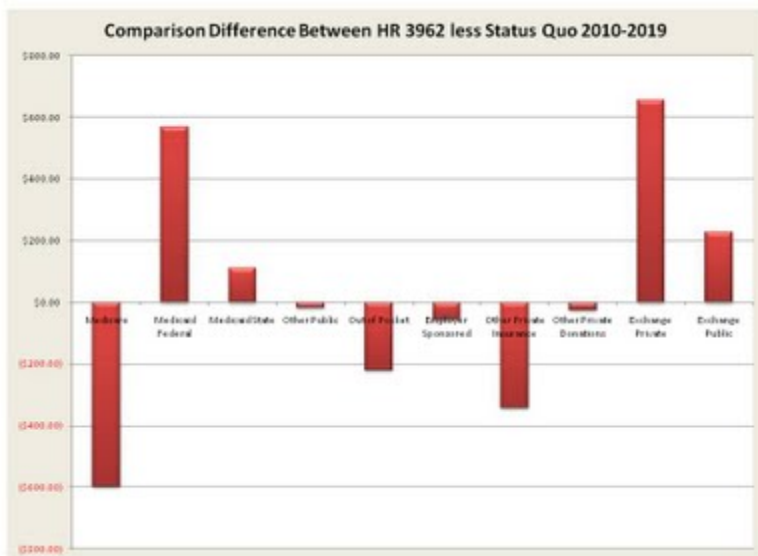


The following is the breakout of these costs and savings by year. Namely we look at the previous summary chart but now by element and by year.

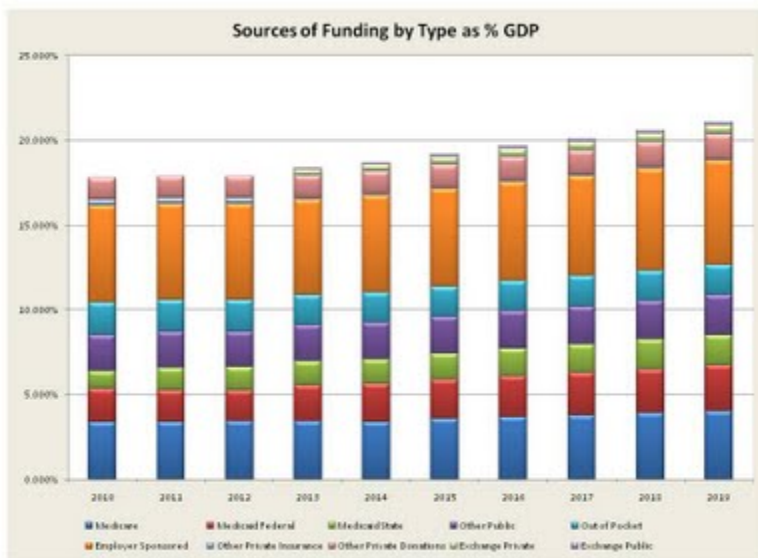


The biggest continuing set of cuts will be to Medicare. It is critical to note that these cuts are allegedly the fraud and abuse but frankly we have observed that it will result in the driving out of physicians and hospitals in providing services to Medicare patients.

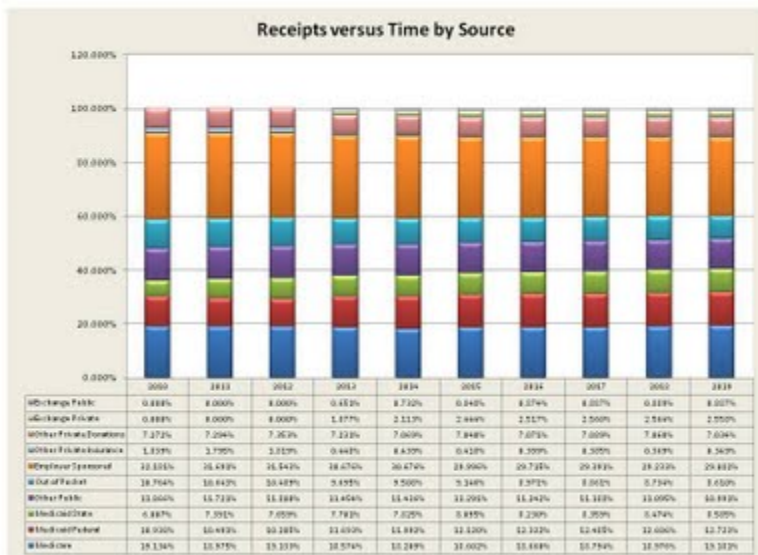
The following is a chart depicting the difference between the current plan and HR 3962. Again one can see the major hit is Medicare and the major elements added and funded by Medicare will be Medicaid, the Exchange both public and private. This means that Medicare will be used as a funding mechanism for Medicaid as well as any public option.



We now look at the sources of funding by type. First we look at the total sources as a percent of GDP under the HR 3962 Bill. This we show below. Note in this analysis that the public option represents a small percent of the total. We believe that this is highly deception. We analyzed this in a prior posting and detailed the analysis in a [White Paper](#). We will return to this concern later.

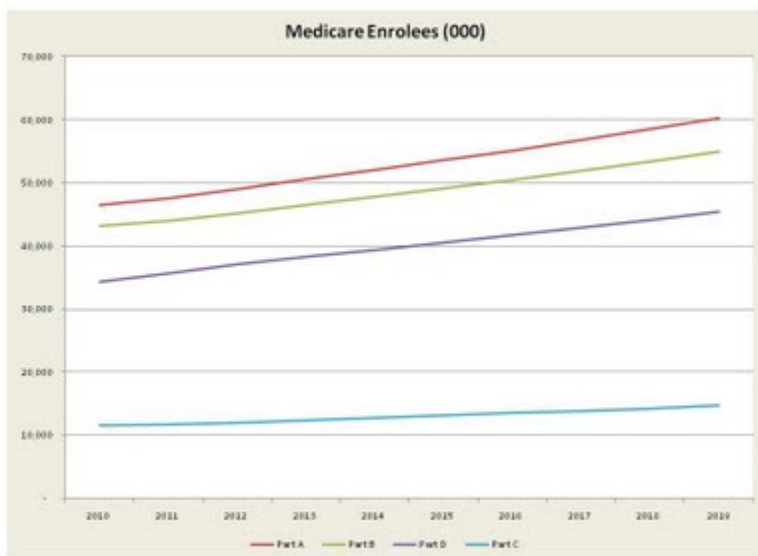


In the following chart we look at the same data as above, the total receipts to be used to pay for health care under HR 3962 and we look at them normalized in a total amount for each year.



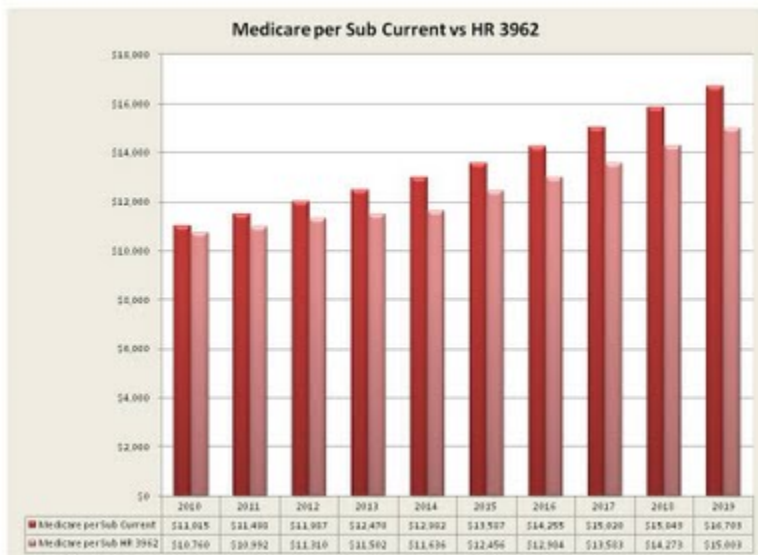
Note that again by 2019 the options are small as compared to the total. This is highly suspect. There is no basis for this analysis in the CMS report and as a result one has to seriously question the result.

Now let us look more closely at what this does fro Medicare. Using CMS data we first present the estimated number of Medicare subscribers over this time period. We show this below.

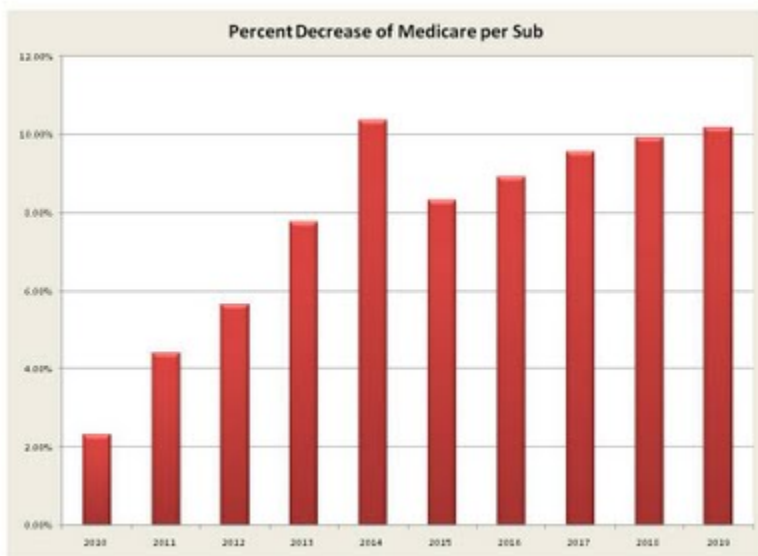


Here we have shown Part A, which accounts for all of those eligible and subscribing, and then delineate the other parts.

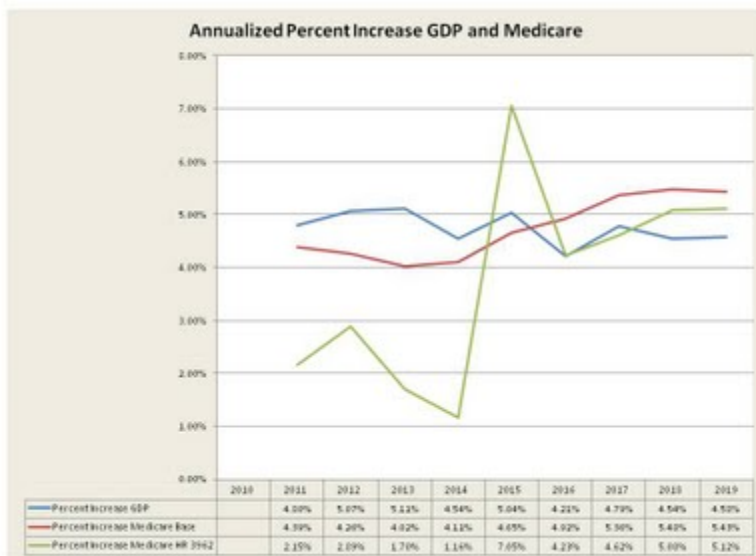
We now show the Medicare expenditures per sub in the two plans; the current and HR 3962. Note carefully the increasing gap per year under HR 3962. Just where this funding comes from in terms of services reduction is not stated.



Now look below at the percent decrease of Medicare in HR 3962 and the current plan. It is small at the beginning and then in 2014 jumps and then remains high thereafter.



Finally we show the annualized rates of increase in GDP, Medicare under the current plan and Medicare under HR 3962. Note the great drop in the early stage. Then all along with the exception of what appears as an anomaly in 2015 we see a lag. This lag will result in the reduction or rationing of services. It will as we have demonstrated drive out practitioners in droves.



Now we want to state a few conclusions:

1. As we have demonstrated in a [White Paper](#) the subscribers to Medicare have paid well in excess of any benefits rendered. Specifically the average Medicare recipient has paid 50% more in payments that they will ever get in benefits. The Government has taken this money from the trust fund and spent it. Thus the lies that young people seem to spread that they are supporting Medicare patients are just that, lies, since they do not understand what Congress has done.
2. The public option has dynamics driven by attractants which drive people to it such as costs and drive people away from it such as quality of service. The model used by CMS fails to account for these effects.
3. The CMS model is optimistic at best. First as we have argued before it uses a old paradigm of health care management. Second it fails to present its data used as a basis for the calculations to that they may be examined in the light of day.
4. Medicare will decay dramatically under this plan. Yet its decay may be stretched out until after the current President has left office yet its impact will be devastating.
5. This is rationing pure and simple. It does not take an economist to recognize this. This will create two levels of health care, for those sick and able to afford only Medicare, it will make Canada and England look like the Waldorf, and for those who can buy their way around it, they will get quality care.

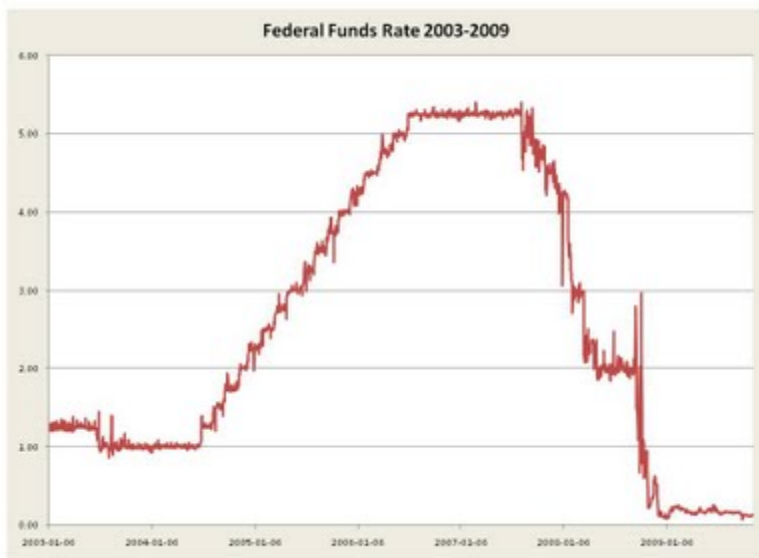
Posted by Terry McGarty at [12:56 PM](#)  

Labels: [Health Care](#)

[THE ECONOMY, TRADE, AND MONEY](#)

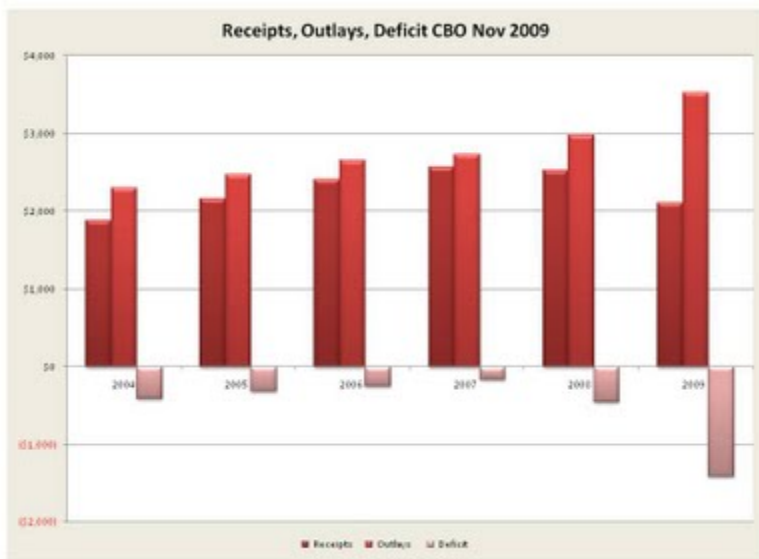
It is interesting to look at some of the recent trends in the economy to see where things may be going. There is considerable talk about the improvement and then again about the fear of times ahead.

First let us look at the Federal Funds Rate.

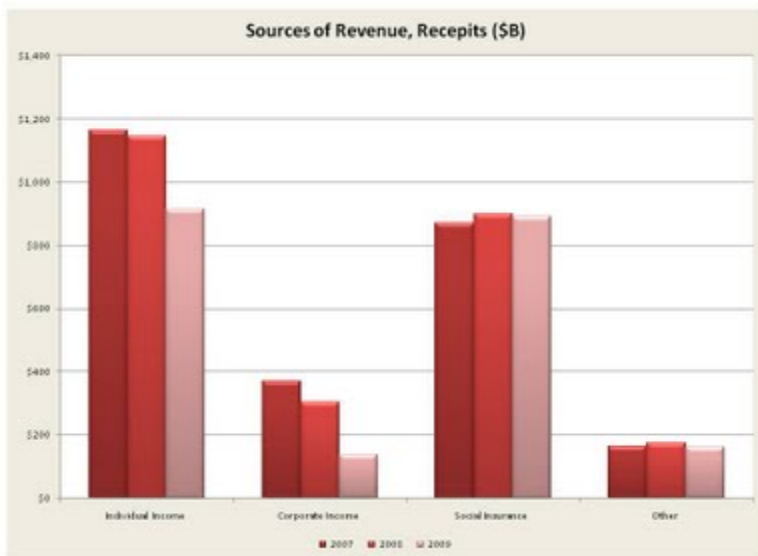


The above shows that for the past few months the FED has basically given money away free. As we had said a few months ago with M2 relatively flat and the bank reserves growing this most likely means that the banks, yes that means Goldman Sachs, are using free money not to grow the economy but to grow their own personal wealth. The data is quite clear.

Second, despite near zero interest rates the Government is falling into the abyss.

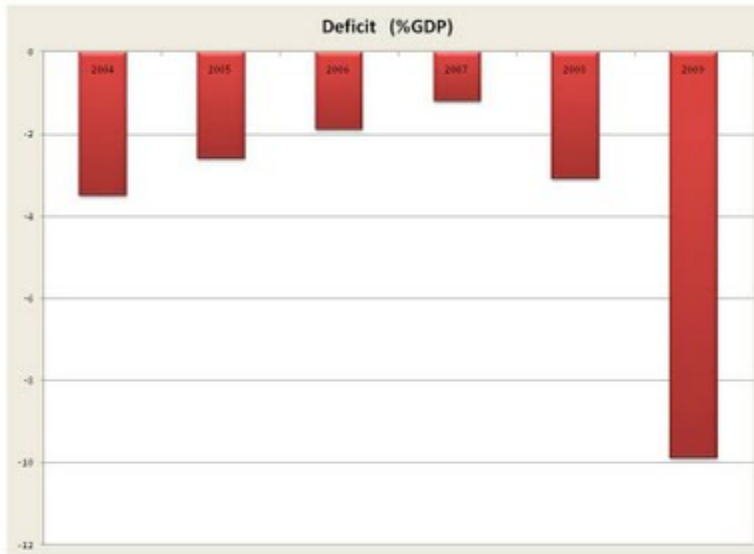


The above is the Receipts, Outlays, and Deficit for the past few years. Note how the Receipts have dropped through the basement yet the Feds have increased spending at an insane rate. The net result is the \$1.5 Trillion and growing deficit. But why is the Receipts dropping. We see that below.



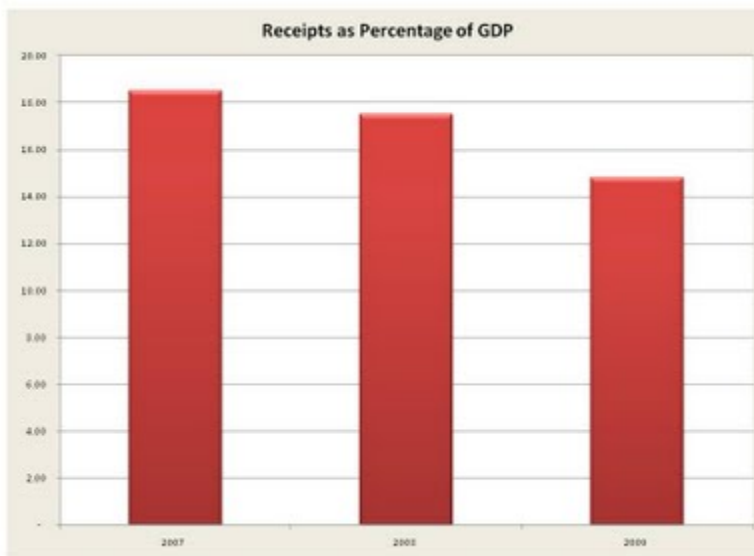
First unemployment means less income tax. The drop is greater than the change in unemployment. If we see unemployment go from 5% to 10% then we should see about a 6% drop in Individual Income Tax Receipts but it is almost 20%! Why, less overtime and the like. And oh yes, bankers did not get bonuses. However the good news is Goldman is getting their \$20 billion bonus pool from which they will contribute. Also Corporate Receipts are down due to slowing of business as well.

The Deficit as a % of the GDP is a telling number.



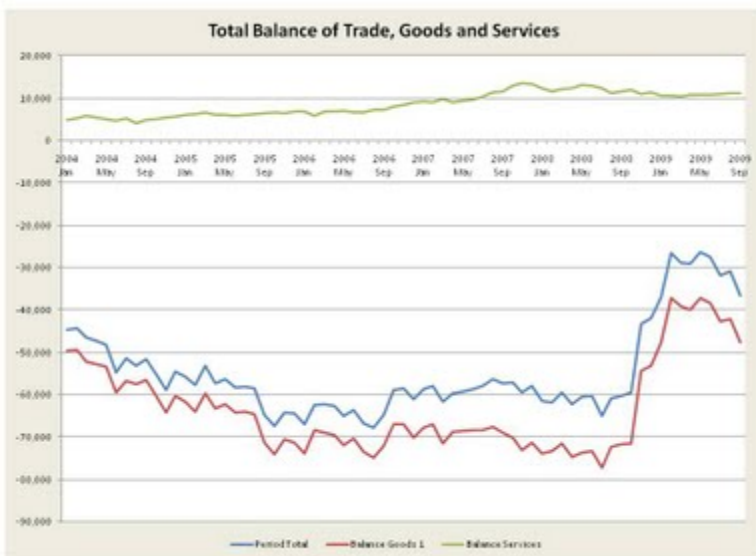
It is now 10%! It has never been that great that fast for no reason. The Government is just spending wildly to no avail. It is akin to a pilot in a dive just turning every knob in hope that something works while the ground is getting so ever close!

At the same time the Receipts as a % of GDP are dropping.

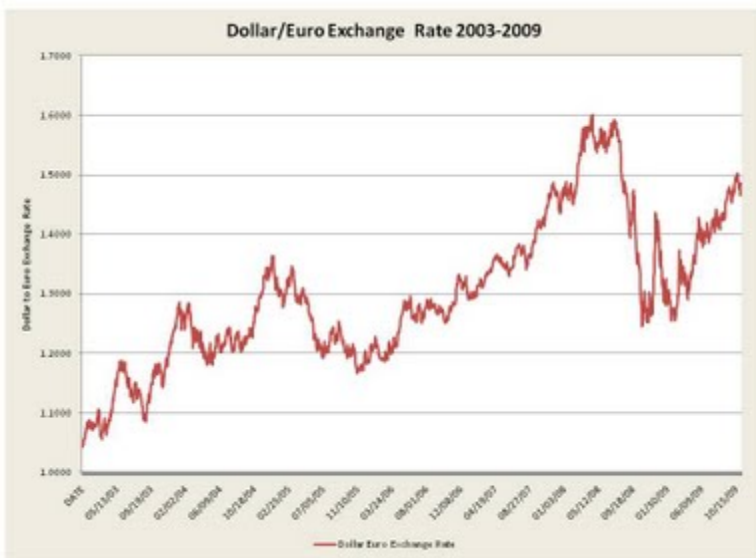


They have gone from almost 19% of the GDP to almost 14%. That is with no tax relief. What does that mean, well, assuming no reduction in unemployment, in fact an increase as we have anticipated, we then just tax the remaining workers even more! The spiral begins!

Yet there are signs of some contradictions. Look at Trade. We see a growth in services balances and then a growing deficit in goods balances.



Namely in the above we see the economy constricting as we started this downfall, the Goods Deficit getting smaller as people bought less, yet now we see it getting bigger again as people buy more. Yet is it buying more or buying at higher prices. To see that we look at the following.



Here we see the dollar getting cheaper, meaning any imports are more expensive, thus the imports of goods are costing more for the same goods, or if you will inflation on international trade. The only thing holding this back is the Chinese currency pegged to the dollar which continues to make Chinese goods lower in cost than others.

So where does that leave us:

1. We give banks free money which never gets back into the economy, they use it to make money for themselves.
2. We have a Deficit which is unsustainable and will result in collapse if we do not stop the spending, because we cannot increase the Receipts, too few people.
3. Yet we still are buying from abroad yet at inflating prices.
4. The only prop up is China which if it moves to cease the prop then we collapse!

Rather sad tale if I do say so.

Posted by Terry McGarty at [4:04 AM](#)  

Labels: [Economy](#)

SATURDAY, NOVEMBER 14, 2009

[PIGOU AND THE ABSURD TAX](#)

In a recent posting by Professor Mankiw regarding a Dutch attempt to reduce CO2 emissions he touts the following:

The Dutch government said Friday it wants to introduce a "green" road tax by the kilometre from 2012 aimed at cutting carbon dioxide emissions by 10 percent and halving congestion. "Each vehicle will be equipped with a GPS device that tracks how many kilometres are driven and when and where. This data will be then be sent to a collection agency that will send out the bill," the transport ministry said in a statement. Ownership and sales taxes, about a quarter of the cost of a new car, will be scrapped and replaced by the "price per kilometre" system aimed at cutting the Netherlands' carbon dioxide emissions by 10 percent. "Traffic jams will be halved and it helps the environment," the ministry said. Dutch motorists driving a standard family saloon will be charged 3 euro cents per kilometre (seven US cents per mile) in 2012. That would increase to 6.7 cents (16 US cents per mile) in 2018, according to the proposed law.

Now let me do a simple calculation. I go back and forth to MIT and now HMS almost weekly. I have an efficient Honda to do this and it is anywhere between 550 and 600 miles round trip. Now I do this gratis, free, da nada, and with the Professor Mankiw backed proposal it would cost me \$0.16 per mile or \$96.00 per trip! That is in addition to gas, tolls and parking. I get 35 mpg so gas is not too bad but parking is now \$25 per day. Thus my donations would increase say \$100 per week or \$5200 per year. But those "donations" now go to the Government for their less than efficient use. Would not that money benefit humanity better if it went to my summer interns, my favorite charities, my grandchildren or some other value creating use. How about the money being invested in a new start up company. Why is the Government a better collector of the money than I am a distributor.

I am amazed by both the continued and factually defective proposals and lack of understanding of humanity by some economists. Oh well, I am doing this at an Engineering and Medical School, not on the pristine campus in Cambridge.

Posted by Terry McGarty at [3:01 PM](#)  

Labels: [Economics](#)

SATURDAY, NOVEMBER 14, 2009

[BROADBAND, THE STIMULUS, AND AN EXAMPLE OF A MUNICIPAL SYSTEM](#)

A few years ago the city of Burlington, VT decided to build its own fiber optic network. The tale of that adventure is worth retelling and bringing it up to date. In a sense I had tried to parallel this effort but fortunately I saw the problems before they became problems. We had first started with a similar municipal approach, namely having the cities and towns use borrowing power to finance their own broadband. That soon became clear to me that it was a horrible idea after I had initially supported it. The cities and towns are just not business people.

They cannot make decisions. Consensus management just does not work. Second, even if one wanted to finance this separately one still needed a franchise. That was the final death knell. For example in Hanover, NH, they demanded that we build twice the distance of Comcast and that we provide Universal Service, namely free service to poor people. I agreed to personally pay for any poor person found residing in Hanover if they could introduce that person to me. They could not find one, but that discussion took a great deal of time and money. Municipalities are at best competent road cleaners. Now to the tale of Burlington Telecom and the City of Burlington.

One must understand Burlington, VT. It is as close to the socialist capital of the US as you can get, no holds barred, it is even more so than anything in California. It was the home of Bernie Sanders who was mayor, Bernie was from New York City originally, but settled in his now home in Burlington and now in Washington. It truly is a throw back to the late 60s, a veritable time warp.

The City decided by some complex route that it wanted broadband and that the best way to do this was to do it themselves. Thus more than a decade ago the process began. The [Burlington Free Press](#) gives a wonderful chronology. They begin:

"March 1996: Burlington voters approve Burlington Electric Department's exploration of cable television, fiber optic cable, Internet and other telecommunications services."

They continue:

"March 2000: Burlington voters pass two measures to allow for telecommunication network creation: a charter change so the city may go into business with Kansas-based Aptus Networks, and a \$6.1 million bond issue to pay for it."

"April 2000: Vermont House of Representatives votes 68-53 to reinsert a telecommunications measure into a charter change for Burlington, going against the advice of the Local Government Committee."

We discussed this back in 2002 and 2003 in a [White Paper on Municipal Broadband](#). At that time we saw broadband as essential and viable and we saw that municipalities could build their own via bond offerings. However we also saw the potential pitfalls because the towns needed a strong partnership with an experienced team. After two years of analyzing this we changed our minds because it was clear that no municipality was capable of thinking like a business. They were just too political and had little business acumen if any. After two more years we abandoned the effort totally due to the franchise issue because the towns could not even issue a pari passu franchise. Bottom line, towns have trouble cleaning streets!

The news paper chronology continues:

"January 2006: *BT begins to offer Internet, [phone](#) and TV service.*

October 2007: *Burlington Telecom General Manager Tim Nulty resigns amid differences with the Kiss administration about Nulty's desire to expand to neighboring towns. City Chief Administrative Officer Jonathan Leopold becomes more involved in Burlington Telecom finances. BT has 2,250 customers."*

It is important to note that in October 2007 the BT network has 2500 subs. It then continues:

"May 18, 2009: *Leopold informs City Council that Burlington Telecom is in debt to city, but some councilors say they were not made aware that was in violation of Condition 60.*

September 2009: *Burlington Telecom notifies Public Service Board it is in violation of Condition 60 and asks for relief from that and Condition 17.*

Oct. 5, 2009: *City Council votes 13-1 to back BT's effort to restructure its debt and expand beyond city lines. Leopold tells council that on June 30, BT's debt to city was \$17 million, in violation of Condition 60. BT has 4,600 customers."*

It is key to observe two facts. First in two years they went from 2500 subs to 4600, or 2100 in two years, hardly a satisfying number. Second it appears as if all of this was hidden from the City council! It is akin to not telling your Board. Had anyone ever heard of Enron! In a [local community site](#) they state:

"Burlington city officials are mired in controversy over the legality of a recently revealed \$17 million dollar unpaid loan given to Burlington Telecom, an apparent violation of the terms of its license issued by the Vermont Public Service board. While the municipally-owned fiber optic network is permitted to borrow money from the city, it must be repaid within 60 days, because the city charter insists that Burlington Telecom be an independently financed venture that does not become a taxpayer liability.

Dubbed by some as TelecomGate, it has become a major media story in Vermont's largest city. Some taxpayers are upset by the perceived "bailout" of Burlington Telecom after the company exhausted its commercial loans of almost \$34 million dollars to construct a fiber network serving homes and businesses. The Burlington Free Press has reported the city began quietly funding Burlington Telecom as early as late 2007, for both capital expenditures and some operating costs. As of today, Burlington Telecom has an accumulated debt of \$50 million dollars, \$17 million of which is owed to the city."

They then continue:

"Caught in the middle is Burlington Telecom and its 4,600 subscribers. The provider is in apparent violation of its license for its loan arrangements, needs additional money to complete its buildout, and will likely also be cited for not completing that buildout on the schedule it committed to as part of its license to operate."

Let us perform a simple calculation. To date BT has spent \$34 million of initial debt plus \$17 million of City loan, a total of \$51 million for 4600 subscribers. That is over \$11,000 per subscriber. There is no way you can have a business with those numbers! Ever. [We have shown over and over again](#) that at best \$3500 is the maximum for a per sub investment. I remember being asked to meet with the group evaluating the BT build out for the City in the summer of 2004 if I recall and they wanted advisers to help them analyze the deal. They selected some consultant who had no operational experience. That is par for the course.

Now what apparently happened is that the loan from the city was less than correctly done, at least so thinks the Council. In a recent article in the [Times Argus](#) they state:

"The Burlington City Council is planning for an independent audit of the city-owned cable company, Burlington Telecom. Monday the city council voted to make public internal communications about a \$17 million loan of taxpayer funds to the utility. Some say Mayor Bob Kiss and treasurer Jonathan Leopold didn't tell them about the loan. WCAX-television says that at the council's Wednesday meeting, members approved getting an independent audit of Burlington Telecom. Councilor Karen Paul says officials need to know if Burlington Telecom is viable. The council hopes the audit can be finished by early next year."

This has now reached the point of asking if the funds were properly and legally taken from the taxpayers and given to BT. Or is BT now owned by the 'people' as a de facto result.

The most recent step is that it appears as if BT has obtained added financing. It has been reported by [WCAX](#) that:

"Mayor Bob Kiss, P-Burlington, and the City's Chief Administrator Jonathan Leopold called in the press to announce that the city-owned cable company-- Burlington Telecom-- has secured a \$55 million finance restructuring agreement with a Midwestern company.

"Which will enable BT to meet its current financing obligation to the CitiCapital as well as its obligation to the city's pooled cash account," Kiss said. "In addition BT has done an analysis of cash flow projections and can expect to repay any future debits from the pooled cash account with 60 days."

The announcement was made with many of the city councilors in the room who claimed the mayor and the city's chief financial officer kept them in the dark about a \$17 million loan from the city's cash pool and failure to repay it within 60 days as required by law."

There still are many questions to be answered. First, who in their right mind would loan \$55 million to a technically defunct entity and why. The second is why was the city allowed to "loan" \$17 million of taxpayers money behind what appears to be closed doors, and third, given what has occurred to date, why would anyone believe that things will improve?

One may ask how did things get this messed up. One answer is the City and its management. Another is the management of BT. For example the alleged background of the initial CEO, Nulty, is as stated by [VermontBiz](#) as follows:

"Nulty, a 63-year-old Jericho resident, has considerable experience in the telecom field. As chief economist for the US Senate Commerce Committee in the late 1970s, he worked on legislation

that set some basic rules for the industry that are still in effect. Nulty then oversaw a number of the World Bank's biggest telecom-related investments in eastern Europe. He also ran a venture capital firm in Hungary and served as a senior advisor to the US Department of Energy"

Thus it appears that he has no real experience running a company. First as an economist, well we all know economists cannot do anything, you would rather have an accountant. Running a VC firm is NOT running a company. Watching someone do something is not doing something. Thus the fatal flaw was sown from the outset; municipal oversight combined with apparently less than highly experienced management led to what may still be a disaster.

Yet how would this apply to the Stimulus. Simply, this system actually was constructed and actually served a population, albeit a small one. Imagine this being multiplied several thousand fold, and with a much less experienced team in an even more complex environment. Then you envision the Stimulus Broadband program.

To see where that program is going, the Broadband Stimulus Program one need just look at the current [Federal Register](#). The statement says:

"RUS and NTIA announce the release of a joint Request for Information (RFI) seeking public comment on certain issues relating to the implementation of the Broadband Initiatives Program (BIP) and the Broadband Technology Opportunities Program (BTOP). This is the second joint RFI that the agencies have issued since the enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), which established these broadband initiatives."

Since the initial applicants were even less prepared than Burlington the applications seem to have been deficient. The Announcement states:

" For the first round of funding, applicants were required to complete a broadband infrastructure application, public computer center application, or sustainable broadband adoption application, depending on the type of project being proposed. For each application, the NOFA required applicants to respond to a number of questions and submit certain data. Those applicants considered highly qualified after completion of step one of the review process were required to submit additional information during a step two "due diligence" phase to substantiate the representations provided in the application.³ Some stakeholders, especially applicants completing the broadband infrastructure application, stated during the first round application process that completing the initial application was overly burdensome based on the questions asked and the number of attachments required. RUS and NTIA tentatively conclude that the application process should be streamlined. In what ways should RUS and NTIA streamline the applications to reduce the burden on applicants, while still obtaining the requisite information to fulfill the statutory requirements set forth in the Recovery Act? Should the agencies modify the two-step review process, and if so, how? Should certain attachments be eliminated, and if so, which ones? Should the agencies re-examine the use of a single application for applicants applying to both BIP and BTOP to fund infrastructure projects? How should NTIA link broadband infrastructure?"

Frankly there is a simple answer to this. Do what RUS had done with others in the past. The risk here is that RUS, which has an unblemished record, will be forced to make loans in a manner and fashion which just increases default risks almost to 100%. That is just a wast of taxpayer money, fails to create value, and distorts the whole intent. Burlington is an example of how things can go wrong given the best of intentions. Consider what would happen if the money is placed in the hands of those less well intentioned.

Posted by Terry McGarty at [3:46 AM](#)  

Labels: [Broadband](#)

TUESDAY, NOVEMBER 10, 2009

COMPARATIVE CLINICAL EFFECTIVENESS AND PATENT LAW

Here is an interesting question. The Supreme Court has before it a case as to whether "ideas" which result in methods and processes are patentable. The [Washington Post](#) reports that:

"On Monday, the inventors of a strategy for hedging risk in buying energy argued that they deserve to be considered for a patent, even though, as a lower court noted, their method does not involve a machine or the transformation of a physical thing.

Patent laws ought to be interpreted broadly "to accommodate unseen advances," said J. Michael Jakes, the attorney for Bernard L. Bilski and Rand A. Warsaw, who were gas company executives who started their own firm to commercialize their product."

If the Court moves further in this direction then such methods, procedures and practices are deemed patentable.

Now consider my friend the area of Comparative Clinical Effectiveness, the development of, if you will a set of methods, procedures, and practices, which are to be effected in certain disease states. Does this therefore mean that if the Court upholds the claims before it that such is patentable that therefore the CCE results are also patentable, and thus whoever obtains a patent on such claims can then also claim royalties, thus increasing the costs of health care. An interesting scenario to consider.

Posted by Terry McGarty at [7:08 AM](#)  

Labels: [Health Care](#), [Law](#)

THERE ARE TIMES I WONDER ABOUT THOSE FOLKS AT MIT

[MIT published a report on childhood obesity](#) and their recommendation as how to handle it. The report states:

"These weight problems do not simply stem from a lack of willpower, according to Dr. Tenley Albright, director of MIT's Collaborative Initiatives program, which uses systems analysis to study broad social issues. Albright is a Harvard-educated surgeon who, two years ago, helped organize an interdisciplinary group of about 10 researchers, from MIT and Columbia University, specifically to analyze the causes of child obesity. Aided by a grant from the United Health Foundation, the team scoured medical and economic data, and consulted with medical researchers, economists and policy-makers, before releasing an initial October 2008 report.

*The group's conclusion: **Obesity is widespread due to our national-scale system of food production and distribution, which surrounds children — especially lower-income children — with high-calorie products.** "The problem lies not just in a child, but the whole environment around a child," says Albright. **"To end obesity, we need to produce healthier, more accessible,***

more affordable food.” As Albright notes, 90 percent of American food is processed — according to the United States Department of Agriculture — meaning it has been mixed with ingredients, often acting as preservatives, that can make food fattening.”

Now one of my favorite equations learned early on at MIT was:

Input-Output=Net Accumulation

Hey folks, it means just not stuffing that extra Milky Way in your mouth, not eating that second Whopper, and not having the super fries! And not having the Taco appetizer! It is not surrounding them with high calorie products it is the fact that they are consuming them! Yikes team, speak to the engineering departments, mass balances are useful at times!

Then this team of researchers suggests:

“Now, in another report finished this October after meetings with food-industry leaders, the MIT and Columbia researchers propose a solution: America should increase its regional food consumption. Each metropolitan area, the researchers say, should obtain most of its nutrition from its own “foodshed,” a term akin to “watershed” meaning the area that naturally supplies its kitchens. Moreover, in a novel suggestion, the MIT and Columbia team says these local efforts should form a larger “Integrated Regional Foodshed” system, intended to lower the price and caloric content of food by lowering distances food must travel, from the farm to the dinner table.”

Yes, regional food consumption is a great idea for reducing calories. I have a home in norther New Hampshire and by early March there is still 4' of snow cover and the deer eat tree bark. Perhaps I can add that to my root cellar. The solution is to stop eating so much! Many of us have been there. Halloween is always a bad time, left over candy and they like, so just get rid of it, do not eat it! Just stop! Creating some crazy local food bank will not solve the problem. We have a great food system, national and international. Did these folks ever try to grow anything in Massachusetts, I did, there are rocks everywhere! Why in God's good name do you think they all left for the mid west two hundred years ago, better land, efficiency and the like.

The article ends with:

*“As Albright sees it, the effort to produce healthier foods “fits right in with the health-care reform effort right now because chronic diseases are so costly for the nation.” **America currently spends \$14 billion annually treating childhood obesity, and \$147 billion treating all forms of obesity.** Pollan, for his part, contends in the same Times piece that expanding health-care coverage would lead insurers to realize they “have a powerful interest in reducing rates of obesity and chronic diseases linked to weight.”*

*The MIT researchers recognize it will take a long-term effort to change the way America eats. For now, they say, it is important to show that alternatives exist. **“People haven’t focused on our food system yet because it’s big, it’s political, and it’s complex,”** says Carlough. **“But it is a critical issue that needs to be addressed.”** ”*

No, it is not the food system which is the problem, it is the consumption, the law of mass balance. To think that someone actually funded this effort!

Posted by Terry McGarty at [5:37 AM](#)  

Labels: [Commentary](#), [Health Care](#)

HONOR TO OUR VETERANS AND CURRENT MEMBERS OF THE MILITARY

In anticipation of Veterans Day I just wanted to write a short piece honoring our veterans and those currently in the military. Generations of brave Americans have and continue to serve their Country with the greatest courage and honor. Let me mention a few:

First, my father and his shipmates on the [USS Albert W Grant](#), who risked their lives and lost many shipmates in the Battle of Leyte. These men, and I have interviewed over thirty, were all from common stock but gave their fullest to the victory over the enemy forces.



Then to my uncle Harold McGarty, who on May 4, 1945, distinguished himself on Okinawa, winning the Distinguished Service Cross for his heroism.



Then too is Sergeant Paulie, my Marine buddy, close friend, and companion of many years, awarded the Silver Star and several Purple Hearts while on three tours in Vietnam, and then one of my former students, Captain Beth (USNR) who is actively in harm's way in a war zone today, to all of these brave women and men who have served and are serving, with honor and distinction, my great appreciation and prayers.

It is the honor, integrity, dedication and sacrifice of these women and men that makes this country what it is today. And of course prayers for those killed in enemy action at Fort Hood this past week.

Posted by Terry McGarty at [4:17 AM](#)  

Labels: [Commentary](#)

MONDAY, NOVEMBER 9, 2009

[HR 3962, THE CBO AND ITS COST](#)

The [CBO has just released the latest cost estimate on HR 3962](#). It begins as follows:

"That new law includes a provision to delay the phase-in of a rule that would allow corporations with worldwide activities to reduce their U.S. income taxes by charging more of their interest expenses against domestic profits; that provision overlaps with a provision in H.R. 3962. As a result, the estimated increase in revenues for H.R. 3962, incorporating your manager's amendment, is now approximately \$20 billion lower than the amount shown in yesterday's cost estimate for the legislation. Reflecting the change noted above, CBO and the staff of JCT now estimate that, on balance, the direct spending and revenue effects of enacting H.R. 3962, incorporating the manager's amendment, would yield a net reduction in federal budget deficits of \$109 billion over the 2010-2019 period (see Table 1). CBO has not completed a

comprehensive estimate of the legislation's potential impact on spending that is subject to future appropriation action."

In other words this is a large taxation bill. They continue:

*" The estimate includes a projected net cost of \$891 billion over 10 years for the proposed expansions in insurance coverage. **That net cost itself reflects a gross total of \$1,052 billion in subsidies provided through the exchanges (and related spending), increased net outlays for Medicaid and the Children's Health Insurance Program (CHIP), and tax credits for small employers; those costs are partly offset by \$167 billion in collections of penalties paid by individuals and employers. On balance, other effects on revenues and outlays associated with the coverage provisions add \$6 billion to their total cost.**"*

Yes this is a Trillion plus Bill. Yet the following is a problem:

" The legislation would require that the premiums for the public plan be set to fully fund expenditures for medical claims, administrative costs, and a contingency reserve. The legislation would provide for start-up funding of \$2 billion for the administrative costs associated with establishing the public plan and require that those funds be paid back in amortized amounts over 10 years. The legislation also would provide start-up funding for a contingency reserve in an amount sufficient to cover 90 days of claims. On an annual basis, collections of premiums would exceed benefit payments and administrative costs by the amount needed to cover the start-up costs and to maintain the contingency reserve."

This is the crux of the problem. Most likely the sickest will seek the Government plan because of its costs. This the statistics of the plan will make it difficult to attain the overall mix to be able to predict the costs. Thus it will always run a deficit and one knows where that will come from.

Posted by Terry McGarty at [6:08 PM](#)  

Labels: [Health Care](#)

SATURDAY, NOVEMBER 7, 2009

[TRADE WAR WITH CHINA?](#)

[China Daily](#) reports the exploding trade war that seems to be continuing between the US and China. They state:

"The United States pushed ahead on Friday with two new investigations into charges of unfair trade practices by China, but rejected a third case one week ahead of President Barack Obama's trip to Asia.

US lawmakers also asked Obama to renew his support for legislation targeting China's exchange rate practices.

The US International Trade Commission approved probes into imports of glossy magazine-quality paper from both China and Indonesia totaling hundreds of millions of dollars, as well as certain salts from China that are used in cleaning products, food additives and fertilizer.

The votes came one day after the US Commerce Department slapped preliminary anti-dumping duties on some \$2.6 billion worth of steel pipe from China used in the oil and gas sector. Those were in addition to preliminary countervailing duties set on the pipe in September to offset Chinese subsidies.

The steel pipe case is biggest US trade action against China to date and Beijing quickly denounced the new duties."

The current President is due to travel to China shortly, his first visit, and this trade issue will most likely hinder any progress. This trade war may be poorly timed if we want to commence some improvement on the economy. It may keep the union base happy but it will drive up costs and potentially create an inflationary trend.

Posted by Terry McGarty at [4:58 AM](#)  

Labels: [China](#), [Economy](#)

FRIDAY, NOVEMBER 6, 2009

[HR 3962: COMBINING ITS FAULTS](#)



We have written about several of the concerns of HR 3962 in the past days and we depict them above. Albeit that these are but a few, they are typical of what we have seen. Let me go over them one more time and I suggest that you can review them in prior entries.

1. Government Control: There is generated a massive new infrastructure of centralized Government control of all aspects of medicine. It takes away autonomy and reduce this to an erstwhile government agency. The model for this is in Galbraith's book on *American Capitalism* written in the early 1950s where he is prescribing how the Government is the only benign and loving care giver to control the evil large corporations. One should remember that the physicians are in many ways just small business people in the market.

2. Defining Quality: We have written extensively on this issue but the last entity one would want to define what quality is would be the Federal Government. Just look at they job they did with H1N1, Katrina, and the like. This is not a party sensitive issue, they just cannot do it.

3. CCE: The Comparative Clinical Effectiveness issue is one where the Government controlled entity would define the research, fund the research, analyze the research and then dictate medical care. This is just insane.

4. Defined Benefits: The Government is insisting that the basic plan include everything and the kitchen sink for all insurance carriers as well as itself. It has taken universal coverage to the extreme. The basic package should have some catastrophic coverage, no one should go to their death bed broken, yet there is no reason to insist on everything.

5. The IRS as Enforcer: This is a real problem. First the IRS is not prepared for this and second it opens the window for criminal attacks on individuals.

6. Delimits Autonomy of Physician: Every patient is different and every physician cares for their patients differently. The matching up of a good physician and an involved patient is essential for humane care. This law will break that bond and set the parties adrift if not at each others throat.

Perhaps the Countervailing Power of the people will do something to reduce the negative effects of this legislation. We need health care reform, we need universal care, yet we do not need such massive Government involvement with the most critical parts of our lives. It will destroy freedom.

Posted by Terry McGarty at [2:21 PM](#)  

Labels: [Health Care](#)

FRIDAY, NOVEMBER 6, 2009

[COMPARATIVE CLINICAL EFFECTIVENESS AND HR 3962](#)

As we have written many times before, there is an ongoing process of CCE in the medical community. It is a day to day exercise as now means and methods are used to do studies and report on them. The journals are filled with the results and the Government for the most part funds them now. So why set up a Government controlled effort.

Let us look at HR 3962 and see what it says. First this is in the Medicare section and that seems to be the backdoor approach to establishing this center. The Bill section is:

TITLE IV—QUALITY Subtitle A—Comparative Effectiveness Research

SEC. 1401. COMPARATIVE EFFECTIVENESS RESEARCH.

Now the specific words are:

(2) DUTIES.—The Center shall—

(A) conduct, support, and synthesize research relevant to the comparative effectiveness of the full spectrum of health care items, services and systems, including pharmaceuticals, medical devices, medical and surgical procedures, and other medical interventions;

(B) conduct and support systematic reviews of clinical research, including original research conducted subsequent to the date of the enactment of this section;

(C) continuously develop rigorous scientific methodologies for conducting comparative effectiveness studies, and use such methodologies appropriately;

(D) submit to the Comparative Effectiveness Research Commission, the Secretary, and Congress appropriate relevant reports described in subsection (d)(2);

(E) not later than one year after the date of the enactment of this section, enter into an arrangement under which the Institute of Medicine of the National Academy of Sciences shall conduct an evaluation and report on standards of evidence for highly credible research;

(F) encourage, as appropriate, the development and use of clinical registries and the development of clinical effectiveness research data networks from electronic health records, post marketing drug and medical device surveillance efforts, and other forms of electronic health data; and

(G) appoint clinical perspective advisory panels for research priorities under this section, which shall consult with patients and other stakeholders and advise the Center on research questions, methods, and evidence gaps in terms of clinical outcomes for the specific research inquiry to be examined with respect to such priority to ensure that the information produced from such research is clinically relevant to decisions made by clinicians and patients at the point of care.

The three key points above are the establishment of a massive Government controlled infrastructure to control the CCE effort, then the establishment of national registries of results, and these are not delimited to Medicare, and then to send the recommendations to physicians as to how they should practice medicine. It is akin to my ongoing fear that the Government will take over the writing of Harrison's.

The it continues:

(B) DATA COLLECTION.—In order to carry out its functions, the Center shall—

(i) utilize existing information, both published and unpublished, where possible, collected and assessed either by its own staff or under other arrangements made in accordance with this section;

(ii) carry out, or award grants or contracts for, original research and experimentation, where existing information is inadequate; and

(iii) adopt procedures allowing any interested party to submit information for the use by the Center in making reports and recommendations. In carrying out clause (ii), the Center may award grants or contracts (or provide for intergovernmental transfers, as applicable) to private entities and governmental agencies with experience in conducting comparative effectiveness research, such as the National Institutes of Health and other relevant Federal health agencies.

Thus the Government is empowered with great authority to seek out and obtain whatever it needs for whatever purposes it deems appropriate. It does all of this with a CER Commission as follows:

(b) COMPARATIVE EFFECTIVENESS RESEARCH COMMISSION.—

(2) DUTIES.—The Commission shall—

(A)(i) **recommend to the Center national priorities for research described in subsection (a) which shall take into account—**

(I) disease incidence, prevalence, and burden in the United States;

(II) evidence gaps in terms of clinical outcomes;

(III) variations in practice, delivery, and outcomes by geography, treatment site, provider type, disability, variation in age group (including children, adolescents, adults, and seniors), racial and ethnic background, gender, genetic and molecular subtypes, and other appropriate populations or subpopulations; and

(IV) the potential for new evidence concerning certain categories, health care services, or treatments to improve patient health and well-being, and the quality of care; and

(ii) in making such recommendations consult with a broad array of public and private stakeholders, including patients and health care providers and payers;

(B) monitor the appropriateness of use of the CERTF described in subsection (g) with respect to the timely production of comparative effectiveness research recommended to be a national priority under subparagraph (A);

(C) identify highly credible research methods and standards of evidence for such research to be considered by the Center;

(D) review the methodologies developed by the center under subsection (a)(2)(C);

(E) support forums to increase stakeholder awareness and permit stakeholder feedback on the efforts of the Center to advance methods and standards that promote highly credible research;

(F) make recommendations to the Center for policies that would allow for public access of data produced under this section, in accordance with appropriate privacy and proprietary practices, while ensuring that the information produced through such data is timely and credible;

Thus unlike the current mode of medical research where researchers and practicing physicians are motivated by what they see in situ as the major issue to be studied, this approach is a centralized Government selection process whereby the Commission will decide in a fully centralized manner what needs to be studied. It thus can select what it sees as important. In many ways it is reminiscent of the old Soviet system of research where such things as genetics were not studied because it was viewed as anti Marxian.

It continues:

(I) make recommendations to the Center for the broad dissemination, consistent with subsection (e), of the findings of research conducted and supported under this section that enables clinicians, patients, consumers, and payers to make more informed health care decisions that improve quality and value; and

This is the critical element because it then gets to not only choose the research issues but also it gets to tell the physicians what the results are and then tie the results to how they are to practice medicine.

The Commission is composed as follows:

(A) IN GENERAL.—The members of the Commission shall consist of—

- (i) the Director of the Agency for Healthcare Research and Quality or their designee;
- (ii) the Chief Medical Officer of the Centers for Medicare & Medicaid Services or their designee;
- (iii) the Director of the National Institutes of Health or their designee; and
- (iv) 16 additional members who shall represent broad constituencies of stakeholders including clinicians, patients, researchers, third-party payers, and consumers of Federal and State beneficiary programs. Of such members, at least 10 shall be practicing physicians, health care practitioners, consumers, or patients.

The Commission is specifically to be composed of:

- (I) Epidemiology.
- (II) Health services research.
- (III) Bioethics.
- (IV) Decision sciences.
- (V) Health disparities.
- (VI) Health economics.

and

- (I) Patients.
- (II) Health care consumers.
- (III) Practicing Physicians, including surgeons.
- (IV) Other health care practitioners engaged in clinical care.
- (V) Organizations with proven expertise in racial and ethnic minority health research.
- (VI) Employers.
- (VII) Public payers.
- (VIII) Insurance plans.
- (IX) Clinical researchers who conduct research on behalf of pharmaceutical or device manufacturers.

This should be a real get together. One need not imagine too far as to how the agenda will be agreed to. It will be a tower of Babel with this collection of interests all chosen in a highly political manner. Politicians will pack this with friends and useful associates.

This is not the way that medical research or any research for that matter is conducted. At best if it even holds together a few Nobel Peace Prizes should be awarded.

The fear is that the structure of this entity may take good research funds away from where they are being productively used today and place them in politically correct areas where they will be

wasted. The true fear is that the results obtained therefrom will be used to mandate medical practice methods which will create harm on the people.

Posted by Terry McGarty at [1:47 PM](#)  

Labels: [Health Care](#)

[HR 3962 COVERAGE UNDER THE PLAN: ALL PLANS](#)

HR 3962 defines the standard package of coverage for every possible basic plan. We discuss some of these issues herein. As with other discussions we use the words of the Bill as backdrop.

Subtitle C—Standards Guaranteeing Access to Essential Benefits

SEC. 221. COVERAGE OF ESSENTIAL BENEFITS PACKAGE.

(a) **IN GENERAL.**—A qualified health benefits plan shall provide coverage that at least meets the benefit standards adopted under section 224 for the essential benefits package described in section 222 for the plan year involved.

This wording means that what follows shall apply to any and all plans. Thus the ability to purchase a catastrophic coverage plan only is no longer acceptable. No matter what you must buy and pay for what shall be required for all plans. This one condition will perforce of the increased coverage requirements drive up the cost of all other plans.

(b) **CHOICE OF COVERAGE.**—

(1) **NON-EXCHANGE-PARTICIPATING HEALTH BENEFITS PLANS.**—In the case of a qualified health benefits plan that is not an Exchange-participating health benefits plan, such plan may offer such coverage in addition to the essential benefits package as the QHBP offering entity may specify.

(2) **EXCHANGE-PARTICIPATING HEALTH BENEFITS PLANS.**—In the case of an Exchange-participating health benefits plan, such plan is required under section 203 to provide specified levels of benefits and, in the case of a plan offering a premium plus level of benefits, provide additional benefits.

(3) **CONTINUATION OF OFFERING OF SEPARATE EXCEPTED BENEFITS COVERAGE.**—Nothing in this division shall be construed as affecting the offering outside of the Health Insurance Exchange and under State law of health benefits in the form of excepted benefits (described in section 202(b)(1)(B)(ii)) if such benefits are offered under a separate policy, contract, or certificate of insurance.

The above merely states the minimum but does not limit the maximum. This creates a disincentive to have to pay for your own care out of pocket and creates the perception that you can get as much as you want. Yet as we have shown before that will be capped by the CCE efforts. This is a squeeze play with a great amount of ambiguity of expectations.

(c) **CLINICAL APPROPRIATENESS.**—Nothing in this Act shall be construed to prohibit a group health plan or health insurance issuer from using medical management practices so long as such management practices are based on valid medical evidence and are relevant to the patient whose medical treatment is under review.

This above statement is the fox in the hen house. Read this slowly. It says a plan can do whatever it wants as long as it based on valid medical evidence, later defined in the Government controlled CCE plan. This is the most deadly statement in this Bill!

(d) **PROVISION OF BENEFITS.**—Nothing in this division shall be construed as prohibiting a qualified health benefits plan from subcontracting with stand-alone health insurance issuers or insurers for the provision of dental, vision, mental health, and other benefits and services.

SEC. 222. ESSENTIAL BENEFITS PACKAGE DEFINED.

(a) **IN GENERAL.**—In this division, the term essential benefits package means health benefits coverage, consistent with standards adopted under section 224, to ensure the provision of quality health care and financial security, that—

- (1) provides payment for the items and services described in subsection (b) in accordance with generally accepted standards of medical or other appropriate clinical or professional practice;
- (2) limits cost-sharing for such covered health care items and services in accordance with such benefit standards, consistent with subsection (c);
- (3) does not impose any annual or lifetime limit on the coverage of covered health care items and services;
- (4) complies with section 215(a) (relating to network adequacy); and
- (5) is equivalent in its scope of benefits, as certified by Office of the Actuary of the Centers for Medicare & Medicaid Services, to the average prevailing employer-sponsored coverage in Y1. In order to carry out paragraph (5), the Secretary of Labor shall conduct a survey of employer-sponsored coverage to determine the benefits typically covered by employers, including multiemployer plans, and provide a report on such survey to the Health Benefits Advisory Committee and to the Secretary of Health and Human Services.

The above is filled with many small and large landmines. For example they have removed lifetime limits. Typically all plans have a lifetime limit unless one seeks a re-insurer plan. Removing that now creates a potential for unlimited care despite the CCE constraints.

(b) **MINIMUM SERVICES TO BE COVERED.**—Subject to subsection (d), the items and services described in this subsection are the following:

- (1) Hospitalization.
- (2) Outpatient hospital and outpatient clinic services, including emergency department services.
- (3) Professional services of physicians and other health professionals.
- (4) Such services, equipment, and supplies incident to the services of a physician's or a health professional's delivery of care in institutional settings, physician offices, patients' homes or place of residence, or other settings, as appropriate.
- (5) Prescription drugs.
- (6) Rehabilitative and habilitative services.
- (7) Mental health and substance use disorder services, including behavioral health treatments.

(8) Preventive services, including those services recommended with a grade of A or B by the Task Force on Clinical Preventive Services and those vaccines recommended for use by the Director of the Centers for Disease Control and Prevention.

(9) Maternity care.

(10) Well-baby and well-child care and oral health, vision, and hearing services, equipment, and supplies for children under 21 years of age.

(11) Durable medical equipment, prosthetics, orthotics and related supplies.

The above well baby care for children up to 21 is unbelievable. This is a very expensive clause. The limit of 18 was an old standard. Clause (7) for mental care is also very costly and that means anyone seeking to dry out or whatever to do so at the expense of those taking care of themselves. Perhaps it will also pay for fat farms. The other issue will be just who are the other professionals. That becomes another backdoor.

(c) REQUIREMENTS RELATING TO COST-SHARING AND MINIMUM ACTUARIAL VALUE.—

(1) NO COST-SHARING FOR PREVENTIVE SERVICES.—There shall be no cost-sharing under the essential benefits package for—

(A) preventive items and services recommended with a grade of A or B by the Task Force on Clinical Preventive Services and those vaccines recommended for use by the Director of the Centers for Disease Control and Prevention; or

(B) well-baby and well-child care.

This means that the person has no out of pocket for preventative care. Thus if one is a tubby you get all the care you need to get in shape. There is no stick just lots of M&Ms, I mean carrots.

(2) ANNUAL LIMITATION.—

(A) ANNUAL LIMITATION.—The cost-sharing incurred under the essential benefits package with respect to an individual (or family) for a year does not exceed the applicable level specified in subparagraph (B).

(B) APPLICABLE LEVEL.—**The applicable level specified in this subparagraph for Y1 is not to exceed \$5,000 for an individual and not to exceed \$10,000 for a family.** Such levels shall be increased (rounded to the nearest \$100) for each subsequent year by the annual percentage increase in the enrollment-weighted average of premium increases for basic plans applicable to such year, except that Secretary shall adjust such increase to ensure that the applicable level specified in this subparagraph meets the minimum actuarial value required under paragraph (3).

This appears to be beneficial. It means that in the event of a problem you are maxed out at \$10,000 per family per year. That may be costly but is not unreasonable. One must remember that the cap is gone.

(C) USE OF COPAYMENTS.—In establishing cost-sharing levels for basic, enhanced, and premium plans under this subsection, the Secretary shall, to the maximum extent possible, use only copayments and not coinsurance.

(3) MINIMUM ACTUARIAL VALUE.—

(A) IN GENERAL.—The cost-sharing under the essential benefits package shall be designed to provide a level of coverage that is designed to provide benefits that are actuarially equivalent to approximately 70 percent of the full actuarial value of the benefits provided under the reference benefits package described in sub paragraph (B).

(B) REFERENCE BENEFITS PACKAGE DESCRIBED.—The reference benefits package described in this subparagraph is the essential benefits package if there were no cost-sharing imposed.

(d) ASSESSMENT AND COUNSELING FOR DOMESTIC VIOLENCE.—The Secretary shall support the need for an assessment and brief counseling for domestic violence as part of a behavioral health assessment or primary care visit and determine the appropriate coverage for such assessment and counseling.

This is new and is not in any current plan that I have seen. It clearly is someones favorite cause.

(e) ABORTION COVERAGE PROHIBITED AS PART OF MINIMUM BENEFITS PACKAGE.—

(1) PROHIBITION OF REQUIRED COVERAGE.— **The Health Benefits Advisory Committee may not recommend under section 223(b), and the Secretary may not adopt in standards under section 224(b), the services described in paragraph (4)(A) or (4)(B) as part of the essential benefits package and the Commissioner may not require such services for qualified health benefits plans to participate in the Health Insurance Exchange.**

This does not expressly prohibit anything.

(2) VOLUNTARY CHOICE OF COVERAGE BY PLAN.—In the case of a qualified health benefits plan, the plan is not required (or prohibited) under this Act from providing coverage of services described in paragraph (4)(A) or (4)(B) and the QHBP offering entity shall determine whether such coverage is provided.

Thus if you go private you can get whatever you want.

(3) COVERAGE UNDER PUBLIC HEALTH INSURANCE OPTION.—The public health insurance option shall provide coverage for services described in paragraph (4)(B). Nothing in this Act shall be construed as preventing the public health insurance option from providing for or prohibiting coverage of services described in paragraph (4)(A).

(4) ABORTION SERVICES.—

(A) ABORTIONS FOR WHICH PUBLIC FUNDING IS PROHIBITED.—The services described in this subparagraph are abortions for which the expenditure of Federal funds appropriated for the Department of Health and Human Services is not permitted, based on the law as in effect as of the date that is 6 months before the beginning of the plan year involved.

(B) ABORTIONS FOR WHICH PUBLIC FUNDING IS ALLOWED.—The services described in this subparagraph are abortions for which the expenditure of Federal funds appropriated for the Department of Health and Human Services is permitted, based on the law as in effect as of the date that is 6 months before the beginning of the plan year involved.

Unless I missed something this is the "allowed" paragraph and there is nothing here.

(f) REPORT REGARDING INCLUSION OF ORAL HEALTH CARE IN ESSENTIAL BENEFITS PACKAGE.—Not later than 1 year after the date of the enactment of this Act, the Secretary of Health and Human Services shall submit to Congress a report containing the results of a study determining the need and cost of providing accessible and affordable oral health care to adults as part of the essential benefits package.

SEC. 223. HEALTH BENEFITS ADVISORY COMMITTEE.

(a) ESTABLISHMENT.—

(1) IN GENERAL.—There is established a private-public advisory committee which shall be a panel of medical and other experts to be known as the Health Benefits Advisory Committee to recommend covered benefits and essential, enhanced, and premium plans.

(2) CHAIR.—The Surgeon General shall be a member and the chair of the Health Benefits Advisory Committee. **(3) MEMBERSHIP.**—The Health Benefits Advisory Committee shall be composed of the following members, in addition to the Surgeon General:

(A) Nine members who are not Federal employees or officers and who are appointed by the President.

(B) Nine members who are not Federal employees or officers and who are appointed by the Comptroller General of the United States in a manner similar to the manner in which the Comptroller General appoints members to the Medicare Payment Advisory Commission under section 1805(c) of the Social Security Act.

(C) Such even number of members (not to exceed 8) who are Federal employees and officers, as the President may appoint. Such initial appointments shall be made not later than 60 days after the date of the enactment of this Act.

(4) TERMS.—Each member of the Health Benefits Advisory Committee shall serve a 3-year term on the Committee, except that the terms of the initial members shall be adjusted in order to provide for a staggered term of appointment for all such members.

(5) PARTICIPATION.—The membership of the Health Benefits Advisory Committee shall at least reflect providers, patient representatives, employers (including small employers), labor, health insurance issuers, experts in health care financing and delivery, experts in oral health care,

experts in racial and ethnic disparities, experts on health care needs and disparities of individuals with disabilities, representatives of relevant governmental agencies, and at least one practicing physician or other health professional and an expert in child and adolescent health and shall represent a balance among various sectors of the health care system so that no single sector unduly influences the recommendations of such Committee.

(b) DUTIES.—

(1) RECOMMENDATIONS ON BENEFIT STANDARDS.—The Health Benefits Advisory Committee shall recommend to the Secretary of Health and Human Services (in this subtitle referred to as the Secretary benefit standards (as defined in para graph (5)), and periodic updates to such standards. In developing such recommendations, the Committee shall take into account innovation in health care and consider how such standards could reduce health disparities.

(2) DEADLINE.—The Health Benefits Advisory Committee shall recommend initial benefit standards to the Secretary not later than 1 year after the date of the enactment of this Act.

(3) STATE INPUT.—The Health Benefits Advisory Committee shall examine the health coverage laws and benefits of each State in developing recommendations under this subsection and may incorporate such coverage and benefits as the Committee determines to be appropriate and consistent with this Act. The Health Benefits Advisory Committee shall also seek input from the States and consider recommendations on how to ensure quality of health coverage in all States.

(4) PUBLIC INPUT.—The Health Benefits Advisory Committee shall allow for public input as a part of developing recommendations under this sub section.

(5) BENEFIT STANDARDS DEFINED.—In this subtitle, the term benefit standards means standards respecting—

(A) the essential benefits package described in section 222, including categories of covered treatments, items and services within benefit classes, and cost-sharing consistent with subsection (d) of such section; and (B) the cost-sharing levels for enhanced plans and premium plans (as provided under section 303(c)) consistent with paragraph (5).

(6) LEVELS OF COST-SHARING FOR ENHANCED AND PREMIUM PLANS.—

(A) ENHANCED PLAN.—The level of cost sharing for enhanced plans shall be designed so that such plans have benefits that are actuarially equivalent to approximately 85 percent of the actuarial value of the benefits provided under the reference benefits package described in section 222(c)(3)(B).

(B) PREMIUM PLAN.—The level of cost sharing for premium plans shall be designed so that such plans have benefits that are actuarially equivalent to approximately 95 percent of the actuarial value of the benefits provided under the reference benefits package described in section 222(c)(3)(B).

This group may have very far reaching and costly powers. This Bill like all that the Democrats seem to develop create a centralized Government plan to control each corner of one's life. It truly assumes that they are the annointed ones!

Posted by Terry McGarty at [10:35 AM](#)  

Labels: [Health Care](#)

[QUALITY IS STILL THERE; HR 3962](#)

I have had a gnawing concern that the Quality rubric of HR 3200 and now of HR 3962 is a wolf in sheep's clothing for rationing in the Medicare Section of the Bill. Let me reiterate what the current Bills states, and it is worth comparing with what I said last July on the same matter.

The Bill states:

Subtitle C—Quality Measurements

SEC. 1441. ESTABLISHMENT OF NATIONAL PRIORITIES FOR QUALITY IMPROVEMENT. Title XI of the Social Security Act, as amended by section 1401(a), is further amended by adding at the end the following new part:

PART E—QUALITY IMPROVEMENT ESTABLISHMENT OF NATIONAL PRIORITIES FOR PERFORMANCE IMPROVEMENT

SEC. 1191. (a) ESTABLISHMENT OF NATIONAL PRIORITIES BY THE SECRETARY.—The Secretary shall establish and periodically update, not less frequently than triennially, national priorities for performance improvement.

(b) RECOMMENDATIONS FOR NATIONAL PRIORITIES.—In establishing and updating national priorities under subsection (a), the Secretary shall solicit and consider recommendations from multiple outside stake holders.

(c) CONSIDERATIONS IN SETTING NATIONAL PRIORITIES.—With respect to such priorities, the Secretary shall ensure that priority is given to areas in the delivery of health care services in the United States that—

- (1) contribute to a large burden of disease, including those that address the health care provided to patients with prevalent, high-cost chronic diseases;
- (2) have the greatest potential to decrease morbidity and mortality in this country, including those that are designed to eliminate harm to patients;
- (3) have the greatest potential for improving the performance, affordability, and patient centeredness of health care, including those due to variations in care;
- (4) address health disparities across groups and areas; and
- (5) have the potential for rapid improvement due to existing evidence, standards of care or other reasons.

(d) DEFINITIONS.—In this part:

(1) CONSENSUS-BASED ENTITY.—The term ‘consensus-based entity’ means an entity with a contract with the Secretary under section 1890.

(2) QUALITY MEASURE.—The term ‘quality measure’ means a national consensus standard for measuring the performance and improvement of population health, or of institutional providers of services, physicians, and other health care practitioners in the delivery of health care services.

Yet when one looks at who gets to opine on quality it is:

SEC. 1192. DEVELOPMENT OF NEW QUALITY MEASURES.

(a) AGREEMENTS WITH QUALIFIED ENTITIES.—

(1) IN GENERAL.—The Secretary shall enter into agreements with qualified entities to develop quality measures for the delivery of health care services in the United States.

(2) FORM OF AGREEMENTS.—The Secretary may carry out paragraph (1) by contract, grant, or otherwise.

(3) RECOMMENDATIONS OF CONSENSUS BASED ENTITY.—In carrying out this section, the Secretary shall—

(A) seek public input; and

(B) take into consideration recommendations of the consensus-based entity with a contract with the Secretary under section 1890(a).

(b) DETERMINATION OF AREAS WHERE QUALITY MEASURES ARE REQUIRED.—Consistent with the national priorities established under this part and with the programs administered by the Centers for Medicare & Medicaid Services and in consultation with other relevant Federal agencies, the Secretary shall determine areas in which quality measures for assessing health care services in the United States are needed.

and it continues:

(6) MULTI-STAKEHOLDER GROUPS.—For purposes of this subsection, the term ‘multi-stakeholder groups’ means, with respect to a quality measure, a voluntary collaborative of organizations representing persons interested in or affected by the use of such quality measure, such as the following:

(A) Hospitals and other institutional providers.

(B) Physicians.

(C) Health care quality alliances.

(D) Nurses and other health care practitioners.

(E) Health plans.

(F) Patient advocates and consumer groups.

(G) Employers.

(H) Public and private purchasers of health care items and services.

(I) Labor organizations.

(J) Relevant departments or agencies of the United States.

(K) Biopharmaceutical companies and manufacturers of medical devices.

(L) Licensing, credentialing, and accrediting bodies.

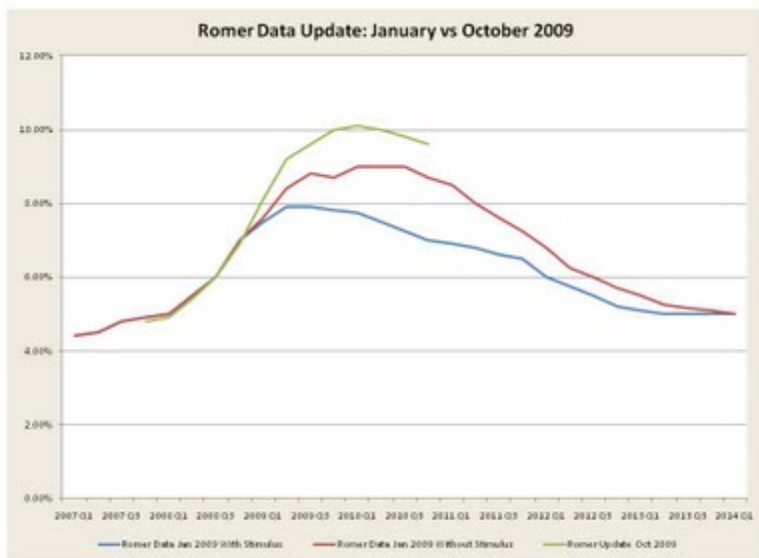
Thus again no direct involvement of patients. If all else fails please listen to your customer. They have every possible influencing group in this mix! Pork anyone?

Posted by Terry McGarty at [6:39 AM](#)  

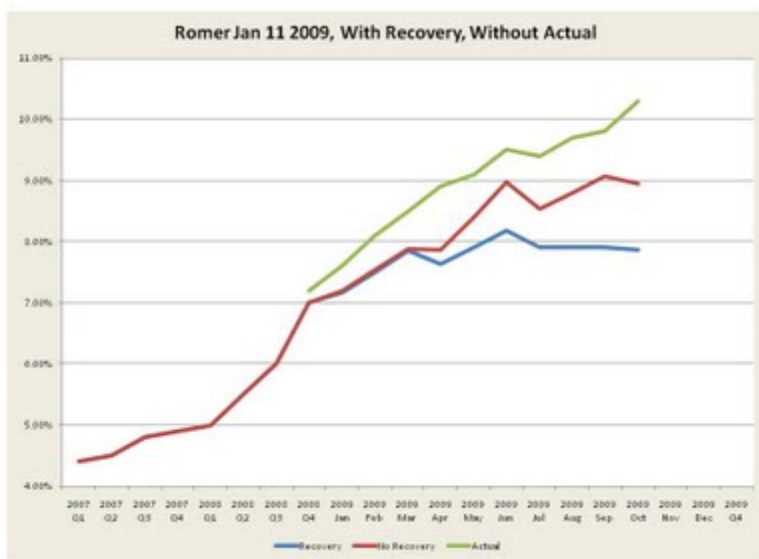
Labels: [Health Care](#)

[**UNEMPLOYMENT AT 10.2%: ROMER MISSES AGAIN**](#)

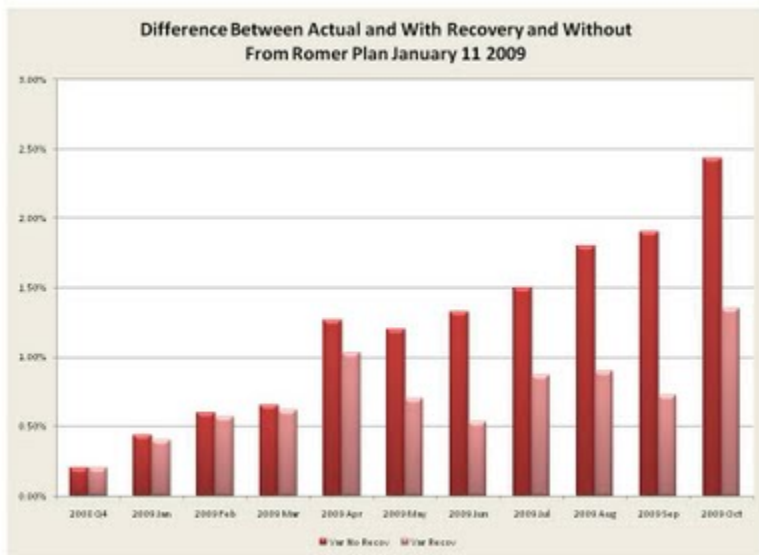
The [BLS has just released](#) the October unemployment at 10.2%. Romer's update for Q4 was 9.6% for the entire Quarter. Unless she has a miracle for November and December, unlikely, then there is no way this will ever be attained. If I ever had a CFO that projected those numbers they would have been history a long time ago. No one can trust a word she says! The chart we presented just a few weeks ago we present below.



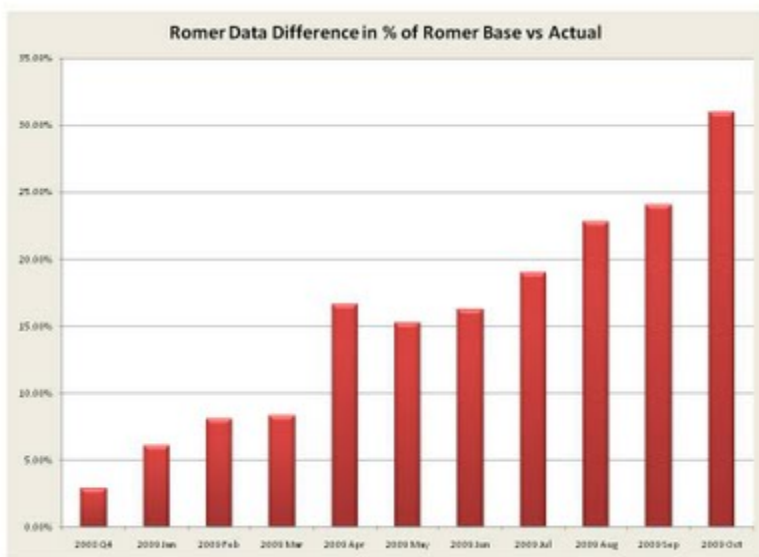
Now to the numbers. The chart below shows the current numbers and the Romer projections from January. The top line is the actual numbers and the bottom is what she predicted would happen with their Stimulus package. After eleven months this is now the current administration's economy and it is their problem. None of their actions seem to be helping and in fact they may soon make it worse. One need look no further then the Health Care Plan which we have been discussing.



The error as a difference in percents is shown below. These are shown against the Stimulus and no Stimulus.



Finally the error as a percent of target is shown below. These are big mistakes. They show a gross misunderstanding of fundamental economics. We had been projecting a target max unemployment of 10.5% and we are standing by that. Yet the actions of the current Administration may make it worse. There is true fear and trembling in small business about health care costs as in the HR 3962 fiasco.



The problem is two fold. First and fundamentally, economists have no idea what they are doing. We may have the best and the brightest but arrogance does not build a bridge. We saw that in the

Kennedy Administration. Perhaps one cannot do the job at all with the tools available, if so then just say it. Second, the massive amount of economic uncertainty engendered by the programs coming out of Congress cause more fear and trembling than anything else. Many are wondering if they should do anything until they know what the lay of the land is. That is not good.

Posted by Terry McGarty at [5:44 AM](#)  

Labels: [Economy](#)

[HR 3962 AND MEDICARE](#)

As I continue to slog through HR 3962 I thought it would be educational just to present the Table of Contents of the Medicare section. Remember what our current President said, if you like your current health care you can keep your current health care. Not if you are on Medicare! And those fellows at the AARP, shame of you!

The following is a massive change in Medicare and the seniors just do not know what is happening to them. This Bill goes well beyond HR 3200 in making Medicare a straight jacket for physicians and is a clear example of what will happen to a public plan.

DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

SEC. 1001. TABLE OF CONTENTS OF DIVISION.

The table of contents of this division is as follows:

Sec. 1001. Table of contents of division.

TITLE I—IMPROVING HEALTH CARE VALUE

Subtitle A—Provisions Related to Medicare Part A

PART 1—MARKET BASKET UPDATES

Sec. 1101. Skilled nursing facility payment update.

Sec. 1102. Inpatient rehabilitation facility payment update.

Sec. 1103. Incorporating productivity improvements into market basket updates that do not already incorporate such improvements.

PART 2—OTHER MEDICARE PART A PROVISIONS

Sec. 1111. Payments to skilled nursing facilities.

Sec. 1112. Medicare DSH report and payment adjustments in response to coverage expansion.

Sec. 1113. Extension of hospice regulation moratorium.

Sec. 1114. Permitting physician assistants to order post-hospital extended care services and to provide for recognition of attending physician assistants as attending physicians to serve hospice patients.

Subtitle B—Provisions Related to Part B

PART 1—PHYSICIANS' SERVICES

Sec. 1121. Resource-based feedback program for physicians in Medicare.

Sec. 1122. Misvalued codes under the physician fee schedule.

Sec. 1123. Payments for efficient areas.

Sec. 1124. Modifications to the Physician Quality Reporting Initiative (PQRI).

Sec. 1125. Adjustment to Medicare payment localities.

PART 2—MARKET BASKET UPDATES

Sec. 1131. Incorporating productivity improvements into market basket updates that do not already incorporate such improvements.

PART 3—OTHER PROVISIONS

Sec. 1141. Rental and purchase of power-driven wheelchairs.

Sec. 1141A. Election to take ownership, or to decline ownership, of a certain item of complex durable medical equipment after the 13-month capped rental period ends.

Sec. 1142. Extension of payment rule for brachytherapy.

Sec. 1143. Home infusion therapy report to Congress.

Sec. 1144. Require ambulatory surgical centers (ASCs) to submit cost data and other data.

Sec. 1145. Treatment of certain cancer hospitals.

Sec. 1146. Payment for imaging services.

Sec. 1147. Durable medical equipment program improvements.

Sec. 1148. MedPAC study and report on bone mass measurement.

Sec. 1149. Timely access to post-mastectomy items.

Sec. 1149A. Payment for biosimilar biological products.

Sec. 1149B. Study and report on DME competitive bidding process.

Subtitle C—Provisions Related to Medicare Parts A and B

Sec. 1151. Reducing potentially preventable hospital readmissions.

Sec. 1152. Post acute care services payment reform plan and bundling pilot program.

Sec. 1153. Home health payment update for 2010.

Sec. 1154. Payment adjustments for home health care.

Sec. 1155. Incorporating productivity improvements into market basket update for home health services.

Sec. 1155A. MedPAC study on variation in home health margins.

Sec. 1155B. Permitting home health agencies to assign the most appropriate skilled service to make the initial assessment visit under a Medicare home health plan of care for rehabilitation cases.

Sec. 1156. Limitation on Medicare exceptions to the prohibition on certain physician referrals made to hospitals.

Sec. 1157. Institute of Medicine study of geographic adjustment factors under Medicare.

Sec. 1158. Revision of Medicare payment systems to address geographic inequities.

Sec. 1159. Institute of Medicine study of geographic variation in health care spending and promoting high-value health care.

Sec. 1160. Implementation, and Congressional review, of proposal to revise Medicare payments to promote high value health care.

Subtitle D—Medicare Advantage Reforms

PART 1—PAYMENT AND ADMINISTRATION

- Sec. 1161. Phase-in of payment based on fee-for-service costs; quality bonus payments.
- Sec. 1162. Authority for Secretarial coding intensity adjustment authority.
- Sec. 1163. Simplification of annual beneficiary election periods.
- Sec. 1164. Extension of reasonable cost contracts.
- Sec. 1165. Limitation of waiver authority for employer group plans.
- Sec. 1166. Improving risk adjustment for payments.
- Sec. 1167. Elimination of MA Regional Plan Stabilization Fund.
- Sec. 1168. Study regarding the effects of calculating Medicare Advantage payment rates on a regional average of Medicare fee for service rates.

PART 2—BENEFICIARY PROTECTIONS AND ANTI-FRAUD

- Sec. 1171. Limitation on cost-sharing for individual health services.
- Sec. 1172. Continuous open enrollment for enrollees in plans with enrollment suspension.
- Sec. 1173. Information for beneficiaries on MA plan administrative costs.
- Sec. 1174. Strengthening audit authority.
- Sec. 1175. Authority to deny plan bids.
- Sec. 1175A. State authority to enforce standardized marketing requirements.

PART 3—TREATMENT OF SPECIAL NEEDS PLANS

- Sec. 1176. Limitation on enrollment outside open enrollment period of individuals into chronic care specialized MA plans for special needs individuals.
- Sec. 1177. Extension of authority of special needs plans to restrict enrollment; service area moratorium for certain SNPs.
- Sec. 1178. Extension of Medicare senior housing plans.

Subtitle E—Improvements to Medicare Part D

- Sec. 1181. Elimination of coverage gap.
- Sec. 1182. Discounts for certain part D drugs in original coverage gap.
- Sec. 1183. Repeal of provision relating to submission of claims by pharmacies located in or contracting with long-term care facilities.
- Sec. 1184. Including costs incurred by AIDS drug assistance programs and Indian Health Service in providing prescription drugs toward the annual out-of-pocket threshold under part D.
- Sec. 1185. No mid-year formulary changes permitted.
- Sec. 1186. Negotiation of lower covered part D drug prices on behalf of Medicare beneficiaries.
- Sec. 1187. Accurate dispensing in long-term care facilities.
- Sec. 1188. Free generic fill.
- Sec. 1189. State certification prior to waiver of licensure requirements under Medicare prescription drug program.

Subtitle F—Medicare Rural Access Protections

- Sec. 1191. Telehealth expansion and enhancements.
- Sec. 1192. Extension of outpatient hold harmless provision.
- Sec. 1193. Extension of section 508 hospital reclassifications.
- Sec. 1194. Extension of geographic floor for work.
- Sec. 1195. Extension of payment for technical component of certain physician pathology services.
- Sec. 1196. Extension of ambulance add-ons.

TITLE II—MEDICARE BENEFICIARY IMPROVEMENTS**Subtitle A—Improving and Simplifying Financial Assistance for Low Income Medicare Beneficiaries**

- Sec. 1201. Improving assets tests for Medicare Savings Program and low-income subsidy program.
- Sec. 1202. Elimination of part D cost-sharing for certain non-institutionalized full-benefit dual eligible individuals.
- Sec. 1203. Eliminating barriers to enrollment.
- Sec. 1204. Enhanced oversight relating to reimbursements for retroactive low income subsidy enrollment.
- Sec. 1205. Intelligent assignment in enrollment.
- Sec. 1206. Special enrollment period and automatic enrollment process for certain subsidy eligible individuals.
- Sec. 1207. Application of MA premiums prior to rebate and quality bonus payments in calculation of low income subsidy benchmark.

Subtitle B—Reducing Health Disparities

- Sec. 1221. Ensuring effective communication in Medicare.
- Sec. 1222. Demonstration to promote access for Medicare beneficiaries with limited English proficiency by providing reimbursement for culturally and linguistically appropriate services.
- Sec. 1223. IOM report on impact of language access services.
- Sec. 1224. Definitions.

Subtitle C—Miscellaneous Improvements

- Sec. 1231. Extension of therapy caps exceptions process.
- Sec. 1232. Extended months of coverage of immunosuppressive drugs for kidney transplant patients and other renal dialysis provisions.
- Sec. 1233. Voluntary advance care planning consultation.
- Sec. 1234. Part B special enrollment period and waiver of limited enrollment penalty for TRICARE beneficiaries.
- Sec. 1235. Exception for use of more recent tax year in case of gains from sale of primary residence in computing part B income-related premium.
- Sec. 1236. Demonstration program on use of patient decisions aids.

TITLE III—PROMOTING PRIMARY CARE, MENTAL HEALTH SERVICES, AND COORDINATED CARE

- Sec. 1301. Accountable Care Organization pilot program.
- Sec. 1302. Medical home pilot program.
- Sec. 1303. Payment incentive for selected primary care services.
- Sec. 1304. Increased reimbursement rate for certified nurse-midwives.
- Sec. 1305. Coverage and waiver of cost-sharing for preventive services.
- Sec. 1306. Waiver of deductible for colorectal cancer screening tests regardless of coding, subsequent diagnosis, or ancillary tissue removal.
- Sec. 1307. Excluding clinical social worker services from coverage under the medicare skilled nursing facility prospective payment system and consolidated payment.
- Sec. 1308. Coverage of marriage and family therapist services and mental health counselor services.
- Sec. 1309. Extension of physician fee schedule mental health add-on.
- Sec. 1310. Expanding access to vaccines.
- Sec. 1311. Expansion of Medicare-Covered Preventive Services at Federally Qualified Health Centers.
- Sec. 1312. Independence at home demonstration program.
- Sec. 1313. Recognition of certified diabetes educators as certified providers for purposes of Medicare diabetes outpatient self-management training services.

TITLE IV—QUALITY

Subtitle A—Comparative Effectiveness Research

Sec. 1401. Comparative effectiveness research.

Subtitle B—Nursing Home Transparency

PART 1—IMPROVING TRANSPARENCY OF INFORMATION ON SKILLED NURSING FACILITIES, NURSING FACILITIES, AND OTHER LONG-TERM CARE FACILITIES

- Sec. 1411. Required disclosure of ownership and additional disclosable parties information.
- Sec. 1412. Accountability requirements.
- Sec. 1413. Nursing home compare Medicare website.
- Sec. 1414. Reporting of expenditures.
- Sec. 1415. Standardized complaint form.
- Sec. 1416. Ensuring staffing accountability.
- Sec. 1417. Nationwide program for national and State background checks on direct patient access employees of long-term care facilities and providers.

PART 2—TARGETING ENFORCEMENT

- Sec. 1421. Civil money penalties.
- Sec. 1422. National independent monitor pilot program.
- Sec. 1423. Notification of facility closure.

PART 3—IMPROVING STAFF TRAINING

Sec. 1431. Dementia and abuse prevention training.

Sec. 1432. Study and report on training required for certified nurse aides and supervisory staff.

Sec. 1433. Qualification of director of food services of a skilled nursing facility or nursing facility.

Subtitle C—Quality Measurements

Sec. 1441. Establishment of national priorities for quality improvement.

Sec. 1442. Development of new quality measures; GAO evaluation of data collection process for quality measurement.

Sec. 1443. Multi-stakeholder pre-rulemaking input into selection of quality measures.

Sec. 1444. Application of quality measures.

Sec. 1445. Consensus-based entity funding.

Subtitle D—Physician Payments Sunshine Provision

Sec. 1451. Reports on financial relationships between manufacturers and distributors of covered drugs, devices, biologicals, or medical supplies under Medicare, Medicaid, or CHIP and physicians and other health care entities and between physicians and other health care entities.

Subtitle E—Public Reporting on Health Care-Associated Infections

Sec. 1461. Requirement for public reporting by hospitals and ambulatory surgical centers on health care-associated infections.

TITLE V—MEDICARE GRADUATE MEDICAL EDUCATION

Sec. 1501. Distribution of unused residency positions.

Sec. 1502. Increasing training in nonprovider settings.

Sec. 1503. Rules for counting resident time for didactic and scholarly activities and other activities.

Sec. 1504. Preservation of resident cap positions from closed hospitals.

Sec. 1505. Improving accountability for approved medical residency training.

TITLE VI—PROGRAM INTEGRITY**Subtitle A—Increased Funding to Fight Waste, Fraud, and Abuse**

Sec. 1601. Increased funding and flexibility to fight fraud and abuse.

Subtitle B—Enhanced Penalties for Fraud and Abuse

Sec. 1611. Enhanced penalties for false statements on provider or supplier enrollment applications.

Sec. 1612. Enhanced penalties for submission of false statements material to a false claim.

Sec. 1613. Enhanced penalties for delaying inspections.

Sec. 1614. Enhanced hospice program safeguards.

Sec. 1615. Enhanced penalties for individuals excluded from program participation.

Sec. 1616. Enhanced penalties for provision of false information by Medicare Advantage and part D plans.

Sec. 1617. Enhanced penalties for Medicare Advantage and part D marketing violations.

Sec. 1618. Enhanced penalties for obstruction of program audits.

Sec. 1619. Exclusion of certain individuals and entities from participation in Medicare and State health care programs.

Sec. 1620. OIG authority to exclude from Federal health care programs officers and owners of entities convicted of fraud.

Sec. 1621. Self-referral disclosure protocol.

Subtitle C—Enhanced Program and Provider Protections

Sec. 1631. Enhanced CMS program protection authority.

Sec. 1632. Enhanced Medicare, Medicaid, and CHIP program disclosure requirements relating to previous affiliations.

Sec. 1633. Required inclusion of payment modifier for certain evaluation and management services.

Sec. 1634. Evaluations and reports required under Medicare Integrity Program.

Sec. 1635. Require providers and suppliers to adopt programs to reduce waste, fraud, and abuse.

Sec. 1636. Maximum period for submission of Medicare claims reduced to not more than 12 months.

Sec. 1637. Physicians who order durable medical equipment or home health services required to be Medicare enrolled physicians or eligible professionals.

Sec. 1638. Requirement for physicians to provide documentation on referrals to programs at high risk of waste and abuse.

Sec. 1639. Face-to-face encounter with patient required before eligibility certifications for home health services or durable medical equipment.

Sec. 1640. Extension of testimonial subpoena authority to program exclusion investigations.

Sec. 1641. Required repayments of Medicare and Medicaid overpayments.

Sec. 1642. Expanded application of hardship waivers for OIG exclusions to beneficiaries of any Federal health care program.

Sec. 1643. Access to certain information on renal dialysis facilities.

Sec. 1644. Billing agents, clearinghouses, or other alternate payees required to register under Medicare.

Sec. 1645. Conforming civil monetary penalties to False Claims Act amendments.

Sec. 1646. Requiring provider and supplier payments under Medicare to be made through direct deposit or electronic funds transfer (EFT) at insured depository institutions.

Sec. 1647. Inspector General for the Health Choices Administration.

Subtitle D—Access to Information Needed to Prevent Fraud, Waste, and Abuse

Sec. 1651. Access to Information Necessary to Identify Fraud, Waste, and

Abuse.

Sec. 1652. Elimination of duplication between the Healthcare Integrity and Protection Data Bank and the National Practitioner Data Bank.

Sec. 1653. Compliance with HIPAA privacy and security standards.

Posted by Terry McGarty at [5:17 AM](#)  

Labels: [Health Care](#)

[ANOTHER SLAP AT PHYSICIANS: NY TIMES AND CCE](#)

In a recent piece in the [NY Times by Leonhardt](#) the author is "amazed" that a physician admits that in the history of medicine that physicians have done more harm than good. I am amazed, truly amazed. Well anyone who has the slightest knowledge of history would know about the bleedings and the like. Why Just look at George III and his blood disorder, it may very well have been the cause of the Revolution. But I wander.

Let me focus on Leonhardt and his "revelations regarding Comparative Clinical Effectiveness (CCE). In my opinion this article appears to be a piece crafted by those who want Government control of medical practices, as ultimately a way to reduce costs. Let me build my argument and perhaps you too will see it that way.

Leonhardt claims that medicine has never adopted the scientific method. I suspect he has never read a New England Journal of Medicine (NEJM) article. Each week there are at least a half a dozen articles clinically comparing one method to another, using well accepted statistical methods, and always seeking to improve the practice of medicine. Although I have never practiced Medicine, for some reason, each year for decades, I dutifully continue to take my two NEJM, Massachusetts Medical Society, CME tests totaling 100 CME points and entailing 100 papers detailing these comparative clinical studies. Thus I speak from experience. All practicing physicians as a requirement to maintain their licenses must do the same. Thus despite what Leonhardt reports physicians are continually training and an essential part is learning what is new and what is best. The conclusions are always changing as new information becomes available.

Now back to the article. The author states:

" But there is one important way in which medicine never quite adopted the scientific method. The explosion of medical research over the last century has produced a dizzying number of treatments for different ailments. For someone with heart disease, there is bypass surgery, stenting or simply drugs and behavior changes. For a man with early-stage prostate cancer, there is surgery, radiation, proton-beam therapy or so-called watchful waiting. To enter mainstream use, any such treatment typically needs to clear a high bar. It will be subject to randomized trials, statistical-significance tests, the peer-review process of academic journals and the scrutiny of government regulators. Yet once a treatment enters the mainstream — once we know whether it works in certain situations — science is largely left behind. The next questions — when to use it and on which patients — become matters of judgment, not measurement. The decision is, once again, left to a doctor's informed intuition."

Let me address the two diseases he mentions above. I suspect one must have to know something about this to comment and Leonhardt seems in my opinion totally ignorant and destined to present the position of HR 3962 and the Administration, even if it falsely presents information.

First, take the blocked artery problem. Just go to Harrison's Sixth addition, yes I have it on my bookcase, across from Harrison's 17th. In the 6th we are told how to handle a blocked artery, not really very helpful, but cheap. In the 17th we are told how to deal with it and there are many options, some better than others, and the details and comparisons are there in their full glory. It is one of the on-the-one-hand and then-on-the-other-hand types of arguments. It is patient specific in many cases. One can treat it medically at first, then consider a stent or even a graft. It depends on age, the health of the patient and the like. There is no simple nomograph to ascertain an answer.

Second, and my favorite, prostate cancer. The fact is that we just do not know what prostate cancers will kill men. This most likely is a complex epigenetic problem wherein there are genes which are activated and they then in turn activate other genes and so on. A simple Gleason score may help but is in no way diagnostic. We can determine by biopsy who has prostate cancer and its extent. We cannot tell which ones will spread aggressively. I have seen ones go from a PSA of 4 and no detection to a PSA of 50 and Gleason 8 in a year and then two years later a met to the spine and death. Then there is a PSA of 23, a Gleason of 7 and it just goes no where for decades. Go figure, the science is just not there. To deliver an algorithm of watchful waiting for all would be a death sentence. As Osler said, listen to and look at the patient.

Then Leonhardt goes on to Type II Diabetes. He states:

"At one primary-care meeting I attended, Dr. Scott Lindley said he had heard complaints from doctors who thought the committee made a mistake by setting the goal for hemoglobin A1c levels — a common measure of blood sugar in diabetes patients — at 8. If an obese person came in at 13 and the medical team reduced the level to 9, wasn't that a success? An 8 might be too ambitious a benchmark, Lindley said. "Some literature shows 9 is better," he noted.

In response, Dr. Michael Visick, another committee member, pointed out that nobody was being punished for having patients with hemoglobin levels above 8. Doctors were simply asked to take a second look at those patients. And the only reason the committee set a benchmark was that data had shown the percentage of patients with a level above 8 was rising, Visick said. That was a sign that Intermountain's diabetes care might be slipping. Lindley seemed to accept the explanation. Still, he added with a tone of mild sarcasm that he was sure his colleagues would "just go away happy" when he conveyed the explanation to them."

Here I would disagree with the physicians. An HbA1c of 8 is too high. First a 13 in an obese person is in my opinion self inflicted. Get the BMI down to 22.5 or lower and the HbA1c drops below 5! They are managing the patients and not the disease. There is never a physician saying to the patient that they must lose weight or there will be consequences. It often is just more insulin. The Diabetes care is getting the obese patients to lose weight, NOT manage HbA1c! Here I would disagree with the Intermountain team, they are being politically correct and not

telling the obese person what the cause of their disease is. It was no problem to tell them to stop smoking but somehow there is a problem of telling them about weight.

Leonhardt then gives a countervailing view:

" He (Groopman, Harvard doctor and New Yorker writer, published a book called "How Doctors Think.") argues that evidence-based medicine is useful in only a limited number of run-of-the-mill situations, like distinguishing between strep throat and a simple sore throat. "Human beings are not uniform in their biology," wrote Groopman and Pamela Hartzband, a Harvard endocrinologist (and Groopman's wife), in a Wall Street Journal op-ed article criticizing the Obama administration's plans to tie Medicare payments to so-called quality metrics. "A disease with many effects on multiple organs, like diabetes, acts differently in different people." Groopman and Hartzband mentioned a handful of studies in which protocols had led to outcomes that were no better, or even worse, than what doctors had previously been doing. A couple of the studies dealt with the regulation of blood sugar in diabetics, the same issue that came up in the primary-care meeting I attended at Intermountain."

Groopman is spot on. No one patient is the same as any other. Strange thing those genes. Yes Diabetes acts differently on different people as does prostate cancer as does a blocked artery. Each patient is somewhat different. Thus the task of the physician is to use what he or she may have at their command and then do their best to "care" for the patient. Having a list of what to do and having the orders to follow the list would take us back to the days when the number of deaths caused by physicians would rise again. Disease causes enough damage, Government should not become the number 1 cause of death in the US. Data is essential, understanding what works and why, and how well is essential. I do not think Groopman denies any of that. What Groopman is saying is that one must always look at and towards the patient, each is different in different ways. It is the difference between the 4th year student who has memorized everything and can tell the Chief Resident on Rounds what the most likely causes for a disease is in descending order and the other 4th year who has actually spoken with the patient to find out what truly is their problem. Just knowing the algorithm will not work.

On to my least favorite example, bundling. Leonhardt states:

*"Several pilot programs with similar aims have made it into some of the health-reform bills considered by Congress. **One is a bundling program**, in which Medicare would pay hospitals a set fee for certain operations or chronic illnesses, rather than paying piecemeal for every aspect of the treatment. Hospitals would then have an incentive to avoid complications and readmissions, because they would no longer be automatically reimbursed for them. The hospitals that did the best job of keeping their patients healthy would end up helping their bottom lines. The details are still being fleshed out, but Medicare or private hospital groups would most likely monitor outcomes to make sure the incentives didn't lead hospitals to skimp on care or turn away the sickest patients."*

Bundling is the principle that a center, in most cases the Hospital, takes primary care of you for say your Diabetes, and they get reimbursed for your care and they in turn pay out some fraction to your Internist, Cardiologist, Nephrologist, Neurologist, your Ophthalmologist and the like.

Your relationship as a patient is broken with the direct provider and then linked to the Hospital. Hospitals love this the physicians do not It also make no sense clinically. Remember the problem goes away if you just stop eating the Milky Ways and lose weight, in almost all cases. Yet this bundling approach will institutionalize the problem, it will make it to the hospital's benefit to keep the patient sick. It also will institutionalize old methods and techniques and will actually counter the CCE methods.

Thus what good is this article of Leonhardt? It seems in my opinion to be another NY Time SOP to the current Administration in support of the new HR 3962. It clearly is neither balanced nor reflective of reality.

Posted by Terry McGarty at [4:19 AM](#)  

Labels: [Health Care](#)

THURSDAY, NOVEMBER 5, 2009

[HR 3962 AND THE IRS IS BACK AGAIN](#)

As I read through HR 3962 it is clear that Congress, the Democrats, have made this ever so more severe. In this not we provide the IRS as collector Section, Namely Title V of Division A which applies to non Medicare and VA taxpayers.

The following is the Bill and its related IRS clauses. This may require some heavy slogging but it may be worth it in the end.

TITLE V—AMENDMENTS TO INTERNAL REVENUE CODE OF 1986

Subtitle A—Provisions Relating to Health Care Reform

PART 1—SHARED RESPONSIBILITY

Subpart A—Individual Responsibility

SEC. 501. TAX ON INDIVIDUALS WITHOUT ACCEPTABLE HEALTH CARE COVERAGE.

(a) IN GENERAL.—Subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new part:

PART VIII—HEALTH CARE RELATED TAXES

SUBPART A. TAX ON INDIVIDUALS WITHOUT ACCEPTABLE HEALTH CARE COVERAGE.

Subpart A—Tax on Individuals Without Acceptable Health Care Coverage

Sec. . Tax on individuals without acceptable health care coverage.

SEC. . TAX ON INDIVIDUALS WITHOUT ACCEPTABLE HEALTH CARE COVERAGE.

(a) TAX IMPOSED.—In the case of any individual who does not meet the requirements of subsection (d) at any time during the taxable year, *there is hereby imposed a tax equal to 2.5 percent of the excess of—*

(1) the taxpayer's modified adjusted gross income for the taxable year, over

(2) the amount of gross income specified in section 6012(a)(1) with respect to the taxpayer.

This is the tax for not having signed up. I suspect that fraud and other criminal issue still apply and that if one makes a deliberate and material false statement then one could be in significant difficulty.

One of my questions is how much work will the IRS have to do to enforce this. It requires more people, major computer changes, increased observation. And where are the costs associated with this? There are many issues which these folks may have just neglected to see.

(b) LIMITATIONS.—

(1) TAX LIMITED TO AVERAGE PREMIUM.—

(A) IN GENERAL.—The tax imposed under subsection (a) with respect to any tax payer for any taxable year shall not exceed the applicable national average premium for such taxable year.

(B) APPLICABLE NATIONAL AVERAGE PREMIUM.—

(i) IN GENERAL.—For purposes of subparagraph (A), the ‘applicable national average premium’ means, with respect to any taxable year, the average premium (as determined by the Secretary, in coordination with the Health Choices Commissioner) for self-only coverage under a basic plan which is offered in a Health Insurance Exchange for the calendar year in which such taxable year begins.

(ii) FAILURE TO PROVIDE COVERAGE FOR MORE THAN ONE INDIVIDUAL.—In the case of any taxpayer who fails to meet the requirements of subsection (d) with respect to more than one individual during the tax able year, clause (i) shall be applied by substituting ‘family coverage’ for ‘self-only coverage’.

(2) PRORATION FOR PART YEAR FAILURES.— The tax imposed under subsection (a) with respect to any taxpayer for any taxable year shall not exceed the amount which bears the same ratio to the amount of tax so imposed (determined without regard to this paragraph and after application of para graph (1)) as—

(A) the aggregate periods during such taxable year for which such individual failed to meet the requirements of subsection (d), bears to

(B) the entire taxable year.

(c) EXCEPTIONS.—

(1) DEPENDENTS.—Subsection (a) shall not apply to any individual for any taxable year if a deduction is allowable under section 151 with respect to such individual to another taxpayer for any tax able year beginning in the same calendar year as such taxable year.

(2) NONRESIDENT ALIENS.—Subsection (a) shall not apply to any individual who is a non resident alien.

(3) INDIVIDUALS RESIDING OUTSIDE UNITED STATES.—Any qualified individual (as defined in section 911(d)) (and any qualifying child residing with such individual) shall be treated for purposes of this section as covered by acceptable coverage during the period described in subparagraph (A) or (B) of section 911(d)(1), whichever is applicable.

(4) INDIVIDUALS RESIDING IN POSSESSIONS OF THE UNITED STATES.—Any individual who is a bona fide resident of any possession of the United States (as determined under section 937(a)) for any taxable year (and any qualifying child residing with such individual) shall be treated for purposes of this section as covered by acceptable coverage during such taxable year.

(5) RELIGIOUS CONSCIENCE EXEMPTION.—

(A) IN GENERAL.—Subsection (a) shall not apply to any individual (and any qualifying child residing with such individual) for any period if such individual has in effect an exemption which certifies that such individual is a member of a recognized religious sect or division thereof described in section 1402(g)(1) and an adherent of established tenets or teachings of such sector division as described in such section.

(B) EXEMPTION.—An application for the exemption described in subparagraph (A) shall be filed with the Secretary at such time and in such form and manner as the Secretary may prescribe. The Secretary may treat an application for exemption under section 1402(g)(1) as an application for exemption under this section, or may otherwise coordinate applications under such sections, as the Secretary determines appropriate. Any such exemption granted by the Secretary shall be effective for such period as the Secretary determines appropriate.

There are some exemptions. For example if your spouse has custody of your child, up to 27, well I guess we are dealing with the current generation, they get to pay. The religious exemption is stricter than it looks, and I suspect it covers Christian Scientists who pay for their own care already.

(d) ACCEPTABLE COVERAGE REQUIREMENT.—

(1) IN GENERAL.—The requirements of this subsection are met with respect to any individual for any period if such individual (and each qualifying child of such individual) is covered by acceptable coverage at all times during such period.

(2) ACCEPTABLE COVERAGE.—For purposes of this section, the term ‘acceptable coverage’ means any of the following:

(A) QUALIFIED HEALTH BENEFITS PLAN COVERAGE.—Coverage under a qualified health benefits plan (as defined in section 100(c) of the).

(B) GRANDFATHERED HEALTH INSURANCE COVERAGE; COVERAGE UNDER GRAND FATHERED EMPLOYMENT-BASED HEALTH PLAN.—Coverage under a grandfathered health insurance coverage (as defined in subsection (a) of section 202 of the) or

under a current employment-based health plan (within the meaning of subsection (b) of such section).

(C) MEDICARE.—Coverage under part A of title XVIII of the Social Security Act.

(D) MEDICAID.—Coverage for medical assistance under title XIX of the Social Security Act.

(E) MEMBERS OF THE ARMED FORCES AND DEPENDENTS (INCLUDING TRICARE).— Coverage under chapter 55 of title 10, United States Code, including similar coverage furnished under section 1781 of title 38 of such Code.

(F) VA.—Coverage under the veteran's health care program under chapter 17 of title 38, United States Code.

(G) MEMBERS OF INDIAN TRIBES.— Health care services made available through the Indian Health Service, a tribal organization (as defined in section 4 of the Indian Health Care Improvement Act), or an urban Indian organization (as defined in such section) to members of an Indian tribe (as defined in such section).

(H) OTHER COVERAGE.—Such other health benefits coverage as the Secretary, in coordination with the Health Choices Commissioner, recognizes for purposes of this sub section.

(e) OTHER DEFINITIONS AND SPECIAL RULES.—

(1) QUALIFYING CHILD.—For purposes of this section, the term 'qualifying child' has the meaning given such term by section 152(c). With respect to any period during which health coverage for a child must be provided by an individual pursuant to a child support order, such child shall be treated as a qualifying child of such individual (and not as a qualifying child of any other individual).

We will get back to the child issue but I believe that that will be a matter of concern. What if your child leaves home at 18?

(2) BASIC PLAN.—For purposes of this section, the term 'basic plan' has the meaning given such term under section 100(c) of the .

(3) HEALTH INSURANCE EXCHANGE.—For purposes of this section, the term 'Health Insurance Exchange' has the meaning given such term under section 100(c) of the , including any State-based health insurance exchange approved for operation under section 308 of such Act.

(4) FAMILY COVERAGE.—For purposes of this section, the term 'family coverage' means any coverage other than self-only coverage.

(5) MODIFIED ADJUSTED GROSS INCOME.— For purposes of this section, the term 'modified adjusted gross income' means adjusted gross income increased by—

(A) any amount excluded from gross income under section 911, and

(B) any amount of interest received or accrued by the taxpayer during the taxable year which is exempt from tax.

(6) NOT TREATED AS TAX IMPOSED BY THIS CHAPTER FOR CERTAIN PURPOSES.— The tax imposed under this section shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit under this chapter or for purposes of section 55.

(f) REGULATIONS.—The Secretary shall prescribe such regulations or other guidance as may be necessary or appropriate to carry out the purposes of this section, including regulations or other guidance (developed in coordination with the Health Choices Commissioner) which provide—

(1) exemption from the tax imposed under subsection (a) in cases of de minimis lapses of acceptable coverage, and

(2) a waiver of the application of subsection (a) in cases of hardship, including a process for applying for such a waiver.

(b) INFORMATION REPORTING.— (1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 of such Code is amended by inserting after section 6050W the following new section:

SEC. 6050X. RETURNS RELATING TO HEALTH INSURANCE COVERAGE.

(a) REQUIREMENT OF REPORTING.—Every person who provides acceptable coverage (as defined in section (d)) to any individual during any calendar year shall, at such time as the Secretary may prescribe, make the return described in subsection (b) with respect to such individual.

(b) FORM AND MANNER OF RETURNS.—A return is described in this subsection if such return—

(1) is in such form as the Secretary may prescribe, and

(2) contains—

(A) the name, address, and TIN of the primary insured and the name of each other individual obtaining coverage under the policy,

(B) the period for which each such individual was provided with the coverage referred to in subsection (a), and

(C) such other information as the Secretary may require.

(c) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each primary insured whose name is required to be set forth in such return a written statement showing—

(1) the name and address of the person required to make such return and the phone number of the information contact for such person, and

(2) the information required to be shown on the return with respect to such individual. The written statement required under the preceding sentence shall be furnished on or before January 31 of the year following the calendar year for which the return under subsection (a) is required to be made.

This means that the return opens and links your tax and health information. They claim HIPPA compliance but that is a major risk issue.

(d) COVERAGE PROVIDED BY GOVERNMENTAL UNITS.—In the case of coverage provided by any governmental unit or any agency or instrumentality thereof, the officer or

employee who enters into the agreement to provide such coverage (or the person appropriately designated for purposes of this section) shall make the returns and statements required by this section.

(2) PENALTY FOR FAILURE TO FILE.—

(A) RETURN.—Subparagraph (B) of section 6724(d)(1) of such Code is amended by striking or at the end of clause (xxii), by striking and at the end of clause (xxiii) and inserting or, and by adding at the end the following new clause: (xxiv) section 6050X (relating to re turns relating to health insurance coverage), and

(B) STATEMENT.—Paragraph (2) of section 6724(d) of such Code is amended by striking or at the end of subparagraph (EE), by striking the period at the end of subparagraph (FF) and inserting , or, and by inserting after subparagraph (FF) the following new sub paragraph: (GG) section 6050X (relating to returns relating to health insurance coverage).

(c) RETURN REQUIREMENT.—Subsection (a) of section 6012 of such Code is amended by inserting after paragraph (9) the following new paragraph:

(10) Every individual to whom section (a) applies and who fails to meet the requirements of section (d) with respect to such individual or any qualifying child (as defined in section 152(c)) of such individual.

(d) CLERICAL AMENDMENTS.— (1) The table of parts for subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

PART VIII. HEALTH CARE RELATED TAXES.

(2) The table of sections for subpart B of part III of subchapter A of chapter 61 is amended by adding at the end the following new item: Sec. 6050X. Returns relating to health insurance coverage.

(e) SECTION 15 NOT TO APPLY.—The amendment made by subsection (a) shall not be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986. **(f) EFFECTIVE DATE.—**

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2012.

(2) RETURNS.—The amendments made by sub section (b) shall apply to calendar years beginning after December 31, 2012.

This all begins in three years. This is a major change in Tax Law. It will make tax filing ever so more complex. Imagine having to prove to the State that you have auto insurance on your State Tax filing!

Posted by Terry McGarty at [12:01 PM](#)  

Labels: [Health Care](#)

THURSDAY, NOVEMBER 5, 2009

THE IRS IS STILL THERE

When I made a quick look at the HR 3962 Health Care Bill I did not catch how much the IRS role has expanded. The following is the outline of the Bill and I will be commenting on various sections. Yet the one of most concern is the complete and total personal invasive powers and control that is given the IRS.

The outline of the Bill is as follows (I apologize for the length but one should see it in toto):
“Affordable Health Care for America Act”.

DIVISION A—AFFORDABLE HEALTH CARE CHOICES

TITLE I—IMMEDIATE REFORMS

TITLE II—PROTECTIONS AND STANDARDS FOR QUALIFIED HEALTH BENEFITS PLANS

Subtitle A—General Standards

Subtitle B—Standards Guaranteeing Access to Affordable Coverage

Subtitle C—Standards Guaranteeing Access to Essential Benefits

Subtitle D—Additional Consumer Protections

Subtitle E—Governance

Subtitle F—Relation to Other Requirements; Miscellaneous

TITLE III—HEALTH INSURANCE EXCHANGE AND RELATED PROVISIONS

Subtitle A—Health Insurance Exchange

Subtitle B—Public Health Insurance Option

Subtitle C—Individual Affordability Credits

TITLE IV—SHARED RESPONSIBILITY

Subtitle A—Individual Responsibility

Subtitle B—Employer Responsibility

TITLE V—AMENDMENTS TO INTERNAL REVENUE CODE OF 1986

Subtitle A—Shared Responsibility

Subtitle B—Credit for Small Business Employee Health Coverage Expenses

Subtitle C—Disclosures To Carry Out Health Insurance Exchange Subsidies

Subtitle D—Other Revenue Provisions

DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

TITLE I—IMPROVING HEALTH CARE VALUE

Subtitle A—Provisions related to Medicare part A

Subtitle B—Provisions Related to Part B

Subtitle C—Provisions Related to Medicare Parts A and B

Subtitle D—Medicare Advantage Reforms

Subtitle E—Improvements to Medicare Part D

Subtitle F—Medicare Rural Access Protections

TITLE II—MEDICARE BENEFICIARY IMPROVEMENTS

Subtitle A—Improving and Simplifying Financial Assistance for Low Income Medicare Beneficiaries

Subtitle B—Reducing Health Disparities

Subtitle C—Miscellaneous Improvements

TITLE III—PROMOTING PRIMARY CARE, MENTAL HEALTH SERVICES,
AND COORDINATED CARE

TITLE IV—QUALITY

Subtitle A—Comparative Effectiveness Research

Subtitle B—Nursing Home Transparency

Subtitle C—Quality Measurements

Subtitle D—Physician Payments Sunshine Provision

Subtitle E—Public Reporting on Health Care-Associated Infections

TITLE V—MEDICARE GRADUATE MEDICAL EDUCATION

TITLE VI—PROGRAM INTEGRITY

Subtitle A—Increased funding to fight waste, fraud, and abuse

Subtitle B—Enhanced penalties for fraud and abuse

Subtitle C—Enhanced Program and Provider Protections

Subtitle D—Access to Information Needed to Prevent Fraud, Waste, and Abuse

TITLE VII—MEDICAID AND CHIP

Subtitle A—Medicaid and Health Reform

Subtitle B—Prevention

Subtitle C—Access

Subtitle D—Coverage

Subtitle E—Financing

Subtitle F—Waste, Fraud, and Abuse

Subtitle G—Puerto Rico and the Territories

Subtitle H—Miscellaneous

TITLE VIII—REVENUE-RELATED PROVISIONS

TITLE IX—MISCELLANEOUS PROVISIONS

DIVISION C—PUBLIC HEALTH AND WORKFORCE DEVELOPMENT

TITLE I—COMMUNITY HEALTH CENTERS

TITLE II—WORKFORCE

Subtitle A—Primary Care Workforce

Subtitle B—Nursing Workforce

Subtitle C—Public Health Workforce

Subtitle D—Adapting Workforce to Evolving Health System Needs

TITLE III—PREVENTION AND WELLNESS

TITLE IV—QUALITY AND SURVEILLANCE

TITLE V—OTHER PROVISIONS

Subtitle A—Drug Discount for Rural and Other Hospitals; Program Integrity

Subtitle B—Programs

Subtitle C—Food and Drug Administration

Subtitle D—Community Living Assistance Services and Supports

Subtitle E—Miscellaneous

DIVISION D—INDIAN HEALTH CARE IMPROVEMENT

TITLE I—AMENDMENTS TO INDIAN LAWS

TITLE II—IMPROVEMENT OF INDIAN HEALTH CARE PROVIDED UNDER THE SOCIAL SECURITY ACT

The above is the broad overview. The detail by Section for Division A alone is below:

TITLE I—IMMEDIATE REFORMS

Sec. 101. National high-risk pool program.

Sec. 102. Ensuring value and lower premiums.

Sec. 103. Ending health insurance rescission abuse.

Sec. 104. Sunshine on price gouging by health insurance issuers.

Sec. 105. Requiring the option of extension of dependent coverage for uninsured young adults.

Sec. 106. Limitations on preexisting condition exclusions in group health plans in advance of applicability of new prohibition of preexisting condition exclusions.

Sec. 107. Prohibiting acts of domestic violence from being treated as preexisting conditions.

Sec. 108. Ending health insurance denials and delays of necessary treatment for children with deformities.

Sec. 109. Elimination of lifetime limits.

Sec. 110. Prohibition against postretirement reductions of retiree health benefits by group health plans.

Sec. 111. Reinsurance program for retirees.

Sec. 112. Wellness program grants.

Sec. 113. Extension of COBRA continuation coverage.

Sec. 114. State Health Access Program grants.

Sec. 115. Administrative simplification.

TITLE II—PROTECTIONS AND STANDARDS FOR QUALIFIED HEALTH BENEFITS PLANS

Subtitle A—General Standards

Sec. 201. Requirements reforming health insurance marketplace.

Sec. 202. Protecting the choice to keep current coverage.

Subtitle B—Standards Guaranteeing Access to Affordable Coverage

Sec. 211. Prohibiting preexisting condition exclusions.

Sec. 212. Guaranteed issue and renewal for insured plans and prohibiting rescissions.

Sec. 213. Insurance rating rules.

Sec. 214. Nondiscrimination in benefits; parity in mental health and substance abuse disorder benefits.

Sec. 215. Ensuring adequacy of provider networks.

Sec. 216. Requiring the option of extension of dependent coverage for uninsured young adults.

Sec. 217. Consistency of costs and coverage under qualified health benefits plans during plan year.

Subtitle C—Standards Guaranteeing Access to Essential Benefits

Sec. 221. Coverage of essential benefits package.

Sec. 222. Essential benefits package defined.

Sec. 223. Health Benefits Advisory Committee.

Sec. 224. Process for adoption of recommendations; adoption of benefit standards.

Subtitle D—Additional Consumer Protections

Sec. 231. Requiring fair marketing practices by health insurers.

Sec. 232. Requiring fair grievance and appeals mechanisms.

Sec. 233. Requiring information transparency and plan disclosure.

Sec. 234. Application to qualified health benefits plans not offered through the Health Insurance Exchange.

Sec. 235. Timely payment of claims.

Sec. 236. Standardized rules for coordination and subrogation of benefits.

Sec. 237. Application of administrative simplification.

Sec. 238. State prohibitions on discrimination against health care providers.

Sec. 239. Protection of physician prescriber information.

Sec. 240. Dissemination of advance care planning information.

Subtitle E—Governance

Sec. 241. Health Choices Administration; Health Choices Commissioner.

Sec. 242. Duties and authority of Commissioner.

Sec. 243. Consultation and coordination.

Sec. 244. Health Insurance Ombudsman.

Subtitle F—Relation to Other Requirements; Miscellaneous

Sec. 251. Relation to other requirements.

Sec. 252. Prohibiting discrimination in health care.

Sec. 253. Whistleblower protection.

Sec. 254. Construction regarding collective bargaining.

Sec. 255. Severability.

Sec. 256. Treatment of Hawaii Prepaid Health Care Act.

Sec. 257. Actions by State attorneys general.

Sec. 258. Application of State and Federal laws regarding abortion.

Sec. 259. Nondiscrimination on abortion and respect for rights of conscience.

Sec. 260. Authority of Federal Trade Commission.

Sec. 261. Construction regarding standard of care.

Sec. 262. Restoring application of antitrust laws to health sector insurers.

Sec. 263. Study and report on methods to increase EHR use by small health care providers.

TITLE III—HEALTH INSURANCE EXCHANGE AND RELATED PROVISIONS

Subtitle A—Health Insurance Exchange

Sec. 301. Establishment of Health Insurance Exchange; outline of duties; definitions.

Sec. 302. Exchange-eligible individuals and employers.

Sec. 303. Benefits package levels.

Sec. 304. Contracts for the offering of Exchange-participating health benefits plans.

Sec. 305. Outreach and enrollment of Exchange-eligible individuals and employers in Exchange-participating health benefits plan.

Sec. 306. Other functions.

Sec. 307. Health Insurance Exchange Trust Fund.

Sec. 308. Optional operation of State-based health insurance exchanges.

Sec. 309. Interstate health insurance compacts.

Sec. 310. Health insurance cooperatives.

Sec. 311. Retention of DOD and VA authority.

Subtitle B—Public Health Insurance Option

Sec. 321. Establishment and administration of a public health insurance option as an Exchange-qualified health benefits plan.

Sec. 322. Premiums and financing.

Sec. 323. Payment rates for items and services.

Sec. 324. Modernized payment initiatives and delivery system reform.

Sec. 325. Provider participation.

Sec. 326. Application of fraud and abuse provisions.

Sec. 327. Application of HIPAA insurance requirements.

Sec. 328. Application of health information privacy, security, and electronic transaction requirements.

Sec. 329. Enrollment in public health insurance option is voluntary.

Sec. 330. Enrollment in public health insurance option by Members of Congress.

Sec. 331. Reimbursement of Secretary of Veterans Affairs.

Subtitle C—Individual Affordability Credits

Sec. 341. Availability through Health Insurance Exchange.

Sec. 342. Affordable credit eligible individual.

Sec. 343. Affordability premium credit.

Sec. 344. Affordability cost-sharing credit.

Sec. 345. Income determinations.

Sec. 346. Special rules for application to territories.

Sec. 347. No Federal payment for undocumented aliens.

TITLE IV—SHARED RESPONSIBILITY

Subtitle A—Individual Responsibility

Sec. 401. Individual responsibility.

Subtitle B—Employer Responsibility

PART 1—HEALTH COVERAGE PARTICIPATION REQUIREMENTS

Sec. 411. Health coverage participation requirements.

Sec. 412. Employer responsibility to contribute toward employee and dependent coverage.

Sec. 413. Employer contributions in lieu of coverage.

Sec. 414. Authority related to improper steering.

Sec. 415. Impact study on employer responsibility requirements.

Sec. 416. Study on employer hardship exemption.

PART 2—SATISFACTION OF HEALTH COVERAGE PARTICIPATION REQUIREMENTS

Sec. 421. Satisfaction of health coverage participation requirements under the Employee Retirement Income Security Act of 1974.

Sec. 422. Satisfaction of health coverage participation requirements under the Internal Revenue Code of 1986.

Sec. 423. Satisfaction of health coverage participation requirements under the Public Health Service Act.

Sec. 424. Additional rules relating to health coverage participation requirements.

TITLE V—AMENDMENTS TO INTERNAL REVENUE CODE OF 1986

Subtitle A—Provisions Relating to Health Care Reform

PART 1—SHARED RESPONSIBILITY

SUBPART A—INDIVIDUAL RESPONSIBILITY

Sec. 501. Tax on individuals without acceptable health care coverage.

SUBPART B—EMPLOYER RESPONSIBILITY

Sec. 511. Election to satisfy health coverage participation requirements.

Sec. 512. Health care contributions of nonelecting employers.

PART 2—CREDIT FOR SMALL BUSINESS EMPLOYEE HEALTH COVERAGE EXPENSES

Sec. 521. Credit for small business employee health coverage expenses.

PART 3—LIMITATIONS ON HEALTH CARE RELATED EXPENDITURES

Sec. 531. Distributions for medicine qualified only if for prescribed drug or insulin.

Sec. 532. Limitation on health flexible spending arrangements under cafeteria plans.

Sec. 533. Increase in penalty for nonqualified distributions from health savings accounts.

Sec. 534. Denial of deduction for federal subsidies for prescription drug plans which have been excluded from gross income.

PART 4—OTHER PROVISIONS TO CARRY OUT HEALTH INSURANCE REFORM

- Sec. 541. Disclosures to carry out health insurance exchange subsidies.
 Sec. 542. Offering of exchange-participating health benefits plans through cafeteria plans.
 Sec. 543. Exclusion from gross income of payments made under reinsurance program for retirees.
 Sec. 544. CLASS program treated in same manner as long-term care insurance.
 Sec. 545. Exclusion from gross income for medical care provided for Indians.
 Subtitle B—Other Revenue Provisions

PART 1—GENERAL PROVISIONS

- Sec. 551. Surcharge on high income individuals.**
Sec. 552. Excise tax on medical devices.
Sec. 553. Expansion of information reporting requirements.
 Sec. 554. Delay in application of worldwide allocation of interest.

PART 2—PREVENTION OF TAX AVOIDANCE

- Sec. 561. Limitation on treaty benefits for certain deductible payments.**
Sec. 562. Codification of economic substance doctrine; penalties.
Sec. 563. Certain large or publicly traded persons made subject to a more likely than not standard for avoiding penalties on underpayments.

PART 3—PARITY IN HEALTH BENEFITS

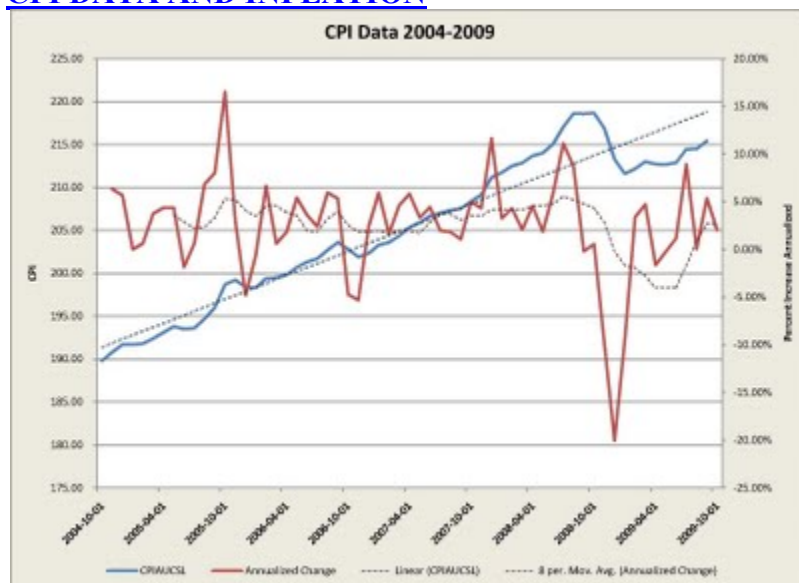
- Sec. 571. Certain health related benefits applicable to spouses and dependents extended to eligible beneficiaries.

Posted by Terry McGarty at [9:46 AM](#)  

Labels: [Health Care](#)

WEDNESDAY, NOVEMBER 4, 2009

[CPI DATA AND INFLATION](#)



The above is the CPI data as through August. The recovery in terms of increasing CPI is evident. It has now been consistently increasing and doing so at an annualized rate of 2.5%. The concern is that this could increase as a rapid rate since the swing around is itself so fast.

The second fact to note is that the CPI is now back to where it was in April 2008 and seems to be tracking on a growth pattern in a similar fashion. This will be tracked as we go through the Christmas shopping season.

Posted by Terry McGarty at [4:05 AM](#)  

Labels: [Economy](#)

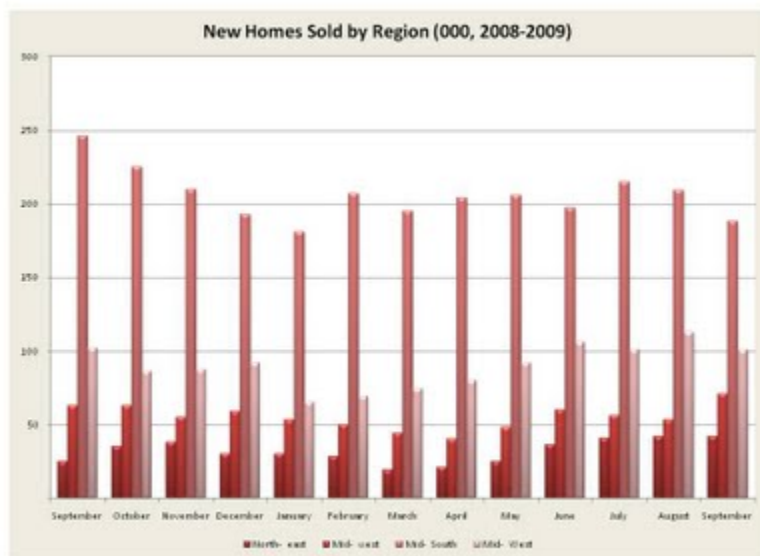
TUESDAY, NOVEMBER 3, 2009

[CONSTRUCTION AND HOUSING](#)

The latest data on housing and construction has been released. We summarize some key elements here.

First on housing.

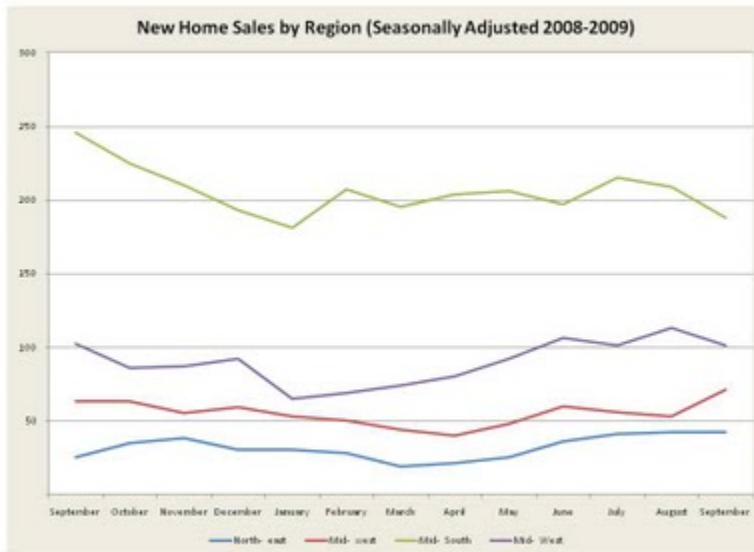
The new homes by region on a seasonally adjusted basis are shown below. There do not appear to be any significant surprises in these numbers.



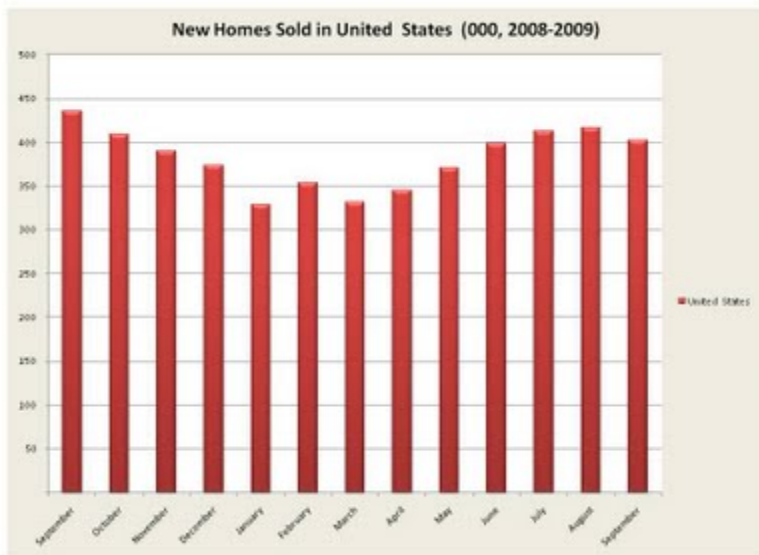
The months supply of housing is shown below. It is getting shorter at a significant rate and this will put pressure on even more growth. This lowered number portends greater growth.



The new homes by region are shown below.

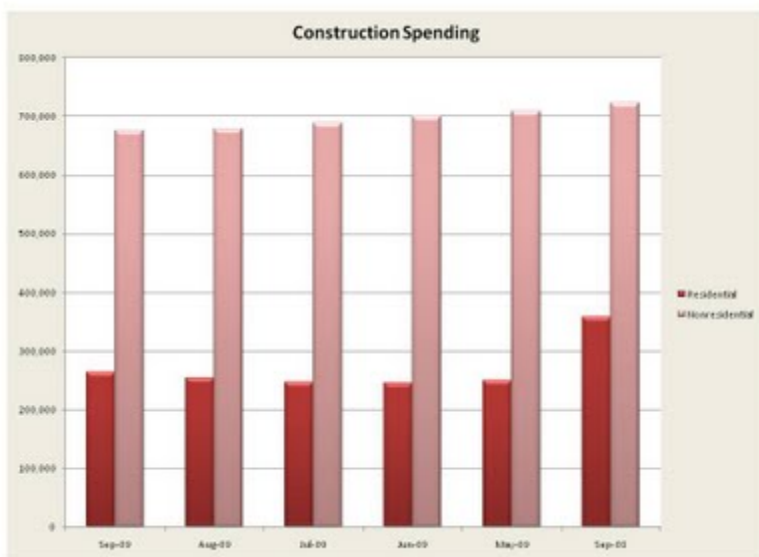


We see in the above the fluctuation in some regions still is present. The total new homes we show below:

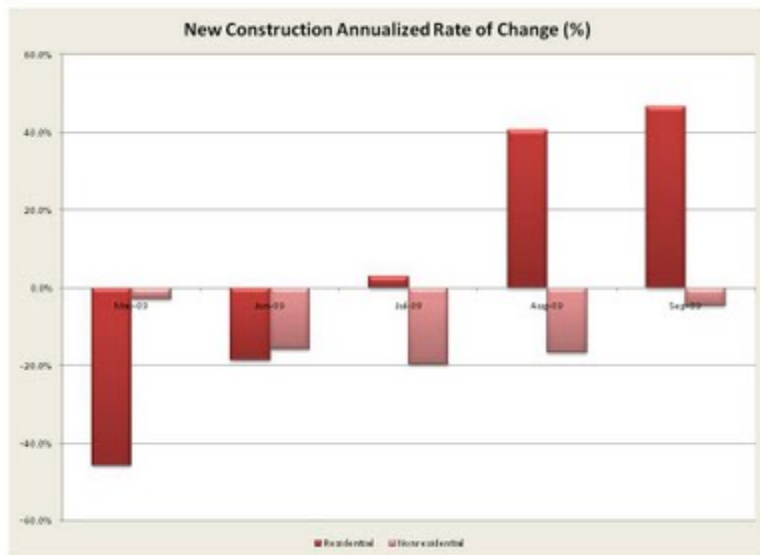


Second we depict the data on overall construction spending.

We show the amount and then the annualized rate of change. The amounts on construction, residential and non-residential, are shown below.



The annualized rates of change in construction are shown below. This chart clearly depicts a strong turn around in this market.



The upswing most likely is NOT due to the stimulus since it occurred recently and in sectors not affected by the Stimulus package, The Stimulus spending in construction most likely will occur later this year and into the next.

Posted by Terry McGarty at [6:20 AM](#)  

Labels: [Economy](#)

MONDAY, NOVEMBER 2, 2009

DELIBERATIVE DEMOCRACY AND HEALTH CARE

In looking at how the Health Care debate has progressed I was reminded of the work by Amy Gutmann and Dennis Thompson on what they have called Deliberative Democracy. I will use their latest book, *Why Deliberative Democracy*, as the source for my current comments.

The authors state (p 7):

"...we can define deliberative democracy as a form of government in which free and equal citizens (and their representatives) justify decisions in a process in which they give one another reasons that are mutually acceptable and generally accessible with the aim of reaching conclusions that are binding in the present on all citizens but open to challenge in the future."

Gutmann and Thompson then apply their definition to three examples of which I will discuss. They are:

1. **Iraq War:** In essence their argument was that the process failed to meet the requirements of a deliberative democracy by delimiting the discussion and having certain issue inadequately revealed and discussed. They contend that the debate should have lasted longer. In my view there were other issues as well. One was that the "Bush Doctrine" of a pre-emptive war was not fully understood by the populace, albeit the US had done this before, yet not to this scale. Second there was a strange tension in the US between the lingering strain of 9/11 and the massive separation politically of anti-Bush and everyone else in the electorate. I here argue that the political separation was "anti-Bush" and everyone else because I believe that those not anti-Bush

were not necessarily pro-Bush, just anti-anti-Bush. One then wonders in such an environment how the above definition could ever function in the first place.

2. California Governor Recall Referendum: They then critique the 2003 California Referendum on the Governor and basically state that the Referendum process is inherently flawed. They state without any basis in fact that "Because neither the procedure nor its results could be said to be democratic in the simplest procedural sense....judicial intervention to correct some of the defects may be called for..." (p 60) This is amazing because the Referendum process is in and of itself a full Democratic process, rife with chaos and confusion, yet a process where one person and one vote counts. It may make California look like Italy but alas it may truly be such. Gutmann and Thompson disdain the true chaos of democracy if one takes their words at face value.

However one of the more concerning comments in this section regarding California is the Gutmann comment on Educational systems for she seems to believe that the function of educational institutions is to train people to think correctly. Furthermore to train them to think cohesively in a manner compliant with her definition of deliberative democracy. She states:

"To prepare their students for citizenship in a deliberative democracy, schools should aim to develop the capacities of the students to understand different perspectives, communicate their understandings to other people and engage in the give and take of moral argument with a view toward making mutually justifiable decisions." (p 61)

This is highly laudable but she seems to mean that in the context of certain strictures and world views.

3. Cervical Cancer Testing: The authors then discuss a case as to whether an HMO should be made to pay for a patient's test for cervical cancer which goes beyond the standard Pap test. Here they apply the principles of deliberative democracy to having a free and open discussion including the HMO to decide this. One may look at this in another manner, namely if the test gives one more comfort, then one may just pay for the test themselves and not demand that the HMO do so. Or better one may choose another plan which may already pay for it. This argument for deliberative democracy is trumped by a simple economic rule: if something has perceived value to me then I can and should pay for it. It is not one where I am owed something and if I just haggle long enough I will get it. Thus this third example is specious at best.

Now how does this apply to the current Health Care debate. I believe that it is spot on. At least with Iraq there were confrontational hearings and an across the board vote with a large majority in favor. In Health Care it is like pulling hen's teeth to get the copy of the bill, it is discussed behind closed doors in an exclusionary manner, it is much less democratic than any other such process and it will have a down the middle party vote. One could not think of a less deliberative democratic process. Those opposing it are almost always called traitors by the other side and the attempt is to marginalize them. One may then ask, where are the Gutmanns and Thompsons on this issue, for here is a truly critical issue calling for deliberative democracy.

Posted by Terry McGarty at [3:47 AM](#)  

Labels: [Health Care](#)

BRANDEIS, A BIOGRAPHY

This is a review of [Louis D Brandeis: A Life](#) by Melvin Urofsky. The author has written a detailed account of one of the most eminent lawyers and judges of our country, Brandeis. Brandeis was a brilliant and perceptive jurist and he was part of what is now the bases of many of what we accept as common "rights" as citizens of the United States.

The biography is long and detailed and is probably one of the best biographies on Brandeis that I have read. Rather than detail the book I want to use two episodes in Brandeis life as discussed in the book to make a few points.

First, the issue of the right to privacy. On pp 99-102 the author describes the seminal paper by Warren and Brandeis entitled "The Right to Privacy" which as the author does state is in many ways a right to be left alone, a right to anonymity. The fact is that there is no such right in the Constitution and that Warren and Brandeis, truly Brandeis alone if one understands the author, develops such "right" from well established common law principles. This was a brilliant paper and in many ways is as important today and it was over a hundred years ago. It would have been interesting for the author to detail this paper a bit more. The author returns to this topic of privacy in the discussion of the Olmstead case on pp 628-632. This was the first wiretapping case where the Court ruled that there was no need for a warrant and thus no 4th Amendment protection. Brandeis' writing on his dissent is quite telling and it should have gotten a bit more coverage by the author. Brandeis states in his dissent:

"Of all the rights of the citizen, few are of greater importance or more essential to his peace and happiness than the right of personal security, and that involves not merely protection of his person from assault, but exemption of his private affairs, books, and papers, from the inspection and scrutiny of others. Without the enjoyment of this right, all others would lose half their value."

To me this needs a substantially longer discussion but the author does do it some credit.

The second issue is the relationship between Brandeis and Taylor and Galbreth, both early 20th century management consultants. There is a recent article in The New Yorker by Jill Lepore, a superb piece of critical and historical analysis of Brandeis, which discusses this relationship in detail and presents many of the weaknesses in Brandeis. Lepore looks at Brandeis through the lens of the management and efficiency consultants, in many ways the hucksters who predated the current Business Schools. She starts her article by stating:

"Ordering people around, which used to be just a way to get things done, was elevated to a science in October of 1910, when Louis Brandeis, a fifty-three-year-old lawyer from Boston, held a meeting at an apartment in New York with a bunch of experts who, at Brandeis's urging, decided to call what they were experts at "scientific management." Everyone there--including Frank and Lillian Gilbreth, best known today as the parents in "Cheaper by the Dozen"--had contracted "Tayloritis": they were enthralled by an industrial engineer from Philadelphia named Frederick Winslow Taylor, who had been ordering people around, scientifically, for years."

The essence of the tale is that Brandeis, who at the time was sitting on a regulatory body which controlled the monopoly like rates of railroads had gotten enthralled with the less than scientific work of Taylor and the Gilbreths. He then saw that railroads should employ these new management techniques and then lower their rates. Simple, except as Lepore states, the Taylor results were a fraud! Perhaps there is a lesson here for many other "scientifically" based causes seeking legal justification. Brandeis was a brilliant legal scholar, however he had no expertise in the area of actually running a company. He did however understand the "books" and "records" of a company and as such he had used this profitably in his law practice. Yet the Taylor approach assumed you looked forward and not backward, that you understood the business as a living entity and not just the records of what happened. Brandeis was a lawyer at heart, as such he always looked backwards for precedent.

The author of the present biography gives, in my opinion, short shrift to this issue discussed by Lepore. He covers it on pp 240-243 but his discussion misses the key point presented by Lepore. Namely that Brandeis became enamored with Taylor and Galbreth and that Taylor according to Lepore was somewhat of a fraud, the Taylor data it is alleged was all fabricated, and Galbreth had little if any basis for his facts and recommendations.

The author has done a superb job at writing the biography. Yet it does have in my opinion certain weaknesses. In certain parts of the text the sentences are wonderful but the paragraphs do not hold together, there is jumping around in time and in concepts being discussed. In contrast, the Lepore article has a style that is quite readable, whereas that of Urofsky is at times cumbersome and pedantic. As stated in my discussion of privacy and "management", Brandeis set the gold standard for privacy and I believe Urofsky could have taken that further, and with Taylor and Galbreth, I believe Brandeis just did not do his home work, and this was a failing.

Posted by Terry McGarty at [2:36 AM](#)  

Labels: [Books](#)

[SUNDAY, NOVEMBER 1, 2009](#)

[THE ENTREPRENEUR](#)

The [Economist](#) has published an interesting article on the entrepreneur. Perhaps the current Administration would care to read it. Entrepreneurs create jobs, in fact as the Economist state they have been the source of all new jobs in the US of late.

Governments have been trying to use the entrepreneurial world for job creation purposes. As the Economist states:

"The road to the entrepreneurial future is littered with failed government schemes. Malaysia's massive BioValley complex, which opened in 2005 at a cost of \$150m, is now known as the "Valley of the BioGhosts". Dubai's entrepreneurial hub is awash in a sea of red ink. Australia has little to show for its ambitious BITS (Building on Information Technology Strengths) programme. The European Union's European Investment Fund, which was started in 2001 with an endowment of more than €2 billion (\$1.8 billion at the time), has failed in its mission to burnish the sorry record of the European venture-capital industry."

The fact is that entrepreneurs are intelligent risk takers who are also leaders into the unknown, individuals who will risk their lives and life styles in the belief that they can create value, wealth

and opportunity, and do so in an ultra-competitive environment. The entrepreneur is not a GS 12 Government employee. The venture investor must be a counterpoint to that personality, the investor must manage expectations, cajole and guide the entrepreneur, and be realistic as to the expectations, push when needed and pull the plug also when necessary.

A good venture player is as much interested and motivated by financial rewards as is the entrepreneur. Governments and their employees are not. The typical Government employee is a zero risk taker, like the middle and upper management of large companies. The entrepreneur belongs to a clan of unique individuals, they see where others could never achieve the slightest sight.

The risk for any Government is as the Economist states:

"Too many politicians treat entrepreneurship as yet another gravy train. Norway squandered much of its oil wealth investing in new businesses that were founded by the relatives of politicians and bureaucrats. Policymakers are also lax when it comes to designing venture funds. They try to insulate them from risk or allow public investments to crowd out private ones. The Canadian government's experiment with venture capital failed because the Canadian Labor Fund Program had so much money that it frightened off private venture capitalists, while earning mediocre returns itself. ..."

I saw this in Canada where I had a few investment over the years. It was especially intense in Quebec where the Government threw money at local start ups with no regard for their viability. They were intended for social engineering purposes and resulted in large financial losses. Governments just have no idea as to how to run a venture fund. It takes intelligence, effort, luck, and ruthlessness. They are not parts of some Government planning effort.

Finally there is the example of Israel. The Economist states:

"Last year Israel, a country of just over 7m people, attracted as much venture capital as France and Germany combined. Israel has more start-ups per head than any other country (a total of 3,850, or one for every 1,844 Israelis), and more companies listed on the NASDAQ exchange, a hub for fledgling technology firms, than China and India combined. It may not have the same comforting ring as "the Swedish model" or "the polder model", but when it comes to promoting entrepreneurship, "the Israeli model" is the one to emulate."

Having been the CEO of an Israeli company in the early 1990s I saw firsthand how it works. It is pure Darwinian, a ruthless and highly competitive environment of the best of the best and making the social skills learned in the streets of New York look refined by comparison. Yet it works and works well.

The shame is that the current Stimulus program disregards the very engine of our greatness as an economic power. Just look at the broadband program. NTIA as the VC, hardly. Then look at where the Stimulus is going, to teachers, to keep frankly a bloated union even more bloated. Just think what intelligent tax incentives could do to employ people who create value would do both short term and long term. Unfortunately no one in DC seems to have a clue.

Posted by Terry McGarty at [2:17 PM](#)  

Labels: [Economy](#)

[THE STUPIDITY OF THE FRANCHISE](#)

As [we wrote a few years ago](#) and as was presented to Congress and the FCC at the time, the Franchise is the greatest barrier to entry for competing broadband. A comment on [Zero Hedge](#) gave me pause. The person states:

"On more than one occasion over the past 18 months, the Village of Croton has submitted revisions or comments on the TV franchise agreement to VZ, only to have those documents, which VZ appeared eager to have, go without a response. The Village of Croton regularly renegotiates franchise agreements with Cablevision, which both set a precedent in process and substance for the VZ FiOS TV matter, as well as show that we do conclude such agreements in timely fashion for other corporate applicants."

It is clear that this individual has no idea what he is speaking of. It is in his very statement. above which explains the problem It is 18 months, the 18 months of trying to get a franchise from a local board which tries to control a process of which it is totally inept at doing! The local franchise boards are adding tremendous costs to their town driven in most cases by their egos and ignorance, a deadly combination.

Franchise negotiations add to the costs as much as if not more than the fiber backbone. itself I have been there! It is Croton on Hudson and the town "fathers" who will just not get it! They are the ones who are denying the people access, not Verizon! I have seen this everywhere. This person continues:

"Both through our attorney and directly through the village's own contacts within the VZ empire, we have tired to elicit a response from VZ management, but without success. Each time we follow up, we get vague answers that do not appear to eliminate the possibility of FiOS TV coming to Croton, but offer no forward motion either. As of today, we still have no definitive answer, one way or the other. Indeed, my impression is that VZ has no intention of moving forward with the TV service in our community. More, in my discussions with VZ field personnel over the past month, there seems to be no indication that VZ is going to actually bring the TV service to Croton on Hudson. Whereas a year ago, the VZ personnel we touting the benefits of FiOS digital TV, today they say nothing."

These complaints and game playing by the town and NOT Verizon is what adds to the costs. I lived this in New Hampshire just a few years ago and even worse when at Warner Cable in the early 1980s. The Franchise process is one of the most cost wasting efforts in this country. One would have expected more from the Zero Hedge reader. Shame! Perhaps Cablevision is stonewalling Verizon, do you think!

Posted by Terry McGarty at [8:51 AM](#)  

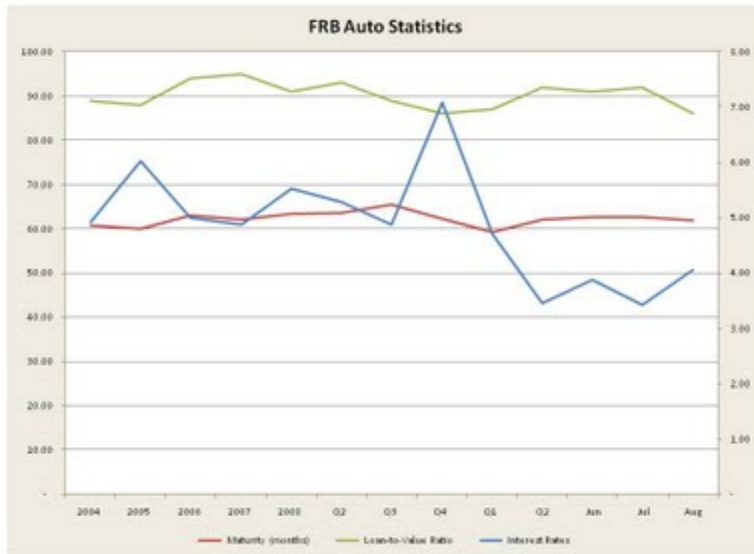
Labels: [Broadband](#)

[SUNDAY, NOVEMBER 1, 2009](#)

[CONSUMER LOAN TRENDS: A CONCERN](#)

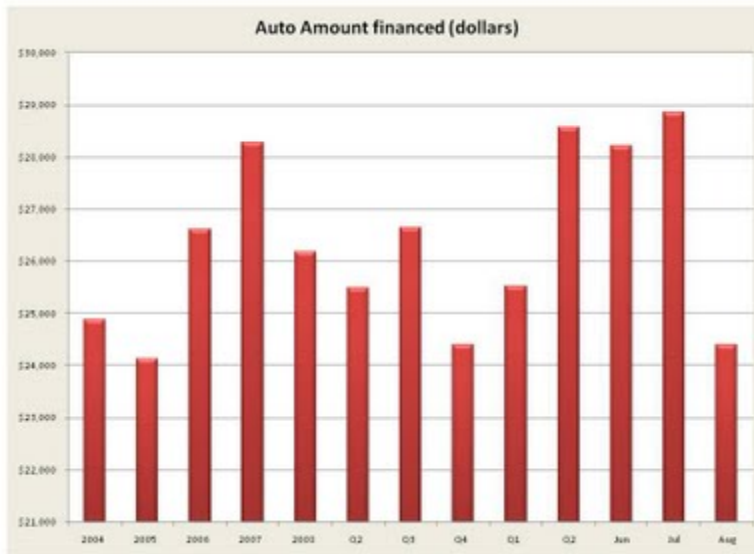
When looking at recent [FRB data on consumer loans](#) an interesting set of values pop out. We look here at two elements, first the auto loan segment and then the total loan pool.

First the auto stats on key ratios. We show these below.



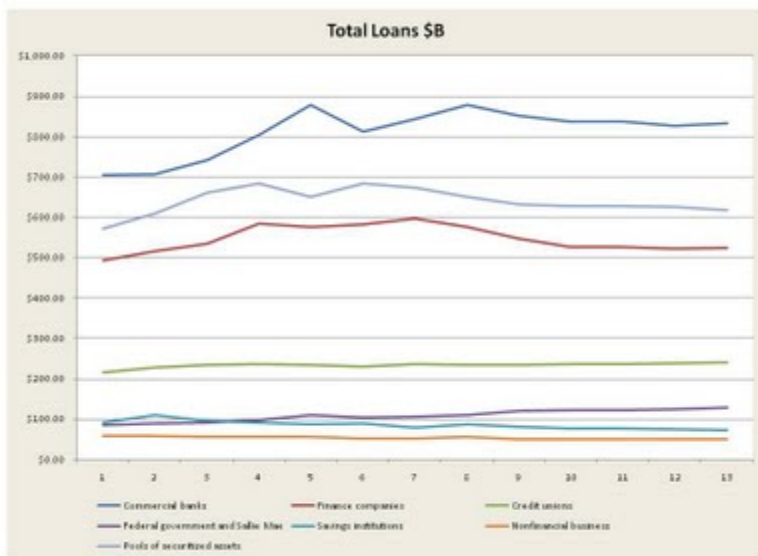
It should be noted in the above that only interest rates appear to have made any substantial change.

Second is the total amount financed on an annualized basis as shown below.

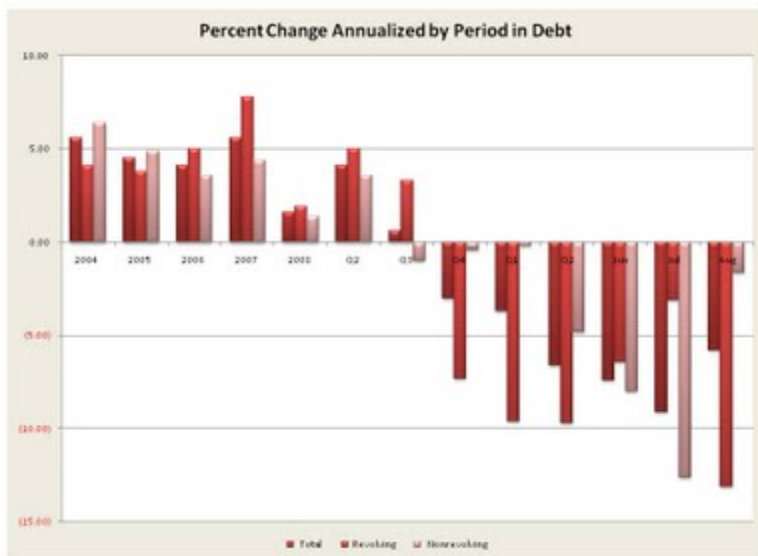


There are swings in the annualized rates but no clear pattern. August 2009 looks like there was a drop but one wonders where the Cash for Clunkers fits in this number.

We then look at the total funds loaned. These are shown below.



There is no clear pattern just looking at the above. Yet if we look at percent changes we see that there is. Thus we look at the change in loans made over this period. This we show below.



This is where we see the dramatic change in numbers. In a post at [Zero Hedge](#) they state:

"As you can see in the chart, even at the depths of any recession of the last half-century plus, year over year credit demand by the private sector has always been in positive territory. We're currently breaking new ground. And this new ground begs the question, is Fed monetary policy impotent? Here we have the lowest Fed funds rate of a generation, and credit is contracting. Completely the opposite of what we have experienced in prior cycles. It could not be clearer. We are convinced this key fact is simply not getting the attention it deserves. Moreover, we need to

remember that government stimulus efforts have been focused on reviving credit demand as of late. C4C (cash for clunker) and the tax credit for home buying was the sheep's clothing used in an attempt to spark credit reacceleration. Crazy enough, despite the success of C4C in August, non-revolving (largely car loans) consumer credit balances actually shrank in the month! Not even C4C could offset the power of household balance sheet reconciliation. That's a very loud message."

We believe that this is of great concern. There is clearly a continuing contraction of credit, due most likely to demand rather than supply. We have shown before that the excess reserves are considerable. This most likely will add weight to the slow recovery.

Posted by Terry McGarty at [8:35 AM](#)  

Labels: [Economy](#)

[WELL DONE WORK CHRONICLING TWO MAJOR FIGURES OF THE COLD WAR](#)

The recent book, [The Hawk and the Dove: Paul Nitze, George Kennan, and the History of the Cold War](#) by Nicholas Thompson is a superbly written book. The author has done a splendid job of laying out the times and lives of these two men. Kennan is a well know thinker and actor in the developing relationships between the US and Russia. He was on-site during some of its most trying times; WW II and as Ambassador. Nitze was in many ways his alter ego. The author compares them to Oppenheimer and Teller, yet perhaps Adams and Jefferson would be a bit more correct.

Kennan was a bit of the introvert while Nitze was more outgoing. Both were creatures of the evolving environment of Washington. The book spans the full scope of the 40s through the 90s, and looks at the relationship of the US to the USSR. Kennan is the one who understands both Russia and the Soviets and the one seeking containment. Nitze understood the threats especially of the nuclear threat having personally gone to Hiroshima.

Having spent five years in the area of nuclear arms control in the late 1970s I, as a young technical adviser to ACDA, saw many of the names involved, albeit at a distance. This book brings them to life with their flaws and strengths. The book captures all of the players, especially in that period, with a clarity that is exceptional. The conflicts during the Carter administration are clearly presented and the conflicts between Warnke and Nitze are accurately portrayed. They were existential in nature and there was a fear of a true clear and present danger of nuclear destruction.

Other reviews of this book go into greater detail, thus I will just add that the author has created a smooth and easy to follow tale of the times using these two men, at times in conflict, yet always friends and gentlemen, as the vehicle. I would strongly recommend this book to anyone who wishes to understand this time and the breath of the pending conflict.

Having spent time in Russia on various venues my Russian friends have a high regard for Kennan, and he is almost an intellectual hero. He understood the separation of the Russian and Soviet mentality. He saw that at heart the Russian were as dedicated to their nation as the Americans and the true threat was Stalin and his ilk.

Posted by Terry McGarty at [7:31 AM](#)  

Labels: [Books](#)

SATURDAY, OCTOBER 31, 2009

ROTC: HARVARD VS MIT

In 1969 when ROTC was banned on the Harvard Campus I was a junior faculty member at MIT and located in what was Building 20, the old "Rad Lab" building, a wooden structure which housed the MIT ROTC groups. Many a night as I worked, with threats of bombing the building by the SDS, I just paid little if any attention. I was from New York and these SDS ers were pikers. There were a few close calls.

In writing [my book on the USS Albert W Grant](#) I had the opportunity to access the records of Hunt Hamill, a classmate and team mate of JFK, class 1940 at Harvard, and the XO on the ship. Hamill was a member of the 1940 Harvard NROTC class and they are shown below.



HARVARD NAVAL ROTC BATTALION 1940
YOURS TRULY BATTALION COMMANDER

This a fine group of Harvard men, but as you read the [NY Times](#) today you see there is less than a handful today. Hamill and his classmates were the heroes of WW II, patriots, who worked together and dies together to defend democracy. The current men are in many ways as much if not more than these men since they have to travel miles to get their training.

The Times states:

"R.O.T.C. students at Harvard and Yale are not the only ones campus-hopping. Harvard is one of eight colleges served by M.I.T., the Army R.O.T.C. host school. Five of these satellite colleges — Wellesley, Tufts, Gordon, Endicott and Salem State — have arranged for transportation for their cadets to get to M.I.T. Several colleges in the consortium have the R.O.T.C. staff travel to their campuses to conduct military classes and physical training, making it easier on their students.

Harvard, with its campus ban, does neither.

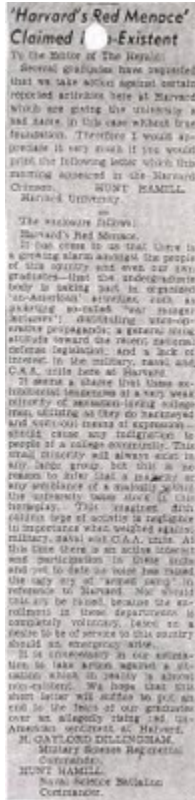
One of the featured speakers at the 2009 Harvard commissioning ceremony, Darnell Whitt II, a retired naval captain, noted that the year he graduated from Harvard — 1959 — 121 seniors were commissioned as officers. He told the R.O.T.C. students that he was sorry their numbers were so few and that he hoped that by the time they returned for their 50th reunion, “the current issues about military matters at Harvard will have been resolved and there will be a closer connection between the great university and those in uniform.””

The article continues:

“President Faust of Harvard, a historian, says that as much as she admires the military — and during her June commissioning speech, she went out of her way to mention an interest she and General Petraeus shared in Ulysses S. Grant — she cannot have a student group on campus that is closed to one part of the student body. The student handbook says that the federal law is “inconsistent with Harvard’s values as stated in its policy on discrimination.””

This is a bit of a stretch since the ban was in 1969 when the issues of homosexuals in the military was not even an issue. The military truly requires men and women from the non-Academy world to come to their ranks and make a truly integrated service. President Faust should come to see the merit of military training and participation since it is by the inclusion of men and women from Harvard that the military will actually evolve with society. The impact on the Navy due to the NROTC men in WW II was tremendous. Admiral Nimitz himself was the NROTC head at Berkeley before going to Washington!

I am reminded of the story by Hamill regarding a call from Gov Saltonstall when he was Cadet Commander of the NROTC at Harvard when there was a revolt against the Communists on Campus. Some students had requested that the NROTC take action and subdue the Communists by force. Saltonstall told Hamill that if any harm befell the Communists that he would take no action. Hamill prudently let the matter cool down. The details are in the clipping below. It is worth a read. The men of the ROTC were true patriots. Perhaps President Faust could also give it a read as well.



Posted by Terry McGarty at 10:32 AM  

Labels: [Commentary](#)

SATURDAY, OCTOBER 31, 2009

CASH FOR CLUNKERS AND THE WHITE HOUSE

I have just been following the battle of words between Edmunds, the automotive industry tracking company and the White House Blog.

[Edmunds](#) made the following statement:

"Edmunds.com has determined that Cash for Clunkers cost taxpayers \$24,000 per vehicle sold...Nearly 690,000 vehicles were sold during the Cash for Clunkers program, officially known as CARS, but Edmunds.com analysts calculated that only 125,000 of the sales were incremental. The rest of the sales would have happened anyway, regardless of the existence of the program. Ironically, the average transaction price for a new vehicle in August 2009 was only \$26,915 minus an average cash rebate of \$1,667.. "This analysis is valuable for two reasons," explained Edmunds.com CEO Jeremy Anwyl. "First, it can form the basis for a complete assessment of the program's impact and costs. Second—and more important—it can help us to understand the true state of auto sales and the economy. For example, October sales are up, but without Cash for Clunkers, sales would have been even better. This suggests that the industry's recovery is gaining momentum.""

Putting the numbers aside the issue is quite a simple one. There would have been some systemic buy rate with or without the program and that the program increased the buy rate and thus the true costs per new sale should be, per Edmunds, the total rebates spent divided by the incremental sales.

Well this is a typical marginal sales analysis. Anyone who has ever been in retail knows that you advertise to get new sales and that you look at the cost of the new sales based upon the advertising. You may use average costs but the marginal costs are the true costs. Simple Business 101. Anyone who has ever had a real job will catch that point. Thus to a great degree Edmunds had a point.

The [White House Blog](#) then decides to get into the fray. They post a Blog entry, *Busy Covering Car Sales on Mars, Edmunds.com Gets It Wrong (Again) on Cash for Clunkers*, by one Macon Phillips which states:

"On the same day that we found out that motor vehicle output added 1.7% to economic growth in the third quarter – the largest contribution to quarterly growth in over a decade – [Edmunds.com](#) has released a faulty analysis suggesting that the Cash for Clunkers program had no meaningful impact on our economy or on overall auto sales. This is the latest of several critical “analyses” of the Cash for Clunkers program from Edmunds.com, which appear designed to grab headlines and get coverage on cable TV. Like many of their previous attempts, this latest claim doesn’t withstand even basic scrutiny...

The Edmunds’ analysis rests on the assumption that the market for cars that didn’t qualify for Cash for Clunkers was completely unaffected by this program.

In other words, all the other cars were being sold on Mars, while the rest of the country was caught up in the excitement of the Cash for Clunkers program. This analysis ignores not only the price impacts that a program like Cash for Clunkers has on the rest of the vehicle market, but the reports from across the country that people were drawn into dealerships by the Cash for Clunkers program and ended up buying cars even though their old car was not eligible for the program...."

Well the highlighted comment is confusion on the part of the White House Blogger between average and marginal costs. Yes indeed if one looks on an average basis the cost was whatever you spent but marginally it was many times more. Why the Blogger uses the Mars reference is beyond me except it appears as a very childish thing to do on a White House site, yet it may be a generational thing. Since the Blogger appears to know little if anything of economics and business it can be forgiven as childhood enthusiasm.

Now the [CEA report](#) the blogger refers to. This is another Romer Report, of whose credibility we have been questioning since her initial prognostication on the economy in January. The Report states:

"On the other hand, Macroeconomic Advisers argues that “almost all the sales under this program just moved forward transactions that would otherwise have taken place over the next several months.” They therefore expect only a very small effect on the path of GDP. This is clearly a worst-case scenario, and appears to require extreme assumptions about both usual clunker-replacement demand and the payback effect.

In contrast, IHS Global Insight has estimated the CARS program will add about 600,000 net sales to the market this year, more than in even our most optimistic scenario, which puts the figure at 560,000. If their forecast turns out to be correct, the impact on GDP and employment will be larger than we have projected.

A final point of comparison is a mid-August assessment by J.D. Power, a leading auto industry forecaster, that the net boost to auto sales for all of 2009 from the CARS program will have been 300,000. This compares with our baseline scenario of a 2009 boost of about 330,000."

Yes, the data is correct but again the point is marginal versus average costs. Was the program useful, I would have to say yes in that it did increase auto sales, yet was it costly, yes, as are all the Stimulus programs. Was the program necessary, perhaps. Time will tell. Yet the White House Blog should get a bit more professional and less childish in its analysis of its critics.

Posted by Terry McGarty at [6:56 AM](#)  

Labels: [Commentary](#), [Economy](#)

[FRIDAY, OCTOBER 30, 2009](#)

[HR 3962, THE IRS SEEMS TO BE GONE](#)

When we [reviewed HR 3200](#) we had a major concern regarding the IRS as the enforcer. In the current revision listed as HR 3962 and discussed earlier we see that the IRS seems to have gone the way of the dodo. This for those who were concerned perhaps we may have a sigh of relief. Yet I would not hold our communal breath too long, it may yet return.

Posted by Terry McGarty at [9:20 AM](#)  

Labels: [Health Care](#)

[CBO ON THE LATEST HOUSE PLAN](#)

The [CBO has issued their report](#) on the latest health care plan, HR 3962. The CBO states:

"According to CBO and JCT's assessment, enacting H.R. 3962 would result in a net reduction in federal budget deficits of \$104 billion over the 2010– 2019 period (see Table 1). In the subsequent decade, the collective effect of its provisions would probably be slight reductions in federal budget deficits. Those estimates are all subject to substantial uncertainty. The estimate includes a projected net cost of \$894 billion over 10 years for the proposed expansions in insurance coverage. That net cost itself reflects a gross total of \$1,055 billion in subsidies provided through the exchanges (and related spending), increased net outlays for Medicaid and the Children's Health Insurance Program (CHIP), and tax credits for small employers; those costs are partly offset by \$167 billion in collections of penalties paid by individuals and employers. On balance, other effects on revenues and outlays associated with the coverage provisions add \$6 billion to their total cost."

The CBO presents a good summary of the PO part of the Plan which they summarize as:

"Policies purchased through the exchanges (or directly from insurers) would have to meet several requirements: In particular, insurers would have to accept all applicants, could not limit coverage for preexisting medical conditions, and could not vary premiums to reflect differences in enrollees' health. The options available in the insurance exchange would include private health insurance plans as well as a public plan that would be administered by the Secretary of Health and Human Services (HHS). The public plan would negotiate payment rates with all providers and suppliers of health care goods and services; providers would not be required to participate in the public plan in order to participate in Medicare. The public plan would have to charge premiums that covered its costs, including the costs of paying back start-up funding that the government would provide."

The CBO report as usual is the best summary. It is worth a first read.

Posted by Terry McGarty at [2:21 AM](#)  

Labels: [Health Care](#)

[THE PUBLIC OPTION: A SYSTEMS ANALYSIS APPROACH](#)

The Public Option, PO, has been proposed and there has been no analytical study of what may be the market dynamics as a result of its introduction. We have commenced a study of this effect. Specifically we have constructed a model of the market dynamics of a PO and what the participation could look like under varying conditions. We will be presenting the results in a White Paper shortly. However given the intensity of the discussions we felt that an early discussion was warranted.

The analysis consists of the dynamics of patients and providers in a PO and in a private plan, PP. Specifically we look at the dynamics over time of a PO compared to a PP. We assumed that persons and providers were either in a PO or a PP. That they moved back and forth over time due to observable from the prior time interval. These drivers from one to the other were either attractants or repellents.

For the person selecting a plan the attractant is the price difference between a PO and a PP. The greater the difference the more the person went to the PO. On the other hand the repellent was the quality as reflected in patients per provider. The person looked at the difference in patient per provider in a PO and a PP and the greater the difference the greater the repellent effect. Thus as more people went to a PO due to price the more patients per provider resulted which in turn became a repellent.

For the provider there are just repellents. First is the reimbursement, which is plan dependent only and not dependent upon patients. Second is the load of patients per provider.

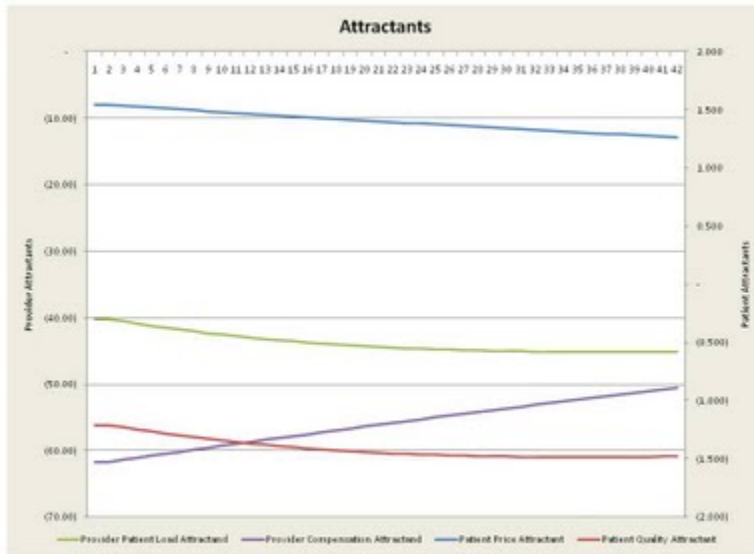
We combined these into a dynamic model of the type:

$N(k+1) = a N(k) + \text{Attractant}(k) - \text{Repellent}(k)$, where N is the number of persons say in a PO

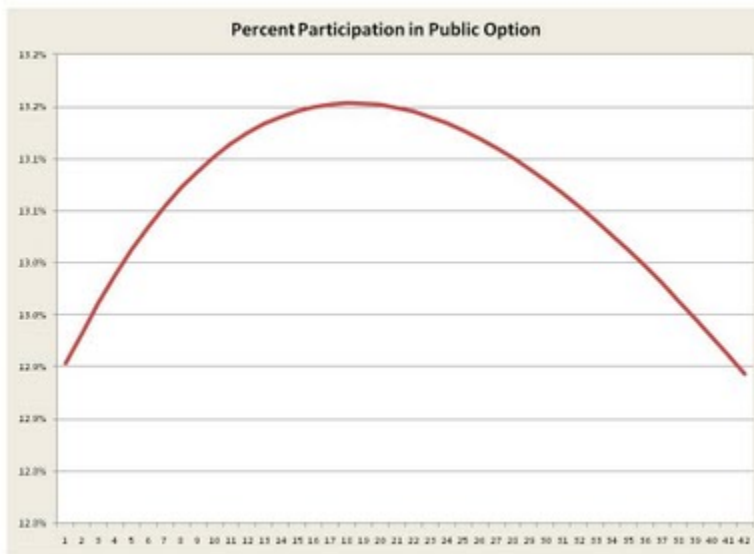
and

$P(k+1) = b P(k) + \text{Attractant}(k) - \text{Repellent}(k)$, where P is the number of providers.

Calculations for attractants, repellents are negative attractants, are shown below:

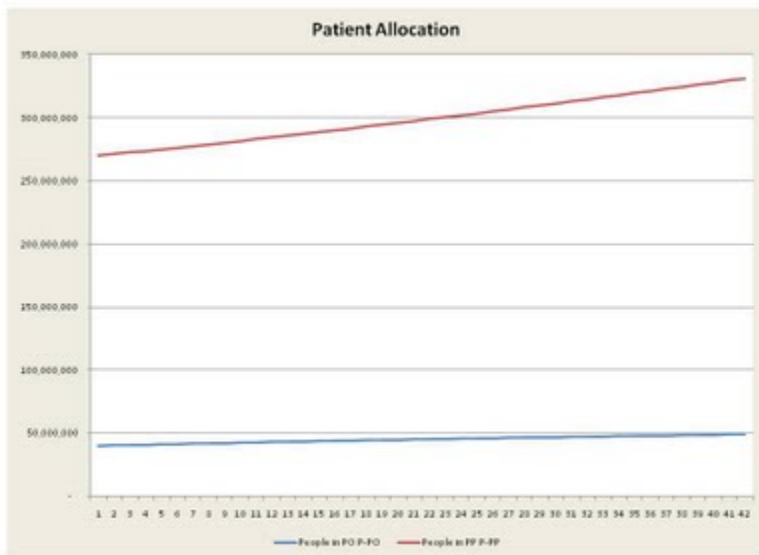


These are of course subject to change but they demonstrate the viability of the approach. Now using these values we can determine the percent of the people who will participate in a PO plan and we show its dynamics below:

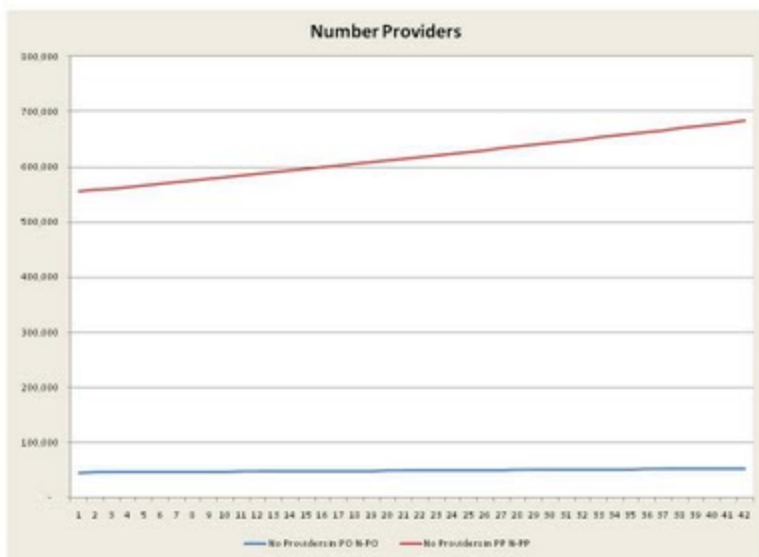


Note that this shows an increase and then a decrease. This effect is first driven by cost, lower costs of the plan, and then driven by the lower quality where subscribers leave the plan.

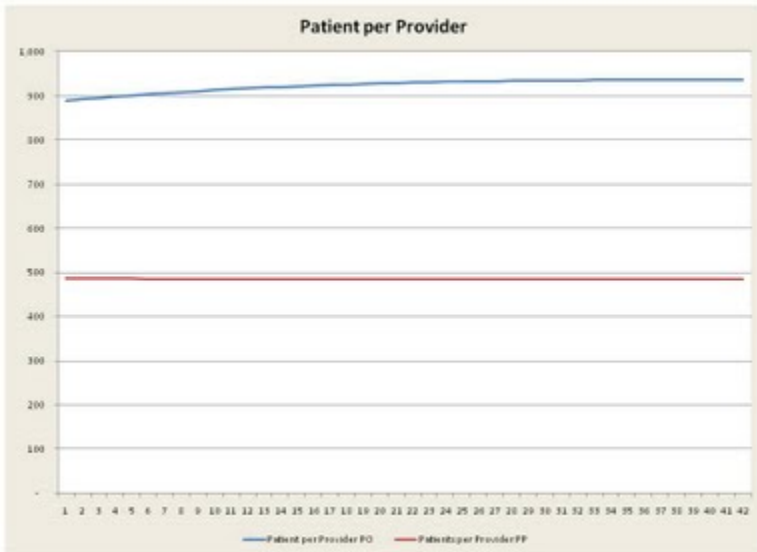
We now depict the patient participation.



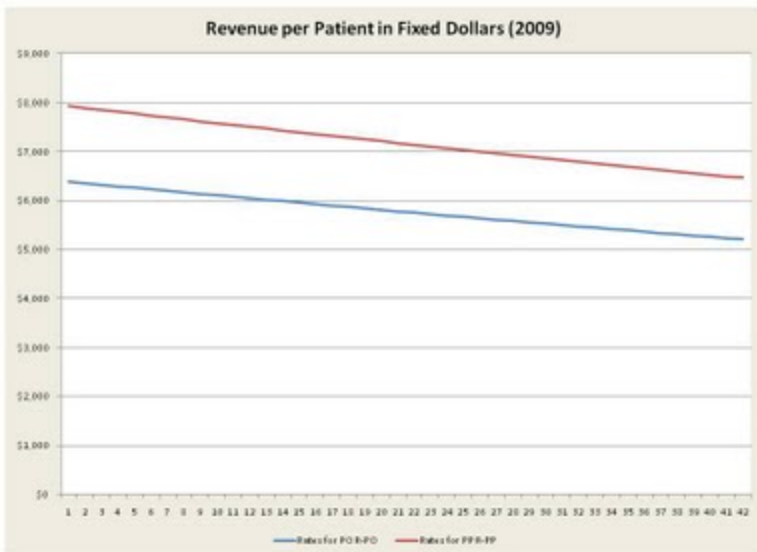
The following is the provider participation. In all analyses we have found low provider participation. This is similar to what we see in Medicaid and what we are beginning to see in Medicare. There is a growing refusal by many, especially the most competent physicians, to participate. If one wants good care one must pay.



The patient per provider ratio has the most impact in our analyses. The numbers are shown below for this example.



The revenue per patient is also a factor but seems to be secondary. We depict that below:



We believe that detailed studies of this type are essential. We also believe that systems type analysis are not what the economists do. They fall into two camps. The macro type who conjure up slopes of trends, which are meaningless and fail to account for the dynamic factors or the econometric types who used old data to project new trends, which have the seeds of their own destruction already sown.

The major concern we have is the providers ability to opt out of a PO. I have not yet studied the massive 1990 page Bill but that is a concern.

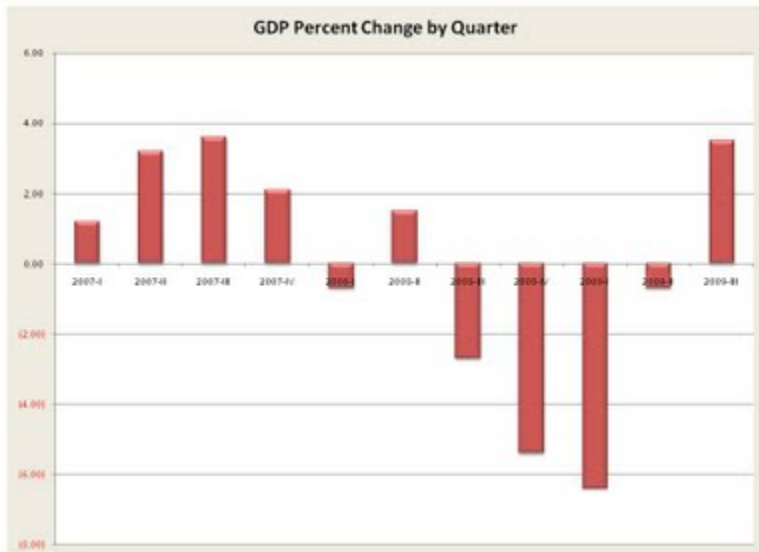
Posted by Terry McGarty at [1:41 AM](#)  

Labels: [Health Care](#)

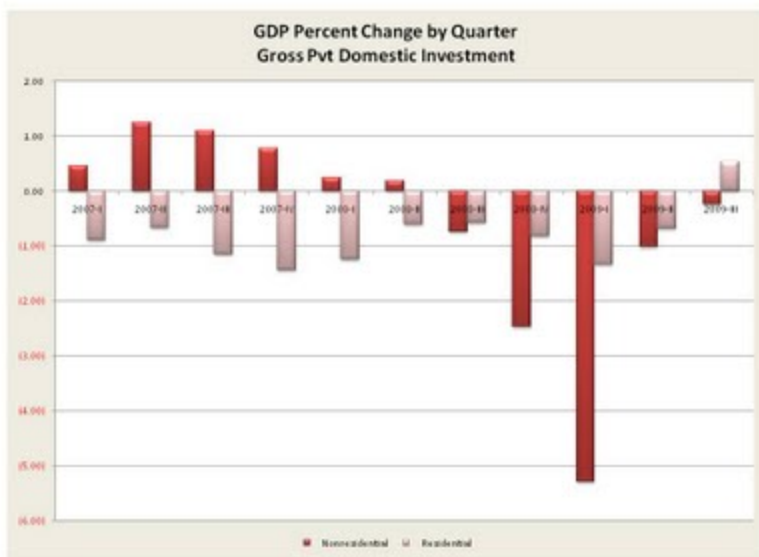
GDP CHANGES, SOME DETAIL

We have analyzed the recent GDP data released yesterday and there is some insight in the details.

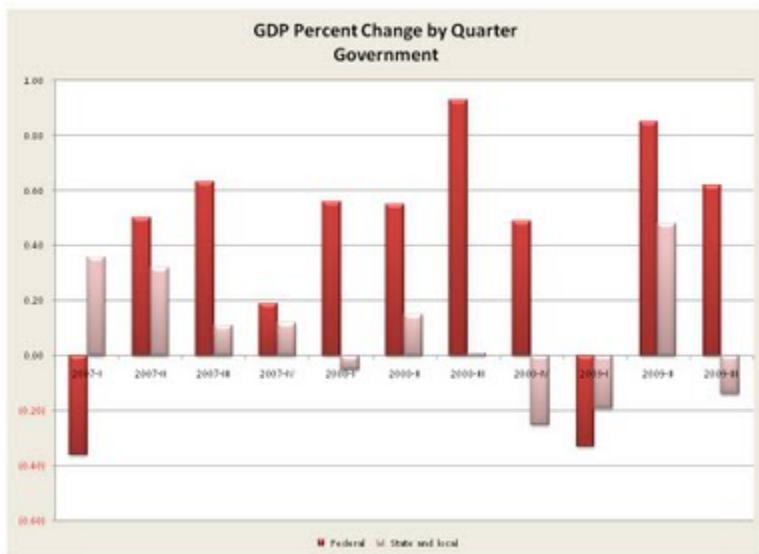
First we present the GDP changes by quarter over the duration of the recession in the figure below. The results reiterate what we presented yesterday.



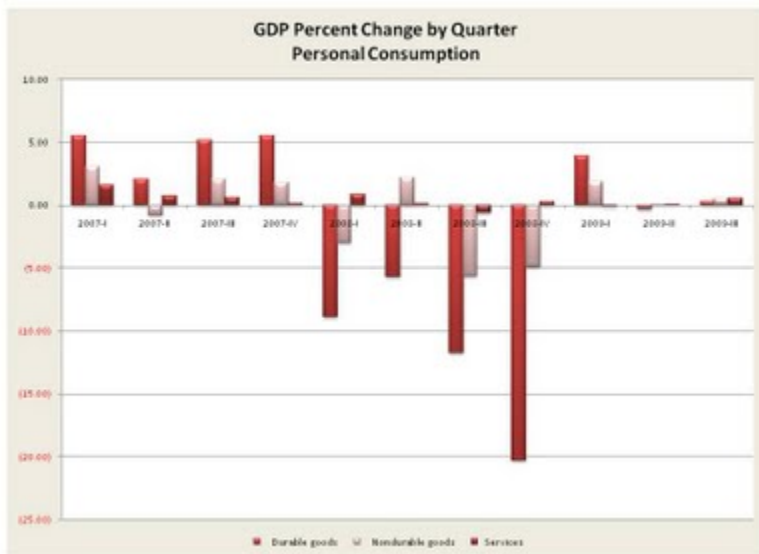
Second we show the changes in the domestic investment element of residential and non residential. The positive upswing in residential is heartening. It has been suggested that the reason for this is the home tax benefit but it is equally of more likely to be the low interest plus the bottoming of the market. Pressure due to high unemployment and continued uncertainty will keep this low however.



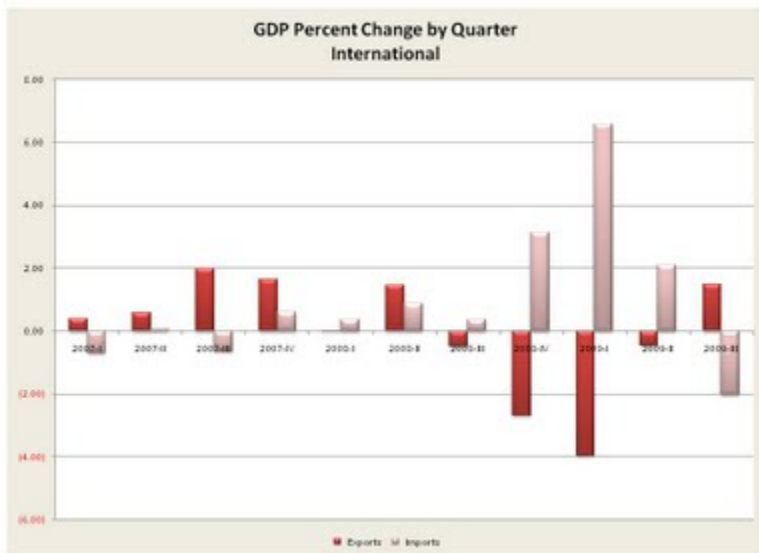
Third we show the Government elements, federal and state. There is a clear jump in federal and a continued decrease in state. The reason is uncertain because it was assumed the Stimulus would impact the states whereas it has not.



Fourth is personal consumption which is showing some life but still remains low.



Fifth is the trade element showing an increase in exports and decrease in imports. Perhaps this is a combined effect of the weakness in the dollar, the growth in other economies as well as the lagging demand in the US.



The main driver is still Federal Government spending yet the residential investment portion is a positive sign as is the export element.

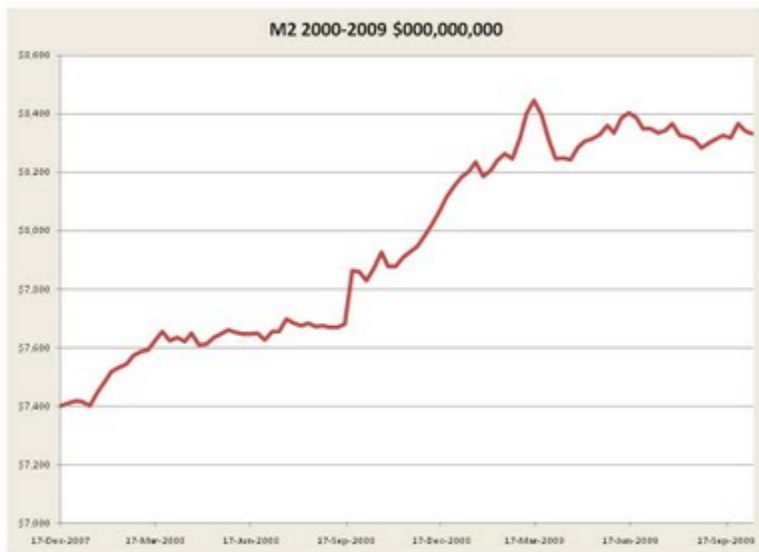
Posted by Terry McGarty at [1:23 AM](#)  

Labels: [Economy](#)

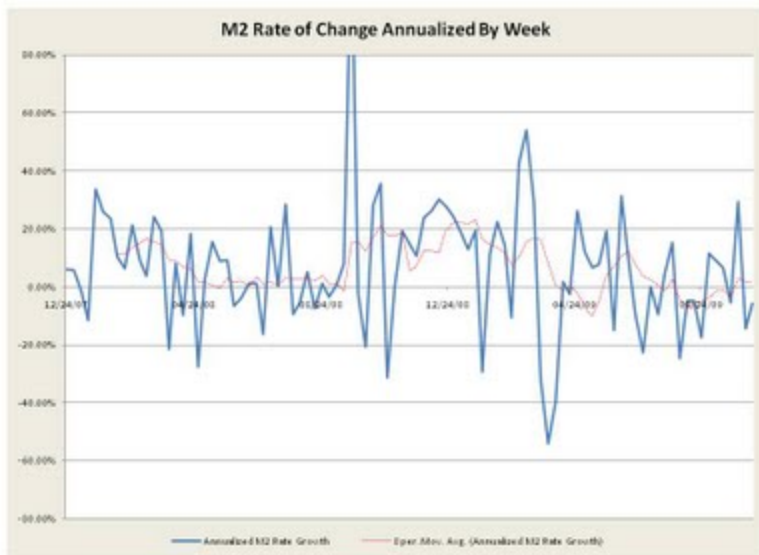
[M2, GDP, INFLATION UPDATE](#)

We here review the impact of the GDP increase on inflation projections.

First the following shows the M2 growth up to the latest data, including Q3 2009. M2 has remained flat over the duration of the Recession and in the last Quarter it has even been reduced again.



The following shows the M2 volatility and it changes. It continues to show a dampening in its volatility which suggest some stability. We are still concerned that the banks maintain their excess reserves and once that is released it will increase M2.



The last chart shows the elements which add to the inflation calculation from the M2 data, velocity and GDP change. The resultant inflation estimate is still low for Q3. We have not yet compared that to the CPI changes but the core inflation resulting from the monetary calculation remains low.



Posted by Terry McGarty at [1:14 AM](#)  

Labels: [Economy](#)

THURSDAY, OCTOBER 29, 2009

[JUST IN TIME FOR HALLOWEEN](#)

Halloween is upon us and the leaders from the House have thrown out a latest 1990 page [Health Care Bill!](#) If you had problems with HR 3200 you will love this one.

[They state](#) the following:

1. REDUCES THE DEFICIT MORE—According to the CBO, the revised bill reduces the deficit by \$30 billion over the first 10 years.
2. ENDS HEALTH INSURANCE COMPANIES' BLANKET EXEMPTION FROM ANTI-TRUST LAWS
3. EXTENDS COVERAGE FOR YOUNG PEOPLE UP TO 27TH BIRTHDAY THROUGH PARENTS' INSURANCE
4. CREATES A NEW, VOLUNTARY, PUBLIC LONG-TERM CARE INSURANCE PROGRAM
5. EXEMPTS SMALL BUSINESSES WITH PAYROLLS BELOW \$500,000 FROM EMPLOYER MANDATE
6. LIMITS THE "HEALTH CARE SURCHARGE" TO MILLIONAIRES
7. ADDRESSING GEOGRAPHIC VARIATIONS IN MEDICARE PAYMENTS/MOVING TO MEDICARE PAYMENTS REWARDING QUALITY AND COST-EFFECTIVENESS
8. BEGINS CLOSING THE MEDICARE PART D DONUT HOLE IMMEDIATELY
9. IMMEDIATE HELP FOR THE UNINSURED (INTERIM HIGH-RISK POOL)
10. HHS NEGOTIATION OF DRUG PRICES

This means public option and an in your face attack. Frankly the numbers are unbelievable. There is not CBO report.

Posted by Terry McGarty at [9:47 AM](#)  

Labels: [Health Care](#)

THURSDAY, OCTOBER 29, 2009

GDP GROWTH

The [Bureau of Economic Analysis](#) has announce that the GDP has increased at an annualized rate of 3.5% from Q2 2009 to Q3 2009. This compares to a comparable -0.7% change for Q1 to Q2 2009.

Specifically BEA notes:

"Motor vehicle output added 1.66 percentage points to the third-quarter change in real GDP after adding 0.19 percentage point to the second-quarter change. Final sales of computers subtracted 0.11 percentage point from the third-quarter change in real GDP after subtracting 0.04 percentage point from the second-quarter change.

Real personal consumption expenditures increased 3.4 percent in the third quarter, in contrast to a decrease of 0.9 percent in the second.

Durable goods increased 22.3 percent, in contrast to a decrease of 5.6 percent. The third-quarter increase largely reflected motor vehicle purchases under the Consumer Assistance to Recycle and Save Act of 2009 (popularly called, "Cash for Clunkers" Program).

Nondurable goods increased 2.0 percent in the third quarter, in contrast to a decrease of 1.9 percent in the second. Services increased 1.2 percent, compared with an increase of 0.2 percent. Real nonresidential fixed investment decreased 2.5 percent in the third quarter, compared with a decrease of 9.6 percent in the second.

Nonresidential structures decreased 9.0 percent, compared with a decrease of 17.3 percent. Equipment and software increased 1.1 percent, in contrast to a decrease of 4.9 percent.

Real residential fixed investment increased 23.4 percent, in contrast to a decrease of 23.3 percent.

Real exports of goods and services increased 14.7 percent in the third quarter, in contrast to a decrease of 4.1 percent in the second.

Real imports of goods and services increased 16.4 percent, in contrast to a decrease of 14.7 percent."

The remaining question is why do we need to spend more on Stimulus and add to the already exploding deficit.

Posted by Terry McGarty at [5:42 AM](#)  

Labels: [Economy](#)

TUESDAY, OCTOBER 27, 2009

HEALTH INSURANCE AND MEDICARE

The costs of Health Insurance is rising 15% for next year(See [several articles](#).). I have studied several plans and they all seem to come in at that number. A somewhat out of the way but typical example come from [Alaska](#) which states:

"Individuals seeking personal health insurance will see their rates raise an average of 17.5 percent this year, while businesses with two to 99 employees will see rates increase 21.7 percent, says Katie Campbell, actuary for the Alaska Division of Insurance.

Those increases compare with a nearly 32 percent average rate increase in 2008 for individuals and 28.8 percent for employers of up to 99 people, Campbell said Oct. 16"

The question is, why?

1. There is no inflation, in fact the opposite is true so it cannot relate to that..
2. Physicians are not being paid more, in fact as the population ages those treating Medicare patients are paid less.
3. However as we stated earlier when reviewing the employment stats, the only increase in employment is in health care, especially hospitals, home care, hospice care, nursing home care. It appears that these institutions are bulking up in anticipation of change and as usual the individuals are paying.

4. Health care costs were at \$2.1T in 2006 and are anticipated to be at \$2.5 in 2009. This is an annualized rate of 6%, well ahead of inflation, yet well below the 15% number for 2010! Medicare has increased almost 100% for Part B.

5. Notwithstanding these numbers there are insurance increases that far exceed the overall expenditures on health care. One suspects that the insurers are front loading their fees in anticipation.

With Congress discussing public options and the like, what will happen is that the insurers are becoming their own worst enemies and yet Congress is not paying attention.

Now to Medicare. There are several hopefully negative unintended consequences if Congress pushes down Medicare rates.

1. Fewer physicians will accept Medicare patients. We see this happening now especially in major metropolitan areas.

2. Medicare reimbursements are being reduced so that if a physician participates in Medicare the reimbursement is getting to an unacceptable level, lower than costs in many areas. This applies to physicians and not hospitals which seem to be doing fine.

3. If one has a supplementary policy it pays up to say 80% of what the costs are after assuming Medicare pays. Let us examine this scenario. Let us assume a patient needs a hip replacement. The costs of the hospital is say \$45,000 and the physician is \$25,000. This is a total of \$70,000. Now let us assume that Medicare had paid \$35,000 to the hospital and \$15,000 to the physician. If either participated then they would have to accept that payment. Yet they may charge you more which you pay, the 20% above and in fact the provider could charge more. Thus your supplementary insurance would assist in paying the excess.

4. In anticipation of the reduction in Medicare for 2010, the insurance companies are driving up the supplementary payments.

5. If Medicare becomes so low a reimbursement plan, and if you select a provider who will not accept Medicare, the question is what becomes of the supplementary plan, is it now the primary, leaving you with what Medicare would have paid as well as any excess not covered by the plan? Does this supplementary become a de facto primary for Medicare if you cannot find a provider accepting Medicare. If so, then expect explosive supplementary rates as we are now seeing.

Posted by Terry McGarty at [8:19 AM](#)  

Labels: [Health Care](#)

MONDAY, OCTOBER 26, 2009

[ROMER AND HEALTH CARE](#)

The head of the [CEA gave a speech today](#) regarding health care. One must remember that this is the same individual who so correctly predicted the economic impact of the Stimulus, thus we suspect that her prognostications are to be less than accurate.

However it is worth seeing what she says:

"The Senate Finance Committee bill includes a tax on high-priced insurance plans, suggested by Senator Kerry. A policy along these lines, designed carefully, will encourage both employers and employees to be more watchful health care consumers. It will discourage insurance companies from offering high-priced plans that would otherwise eat up larger and larger shares of workers' wages. A policy such as this is probably the number one item that health economists across the ideological spectrum believe is likely to stem the explosion of health care costs."

When one analyzes the effect of the high cost plans they appear to impact Goldman Sachs and Union employees. For the most part Americans are on the budget plans. A high end plan is paid for by someone, the employer or even the individual. How taxing them reduces costs has never been explained. They cover a small percentage of people and they do not in any way drive up demand or increase incidence. There just is no line around the block waiting for colonoscopies.

She continues:

"Several of the current versions of health insurance reform include sensible payment reforms for doctors, hospitals, and other providers participating in Medicare. For example, bundling payments for an episode of care associated with an acute event, such as a heart attack or a hip fracture, is a common-sense change. It gives doctors and hospitals the right incentives to provide patients with efficient and high-quality care, and the information they need to manage the transition back home successfully. These incentives improve patient care and outcomes, while lowering costs in the long run."

As we have stated before and as we have detailed in our [Book on Health Care](#) the use of bundling will just memorialize the inefficient structure of hospitalized care and drive out physician based innovation. Bundled Care is a hospital controlled service and it forces collectives of low cost physicians which generally provide lowered levels of care. It maximizes the hospital's return.

She continues:

"Precisely because such reforms are so important for both cost containment and patient health, it is crucial to create an institutional structure that encourages and routinizes such innovations. That is why the President has endorsed the establishment of an Independent Medicare Advisory Council (IMAC). The IMAC would provide Congress each year with cost-saving recommendations that improve care and maintain benefits. By removing some of the political pressure around such reforms, the IMAC would make it easier for improvements to be made year after year..."

The IMAC in principle is not new for it is but a regeneration of what Medicare has been doing all along. By the time a person has gotten on Medicare two facts are clear. First they have contributed more than they will ever get back in benefits, the money having been spent by Congress. Second, the ability to modify any potential disease states is de minimus.

She continues:

"Recent CEA research suggests that the total fiscal impact of health care reform may be even larger than our baseline estimates suggest. As I have described, current draft legislation greatly expands access to health insurance coverage. This change is crucially important for state and local governments that currently pay for much of the care provided to the uninsured. Using a wide range of sources, including state reports, county records, and numerous phone surveys of local officials, the CEA has provided lower-bound estimates of the amount that sixteen states currently spend on care for those without insurance. We find that these sixteen states are spending at least \$3.6 billion per year (in 2007 dollars) on this uncompensated care. We estimated that they are spending another \$600 million on higher insurance premiums for state and local government employees because of the hidden tax uncompensated care adds to all private insurance premiums. All told, the states in our sample are spending at least \$4.2 billion on care for the uninsured each year."

First one must see that these are CEA estimates which we have seen are less than worthless. Second her analysis grossly neglects the issue of reducing demand, such as that of Type 2 Diabetes due to obesity. Ms. Romer, we wonder why?

Posted by Terry McGarty at [4:30 PM](#)  

Labels: [Health Care](#)

[FAIRPOINT BANKRUPTCY](#)

Fairpoint today announced that it has filed for bankruptcy, say [Reuters](#). It states:

"Rural telecom services provider FairPoint Communications Inc ([FRP.N](#)) filed for Chapter 11 protection in a Manhattan bankruptcy court on Monday, under a pre-arranged plan that would cut its debt by \$1.7 billion."

We have been saying this for well over a year. The interesting question is what impact this will have on Verizon and what shareholder suits will follow. In our opinion, as we have stated many times before, Fairpoint never had a chance and it should have known this from the outset. The management has just destroyed shareholder value and places the telephone users in the New England states at a disadvantage.

Reuters summarizes the claim:

"In its Chapter 11 filing, the company listed total assets of about \$3.24 billion and debt of about \$3.23 billion... its annual interest expenses would be reduced from more than \$200 million to about \$65 million...1.7 million access line equivalents... the seventh largest local telephone company in the United States."

In our 2002 paper on the [Collapse of Telecom](#) we predicted many such collapses. The question will be just where this leaves Verizon.

Posted by Terry McGarty at [6:35 AM](#)  

Labels: [Telecom](#)

[EDUCATION, RAWLS, AND TEACHING](#)

The [Wall Street Journal](#) had an article on the failure of Science and Math education in the US. As one involved at the latter end of the process I see that I have had not a single US born student in my last five years. They have been mostly Asian. I also once spent a year teaching at Columbia University School of Business and I found that most of the students had at best a 10th grade understanding of math and were generally ignorant of science, other than what the NY Times told them.

Thus I was not surprised when I read the Rawlsian head of U Penn state:

"AMY GUTMANN: The Sputnik era didn't come because a lot of idealists said we had to be better. It came because there were idealists as there are today who said we're in trouble as a country, we have to compete against the Russians. We have to compete today against the Chinese and Indians who are graduating tens of thousands more very talented science, math and engineering graduates from their colleges. They're not doing better than we are at the college and university level, but they're doing massively better than we are in the numbers. They have hugely greater populations."

She uses the term "idealists" to describe the decision makers. As one who participated in the process at the time there was abject terror about the Russians and the delivery of weapons from space. A good factual history is the recent book by Sheehan, [A Fiery Peace in a Cold War](#), which recounts those times fairly accurately. I content that they may not be competing well against American at U Penn, in Arts and the like, but they are beating the heck out of Americans in graduate studies at MIT and Stanford! Here is a Rawlsian educator who in my opinion is defective in basic facts. It is NOT the populations, of China and India it is their competitive spirit. They are more individualistic competitors than most American students. They have not spent time reading Rawls and Marx, in the Chinese case despite their underlying Government, they are striving for success, they are competing. They do not play games where everyone wins, there are many who do not make it and they have to "deal with it". Frankly it is the Rawlsian ethic of having the least do as well as the most, the idea of communal ownership of even one's intellect, that gives rise to what we see in the US today.

In contrast to the every Rawlsian Gutmann is Joel Klein who states:

"JOEL KLEIN: The most important thing is to bring to K-12 education college graduates who excel in math and science. Those countries that are doing best are recruiting their K-12 teachers from the top third of their college graduates. America is recruiting our teachers generally from the bottom third, and when you go into our high-needs communities, we're clearly underserving them."



Yes, teachers are from the bottom third. To teach Math and Science one needs the best educated. Thus if one has a PhD say from MIT in Math or Science, and if one has taught for say 30 years, one is hardly qualified to teach Geometry in a public school. Why, no certificate, no training in overhead projectors, no experience in the training of the psychology of dealing with inequality amongst class members, not training in developing a Rawlsian ethic, and not a member of the teacher's union.

Now back to Gutmann. She states:

"MS. GUTMANN: *The single biggest lever for economic innovation in our society is education, and it's not a direct lever of the President.*

So what he can do is only really fund excellence initiatives, and they have to be distributed to the states. And I think the key here is making K-12 education more competitive on the ground. Let me give you an example. When the stimulus went through, \$10.4 billion was put in for [National Institutes of Health] funding. That money in biomedical research is going to generate the innovations of tomorrow. There has to be at the K-12 level an understanding of how the federal government can incentivize competition."

The single biggest lever for innovation is NOT education, that is necessary but not sufficient, it is an entrepreneurial environment, the willingness to take risks, to seek regards, to better the competition, to outright win. That is antithetical to a Rawlsian like Gutmann! Thus Klein is correct in his assessment whereas Gutmann is well off base. Yet it is the same ad hoc propiter hoc arguments of Gutmann that are used to justify the current Administrations efforts. In reality it is competition and reward that motivates and stimulates not the idealists of Gutmann. I can remember many of the idealists in the 50s and early 60s, and for the most part, I believe without exception, the developments came from the entrepreneurs, not the idealists!

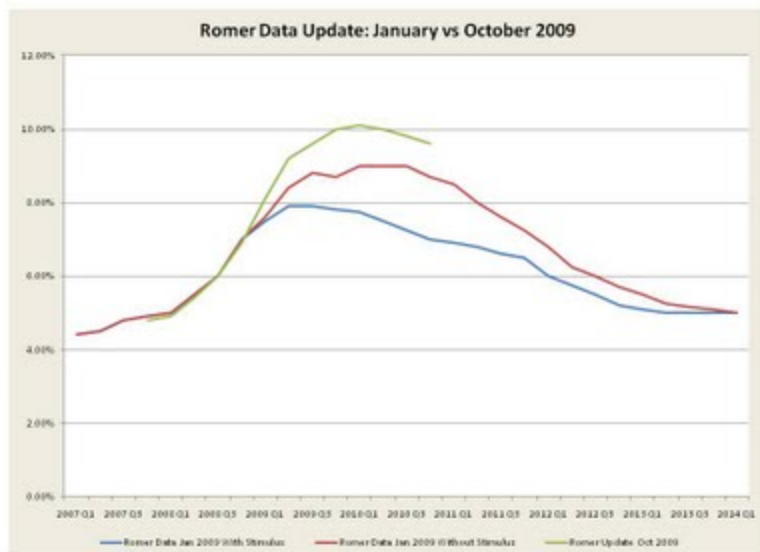
Posted by Terry McGarty at [5:43 AM](#)  

Labels: [Commentary](#)

SUNDAY, OCTOBER 25, 2009

[THE ROMER DATA: A COMPARISON](#)

I have been spending time looking at the Romer data regarding the economy especially unemployment projections. The graph below compare her latest projections as compared to what she stated in January with and without the Stimulus.



The top line is her latest projections. Her comments should be on concern. If the Stimulus has had its maximum effect and if she continues to project unemployment well above 9% then why

spend more Stimulus money, for it is clear that the data she and her husband had analyzed in detail a year before she took her position was correct, Government funding has little effect.

Another issue is given the wide variation in her projections, why should anyone believe anything she says? If a CFO of GM made these projections he or she would be fired. Why not Romer?

The question is what game is being played here. Does she have any belief in any of the numbers she presents or are they all fabrications of the White House. Is this just another grab for spending more money?

Furthermore in January she projected out thru 2014, now she is doing so only to 2014. Perhaps the Academic is being cautious.

Posted by Terry McGarty at [2:12 PM](#)  

Labels: [Economics](#)

SATURDAY, OCTOBER 24, 2009

[AND SOME WANT GOVERNMENT RUN HEALTH CARE!](#)

The H1N1 vaccine delay is another Government mess, so says the [NY Times](#), albeit soto voce. It is not as if anyone was caught off guard. The States managed to assemble all of their efforts and waited for the Government. Well as I learned as a young man, prior planning prevents poor performance. Lives may be at risk, yet the folks who want to control all of your lives have managed to mess up the egg yolks!

One wonders if this message carries over to what Congress is about. Can the collection of folks up there on the Hill every get anything right. Also the Secretary of HHS seems clueless as well. If this were a real business they would be replaced.

Posted by Terry McGarty at [6:25 PM](#)  

Labels: [Health Care](#)

FRIDAY, OCTOBER 23, 2009

[THE FCC, INTERNET NEUTRALITY AND JURISDICTION, IF ANY.](#)

The question on the table is by what authority does the FCC act? Yesterday the [FCC issued its first blast on Net Neutrality](#). They state (as usual the references are key):

"B. Our Authority to Prescribe Rules Implementing Federal Internet Policy

83. Consistent with the Comcast Network Management Practices Order, we may exercise jurisdiction under the Act to regulate the network practices of facilities-based broadband Internet access service providers. We have ancillary jurisdiction over matters not directly addressed in the Act when the subject matter falls within the agency's general statutory grant of jurisdiction and the regulation is "reasonably ancillary to the effective performance of the Commission's various responsibilities."195 That test is met with respect to broadband Internet access service.196

84. As explained in the Comcast Network Management Practices Order, we believe that exercising ancillary authority over facilities-based Internet access will "promote the objectives for which the Commission has been [specifically] assigned jurisdiction" and "further the achievement of . . . [legitimate] regulatory goals."197 The proposed rules we enunciate here

*will, we believe, advance the federal Internet policy set forth by Congress in section 230(b) as well as the broadband goals that section 706(a) of the Telecommunications Act of 1996 charges the Commission with achieving.*¹⁹⁸ Section 201(b), moreover, gives the Commission specific authority “to prescribe such rules and regulations as may be necessary in the public interest to carry out the provisions of th[e] Act.”¹⁹⁹

85. Voice and video services are increasingly delivered over the Internet, in actual or potential competition with voice and video offerings of companies that provide broadband Internet access. This growing interrelationship with voice and video services that the Commission has traditionally regulated pursuant to express statutory obligations and its general public interest mandate further supports the Commission’s consideration of regulatory requirements for the provision of broadband Internet access service, and its ancillary jurisdiction to establish appropriate rules.

86. With respect to Internet access via spectrum-based facilities, we have additional authority pursuant to Title III of the Communications Act.²⁰⁰ We have recognized previously that the spectrum allocation and licensing provisions of Title III and the Commission’s rules continue to apply to wireless broadband Internet access services because these services use radio spectrum.²⁰¹ We have relied upon Title III authority in the past to regulate services provided by wireless carriers.²⁰²

87. We invite comment on our view that we have jurisdiction over broadband Internet access service sufficient to adopt and enforce the proposed rules, or other rules that commenters propose.”

where:

195 United States v. Southwestern Cable Co., 392 U.S. 157, 172–73 (1968); accord United States v. Midwest Video Corp., 406 U.S. 649, 662 (1972).

196 Comcast Network Management Practices Order, 23 FCC Rcd at 13033–44, paras. 12–28; see also Brief for the FCC and the United States in Comcast v. FCC, No. 08-1291, at 25–50 (filed Sept. 21, 2009), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-293573A1.pdf.

197 Midwest Video I, 406 U.S. at 667.

198 See 47 U.S.C. §§ 230(b), 1302(a).

199 47 U.S.C. § 201(b); AT&T Corp. v. Iowa Utilities Bd., 525 U.S. 366, 378 (“We think that the grant in § 201(b) means what it says: The FCC has rulemaking authority to carry out the ‘provisions of this Act.’”); see also Alliance for Community Media v. FCC, 529 F.3d 763, 772–74 (6th Cir. 2008) (holding that section 201(b) gives FCC authority to issue rules implementing all portions of the Communications Act), cert. denied, 129 S. Ct. 2821 (2009).

200 Title III of the Communications Act (47 U.S.C. §§ 301–) contains provisions relating to use of the radio spectrum, including the Commission’s broad authority over spectrum allocation (see, e.g., 47 U.S.C. § 303) and licensing (see, e.g., 47 U.S.C. §§ 301, 307, 308), including use of auctions (47 U.S.C. § 309(i)).

201 Wireless Broadband Classification Order, 22 FCC Rcd at 5914–15.

202 See, e.g., Interconnection and Resale Obligations Pertaining to Commercial Mobile Radio Services, CC Docket No. 94-54, Memorandum Opinion and Order on Reconsideration, 14 FCC Rcd 16340, 16352–53, para. 27 (1999)."

We believe that this section of the report will have the greatest impact because the FCC most likely has little if any authority and the record speaks for itself. This will result in endless and costly litigation the costs of which will go to the costs of broadband.

The basic statement of the FCC is as follows:

"92. Specifically, we propose that all providers of broadband Internet access service must comply with the following four rules:

- 1. Subject to reasonable network management, a provider of broadband Internet access service may not prevent any of its users from sending or receiving the lawful content of the user's choice over the Internet.*
- 2. Subject to reasonable network management, a provider of broadband Internet access service may not prevent any of its users from running the lawful applications or using the lawful services of the user's choice.*
- 3. Subject to reasonable network management, a provider of broadband Internet access service may not prevent any of its users from connecting to and using on its network the user's choice of lawful devices that do not harm the network.*
- 4. Subject to reasonable network management, a provider of broadband Internet access service may not deprive any of its users of the user's entitlement to competition among network providers, application providers, service providers, and content providers."*

The new element of "subject to reasonable network management" is the operative phrase. This may actually send Net Neutrality down the drain if this term is interpreted too loosely.

Now the FCC defines this key term as:

"135. Here we discuss the proposed definition of reasonable network management:

Reasonable network management consists of: (a) reasonable practices employed by a provider of broadband Internet access service to (i) reduce or mitigate the effects of congestion on its network or to address quality-of-service concerns; (ii) address traffic that is unwanted by users or harmful; (iii) prevent the transfer of unlawful content; or (iv) prevent the unlawful transfer of content; and (b) other reasonable network management practices."

The last three elements are most likely just fine. No one wants junk, depending what junk is. The White House may deem anything from FOX as junk, but alas let the children throw sand in the sand box. The first is key:

(i) reduce or mitigate the effects of congestion on its network or to address quality-of-service concerns

This is the major concern. Who determines what is congestion, or what is a quality of service. These are not objective criteria. In fact we believe, as one who deployed one of the first VOIP and broadband nets globally, that this is utter nonsense. I wrote about [QoS in 1998](#) and presented it in Italy and the bottom line was that I could not generalize it. Things have not gotten better. Thus the FCC by allowing this operative phrase has distorted the whole concept of net neutrality. We wrote a [detailed paper](#) on this a few years ago and I believe the position still stands:

1. The FCC has no statutory authority.
2. Congress must legislate to give it the authority
3. "Common Carriage" principles should apply but not Common Carriage regulation

The problem is the number of lawyers involved and the paucity of people who have really done anything!

Posted by Terry McGarty at [7:14 AM](#)  

Labels: [Broadband](#)

[ROMER AND REALITY](#)

Perhaps it would be a good thing to keep CEA head Romer in DC because that way she would not be capable of educating any more economists. In fact it may be good to get all economists to the White House and close down the departments and just let the trade wither away.

CEA head Romer [testified before Congress](#) yesterday and she stated:

"There is no question that the past year has been one of enormous challenges for the American economy. The recession that began in December 2007 has been the worst we have faced since the Great Depression. The suffering it has brought to American workers and their families has been terrible. The toll that it has taken on American businesses has been great across the spectrum—affecting firms both large and small; those in services as well as manufacturing; and firms in every state and community."

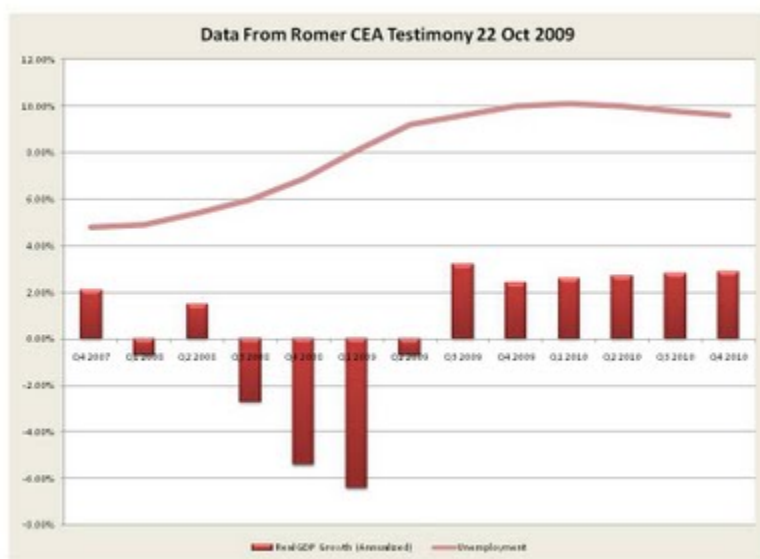
Her facts are just plain wrong. Unemployment and GDP changes are still below prior recessions and this is nowhere near the Depression. I remember the Nixon collapse when at MIT the Aero Department was down to 5 students and there were no recruiters at the student placement center, none, zero. The NY Times ads for jobs was zero, that was when everything was in the paper, no Internet, the job section had been eliminated! Then there was Carter in 1980 and I bought my NJ house with an 18.5% mortgage! The credit card rates were lower! Romer is just not connected with what has happened in the economic world! Try the Telecom bust, try the collapse of Thailand and Russia in 1998, I was there with my companies. You just adjust and pray that the economists just stay away!

She in a self serving was states:

"A key causal factor in both downturns was a decline in household wealth that lowered consumer spending. In 1929, however, the crash of the stock market in October mainly reversed a large run-up in stock prices that had taken place between June and August, and house prices declined only slightly. As a result, household wealth fell by just 3 percent between December 1928 and December 1929. In 2008, in contrast, stock prices fell 24 percent in September and October alone, and house prices fell 9 percent over the year. All told, household wealth fell 17 percent between December 2007 and December 2008, more than five times the decline in 1929."

The reason now is home values which had exploded to unheard of levels and are now back to where they were in 200%. Frankly where they should have been. The second factor is that many people now have 401Ks where in 1929 few people had any retirement. She is comparing apples to oranges.

She presents her new projections in the following chart.



We have combined and reformatted her data. The GDP change is based upon little if any data and her projections on unemployment although dire are likewise baseless.

As to inflation she states:

"Some have expressed concern that the unprecedented monetary actions taken by the Federal Reserve and the similarly unprecedented fiscal actions taken by Congress and the Administration have created conditions likely to result in inflation."

Such concerns are unwarranted in the near and medium term. Historically for the United States, the main determinant of movements in inflation is the relationship between output and the economy's productive capacity, with additional influences from oil price movements and other supply disturbances. When output and employment are high relative to the economy's comfortable capacity, inflation rises, as it did in the late 1960s and late 1970s. When output and

employment are low relative to capacity, inflation falls, as it usually does during and after recessions.

The behavior of inflation so far over the recession and forecasts of its likely behavior going forward fit with this view. Figure 6 shows inflation measured using both the consumer price index, which is highly influenced by the behavior of food and energy prices, and the GDP price index, which is less influenced by these volatile components. The figure shows that both measures of inflation have fallen over the course of the recession. Economic theory and evidence suggests that there is a relationship between monetary expansion or budget deficits and inflation, but that it operates via the demand for goods: rapid money growth and large budget deficits lead to inflation when they fuel a growth in demand beyond the economy's normal capacity."

She continues:

"Measures of expected inflation, whether from professional forecasters (such as the one shown in the chart), surveys of consumers, or inferences based on interest rates on inflation-protected securities, all show that expectations of inflation remain subdued. Indeed, it appears that the major reason that actual and expected inflation have not fallen further is that the Federal Reserve's record of inflation control over the past quarter century has kept inflation expectations well anchored. Even stronger evidence that a large expansion of central bank reserves and budget deficits in a weak economy do not lead to inflation comes from Japan."

Yet she fails to take into account the fact that we now have a 92% Government Debt to GDP and if the current Administration continues it will be 130-140% at then end of 2012! That will be unsustainable and it will most likely be that factor driving inflation. Add to that the fact that we rely so strongly upon China which holds almost 25% of our public debt then we have truly real problems if they allow their currency to float. The dollar will collapse and as they say, you have seen nothing yet. Romer is working with a Samuelson 1970 economic model, the world is linked and it will be that linking that will driven everything down unless spending us dramatically curtailed.

Posted by Terry McGarty at [5:54 AM](#)  

Labels: [Economics](#), [Economy](#)

[GOOGLE: SOME INTERESTING THOUGHTS](#)

I had the opportunity to review the ATLAS Internet Observatory report recently and one table struck me as quite compelling. The Table was a listing of the percent of anonymous ASN data ranked from highest to lowest.

In 2007 the top 10 list was:

1. Level 3 5.77%
2. Global Crossing 4.55%
3. ATT 3.35%
4. Sprint 3.20%
5. NTT 2.60%
6. Cogent 2.77%
7. Verizon 2.24%

8. TeliaSonera 1.82%
9. Savvis 1.35%
10. AboveNet 1.23%

To a great degree these are the classic Tier 1 Internet providers, the Club.

Now for 2009 the listings are:

1. Level 3 9.41%
2. Global Crossing 5.7%
3. Google 5.2%
- 4
- 5
6. Comcast 3.12%
- 7
- 8
- 9
- 10

Now the unlisted entries refused to have their names published. Interesting. But more interesting is that Google came from nowhere to No 3! And Comcast is No 6. Content is exploding.

Yet more importantly Google, as is Comcast, are NOT Tier 1 club members yet have some but not all the advantages of membership. If Google were to buy Level 3 then they would have almost 15% of the 2009 numbers and we estimate that by 2012 they would have well over 25%.

Thus where did Verizon and ATT go and what should they do. Remember that once Verizon owned Genuity which they let go bankrupt! That was the old BBN network, the starter of the Internet. They just let it die. So will Verizon just fade away in the Internet space as backbones go, doubtful. What will ATT do, good question.

The recent focus has been on the FCC and Net Neutrality, but behind the scenes in the backbone there is a war.

Thus if Google were to buy out Level 3 it would be one of several acquisition steps. Let us look at the numbers.

Level 3 Market Cap = 2.

Google Market Cap = 175.

A slam dunk for Google, cash or a stock deal! Could Verizon or ATT do this?

Verizon Market Cap = 82.4B

ATT Market Cap = \$

The answer is anyone of these could and it would bid up Level 3. It would create an interesting opportunity. I suspect that it may very well happen.

Now number two for Google is a position in wireless, well look at Sprint.

Sprint Market Cap = 9.2B

Again it is small change for Google and it gets Google WiMax and cellular and 4G capability.

Are these two moves possible and would they change the landscape. Possible but I come back again to the issue of what is Google's business model. It should be the electronic shopping mall, they may not have to own the roads, yet given the FCC's actions that may find that an inexpensive and strategic move.

Posted by Terry McGarty at [5:33 AM](#)  

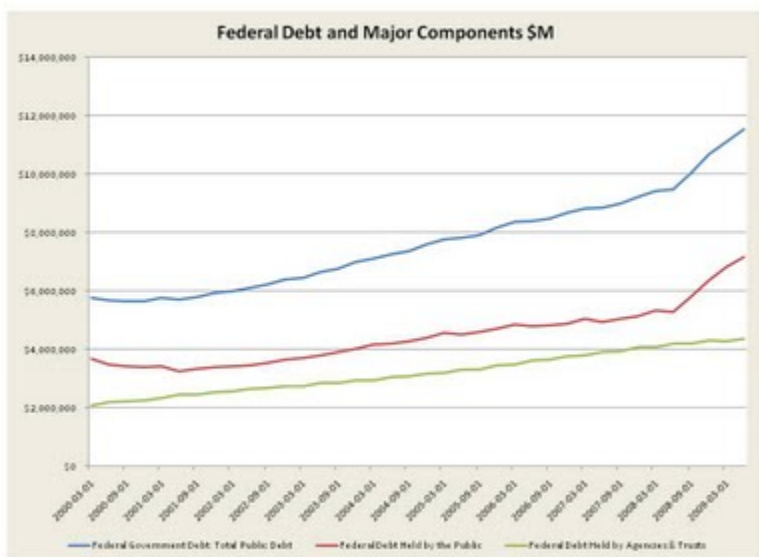
Labels: [Telecom](#)

SUNDAY, OCTOBER 18, 2009

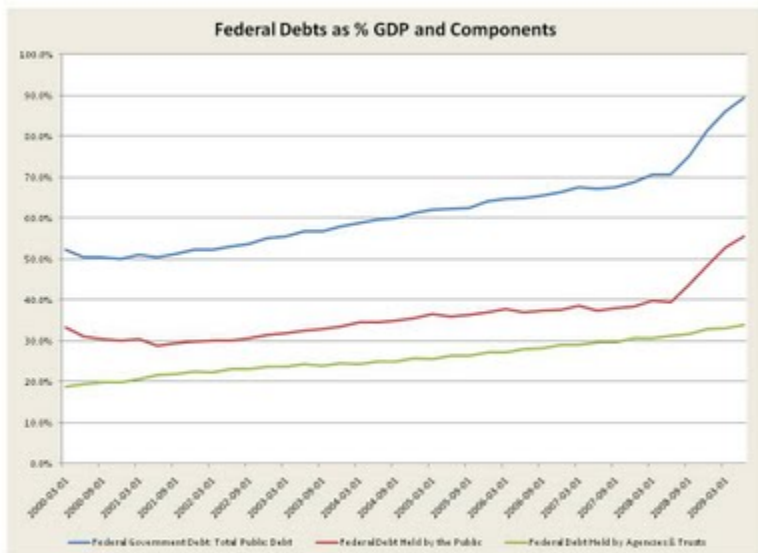
FEDERAL DEBT UPDATE: AWAITING THE NEW NUMBERS

The total Federal Debts consists of several elements the two major one being the debt held by the public and the debt held by the Government as a result of taking money from Medicare and Social Security funds. In view of the dramatically increasing debt that we see coming we will be tracking this closely. The data here is up until the end of June of this year.

First the debt in absolute terms. This is shown below and it depicts the growing debts held by third parties. Yet we should be concerned as the new health care plan gets implemented the Government will use it too as a piggy bank, taking in funds for a public plan and then using them.



The next chart shows these elements as a percent of the GDP.



Note in the above that we are approaching 90% of GDP as of last June and we anticipate that by then end of this calendar year we will be at 100% or more! By the end of the current Administrations first term we anticipate close to 130% of GDP. This fact seems to be lost in the claims that we need more stimulus. One should be concerned that these ratios will mean devaluing the dollar, inflation, and loss of financial funds to create new businesses. It will make the Carter Administration look like financial giants.

Posted by Terry McGarty at [8:20 AM](#)  

Labels: [Economy](#)

[FALL CAME AND WENT](#)



First, welcome to the New England fall, the sugar maples in full bloom.



Then two days later welcome winter, it made it to 3" by noon! Where is Al Gore when we really need him, more hot air folks. We just planted a quarter acre in time!

Finally, Provincetown in late fall.



Posted by Terry McGarty at [7:50 AM](#)  

Labels: [Commentary](#)

[BRANDEIS, THE LAW AND A FEW VIEWS](#)

I have been a fan of Judge Brandeis for much of what he accomplished especially with the writing of the classic paper, The Right to Privacy, with his then law partner Warren. (See 4 Harvard Law Review 193 (1890)). Two recent works on Brandeis have appeared and are worth note. The first is an article in [The New Yorker](#) by Jill Lepore, a superb piece of critical and historical analysis. Lepore looks at the field of management and efficiency consultants through the work of Brandeis.

She starts her article by stating:

"Ordering people around, which used to be just a way to get things done, was elevated to a science in October of 1910, when Louis Brandeis, a fifty-three-year-old lawyer from Boston, held a meeting at an apartment in New York with a bunch of experts who, at Brandeis's urging, decided to call what they were experts at "scientific management." Everyone there—including Frank and Lillian Gilbreth, best known today as the parents in "Cheaper by the Dozen"—had contracted "Tayloritis": they were enthralled by an industrial engineer from Philadelphia named Frederick Winslow Taylor, who had been ordering people around, scientifically, for years."

The essence of the tale is that Brandeis sitting on a regulatory body which controlled the monopoly like rates of railroads had gotten enthralled with the less than scientific work of Taylor and the Gilbreths. He then saw that railroads should employ these new management techniques and then lower their rates. Simple, except as Lepore states the Taylor results were a fraud! Perhaps there is a lesson here for global warming, telephone interconnection rates and the like. Brandeis was a brilliant legal scholar, however he had no expertise in the area of actually running a company. He did however understand the "books" and as such used this profitably in his law practice. Yet the Taylor approach assumed you looked forward and not backward, that you understood the business and not the records of what happened. Brandeis was a lawyer at heart, as such he always looked backward.

Let me introduce an example.

When I was at NYNEX, now Verizon, in 1989 we had a strike. One of my management people went to strike duty in a customer service bureau. In that bureau, true to Taylor like management, there was a clock and you were timed for every customer contact and you were pressured to make them as short as possible. This manager went there and since he outranked the manager of the bureau he decided to try another tactic. He recognized that people call customer service because they have a problem.

Thus this customer contact was an opportunity to solve the problem, create a happy customer, get customer loyalty, get a word of mouth positive word about the company and even possibly sell more services. He reasoned that the longer the customer service call the better and the primary objective was to make a happy customer. A novel thought especially for a utility. He tried it and surprise it worked. Except for one thing, the system rejected it. The antibodies of the old telephone company attacked and said, "We do not do it this way." Well you know the result.

What is the relationship between this and Brandeis, well Brandeis accepted the "scientific" evidence without and justification, something he would never have done in court. Why did he do this, Lepore seems to believe it was an effect of the times. I would agree but it was also that Brandeis like so many well educated people believe that they can extend well beyond their ken with impunity.

The Lepore article is a review of a book, for which she writes:

"In "The Management Myth: Why the Experts Keep Getting It Wrong" (Norton; \$27.95), Matthew Stewart points out what Taylor's enemies and even some of his colleagues pointed out, nearly a century ago: Taylor fudged his data, lied to his clients, and inflated the record of his success. As it happens, Stewart did the same things during his seven years as a management consultant; fudging, lying, and inflating, he says, are the profession's stock-in-trade. Stewart had just finished a D.Phil. at Oxford in philosophy when he took a job rigging spreadsheets to tell companies whose business he barely understood how to trim costs, and he feels sullied by it."

This statement clearly shows that Brandeis was easily fooled by the Taylor forces, and that furthermore the consultants that flow to industry from our "best" business schools are oftentimes ignorant of what they opine upon and even worse they are conjurers of falsehoods created to meet certain expectations, perhaps on the part of the client. I have seen many of the top consulting firms send in twenty year old who I had to educate, if such was even possible, and then get them to write in English, all for \$500 per hour or more.

Lepore then jumps to the present and she states:

"Much of Stewart's account is devoted to following the anti-Taylor and neo-Taylor theories that have determined the curriculum at business schools in the course of the past century. He pays special attention to human-factors science and follows through several chapters the work of Harvard Business School's Michael Porter, whose early books "Competitive Strategy" (1980) and "Competitive Advantage" (1985) launched a field known as strategic management. (I should perhaps mention that, in the late eighties, Porter was my boss. His phone rang off the hook, and I, a temporary secretary, had the job of answering it.) To Stewart, strategic management is scientific management, without the stopwatch. And, along with much else taught in business schools, and everything that goes on in management-consulting firms, "it contributes to a misunderstanding about the sources of our prosperity."

Business schools have been indicted before. Earning an M.B.A. has been found to have little correlation with later business success. Business isn't a science, critics say; it's a set of skills, best learned on the job. Some business schools, accused of teaching nothing so much as greed, now offer ethics courses. Stewart argues that this whole conversation, about people, production, wealth, and virtue, is a conversation about ethics, and is better had within a liberal-arts curriculum. His howl of frustration, after all those years spent living in hotels, peddling nonsense, and profiting by it, is loud and angry. It's also only half the story."

The point here is quite telling. Professors like Porter take a simple idea which may have some merit and then use it as a template for solving everything including world hunger. Porter has recently authored a book using his wordy methods in the area of health care and in my opinion he would have spent his time more wisely working as a practical nurse at Mt Auburn Hospital for a year of two.

Now back to Brandeis. Whereas Lepore is well written, insightful, clear, perceptive, the recent biography of Brandeis by Urofsky is at the other extreme. The subject of the book is compelling. Each sentence is well written yet each paragraph jumps from thought to thought in a cacophony of words. The book is virtually unreadable. He jumps back and forth so as to give the reader a migraine.

In addition Urofsky addresses the two issues, the Taylor issue and the Privacy issue with the slightest of a touch. The Taylor issue as Lepore states is a truly groundbreaking issues as regards

to the courts and judicial thinking. It is one of the first ways in which "scientific" results were introduced into the legal system. Taylor was an "expert" and his results were left unquestioned. In many ways this was one of Brandeis' lowest moments, he failed to do to science what it does to itself, and what is at the core of the legal system as well, adversarial analyses.

Secondly the classic work on Privacy Warren and Brandeis state:

"It is our purpose to consider whether the existing law affords a principle which can properly be invoked to protect the privacy of the individual; and, if it does, what the nature and extent of such protection is."

They then go on to develop the basis of privacy in a well presented case. Regrettably when Brandeis was later to face this issue on the Court he did not confront it with the vigor of this paper. In fact the issue of privacy as a right seems still to be held at arms length except for women's rights. One would suspect that such is rather one sided. (See my paper on privacy, [Privacy in the Internet](#)).

The authors, Warren and Brandeis, then state:

*"Gradually the scope of these legal rights broadened; and now the right to life has come to mean the right to enjoy life--**the right to be let alone**, the right to liberty secures the exercise of extensive civil privileges; and the term "property" has grown to comprise every form of possession-- intangible, as well as tangible."*

The "right to be left alone" is in many ways a unique American right, which we unfortunately have abandoned. The Government has become more intrusive regarding what we do, say, how we do things, how we interact. There once was a time one could live alone, not the Government intrudes on what Warren and Brandeis saw as a right. This fundamental paper seems to be glossed over at best by Urofsky. It is a pity. Whereas Lepore sees through the fog and makes it clear, Urofsky takes clarity as in the above quote and obfuscates it.

Brandeis had massive strengths and several failings. The Taylor case is a major failing indeed. It sets forth a pattern of Government intervention of at best weak grounds. However the "right to be left alone" was a brilliant insight into what makes America great. Pity is has been neglected and abused.

Posted by Terry McGarty at [6:17 AM](#)  

Labels: [Commentary](#), [Law](#)

SATURDAY, OCTOBER 17, 2009

TREASURY RESULTS ON 2009 BUDGET TO ACTUAL

The Treasury released the [Budget and Actual](#) for the Government Fiscal 2009. We review them below. The report summarizes the status as follows:

"A summary of the FY2009 data, released as part of the September 2009 Monthly Treasury Statement of Receipts and Outlays of the United States Government, shows that the federal deficit dropped by \$162 billion from a projected \$1,580 billion in the August Mid-Session Review (MSR) to the final figure of \$1,417 billion.

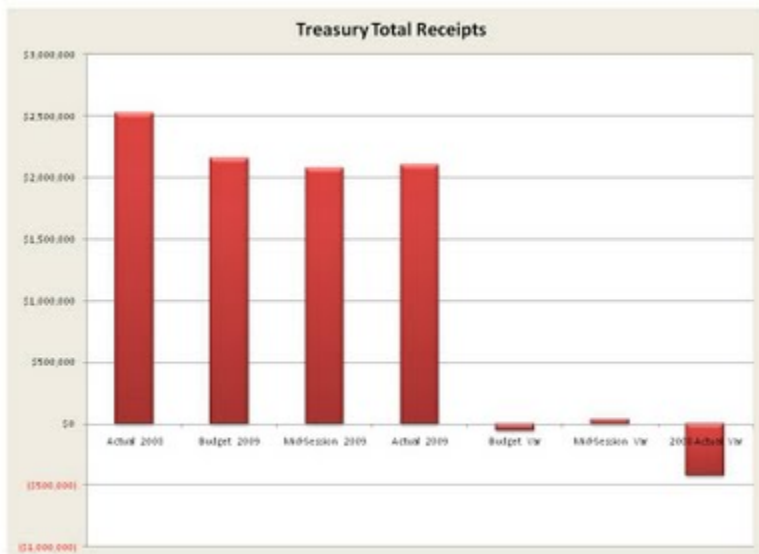
Receipts for the fiscal year totaled \$2,105 billion, while outlays totaled \$3,522 billion.

The decline in the deficit from the August MSR estimate reflected outlays that were \$132 billion lower than expected in August, in large measure because of lower-than-anticipated outlays by the government's Troubled Assets Relief Program (TARP). The decline was also the result of receipts that were \$31 billion higher than estimated in the MSR.

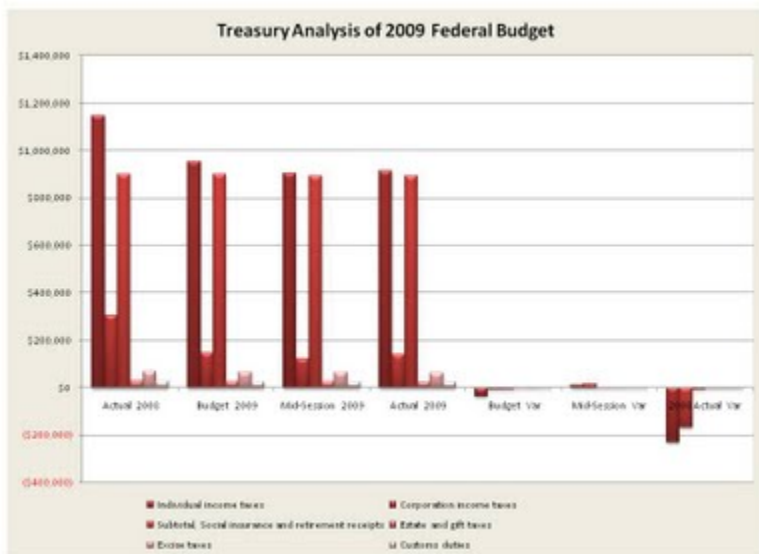
The FY2009 deficit was largely the product of the spending and tax policies inherited from the previous Administration, exacerbated by a severe recession and financial crisis that were underway as the current Administration took office. The new Administration's chief economic

stabilization and recovery efforts implemented through TARP and the American Recovery and Reinvestment Act (Recovery Act) accounted for 24 percent of the deficit total. Federal borrowing from the public net of financial assets increased by \$1,417 billion during FY2009, to \$6,711 billion or 47.2 percent of GDP."

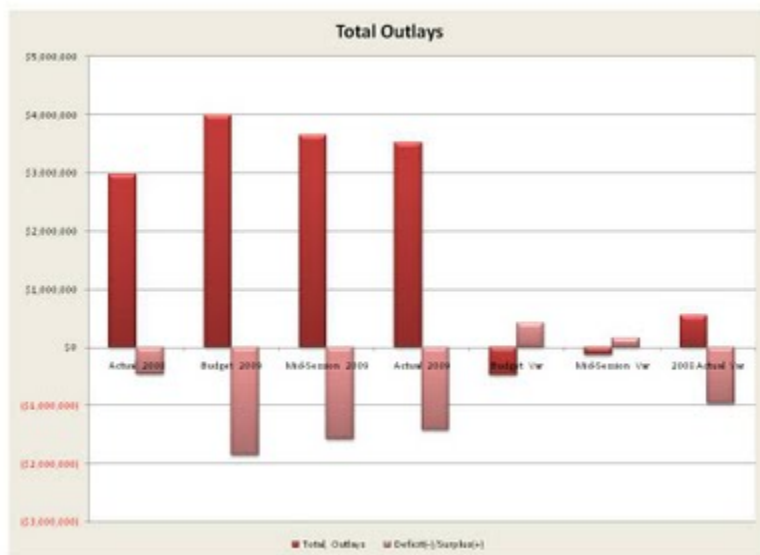
First is the Receipts in total over the 2008, 2009 and Budget to Actual



Second is the details on receipts.



Third is the outlays by total and deficit by total.



The Treasury report concludes:

"Primarily because of the government's economic recovery efforts, outlays for FY2009 grew by \$543 billion, or 18.2 percent, from FY2008. The full implementation of these temporary measures -- notably TARP initiatives to aid financial institutions and stabilize credit markets, the Treasury's Preferred Stock Purchase Agreement with Fannie Mae and Freddie Mac, which helped to stabilize credit availability in the mortgage market, and the Recovery Act -- contributed to growth in outlays. Increased outlays through automatic stabilizers such as Medicaid and the Supplemental Nutrition Assistance Program also contributed to the change. As a percentage of GDP, outlays grew from 20.6 percent in FY2008 to 24.8 percent in FY2009. The final \$1,417 billion FY2009 deficit figure was \$424 billion lower than projected in the FY2010 Budget, released in May, with receipts coming in \$52 billion lower and outlays \$476 billion lower than projected. Relative to the FY2008 data, the FY2009 deficit ended \$962 billion higher. The FY2009 deficit amounts to an estimated 10.0 percent of GDP."

There is no plan for stemming this cash rupture and this portends just more problems for the next three years of the current administration.

Posted by Terry McGarty at [11:56 AM](#)  

Labels: [Economy](#)

SATURDAY, OCTOBER 17, 2009

GOOD BLOGS AND THE FUTURE OF JOURNALISM

I started this blog in late December of last year after reading blogs by many others. I thought that perhaps I had something to say in addition to the papers, books and white papers that I had been writing for some almost fifty years. Hopefully a few readers have gained some insight. I modelled this blog after what I thought was the best in blogs I had seen, whether I agreed or disagreed. My rules for a blog entry generally take the following form.

1. **Choose a topic of some current interest.**
2. **Select a basic premise for writing the blog,** generally a single idea to be presented.

3. **Use facts, primary sourced facts, as often as possible.** I use the FEDs data base and other data bases.

4. **Provide links to the facts.** This is critical. If I use the FED then I provide the link. The NY Times is a typical abuser of this rule, they rarely if ever give a link to the fact set. They protect it as if it were their secret. In the Internet world the use of primary fact sets and the ready access to them is one of the cardinal rules of a good blog. Allow your reader to reproduce what you had done.

5. **Analyze the data set and draw a clear conclusion.** Typically the Government never provides a conclusion. However one can do so readily in a blog. Two examples come to mind. The first was the availability of HR 3200 the Health Care Bill. This allowed every person to read the words and comment accordingly. This was the fundamental mistake that the Democrats made, they allowed the taxpayers and voters to see ahead of time what they proposed. That is why Baucus and the cabal are hiding the next bill. Perhaps they think it will get a pass, don't count the chickens. A greater percent of people have read HR 3200 than members of Congress. The second one is the debt of the Government under the current administration as a percent of the GDP. We are on our way to 150% or more! That debt will destroy this country as we know it and it needs watching. The current Administration and Congress in general could care less. Our children and grandchildren will be paying and it will truly destroy the US as we know it.

6. Provide access to alternative views. There are differing views, and they should be taken into account. News is rarely even handed, the writer always has a bent. That is fine but from time to time let the reader know what the other side says.

7. **Avoid ad hominem attacks.** I use my name on everything I write. I stand behind what I say even though it is merely my opinion, albeit based upon verifiable facts. I have seen extreme ad hominem attacks from other bloggers, and they always keep their identity hidden. That I believe lacks in any integrity.

8. **Clearly state your conclusion based upon the facts** and use as simple a way to do so.

9. **Form is as important as content.** Number your logical development. Separate it spatially, make clear what you quote, and stay within the four walls of the copyright laws. "Fair Use" allows referenced quoting of a limited amount so as to make a contrasting or compelling point.

Now what does this have to say about the future of journalism. In a [recent article in the Nation](#) by Baker, the former head of PBS in New York, he tries to make the case that the Government should increase the support of public television and public news in general. He begins by stating:

"There's no doubt that news in America is in trouble. Of the 60,000 print journalists employed throughout the nation in 2001, at least 10,000 have lost their jobs, and last year alone newspaper circulation dropped by a precipitous 7 percent. Internet, network and cable news employ a dwindling population of reporters, not nearly enough to cover a country of 300 million people, much less keep up with events around the world. It is no longer safe to assume, as the

authors of the Constitution did, that free-flowing news and information will always be available to America's voters. "

I argue just the opposite. With blogs and the like, especially if one follows most of the above, the reader can access the news in a much more open and productive manner. Unlike the Times and the Post one can go directly to the primary source, a web site in Beijing, one in Tehran, and the like, see what the words say. One can then reach their own conclusion. A single Times reporter in Moscow may not be as useful as multiple bloggers in all Russia. Blogging opens the world. I read thirty to fifty different newspapers on line in any week, from three dozen or more countries. I can read the FED reports, the Treasury reports, and the like, and go deeper into the data than any reporter. Reporters are trained, if one calls it that, in writing for a newspaper or television. Keep it general and keep it short. The truth is in the details and in the subtleties of what are not covered in the details.

Baker continues:

" Saving journalism might seem like an entirely new problem, but it's really just another version of one that Americans have solved many times before: how do we keep a vital public institution safe from the ups and downs of the economy? Private philanthropy and government support are the two best answers we have to this question. "

Journalism was never a public institution. It has always been an opinionated private endeavor. The time of Hearst and his war mongering were times of alternatives to Hearst as well. There is no alternative to a public newscast. When I drive about New Hampshire all I can get is NPR. It is clear they have a slant and it is clear that most of the time I would disagree. There is no alternative voice and I still pay for it.

Baker continues:

"Better funding for All Things Considered on NPR or NewsHour on PBS will not turn either program into a propaganda outfit for the government. The BBC is not Pravda, and Japan and most of Europe, which have enjoyed extremely well-funded public media for decades, are not a network of totalitarian states. German public television, for example, is amply funded with revenue collected under the aegis of the central government but administered through a decentralized system designed to preserve regional independence. There are numerous democratic nations with public broadcasting systems that are both well funded by their central government and also well shielded from its political influence. "

The mere fact that he must say this is evidence that people in large numbers not only believe this but they have seen evidence of it. The BBC is British, we are in America, and we typically have been an aggressive supporter of freedom of the press and in today's world that means blogs and the like, whether you like them or not.

Baker then addresses the need in his mind for reporting on international events. He says:

"The Under-Told Stories Project (undertoldstories.org) is devoted to increasing public awareness of underreported international topics. The group is funded partly by sale of its stories, most of which end up on public television and radio, and partly by its institutional partner, Saint John's University ...

... in an environment of diminishing opportunities for young journalists, the Under-Told Stories Project arranges internships. Ensuring that good reporting will be around in the long term is just as important as preserving what we have now, and the private, nonprofit media sector would do well to pursue it more vigorously....

Because such fledgling enterprises are potentially so valuable to the health of our media, they should be loudly and publicly encouraged at this stage, even though there will never be enough of them to solve the news crisis on their own. At Harvard's Hauser Center, I've launched a database of nonprofit news efforts (hausercenter.harvard.edu/medialist). Many of the listed organizations are in the early stages of development, and now is the time when publicity and donations can make a decisive difference. I... But for a nation in the midst of a crippling news crisis, my list is still alarmingly short, and, as a potential replacement for our commercial media, it can never really be long enough."

Baker seems to believe that the classic journalist is the only solution and that the dying breed needs public support. Things change, the Internet has made a tremendous shift in reporting facts, not just the news. The news is digested facts with a fence keeping the reader away from the sources. The Internet eliminates that fence and opens the facts up to individual scrutiny. Again back to HR 3200, a unique example of millions of people reading a bill for themselves! The facts ultimately will rule, not the opinion of some journalist with an attitude.

Posted by Terry McGarty at [11:01 AM](#)  

Labels: [Commentary](#)

THURSDAY, OCTOBER 8, 2009

THE FELDSTEIN PROPOSAL

Martin Feldstein has made an interesting proposal for health care today in the [Washington Post](#). He states:

"Specifically, the government would give each individual or family a voucher that would permit taxpayers to buy a policy from a private insurer that would pay all allowable health costs in excess of 15 percent of the family's income. A typical American family with income of \$50,000 would be eligible for a voucher worth about \$3,500, the actuarial cost of a policy that would pay all of that family's health bills in excess of \$7,500 a year.

The family could give this \$3,500 voucher to any insurance company or health maintenance organization, including the provider of the individual's current employer-based insurance plan. Some families would choose the simple option of paying out of pocket for the care up to that 15 percent threshold. Others would want to reduce the maximum potential out-of-pocket cost to less than 15 percent of income and would pay a premium to the insurance company to expand their coverage. Some families might want to use the voucher to pay for membership in a health maintenance organization. Each option would provide a discipline on demand that would help to limit the rise in health-care costs"

Simply put:

1. It would be a universal coverage plan. It deals with the opt out issues of many and it provides some semblance of cost recovery.

2. It would cover catastrophic illness. Namely it focuses on the real problem areas.
3. It would require payment under the 15% limit on an out of pocket basis. It places a burden on the payer to understand what the costs are and thus makes an economic stabilization on excess spending.

He then continues to say how he would cover the out of pocket:

"The simplest solution would be for the government to issue a health-care credit card to every family along with the insurance voucher. The credit card would allow the family to charge any medical expenses below the deductible limit, or 15 percent of adjusted gross income... one would be required to use such a credit card. Individuals could pay cash at the time of care, could use a personal credit card or could arrange credit directly from the provider. But the government-issued credit card would be a back-up to reassure patients and providers that they would always be able to pay."

The issue here is that the Government would become the lender if you will to the individual.

This is a simple plan. Yet it has several elements which the plan ignores:

1. The issue of demand reduction, again the growth of life style illness such as Diabetes, due to self imposed obesity, is still an issue as is the illness from smoking and sexually transmitted diseases. Any plan, or derivative thereof, must address these issues otherwise the cost will continue to spiral out of control.
2. There is the issue of prevention and early remediation. This plan is handled solely as a plan for catastrophic illness will not address the early detection and prevention. The annual visits and other preventative measures will be costs which a patient could and should participate in. For example, colonoscopies and mammograms are important but would be out of pocket. Yet there would be no reason a person could not have some cost sharing in these as well.
3. The chronically ill, such as those with Type 1 Diabetes, genetic diseases, and the like will have continuing lifetime costs and any insurance to cover families should have no pre-existing condition clauses and should then be poolable.
4. His proposal seems to be one of providing insurance to the person and not to the employer. This should be carried to its fruition, namely all insurance should be personal.

I cannot find his costs, but if you use data on current costs, you find that the under 65 group currently spend \$5,000 per year per person on health care. Thus for a family of 4 that would be \$20,000. It may be less due to children. Yet we are dealing with averages. Thus if such a family had an income of \$60,000 they would have to cover \$9,000 and the catastrophic coverage would be for \$11,000. That would be \$2250 per person per year for catastrophic costs covered by this Government insurance, and that would be for the 240 million people \$534 billion. This does not include the \$425 B for Medicare the \$ for Medicaid. The total would be \$1159 B and that would leave \$ payable by individuals or insurance companies. (See my [White Paper](#) which provides the financial and demographic details).

As a back of the envelope calculation this seems to be a really good idea! However Feldstein et al must remember that Medicare beneficiaries have already paid more than they will get and that the excess has already been absconded by Congress and it is on the debt books of the Government as \$5T in intra-governmental debt! Notwithstanding, this is a very interesting idea,

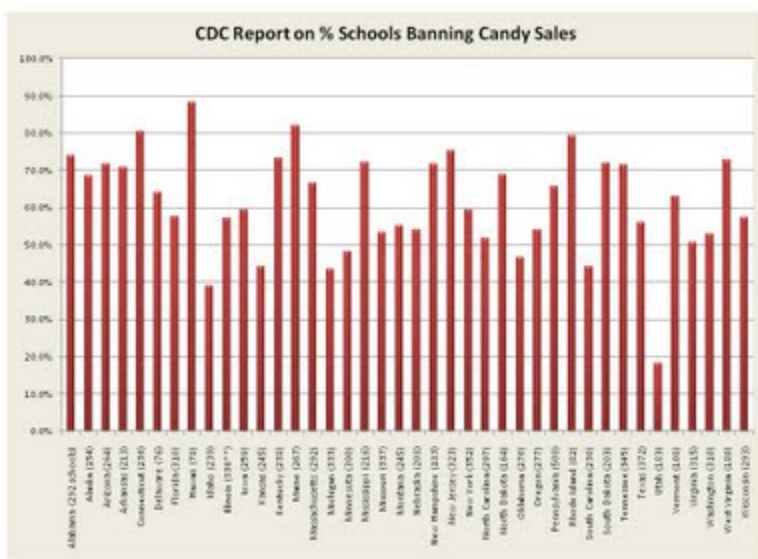
Posted by Terry McGarty at [12:44 PM](#)  

Labels: [Health Care](#)

[SCHOOLS AND CANDY](#)

In 1949 when I was in the first grade, yes 1949, I walked 1 mile to school in the AM, then one mile home for lunch, then one mile back, then one mile home. In those days if there was one "fat kid" in the class that was an exception. Going back further in writing my book about the DD 649 adventures the average weight of the 18 year old recruit, height 5' 9", was less than 135 pounds, and 115 pounds was the lowest it would go before one was rejected. Men were actually enlisted below that weight level.

Now we know that the obesity in High School children is exploding. The [CDC has issued a report](#) in which they give the results of the schools which no ban snack foods as a result of this trend. We show a summary below for 2008.



The CDC report states:

"Foods and beverages offered or sold in schools outside of U.S. Department of Agriculture school meal programs are not subject to federal nutrition standards (1) and generally are of lower nutritional quality than foods and beverages served in the meal programs. To estimate changes in the percentage of schools in which students could not purchase less nutritious foods and beverages, CDC analyzed 2002--2008 survey data from its School Health Profiles for public secondary schools. This report summarizes the results of those analyses, which indicated that, during 2002--2008, the percentage of schools in which students could not purchase candy or salty snacks not low in fat increased in 37 of 40 states. From 2006 to 2008, the percentage of schools in which students could not purchase soda pop or fruit drinks that were not 100% juice

increased in all 34 participating states. Despite these improvements, in 2008, the percentage of schools among states in which students could not purchase sports drinks ranged from 22.7% to 84.8% (state median: 43.7%), and the percentage in which students could not purchase soda pop ranged from 25.6% to 92.8% (state median: 62.9%). The percentage of schools in which students could not purchase candy or salty snacks also varied widely among states (range: 18.2%--88.2%, state median: 61.2%). School and public health officials should increase efforts to eliminate availability of less nutritious foods and beverages at school, as recommended by the Institute of Medicine (IOM) "

This is a first step. Frankly the school lunch program, as all Government programs, have substantial negative unintended consequences. Instead of 6 oz of milk and an apple, they students are offered meals which are well over 1500 kcal, and that is lunch alone. One need just add the Government sponsored breakfasts and then snack machines and we see students consuming well over 3000 kcal per day and being drive all over, thus having no exercise.

It is clear that mothers are no longer home at noon time for a variety of reasons and thus the school lunch is an essential element of the school process yet the types of food need dramatic changes. One wonders what type of nutritionists they have at school. The pity is that the students will have their entire lives altered through this process.

Posted by Terry McGarty at [9:25 AM](#)  

Labels: [Health Care](#)

WEDNESDAY, OCTOBER 7, 2009

[THE NEXT SHOE TO DROP: COMMERCIAL REAL ESTATE](#)

This is another of we told you so. The [WSJ states](#) that the banks will have problems with commercial real estate. The WSJ states:

"Banks in the U.S. "are slow" to take losses on their commercial real-estate loans being battered by slumping property values and rental payments, according to a Federal Reserve presentation to banking regulators last month... The remarks suggest that banking regulators are girding for a rerun of the housing-related losses now slamming thousands of banks that failed to set aside enough capital during the boom to cushion themselves when the bubble burst.... "Banks will be slow to recognize the severity of the loss -- just as they were in residential," according to the Fed presentation..."

But we stated last December in our white paper on the [Debt Markets](#) that there were seven crises in debt:

1. Residential Real Estate Crisis: This is the bubble and collapse of certain real estate properties focusing primarily on residential real estate.
2. Liquidity Crisis: This is the failure of financial institutions to transact between each other.
3. Money Market Crisis: This was the brief lack of faith in short term deposits collateralized by short term loans.

4. Credit Crisis: This is the general commercial and consumer credit crisis in the failure of the markets to extend credit at levels and with terms as had been done previously.

5. Hedge Fund Crisis: This is the dual crisis of Hedge fund having to cash out and secondly of Hedge funds dumping on the markets when such liquidity is demanded.

6. Commercial Real Estate Crisis: This is the commercial side of the real estate crisis which involves the inability to rent major commercial new builds as well as the inability to obtain continuing construction and project financing.

7. High Yield Debt Crisis: This is the crisis of hundreds of companies having billions of high yield debt, which is coming due, and the inability to roll that debt over....

The commercial Real estate market is also due for a major financial restructuring. In New York and other major markets there are two factors which will cause this collapse. First will be the drop in demand, despite what we have seen projected. Second will be the fact that many developers rely on bank loans which may just not be available.

We also said the debt crisis would not resolve until late 2010. So do not hold your breath. And by the way, the wizards of the economy in the White House seem clueless on these issues.

Posted by Terry McGarty at [4:34 AM](#)  

Labels: [Economy](#)

TUESDAY, OCTOBER 6, 2009

[GOOGLE, VERIZON AND A BUSINESS MODEL](#)

It was announced today in the [Financial Times](#) that Google and Android agreed to join forces using Android as a platform for wireless apps. The FT reports:

"Eric Schmidt, Google chief executive, said that there were now nine Android devices available in 26 countries with 32 carriers. There were also more than 10,000 applications available from the Android Market – Google’s version of Apple’s App Store.... “Everybody knows that Verizon’s network is the best in the US by far, with their reach and performance,” Mr Schmidt said...Lowell McAdam, Verizon Wireless chief executive, said the two would co-develop smartphones, PDAs, netbooks and “other specialty devices”.

However it still leaves open the question as to what the business model is. If it is as we have been stating that of an electronic shopping mall, then who owns the mall; the network operator or the operating system provider. This is not akin to Microsoft and the PC. Verizon brings the customers, it owns the mall. The risk to Verizon is a takeover by Google, and the risk to Google is the fungible nature of the service.

We have argued before and we continue to do so that the value is the shopping mall operator function. However ambiguity in the market positioning can be deadly to both parties and we believe there is an inherent conflict.

Posted by Terry McGarty at [4:10 PM](#)  

Labels: [Broadband](#)

[INTERNET NEUTRALITY AND THE IRRATIONAL](#)

In the WSJ, [Bret Swanson](#), wrote a piece opposing the Google phone application. Swanson states:

"Google thinks net neutrality should regulate only traditional phone and cable companies. Phone carriers have long been ordered to connect all calls. And open Internet principles agreed to by all sides in 2005 offer similar guidance for the Web: no blocking of Web sites or applications."

Swanson knows or should know better. Google voice in an application. Google does not control or own the transport mechanism. That is the carrier such as Comcast et al. Yes the Google app is disintermediation, but welcome to the new world. Google may or may not be a common carrier but that had nothing to do with Internet Neutrality.

Let me redefine Internet Neutrality in simple terms:

1. No carrier or transport provider shall discriminate in any manner with any packets transported across their network and shall treat all packets equally.

2. Nothing in the above shall prevent a carrier or transport provider from managing packets, in an indiscriminate manner, so as to optimize the performance of their network and nothing in the above shall require that any carrier or transport provider shall delimit the fees they charge for various levels and degrees of service.

Simply, we are all equal, but if I use more I pay more, or if I want better I pay more.

Now Swanson makes a totally flawed argument. Google as Google phone has nothing to do as a carrier or transport provider. One may ask why has Swanson written this and what motivated the WSJ to ever publish it. Welcome to the world of money, just follow its flow.

Finally, as we stated before, one finds no justification for the FCC getting into this fray. They have no jurisdiction, there is no enabling legislation. What a waste of time and money!

Posted by Terry McGarty at [10:35 AM](#)  

Labels: [Broadband](#), [Internet](#)

[A REVIEW: CHAOS AND ORGANIZATION IN HEALTH CARE](#)

There has been a great number of books analyzing health care over the past year and one suspects that this wave will continue. The book by *Lee and Mongan* entitled *Chaos and Organization in Health Care* (MIT Press, 2009) is one of the more recent. The premise of the book appears to be that the delivery of health care has problems because it is in an organizational state of chaos and if order is restored by the means proposed by the authors then all things will improve.

On page xi they specifically state that "the solution is organization" and it is from this assertion that they continue to build their argument. On page xiii they assert their proposal that a "tightly structured delivery organization" is the ideal and they proceed to use several examples throughout the book. Before continuing, I would introduce an interesting historical observation. When I spent time in and around Longwood Avenue, the Harvard Medical School area, in the

1960s, I could actually park my VW in the lot in front of one of the hospitals. By the late 1980s I had to use a multistory garage, for what I thought was a great fee of \$8. Last week I used the gigantic subterranean parking edifice for \$30. The authors seem to recommend that the patients come to them, where they are collected as a group, but the vignette on parking just is the tip of the exclusion iceberg. It is quite difficult to get patients to trek to a single location for intermittent or routine care, they are all too often difficult to get to, especially for a patient who would then have to take great time from an already pressured schedule. The answer has been the single or multi- practitioner practice.

On p xii the authors speak of team based solutions to treating Diabetes. If one looks at Type 2 Diabetes, then in the overwhelming majority of cases it is a self inflicted disorder due to obesity and diet. The disease can be cured by just losing weight, and there should be actions taken to make that happen, otherwise a cost should be applied to the patient's life style choices. Assuming that nothing can be done with such a patient is just wrong and places the costs on the rest of us who comply.

On pp 39-40 the authors begin to their analysis with the data from Medicare showing that patients see multiple physicians each year. They have a chart which shows that for Diabetes the Medicare patient sees 9 different physicians 3 of which are primary care and 6 of which are specialists. One will accept the data but one must question it. If the patient has Type 2 Diabetes, then we know that there are kidney, cardiac, neurological, ophthalmological, and possible endocrine issues, but if the average Medicare patient with type 2 Diabetes sees all of this every year then this is clearly an overload. The authors put this data out there without adequately explaining it and allow it to speak for itself. It does not do so well.

On p 47 the authors have a table which shows the tests that Internists no longer routinely perform. Let me address a few. First, the treadmill stress test is better performed by a cardiologists just in case a patient does suffer an MI while be tested. The general internist is not prepared to handle this and the insurance could skyrocket if it were taken on, as well as the insurance would not reimburse it. There are lots of reasons why not. Now for a liver biopsy. No Internist would take the risk of performing an inter peritoneal invasive surgical procedure in their office unless there was no alternative. Slicing an artery in the liver is a substantial risk.

Part II starting on p 55 is where the authors begin their proposal for organization. Their overall proposal is in Chapter 6 for a Tightly Structured Health Care Delivery Organization, on p 97 and they use the VA as an example. The essence of the proposal is that one can create a dense and tightly integrated delivery system and that one gets the patients to come to that system and because of the efficiencies in this delivery mechanism the units costs and thus total costs are reduced. This is the classic centralized architecture approach introduced into production in the 1800s. Yet one questions whether that is the sole paradigm for the delivery of health care.

In Chapter 10 on p 175 the authors detail many of the reasons for lack of change. They focus on the provider and carefully list the key barriers to any for of evolution. On p 184 they present an interesting chart, charts of this type one can find in almost any environment, that one physician in the ER ordered 40% more CAT scans then the second highest ordering physician. Rather than bemoan that statistic one should try to understand why, the devil is in the details.

On p 205 the authors appear to support the bundling of payments, a plan which has worked its way into the current health care bills (2009). Bundling is a natural outgrowth of institutionalizing health care delivery. However if one can argue for the permanence of a distributed health care delivery system, which is in proximate contact with the patients, then bundling would be just another word for institutional control and the reduction of physician autonomy and patient choice. It is a sticky issue and the authors do not do credit to both sides.

On p 229 in the final chapter the authors stress that organization of providers is essential for change. They also seem to promote the single payer system approach on p 237.

The problem is that there is no financial or business analysis of the proposals. There are many generalizations and many anecdotes but frankly not a single analysis and what would be obtained by defined actions. I return to the metric we used before, namely that for any specific disease we have the total costs being:

Total Costs=Population X Incidence X Procedures per Patient X Costs per Procedure

Thus we can look at costs as driven by the four elements above. We see a growing population and thus no influence there. We can reduce incidence. Smoking has been reduced by taxing cigarettes and thus we have seen a reduction in male lung cancer incidence. Yet on the other hand we see a massive explosion in obesity and the resulting Type 2 Diabetes. A great deal can be done on incidence. On procedures; for acute coronary syndrome and the like we now have many procedures we can do today that we could not do 40 years ago and we have reduced mortality 50% as a result. Is that good, should we perform those procedures.

Then finally the costs per procedure. The last element is what the authors seem to be speaking to. What are they and how do their proposals reduce the costs and by how much. The devil is in the details, and more importantly in the numbers. It is with the numbers that the authors come us very short. The book is much too anecdotal and way too lacking in details.

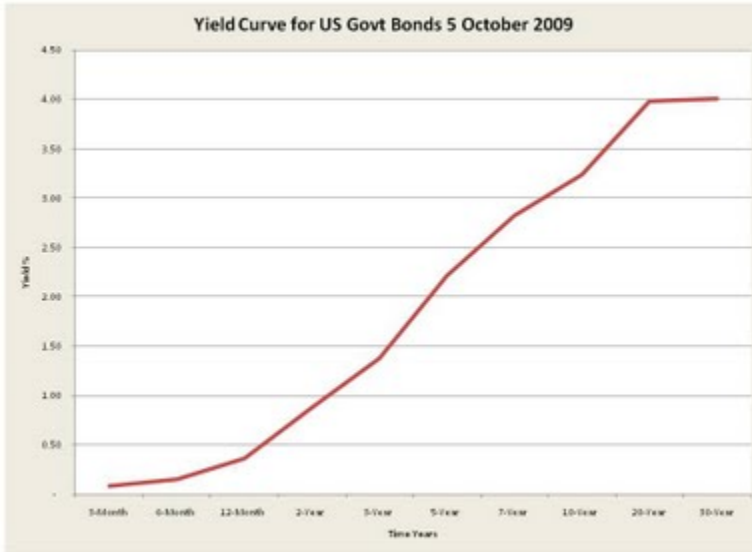
Posted by Terry McGarty at [6:10 AM](#)  

Labels: [Health Care](#)

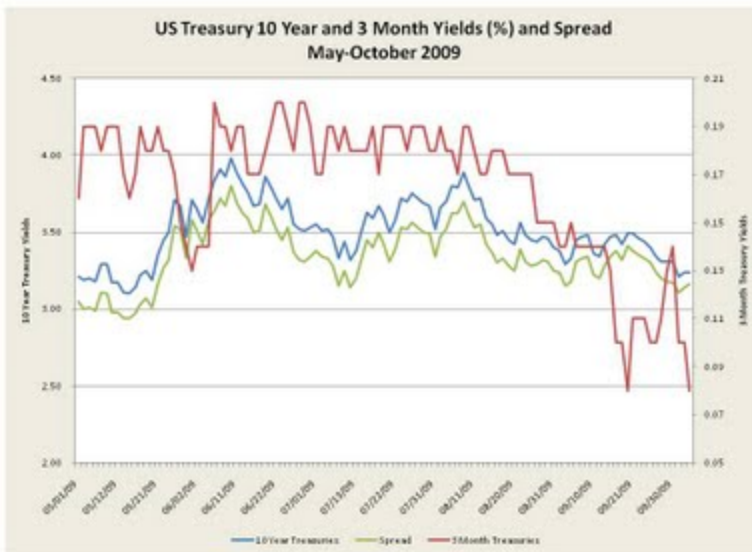
[YIELD CURVES, PORTFOLIO AND IMPLICATIONS](#)

We have update the yield curve data and have also looked at the Baseline Portfolio again. The data is presented here.

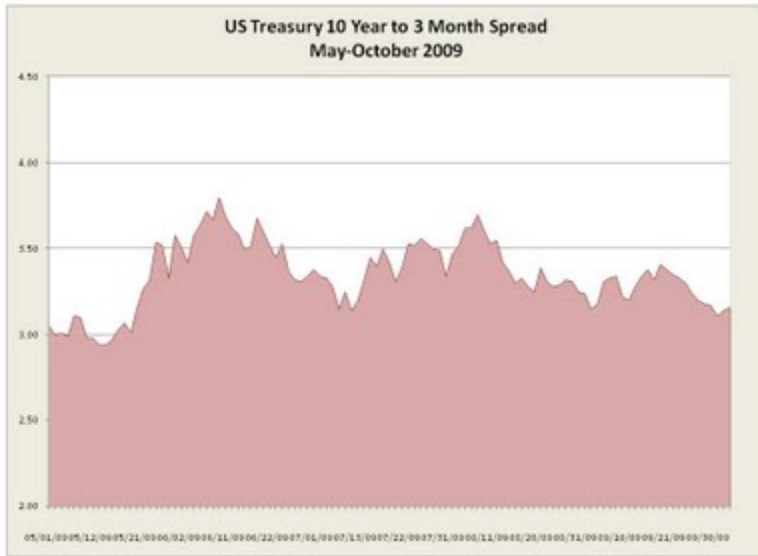
The yield curve as of yesterday is shown below. It appears to flatten at the 20-30 year levels.



We show the variation in the 90 day and 10 year rates and their spread below.

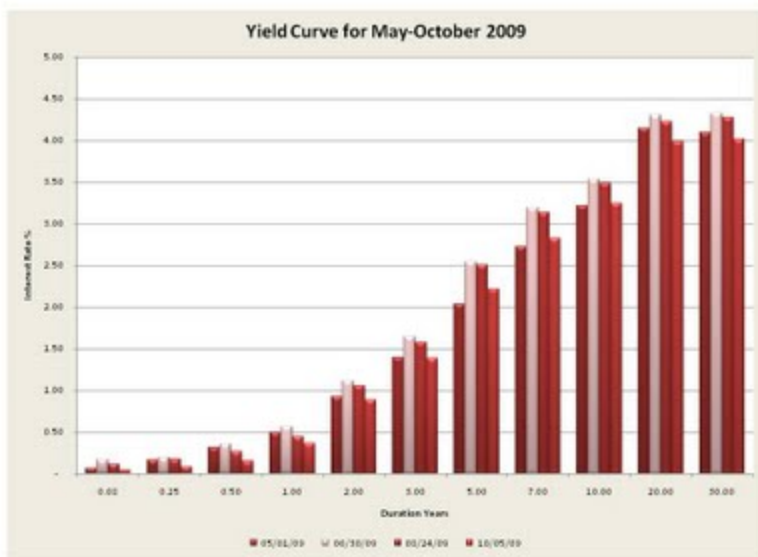


The spread is depicted by itself below. This is the 90 to 10 year spread.

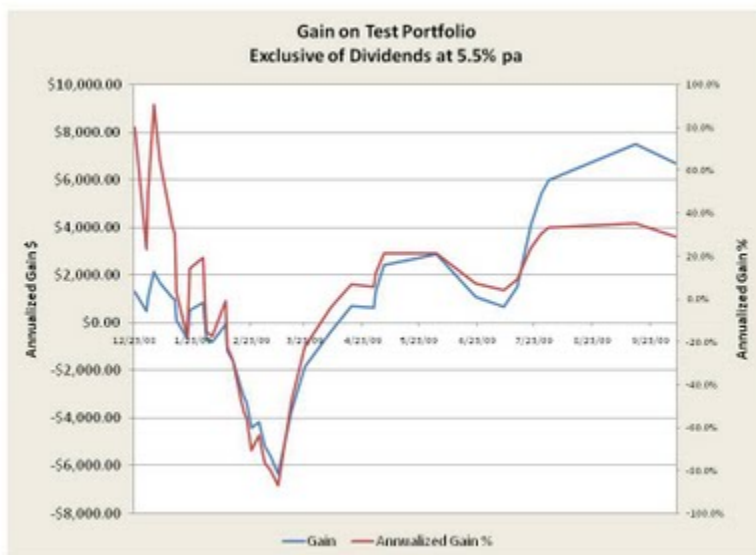


There is little variation at this time. The FED seems to be holding this in control. The spread is back down to where it was at the beginning. The rates show some volatility.

We show several date and their rates. Again the variability seems minor at this time.



Finally we show our baseline portfolio below.



The annualized return has remained relatively fixed at almost 20% for the past few months. These data sets combined seem to reflect a relative stable short term economy.

Posted by Terry McGarty at [5:32 AM](#)  

Labels: [Baseline Portfolio](#), [Economy](#)

MONDAY, OCTOBER 5, 2009

THE DOLLAR AND ITS VIABILITY

With the total Government Debt, inter and intra, going towards 120% of the GDP by the year 2012, we now suspect that the dollar will disappear. That being the case one may no longer be safe with even hard assets in the US.

The [UK Independent](#) states:

"The Chinese believe, for example, that the Americans persuaded Britain to stay out of the euro in order to prevent an earlier move away from the dollar. But Chinese banking sources say their discussions have gone too far to be blocked now. "The Russians will eventually bring in the rouble to the basket of currencies," a prominent Hong Kong broker told The Independent. "The Brits are stuck in the middle and will come into the euro. They have no choice because they won't be able to use the US dollar."

Chinese financial sources believe President Barack Obama is too busy fixing the US economy to concentrate on the extraordinary implications of the transition from the dollar in nine years' time. The current deadline for the currency transition is 2018.

The US discussed the trend briefly at the G20 summit in Pittsburgh; the Chinese Central Bank governor and other officials have been worrying aloud about the dollar for years. Their problem is that much of their national wealth is tied up in dollar assets."

This is or should be a terrifying change since the need for dollars will disappear and thus so too will China. It is our belief that if the current Administration does not turn to a lower spending profile quickly, it will cause the US economy to implode.

The [New Yorker article on Summers et al](#) is an example of the hubris that this team has brought to the White House. In many ways it is akin to McNamara and the Kennedy White House. The article states:

"There were sound arguments why the \$1.2-trillion figure was too high. First, Emanuel and the legislative-affairs team thought that it would be impossible to move legislation of that size, and dismissed the idea out of hand. Congress was "a big constraint," Axelrod said. "If we asked for \$1.2 trillion, it probably would have created such a case of sticker shock that the system would have locked up there." He pointed east, toward Capitol Hill. "And the world was watching us, the market was watching us. If we failed to produce a stimulus bill, that in and of itself could have had deleterious effects."

There was also a mechanical argument against a stimulus of that size. Peter Orszag, who was celebrating his fortieth birthday that day, said that, while the argument for a bigger stimulus was sound theoretically, there were limits to how much money the government could practically spend in the near future."

Namely, there really was no logic to the number at all. We stated that when we analyzed the Romer paper last January. It mad no sense then and even less now. We are on a road to perdition, and the dollar will be one of the final victims.

Posted by Terry McGarty at [5:25 PM](#)  

Labels: [China](#), [Economy](#)

[DD 649, USS ALBERT W GRANT: UPDATE](#)



I have updated the book on the [DD 649, USS Albert W Grant](#), which describes the ship during WW II and its actions in the battle of Leyte Gulf. I have edited the book meant for the final reunion of the crew in 2007. Hopefully it will be enjoyed by thousands more. It has been downloaded over 2500 times since posted. Not bad for a simple history based upon the words of the participants. The above is a picture of the surviving officers while repairing the ship at Manus.

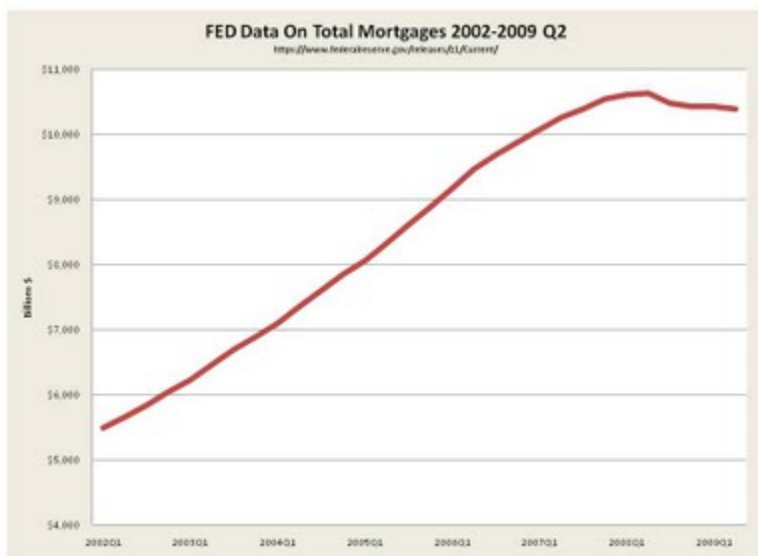
Posted by Terry McGarty at [4:10 PM](#)  

Labels: [Books](#)

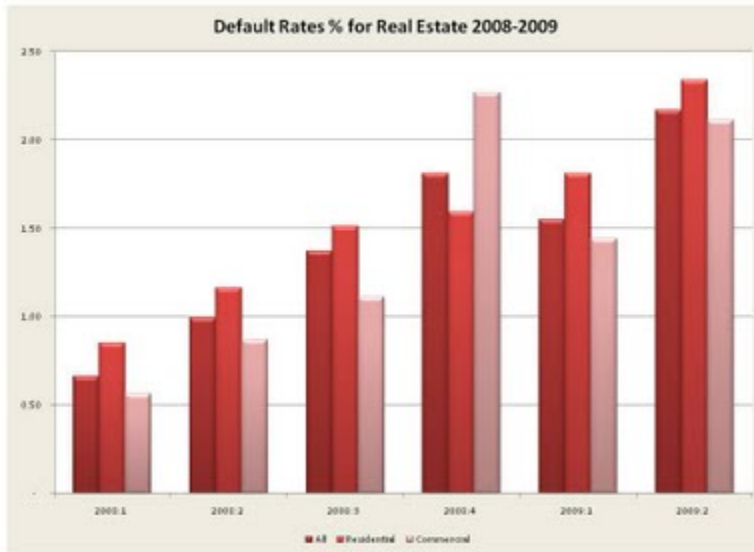
MONDAY, OCTOBER 5, 2009

[HOUSING UPDATES](#)

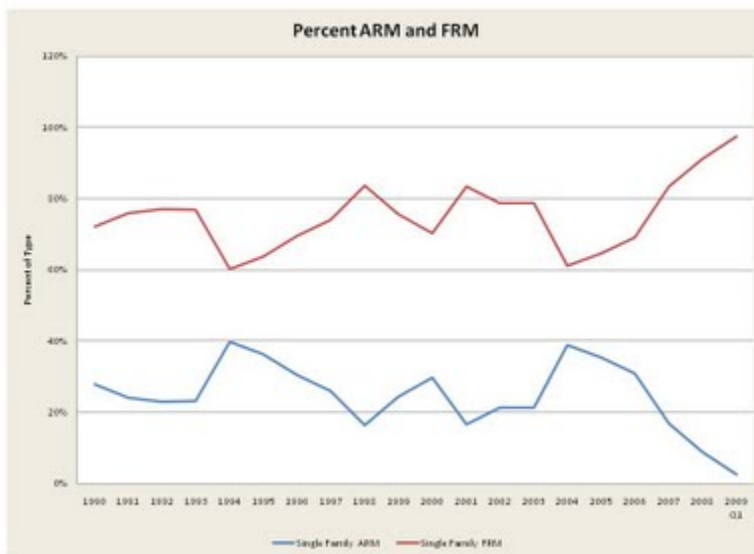
We have been looking at the mortgage data, delayed as it may be, except from the FED, and the trend does not look exceptionally good, albeit only thru Q2 of 2009. First we see the total amount in mortgages has continued to decline as shown below thru Q2 2009. We anticipate this to continue for two obvious reasons. First home prices are declining so that the amount needed is itself declining. Second the terms for obtaining a mortgage are increasing thus moving people from the mortgage pool.



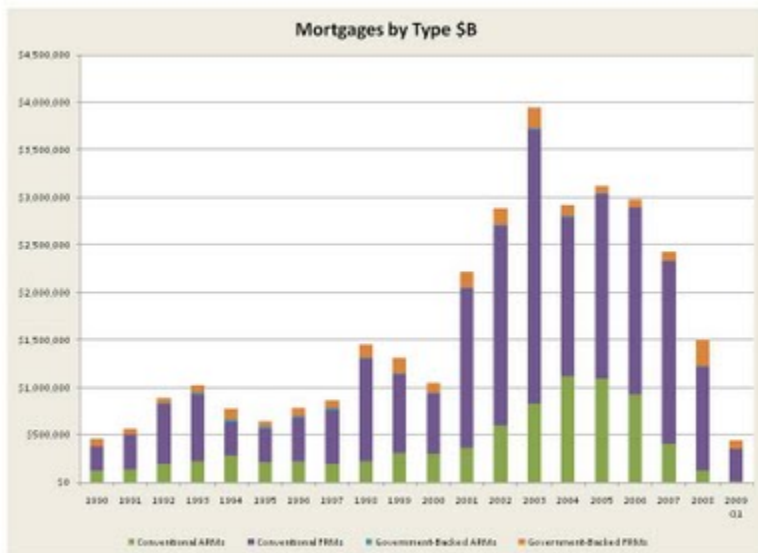
Next we look at the default rates thru Q2. These are also increasing again and thus there will continue to be downward pressure on the home market. In fact there is clear deflation on home prices. This may soon have a downward pressure on real estate taxes. Strangely enough the Democrats are moving for a 12 month school year which will just drive up real estate taxes another 40% and will destroy the leisure industry. One sees the intent to have unions dominate the economy and this most likely will destroy the economy totally! But more for that later.



We also track the percent ARM and Fixed Rate Mortgages. These are shown below. The trend continues and it shows that a continuous decline in fixed rates is seen.



Finally we show the mortgages by type. There is an aberration in the last entry since it is for Q1 2009 and not annual. The trends continue what we had discussed in White Paper 41 last December when we presented the overall view of the debt situation.



Posted by Terry McGarty at [6:23 AM](#)  

Labels: [Economy](#)

SUNDAY, OCTOBER 4, 2009

H1N1 AND CONGRESS

The [Hill reports](#) that anyone in Congress, all staff included will be given the option to get H1N1 vaccinations withing two weeks. They state:


"The Capitol's medical authority stressed that every lawmaker and staffer who wants the swine flu vaccine will eventually be able to get it once the doses begin to arrive on the Hill over the next couple weeks.

Immunization was one of many preventive tips that a staff physician with the Office of the Attending Physician (OAP) gave to a room of about 50 staffers and Capitol Hill employees on Friday, adding that if they do fall ill with flu-like symptoms, the Capitol Police can't force them to leave work, but they should go home...

While the OAP has planned for the worst-case scenario of more than 300 Capitol Hill staffers, officers or members of Congress – or 2 percent of Capitol Hill's working population – contracting the H1N1 virus at a time, they do not believe that it will be that bad."

The corollary to this is that it appears that the rest of us will be getting the short end of the stick. It reminds me of the book, "Restaurant at the End of the Universe". Adams' tale, where the only survivors are the middlemen. Yet if Congress makes it and we all perish who will they tax?

Where did the old adage, "Women and Children first!" go?

Posted by Terry McGarty at [6:57 PM](#)  

Labels: [Health Care](#), [Politics](#)

FRIDAY, OCTOBER 2, 2009

WE PREDICTED THIS ONE: FAIRPOINT AND CHAPTER 11

In our many prior analyses we stated that the "greater fools" who bought the Verizon properties such as Hawaii and now Fairpoint would not make it. Today in the [Burlington Free Press](#) they say:

"FairPoint CEO David Hauser said mistakes have been made during the company's rocky stewardship of the region's largest phone system, and "it's certainly very possible" the phone company will file for bankruptcy within the next 45 days." FairPoint made mistakes in the way the cut-over happened. I certainly wouldn't deny that," Hauser told The Burlington Free Press editorial board Thursday morning, referring to the switch from Verizon's systems earlier this year...

Filing for Chapter 11 bankruptcy would allow the ailing phone company to restructure roughly \$2.44 billion in debt. Bankruptcy would not lead to liquidation, Hauser said. Instead, Hauser said, it would improve cash flow and allow FairPoint to maintain its commitment to provide quality phone service and expand broadband Internet access."

The remaining question is who holds the debt and what percent if any if held by Verizon. This deal was dead on arrival from the beginning. We have been saying that the number of access lines was dropping at an alarming rate in the territory and that Fairpoint knew or should have known this One suspects a set of shareholder suits which will further encumber the company.

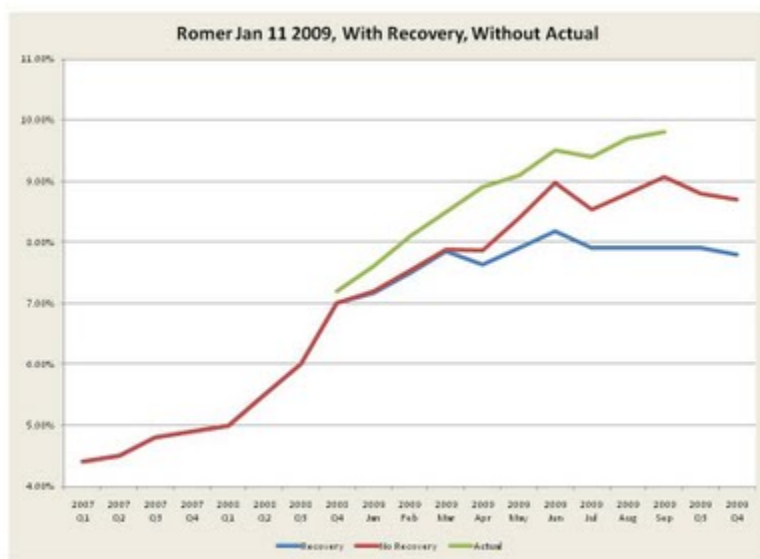
Posted by Terry McGarty at [6:53 AM](#)  

Labels: [Telecom](#)

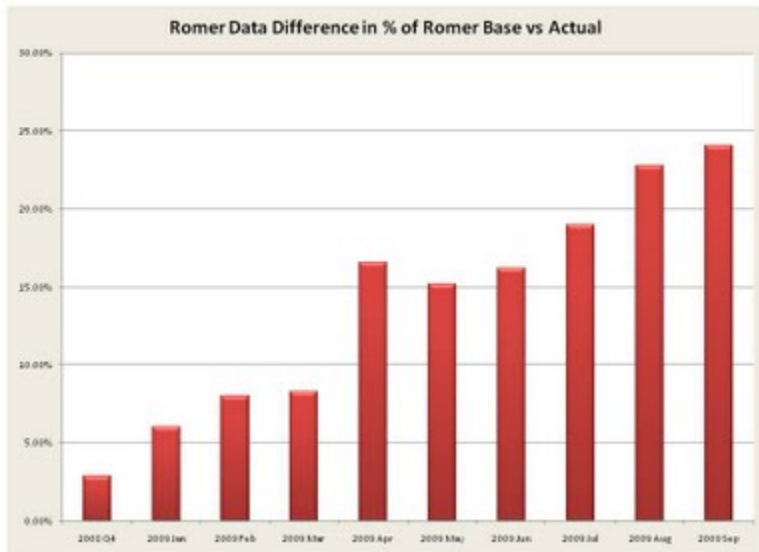
ROMER ERROR ANALYSIS: EMPLOYMENT

We present the running data on the Romer Error Curve based on her presentation in January as to what the Stimulus Package would accomplish. The Department of Labor issued the [September Numbers](#) today and unemployment rose to 9.8%.

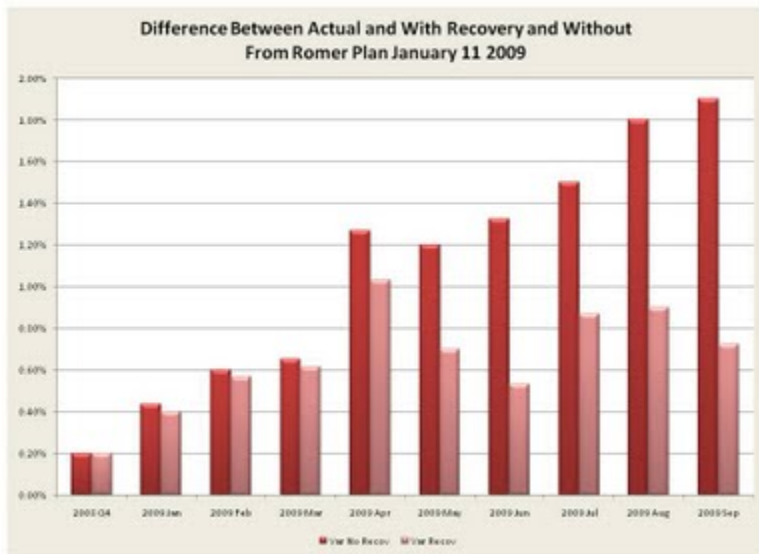
We present the summary below. The top curve is the actual and it is slowly going towards 10% but as of September it is 9.8%. It appears to be slowing but with the size of the Recession we anticipate a continuing rise.





The figure below shows the percent error from actual to the Romer predictions. The Romer analysis and projections were so far off as to make them ludicrous. This is one of the major problems with the economists in the White House and economists in general. At best it is a black art.



The figure below depicts the difference in percent between the actual and the Romer Stimulus projections and the Romer non Stimulus projections.



Posted by Terry McGarty at [6:02 AM](#)  
 Labels: [Economy](#)
WEDNESDAY, SEPTEMBER 30, 2009
[KEYNES: AN EXCELLENT SUMMARY](#)

Robert Skidelsky, the biographer of Keynes, has just written an excellent overview of Keynes and his economic principles, *Keynes, The Return of the Master*. This book has been reviewed at two extremes by Prof Krugman (The Guardian) and Prof Mankiw (the WSJ). In addition Judge Posner (The Nation) refers to the book as worthy of attention in a recent article. It is clear that there is still a great deal of heat generated by Keynes depending which side of the street you are on, and people seem to be switching sides almost real time.

Skidelsky in the three volume biography of Keynes presented a professional and detailed work of the man. The three volume biography is readable body of work but from an academic perspective. It is worth the effort if you are seeking for the details on Keynes' life. If however you are a more general reader, it may come up wanting, this is not a criticism, but an observation. The new shorter book we review here is more approachable and despite Mankiw's criticism that Skidelsky eschews mathematics, the work is quite approachable. It can be read and can be enlightening, even to those who may know something of economics, a claim that is not readily made in today's world.

For in many ways economics today is akin to Christology in the fifth and sixth centuries, with all sorts of claimed heresies floating about, monophysites, Arians, Pelagians, and the like, with general disagreement as to the Greek words for person, mind, soul. In today's world of macroeconomics we see the same for each side of the debate. Now, however, the economists apply the purported rigor of equations to make the analysis appear as if it were accepted doctrine. Thus despite the outcry of Mankiw that the author eschews mathematical rigor, the book by Skidelsky is of great use and insight. Words do count, equations can often be the hiding places for weak thinkers.

Now to the book. It is short, some 190 pages, it is relatively easy going, the author writes well, and it addresses the key issues.

Part 1 is an overview of where the economy is at and how it got there. To anyone following the current economic disaster this is somewhat redundant but for a book which I believe will have lasting value it places the immediacy of the topic in a good light. On page 23 he recalls the well known fact that bankers profited at an extraordinary level from their success but did not suffer for the losses. The quote from the British Liberal Treasury spokesperson of "Bring back the guillotine!" may have merit. For consider a financial regulatory regime where there is no regulation on the top side but only one regulatory rule on the bottom side. Namely you can make as much as you want but if you lose anyone's money then you get executed. I wonder how bankers would function in such a regulatory environment? The Brit may have a point, if reinterpreted.

In Chapter 2 he goes over the current state of economics reviewing the various schools and the various underlying premises. The three premises are the rational expectations hypothesis (REH), the real business cycle theory (RBC) and the efficient financial markets theory (EFMT). The REH assumes everyone has perfect knowledge. The RBC theory he explains rests upon the strong version of the REH which is that markets always clear, a statement I have used from time to time, to my dismay, since they don't, and they don't in real time. The EFMT is the final leg of the three legged stool and it states that prices of all financial instruments or securities reflect all

the risks that may affect them at any time. Well we have seen that this is not the case. He mentions one of the classic issues, herd mentality, and refers to a second, the stickiness of markets.

There is a third effect. That is that financial market makers, the bankers, will always find ways to work around things, like markets and regulations, and create new instruments and new techniques, to make more money. The bankers have, by nature, the instinct to look at any road block, any danger sign, as an opportunity to overcome it for the purpose of making more profit. Thus, I would argue that it is this "counter gaming" phenomenon that provides a significant alternation to the markets and is an effect that Keynes had not considered. In many ways it is akin to the spy-versus-spy mentality of the cold war. the regulator moves and the banker counter moves.

The author then goes onto to explain the problems inherent in Gaussian statistics. I have discussed elsewhere my experience almost forty years ago with the Black-Scholes model, where one knows that "stuff happens" whereas the Gaussian model is a graceful degradation model. The unknowns of random hits must be anticipated and managed. It is akin to the use of what are called "bang-bang" control systems, which in a manner of speaking, are regulators who prevent movement beyond a certain level. Namely regulators have a purpose in a non-Gaussian world.

Part II deals with Keynes and his life and ideas. Keynes was an idea man who actually did something other than academics. He ran his own investments and he had a first hand understanding of what went into making and losing money. The latter is often a critical element of insight. Keynes also understood ideas. Yes his classic is difficult, as are most writings from the Brits at that time. But it was a work of ideas and secondarily of equations.

Chapter 4 is the best of the chapters in that it reviews and summarizes Keynes economics and his ideas. Keynes had written on probability as a younger man and had struggled with the definition of probability especially as how it applied to economics. Keynes struggled with the issue of the meaning of a probability, namely could one look at an economy as having random events buffet it about or were there just things we did not understand that resulted in the perceived uncertainty. The current macro-economists and finance professors often accept the Wiener process as gospel and they apply the theory of this model as if it were Gospel. They use averages, and we all know that averages rarely reflect reality, and they attempt to bound the spreads with a standard deviation, which may quite small if the reality has what are called "long tails". The author does an excellent job at describing this despite the inherent complexities involved.

On p 80 he discusses the issues regarding the business cycle. The question is what causes a business cycle; something predictable and thus controllable or is the cycle an inherent instability which we must just live through. The author's comment that "...Keynes came to reject the Newtonian schema..." is a telling statement. For he continues with Keynes own words, "...economics is ...a moral science...it deals with introspection and with values...". Perhaps that and even more. Economics is akin to the dynamics of an organic system, like the growth of cells, like what we see in developmental biology and epigenetics. The system keeps growing and changing, it is not some inherently stable system which we can control, it is a system where new

factors and epi factors keep arising and get activated and result in spurts of change. Imagine if macro-economists thought the way systems biologists think.

On p 83 is the most telling statement of all, he says, "Uncertainty pervades Keynes's picture of economic life". That to me is the most powerful statement in the book. It is not the uncertainty of the Gaussian process it is the inherent uncertainty of not really knowing enough. The discussion on p 88 regarding econometrics is also quite telling. Keynes did not like econometrics. For one can often correlate anything with anything. Yet there must be some underlying reality in this set of relationships, there must be a "law of nature", repeatable and verifiable, which one can rely upon, otherwise econometrics is worthless.

Chapter 5 is an excellent review of the application of the principles. The discussion on p 111 on the differences with Keynes and the current theorists is worth a long and detailed read.

Chapters 6 thru 8 are worth the read in that they details some of Keynes thoughts regarding Capitalism and other issues. They are in many ways a summary of Keynes as the man and less as the thinker.

This is a superb book, worth the read, and worth returning to from time to time. Yes it lacks a single equation, but at times ideas count.

Posted by Terry McGarty at [9:21 AM](#)  

Labels: [Economics](#)

[FCC WEB SITE DOWN](#)

I just tried the FCC web site (www.fcc.gov) and they state:

"Federal Communications Commission

The normal FCC website is temporarily unavailable due to technical difficulties. We are working to restore the full FCC website back to normal as soon as possible."

Yes, that is right, the FCC, that bastion of communications, that newly revived regulator of the Internet, that saviour of communications is dead in the water. They have no back up plan. Also the web site is like navigating in a jungle, and it just gets worse. Just thought I would make a note.

Oh yes, it could have been worse, it could have been Government Health Care! And you could have just had a heart attack!

Posted by Terry McGarty at [4:22 AM](#)  

Labels: [Commentary](#)

[I GUESS I WAS RIGHT](#)

In my [last Monday blog](#) I wrote about the Hennessey et al WSJ article commenting on their alleged unfairness towards young people by having them subsidize the older health care folks. I stated that first their facts were wrong and second that their logic was wrong. In a recent [Seeking Alpha blog](#) they state the objections even more clearly. The blog actually states:

"What's even more amusing is that contrary to what the article claims, this will not have a negative affect on insurance premiums and may lower them for some young people. The fact is that most health insurance today is "community rating" as it is purchased through an employer.

Because there is only one price for the young and old in employer pools, younger people who buy insurance in the individual market where there is some adjustment for age should get lower rates."

One really wonders how three whiz kids of the Bush Administration could be so far from reality, or can one?

Posted by Terry McGarty at [4:03 AM](#)  

Labels: [Health Care](#)

TUESDAY, SEPTEMBER 29, 2009

NOTHING IS NECESSARILY WHAT IT APPEARS TO BE

Today the Senate Finance Committee rejected the [Public Option](#). It appears as if the Democrats on the extreme left still are holding fast but one is now led to ask what is the true meaning of their actions. To understand this better we must see what seems to be already agreed to.

The Plan as it seems to be evolving has the following characteristics:

1. The providers of insurance will be any and all existing insurance providers. There generally will be no limitation.
2. The offerings will be regulated by the Government in terms of what is covered and what price ranges can be charged.
3. There most likely will be a Government regulator akin to say the FCC, or in the old days the ICC which regulated trucking, the CAB which regulated airlines or the FERC which regulated energy prices.

Thus one could envision a health insurance infrastructure regulated like common carriers were regulated for years. They have to meet certain standards, they have to have cost justifications or even caps, they have to be open to all comers, thus the common carriage model, and they will cross state lines thus being regulated via a commerce clause set of rules.

To understand the dynamics of this one need but read the classic by Alfred Kahn, [The Economics of Regulation](#), which was the seminal work which led to the elimination of regulation on airlines and trucking. Namely we could envision the recreation of a CAB or ICC for health insurance with such things as rate caps and regulatory rules akin to what we had in those industries.

Yet one should remember that when we had a CAB, airlines were costly but they ran on schedule and they were actually enjoyable. Now with unregulated airlines we have cattle cars and experiences that drive people to walk. Thus perhaps regulation is better than no regulation.

Thus one could expect a new Government Agency, akin to the FCC, a creature of Congress not of the Executive with some balance in representation, creating rules, managing costs and reducing everything to some common denominator. Is this good or bad? Clearly the FCC has had its downs and really downs, not very many if any ups, but the ICC and CAB actually made life

better, air travel was better and moving furniture was less risky and one knew the costs. Thus the correct regulatory environment has merits. On the other hand look at the SEC, it has done a poor job at best. Thus it appears as if we are entering a new regulatory environment.

On the positive sides this may allow transparency, cost control, openness akin to a common carriage domain, and yet a political animal. As long as this new agency does not pick winners or losers, namely selecting treatments based upon some wisdom of a Government regulator, it may actually be a great benefit.

But one must remember that things do not remain static. The industry will then consolidate and seek regulatory relief and find ways to circumvent the restrictions. One need only read Steve Coll's book the [*Deal of the Century*](#) to see the end game. The dynamics of a regulated regime will play out. Namely we will see a dynamic as follows:

1. Initial compliance by all insurance companies.
2. The loss of small ones who cannot compete.
3. The consolidation into massive insurance providers as we see in telephony, ultimately being a mere handful if not one.
4. The control of regulation slips from regulator to the regulated as happened in AT&T.
5. Congressional action to break up the giant.
6. Re-institution of deregulation.

And the process continues. In a strange sense it is a material dialectic, pure Marxism carried out in thesis, antithesis and synthesis. Then it starts again.

If this is what is most likely to happen then why are the extreme left wing Democrats pursuing so much for a public option. Is it that they want competition or is it something else. "Thou dost protest too much..." is most likely the case. This natural evolution to a nationally regulated system delivers what we all seek, at least those seeking universal coverage. The public option is really the camel's nose in the tent for a Government operated health care system. So why are they not honest, because very few want that solution. We never nationalized AT&T.

Posted by Terry McGarty at [4:34 PM](#)  

Labels: [Health Care](#)

MONDAY, SEPTEMBER 28, 2009

[SOMETIMES I WONDER](#)

In a recent Wall Street Journal Article by [Leavitt, Hubbard and Hennessey](#) the authors state:

"Thus a healthy 25-year-old and a 55-year-old with cancer would pay nearly the same premium for a health policy. Mr. Obama and his allies emphasize the benefits for the 55-year old. But the 25-year-old, who may also have a lower income, would pay significantly more than needed to cover his expected costs."

First this is just outright wrong. The Baucus Bill makes the older person pay up to 7.5 times as much as a younger person, under the worst scenario. Specifically the Mark states:

"Beginning January 1, 2013, health insurance plans in the individual market would be required to offer coverage on a guaranteed issue basis and would be prohibited from excluding coverage for pre-existing health conditions. Limited benefit plans and lifetime limits would be prohibited, and health insurance companies would be prohibited from rescinding health coverage.

Health insurance premiums would be allowed to vary based only on tobacco use, age, and family composition according to the following ratios:

- 1. Tobacco use – 1.5:1*
- 2. Age – 5:1*
- 3. Family composition:*
 - Single – 1:1*
 - Adult with child – 1.8:1*
 - Two adults – 2:1*
 - Family – 3:1*

Premiums could also vary to reflect geographic differences. Taking all these factors together, premiums could not vary by more than 7.5:1."

These former Bush Administration "economist" types just seem to have failed to read any of the facts. Read it guys, it says 7.5:1, in black and white. When I read this stuff I wonder how the Government can run with characters like this, Republican and Democrats. The Baucus Bill is a reasonable start, it is greatly better than the House HR 3200 disaster. Yet it needs fine tuning.

Second, one must understand the simple concept of insurance and premiums. Let us remember that the 55 year old most likely has been paying premiums along with their employer for thirty years or more.

Let us perform a thought experiment. Let us assume that universal health care was mandated 100 years ago. Thus everyone in the system would be paying the fee for their entire working lifetime. It would be like having a whole life insurance policy from the time you began working or say 25 years of age whichever occurred first. Then you would be paying the same fee for each year, a modest fee, but one which would not change, other than say with inflation.

In this environment, the 55 year old and the 25 year old would be paying the same fee. It would be like whole life not a term life plan. No one with such a plan objects, they know that if I start at 25 then I pay my \$2,400 per year all my life, that is \$200 per month.

Yet if I waited till I was say 55, I would have to pay a larger fee, which is reasonable, but that would not be permitted. Those who are employed and are 55 are paying the same as the 25 year old in their company plan. They have been doing so all their life. That is the way it has worked, at least for those employed with company plans.

My argument is that the fee should be akin to a whole life plan. Those 55 most likely have been paying via their employer. The new entrants are pari passu with the 55 year olds. Frankly charging a 55 year old more is not just. The 55 year old is now being penalized for having paid all their life and the new kid on the block wants a break, where under the old game the 55 year old did not get the break.

Now back to the Bushie team of, well I will be kind, after all, look at where they worked, they were the team that got us where we are today, some one must have some sympathy, NOT.

Our whiz kids then go on to state:

"If Congress goes down this road, health insurance premiums will increase dramatically for the overwhelming majority of people. Even if Congress mandates that everyone have health insurance, many will choose to go without and pay the tax penalty. If you think people are dissatisfied with health care now, wait until they understand that Congress voted to mandate hidden premium increases and lower wages."

Here is where I again go ballistic. In the Plan I proposed a few weeks ago, one can get a revenue neutral solution by addressing the demand and supply issues. I did so by working in a detailed analytical and financial fashion through all the numbers. I provided this in a recent [White Paper](#). I have been reading the Hennessey Blog, see below, and it appears to me that he is like so many economists, lacking in any business expertise and failing to address the issue with numbers. This analysis is just a plain and simple financial analysis. The problem is solvable. Read the analysis! Read something guys, because your crying about a non-problem is shameful!

Posted by Terry McGarty at [6:39 PM](#)  

Labels: [Health Care](#)

[ALLOCATING HEALTH CARE: NOT MY IDEA](#)

Health care as described by many of the proposed plans from Congress is costly and the only way to pay for it is to ration, namely allocate limited resources. The allocation procedure must be based upon some set of accepted principles, not necessarily a moral set, but some logical set to some group of people. Enter the Harvard philosopher Rawls and his Theory of Justice. Rawls seems to invent what he call justice out of whole cloth to justify what he feels is the correct way to allocate resources, whatever they may be. They could be tags to the town swimming pool, or life saving surgery for an ill person.

The Rawlsian approach has then been applied by physicians at NIH particularly the current White House Chief of Staff's brother, also an advisor to the current President. An analysis of this paper is worthy of doing at this time to see what will most likely be incorporated into the interpretation of many of the proposed Congressional laws.

Rawls has proposed a theory of justice that is a statement of what many proponents of antitrust theory ion the mid-fifties and sixties promulgated. The essence of Rawls' theory is composed of three elements;

Original Proposition: There exists a means and method for a society to establish a Contract amongst and between themselves. This Contract thus created in this society of the just is one that

maximizes the return on every transaction to the least of the individuals in the society. This approach to Contractarianism is one related to individuals in a non-bargaining environment establishing between and amongst themselves a “contract” to govern their society.

There are two elements contained herein. The first is the essence of a contract, and in fact a form of social contract between the members of society and amongst them as a whole. The second element is that of a view towards man as a constrained and unconstrained view of human nature. The unconstrained view states that man, individually and in concert, has the capabilities of feeling other people’s needs as more important than his own, and therefore we all act impartially, even when the individuals own interest are at stake. The constrained view is to make the best of the possibilities which exist within the constraint.

For example, the constrained view of health care is one which would state that if it costs a certain amount to provide the service, and there is a portion of the society not able to purchase the service, then there is no overriding need to provide it if such a provision is uneconomical and places a significant burden on the other member of society. The unconstrained view, as a form of socialism, states that if there is the least of us in want for whatever the telecommunications revolution has in store, then they should have access to it at whatever cost. One can see that the current trend in Health care is such an unconstrained view.

Rawls approach to this contract is one wherein the individuals in the society collect themselves as individuals, and agree to a plan for the operations of that society.

First Principle of Justice: each person shall have equal rights and access to the greatest set of equal fundamental personal liberties.

Second Principle of Justice: social and economic inequalities are to be arranged so that they both, (i) provide the greatest benefit to the least advantaged., and (ii) attached to positions available to each individual under conditions of fair equality of opportunity.

Now let us see how this may be and is being applied to health care.

In the recent paper entitled [*Principles for allocation of scarce medical interventions*](#), by Govind Persad, Alan Wertheimer, and Ezekiel J Emanuel (Rham Emanuel's brother and health care advisor to the current President) the authors, all apparently Government employees develop a suggested plan to ration health care. They state:

"Principles must be ordered lexically: less important principles should come into play only when more important ones are fulfilled. Rawls himself agreed that lexical priority was inappropriate when distributing specific resources in society, though appropriate for ordering the principles of basic social justice that shape the distribution of basic rights, opportunities, and income. As an alternative, balancing priority to the worst-off against maximizing benefits has won wide support in discussions of allocative local justice. As Amartya Sen argues, justice “does not specify how much more is to be given to the deprived person, but merely that he should receive more”.

This is a clear statement of not just giving health care but of rationing health care. They continue:

"Accepting the complete lives system for health care as a whole would be premature. We must first reduce waste and increase spending. , The complete lives system explicitly rejects waste and corruption, such as multiple listing for transplantation. Although it may be applicable more generally, the complete lives system has been developed to justly allocate persistently scarce life-saving interventions. , Hearts for transplant and influenza vaccines, unlike money, cannot be replaced or diverted to non-health goals; denying a heart to one person makes it available to another. Ultimately, the complete lives system does not create "classes of Untermenschen whose lives and well being are deemed not worth spending money on", but rather empowers us to decide fairly whom to save when genuine scarcity makes saving everyone impossible."

The begin the paper by stating their basic premise of rationing in health care. Specifically they state:

"In health care, as elsewhere, scarcity is the mother of allocation. Although the extent is debated, the scarcity of many specific interventions—including beds in intensive care units, organs, and vaccines during pandemic influenza—is widely acknowledged. For some interventions, demand exceeds supply. For others, an increased supply would necessitate redirection of important resources, and allocation decisions would still be necessary ..."

Now although they suggest that this be applied in times of crisis for such things as vaccines, they have set the stage for expanding this to overall health care as is currently envisioned. Thus it is critical to bring Rawls and Emanuel into resonance. They seek a "justice" based argument rather than a moral based argument. They try to seek a solution based on humanistic elements rather than what one would call a moral or natural law argument. In fact we would argue that they reject any moral argument and any economic based argument and seek a politically correct extreme left wing argument as stated by Rawls.

Now they propose several systems which we summarize in their own words as follows:

*"...**Lottery Allocation**:. lottery has been used, sometimes with explicit judicial and legislative endorsement, in military conscription, immigration, education, and distribution of vaccines...*

***First-come, first-served**: Within health care, many people endorse a first-come, first-served distribution of beds in intensive care units or organs for transplant. The American Thoracic Society defends this principle as "a natural lottery—an egalitarian approach for fair [intensive care unit] resource allocation." Others believe it promotes fair equality of opportunity, and allows physicians to avoid discontinuing interventions, such as respirators, even when other criteria support moving those interventions to new arrivals,,*

***Favoring the worst-off** : prioritarianism Franklin Roosevelt argued that "the test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little". Philosophers call this preference for the worst-off prioritarianism...*

Sickest first: Treating the sickest people first prioritizes those with the worst future prospects if left untreated. The so-called rule of rescue, which claims that “our moral response to the imminence of death demands that we rescue the doomed”, exemplifies this principle. Transplantable livers and hearts, as well as emergency-room care, are allocated to the sickest individuals first...

Youngest first: Although not always recognized as such, youngest-first allocation directs resources to those who have had less of something supremely valuable—life-years. Dialysis machines and scarce organs have been allocated to younger recipients first, and proposals for allocation in pandemic influenza prioritize infants and children...

Save the most lives: One maximizing strategy involves saving the most individual lives, and it has motivated policies on allocation of influenza vaccine and responses to bioterrorism. Since each life is valuable, this principle seems to need no special justification. It also avoids comparing individual lives...

Prognosis or life-years: Rather than saving the most lives, prognosis allocation aims to save the most life-years. This strategy has been used in disaster triage and penicillin allocation, and motivates the exclusion of people with poor prognoses from organ transplantation waiting lists. Maximizing life-years has intuitive appeal. Living more years is valuable, so saving more years also seems valuable...

Instrumental value: Instrumental value allocation prioritizes specific individuals to enable or encourage future usefulness. Guidelines that prioritize workers producing influenza vaccine exemplify instrumental value allocation to save the most lives. Responsibility-based allocation—eg, allocation to people who agree to improve their health and thus use fewer resources—also represents instrumental value allocation...

Reciprocity: Reciprocity allocation is backward-looking, rewarding past usefulness or sacrifice. As such, many describe this allocative principle as desert or rectificatory justice, rather than reciprocity...

The complete lives system: Because none of the currently used systems satisfy all ethical requirements for just allocation, we propose an alternative: the complete lives system. This system incorporates five principles...: (i) youngest-first, (ii) prognosis, (iii) save the most lives, (iv) lottery, and (v) instrumental value. As such, it prioritizes younger people who have not yet lived a complete life and will be unlikely to do so without aid. Many thinkers have accepted complete lives as the appropriate focus of distributive justice: “individual human lives, rather than individual experiences, [are] the units over which any distributive principle should operate....”

Emanuel et al then state:

"As the legal philosopher Ronald Dworkin argues, “It is terrible when an infant dies, but worse, most people think, when a three-year-old child dies and worse still when an adolescent does”; this argument is supported by empirical surveys. , Importantly, the prioritization of adolescents

and young adults considers the social and personal investment that people are morally entitled to have received at a particular age, rather than accepting the results of an unjust status quo. Consequently, poor adolescents should be treated the same as wealthy ones, even though they may have received less investment owing to social injustice. "

The complete lives system in my opinion reduces to a simple formula. Save anyone say between 15 and 55, and let the rest die. The very young have nothing immediate to contribute and the old have already contributed. The morality of the approach is not the least it considered, it appears to be pure Rawlsian with a flavor of keeping costs down.

Thus it seems that with the Emanuel et al system we would let say a Nobel Prize winner who is 66 die and treat a 23 year old crack addict with three counts of murder. The system allows those in teens thru early middle age be treated and then withdraw treatment from the others. This approach seems to take abortion a few more steps beyond the womb.

They then conclude:

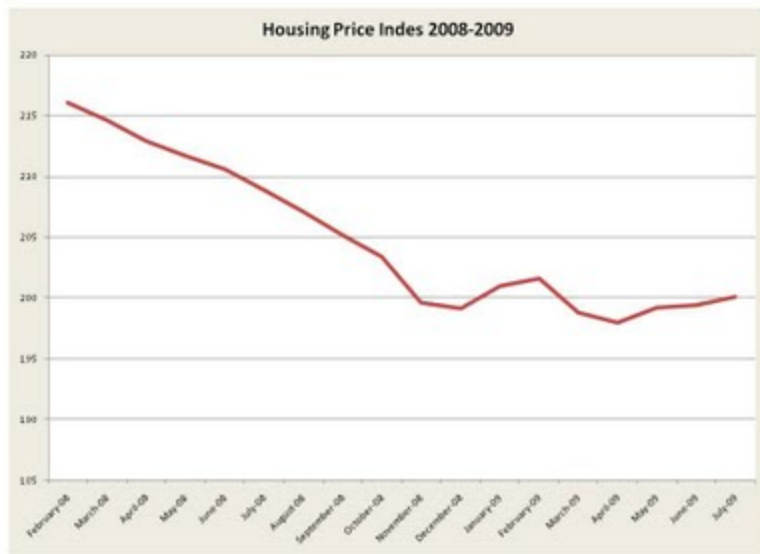
"The complete lives system discriminates against older people. Age-based allocation is ageism. Unlike allocation by sex or race, allocation by age is not invidious discrimination; every person lives through different life stages rather than being a single age. , Even if 15 year olds receive priority over 65 year-olds, everyone who is years now was previously years. Treating 65 year olds differently because of stereotypes or falsehoods would be ageist; treating them differently because they have already had more life-years is not."

Posted by Terry McGarty at [5:42 PM](#)  

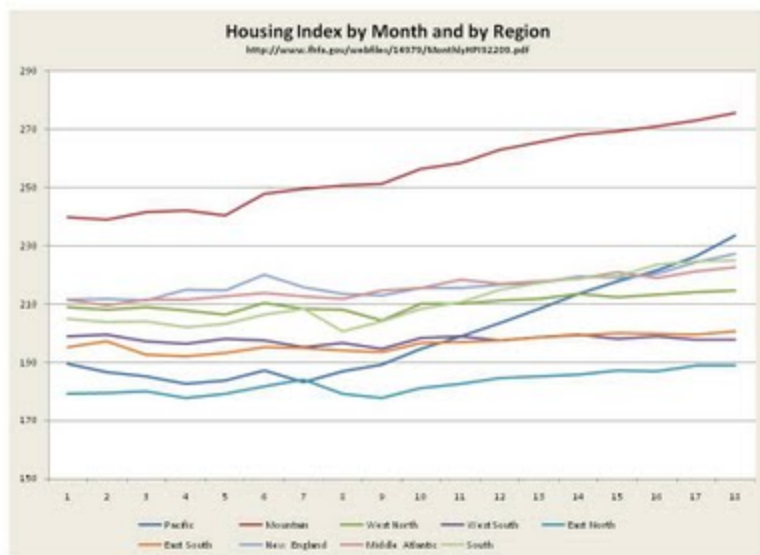
Labels: [Health Care](#)

HOUSING PRICE INDEX, IMPROVING

The [Federal Housing Finance Agency](#) has published their [housing price index](#) as shown below. This is thru July 2009 and shows not only a flattening but some improvement over the past few months. The index is from Feb 2008 thru July 2009.



Now looking at the index on a regional basis we see a significant increase in the Pacific and Mountain index, it was very depressed a year ago, and we see improvement in all other indices except for the central regions.



It is expected that over the next year as the foreclosures work thru the system that the prices will continue to reflect growth in the indices.

Posted by Terry McGarty at [2:40 PM](#)  

Labels: [Economy](#)

SUNDAY, SEPTEMBER 27, 2009

[CAP AND TRADE AND KRUGMAN](#)

Krugman has written today in his [New York Times](#) space on cap and trade. We had written extensively on this in a [Cap and Trade White Paper](#) months ago as well as [on this blog](#) when the Markey Bill came out.

Krugman begins by saying:

"I realized... that it might be useful to write down just what the Econ 101 version of cap and trade looks like; as it happens, this also helps explain the intellectual sins of Glenn Beck and Martin Feldstein.

So here we go. Bear in mind that something like what follows can be found in just about every intro textbook."

Well rather than going the economics approach, which as we have seen during this economic downturn was like listening to a collection of fighting witch doctors, and frankly people who I felt were totally clueless, I had used the facts as were available in the open data. My analysis shows that with a pure cap and trade, not the abortion created by Markey, which I shall return to, that by 2020 each person will be paying \$500 per year more for electricity alone and by 2030 it will be \$2000 per person per year!

Now to Mr. Krugman. You see, that having spent time on the MIT campus, I have always remarked that they kept the economics and business departments way down the east, also left,

end of the campus, making it near impossible to wander there. I wondered why almost fifty years ago, but it became clear that it must be because they did not want to contaminate those of us doing real stuff with those who were just shall we say playing around. Krugman came from that part of the campus. Thus there thus a belief that economists are want to be manipulators of equations and numbers and have never demonstrated any consistent expertise in delivering models which consistently predicted anything, and worse could ever develop a strategy to follow. Imagine them building a bridge, you could to find two who would agree on the very basics of say strength of materials!

Thus back to Krugman. He throws his graphs around and then criticizes in his typical sarcastic and baseless manner those who oppose him. He states:

"OK, now let's send in Beck and Feldstein...Beck got his number from someone who learned about a guesstimate of what the auction value of permits might be (way higher than current estimates, by the way), divided by the number of households, and proclaimed this the cost of the bill. In effect, he looked at a guess about the size of the blue rectangle, which does not represent an economic cost, and called that the cost to the economy.

In a way, though, what Martin Feldstein did was worse. He took the CBO's estimate of "compliance costs", which was \$1600 per household in an early report (it's now down to \$900, but who's counting?), and implied that this was the economic cost of the legislation...the true economic costs are just the triangle, and are much smaller."

Well my approach is to build a model up from the ground level using detailed facts just as any engineer would do building a bridge or computer network. I do not use nice graphs and general concepts, I use demonstrable facts. Frankly I know little of Beck, I gather he is some rather extreme proselytizer on the tube at late mid day, and some of us have other things to do at that time. Like run the numbers. I am talking of the numbers.

Now to the Markey Bill. The problem I articulated is that this Bill gives credits to entities which are funded by the tax. The entities are pork programs that Markey and his cohorts in Congress obtain a benefit from. I suggest you look at my posting in May detailing this and further read the Bill.

Thus this cap and trade bill is a tax on the consumer that redistributes the consumer's wealth to programs which most likely benefit Markey and his ilk! Krugman shows total ignorance of this fact.

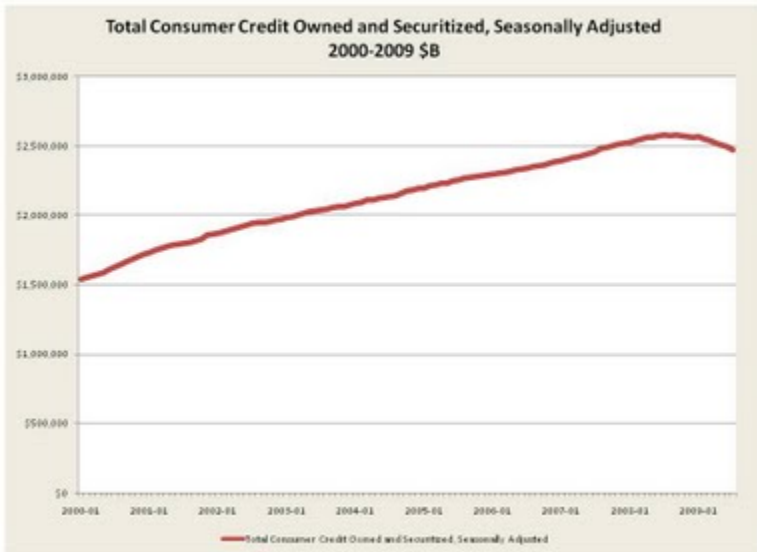
I would suggest that Mr. Krugman deal with the facts and try approaching this the way an engineer or business person would. Then and only then do we get the chance to deal with it on a factual and repeatable basis. The approach of the economist we all know now is truly wanting, it can neither predict nor direct.

Posted by Terry McGarty at [4:09 PM](#)  

Labels: [Cap and Trade](#)

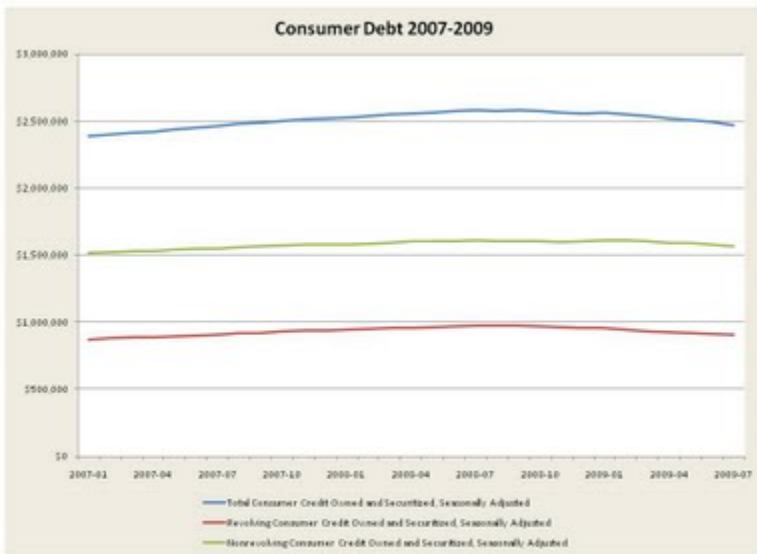
[SATURDAY, SEPTEMBER 26, 2009](#)

[DEBT AND HOUSING](#)



The above is the total consumer credit from 2000 thru July 2009. Note that it had been climbing at a rapid rate and then stopped as the economy took the tail spin and has been declining for the past nine months. This clearly means two things. First that consumers are spending less, a Keynesian problem, and second that consumers are saving more, the same type of problem.

The chart below shows the separate elements of the debt for the past two years. There does not appear to be any material change yet there is a noticeable decrease.



The final chart below depicts the housing starts in their separate elements. The good news is that authorizations and actual starts are now increasing. This is a result of the lower prices, the purchase of foreclosed homes, and the low cost of interest. In a sense it may be dominated by the foreclosure issue which means that the bad debts which housing has caused may be slowly being

digested in the normal mode of things. I suspect that at this point if we have enough data on the purchase of foreclosures that it will be possible to value a great deal of what TARP was to have valued due to the mere fact that it is now being monetized. This data is slowly beginning to become available. It may not be as low as we expected.



These two metrics indicate a stabilizing in debt and in housing, the two key consumer elements. This adds additional credibility to the end of the recession. We await the next unemployment numbers.

Posted by Terry McGarty at [6:07 PM](#)  

Labels: [Econom](#)

at family's health bills in excess of \$7,500 a year.

The family could give this \$3,500 voucher to any insurance company or health maintenance organization, including the provider of the individual's current employer-based insurance plan. Some families would choose the simple option of paying out of pocket for the care up to that 15 percent threshold. Others would want to reduce the maximum potential out-of-pocket cost to less than 15 percent of income and would pay a premium to the insurance company to expand their coverage. Some families might want to use the voucher to pay for membership in a health maintenance organization. Each option would provide a discipline on demand that would help to limit the rise in health-care costs"

Simply put:

1. It would be a universal coverage plan. It deals with the opt out issues of many and it provides some semblance of cost recovery.
2. It would cover catastrophic illness. Namely it focuses on the real problem areas.
3. It would require payment under the 15% limit on an out of pocket basis. It places a burden on the payer to understand what the costs are and thus makes an economic stabilization on excess spending.

He then continues to say how he would cover the out of pocket:

"The simplest solution would be for the government to issue a health-care credit card to every family along with the insurance voucher. The credit card would allow the family to charge any

medical expenses below the deductible limit, or 15 percent of adjusted gross income... one would be required to use such a credit card. Individuals could pay cash at the time of care, could use a personal credit card or could arrange credit directly from the provider. But the government-issued credit card would be a back-up to reassure patients and providers that they would always be able to pay."

The issue here is that the Government would become the lender if you will to the individual.

This is a simple plan. Yet it has several elements which the plan ignores:

1. The issue of demand reduction, again the growth of life style illness such as Diabetes, due to self imposed obesity, is still and issue as is the illness from smoking and sexually transmitted diseases. Any plan, or derivative thereof, must address these issues otherwise the cost will continue to spiral out of control.
2. There is the issue of prevention and early remediation. This plan is handled solely as a plan for catastrophic illness will not address the early detection and prevention. The annual visits and other preventative measures will be costs which a patient could and should participate in. For example, colonoscopies and mammograms are important but would be out of pocket. Yet there would be no reason a person could not have some cost sharing in these as well.
3. The chronically ill, such as those with Type 1 Diabetes, genetic diseases, and the like will have continuing lifetime costs and any insurance to cover families should have no pre-existing condition clauses and should then be poolable.
4. His proposal seems to be one of providing insurance to the person and not to the employer. This should be carried to its fruition, namely all insurance should be personal.

I cannot find his costs, but if you use data on current costs, you find that the under 65 group currently spend \$5,000 per year per person on health care. Thus for a family of 4 that would be \$20,000. It may be less due to children. Yet we are dealing with averages. Thus if such a family had an income of \$60,000 they would have to cover \$9,000 and the catastrophic coverage would be for \$11,000. That would be \$2250 per person per year for catastrophic costs covered by this Government insurance, and that would be for the 240 million people \$534 billion. This does not include the \$425 B for Medicare the \$ for Medicaid. The total would be \$1159 B and that would leave \$ payable by individuals or insurance companies. (See my [White Paper](#) which provides the financial and demographic details).

As a back of the envelope calculation this seems to be a really good idea! However Feldstein et al must remember that Medicare beneficiaries have already paid more than they will get and that the excess has already been absconded by Congress and it is on the debt books of the Government as \$5T in intra-governmental debt! Notwithstanding, this is a very interesting idea,

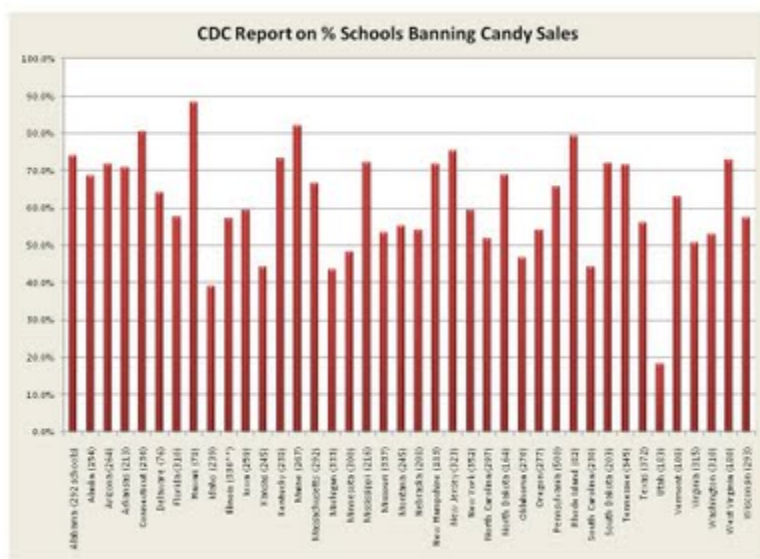
Posted by Terry McGarty at [12:44 PM](#)  

Labels: [Health Care](#)

[SCHOOLS AND CANDY](#)

In 1949 when I was in the first grade, yes 1949, I walked 1 mile to school in the AM, then one mile home for lunch, then one mile back, then one mile home. In those days if there was one "fat kid" in the class that was an exception. Going back further in writing my book about the DD 649 adventures the average weight of the 18 year old recruit, height 5' 9", was less than 135 pounds, and 115 pounds was the lowest it would go before one was rejected. Men were actually enlisted below that weight level.

Now we know that the obesity in High School children is exploding. The [CDC has issued a report](#) in which they give the results of the schools which no ban snack foods as a result of this trend. We show a summary below for 2008.



The CDC report states:

"Foods and beverages offered or sold in schools outside of U.S. Department of Agriculture school meal programs are not subject to federal nutrition standards (1) and generally are of lower nutritional quality than foods and beverages served in the meal programs. To estimate changes in the percentage of schools in which students could not purchase less nutritious foods and beverages, CDC analyzed 2002--2008 survey data from its School Health Profiles for public secondary schools. This report summarizes the results of those analyses, which indicated that, during 2002--2008, the percentage of schools in which students could not purchase candy or salty snacks not low in fat increased in 37 of 40 states. From 2006 to 2008, the percentage of schools in which students could not purchase soda pop or fruit drinks that were not 100% juice increased in all 34 participating states. Despite these improvements, in 2008, the percentage of schools among states in which students could not purchase sports drinks ranged from 22.7% to 84.8% (state median: 43.7%), and the percentage in which students could not purchase soda pop ranged from 25.6% to 92.8% (state median: 62.9%). The percentage of schools in which students could not purchase candy or salty snacks also varied widely among states (range: 18.2%--88.2%, state median: 61.2%). School and public health officials should increase efforts to

eliminate availability of less nutritious foods and beverages at school, as recommended by the Institute of Medicine (IOM) "

This is a first step. Frankly the school lunch program, as all Government programs, have substantial negative unintended consequences. Instead of 6 oz of milk and an apple, they students are offered meals which are well over 1500 kcal, and that is lunch alone. One need just add the Government sponsored breakfasts and then snack machines and we see students consuming well over 3000 kcal per day and being drive all over, thus having no exercise.

It is clear that mothers are no longer home at noon time for a variety of reasons and thus the school lunch is an essential element of the school process yet the types of food need dramatic changes. One wonders what type of nutritionists they have at school. The pity is that the students will have their entire lives altered through this process.

Posted by Terry McGarty at [9:25 AM](#)  

Labels: [Health Care](#)

FRIDAY, SEPTEMBER 25, 2009

NUCLEAR WEAPONS CONTROL

From 1977 thru 1980 I was seconded to the Arms Control and Disarmament Agency, ACDA, then headed by Paul Warnke, and reported to Adm Tom Davies organization as a senior technical adviser to the Comprehensive Test Ban Treaty (CTBT) negotiations with the UK and the Soviets. My Deputy was Eric Ackerman, formerly Group Captain in the RAF and a wunderkind of RV Jones in WW II. Eric had been the one to have bugged the Soviet Telephone system in Berlin and the one to have retrieved the guidance system from the V2 rocket in Norway.

Thus Eric and I represented the "technical" team helping out the negotiations. We spent a great deal of time understanding and developing means and methods to address the question of verification as well as the ways the Soviets could counter what we had proposed. Together we brought both the technical expertise on detection, processing, communications and operational intelligence to the table. Yet as two who had also seen the potential threats first hand we also brought a sense of real scepticism. We did not take the position of the Carter Administration and its NSC head as gospel and we trusted no one. The Trust but Verify dictum was not yet uttered. Under Carter it was the "get a treaty no matter how bad" approach that we took.

Thus I bring a certain personal history and experience to the table. Another disclosure is worth adding. In the early 1970s I also became the head of the Coalition for a Democratic Majority in Massachusetts, the national head was Podhoretz, later to be termed a neo-con. I never took that step in the 1970s but it was a time to look at restructuring the Democratic Party. As such I had the guidance of such people as Prof Richard Pipes at Harvard, and others. Thus by 1979 the path had been somewhat set. I had several opportunities to deal one on one with the Soviets, and yes you could not trust them. Yet, on the other hand, we did discuss children and parents, for family was a common thread. There was a cultural nexus despite the political gap.

Now to the present. Yesterday the UN Security Council issued [Resolution 1887 \(2009\)](#) which focused on the elimination of nuclear weapons. The resolution states:

"Unanimously adopting resolution 1887 (2009) in its first comprehensive action on nuclear issues since the mid-1990s, Council members emphasized that the body had a primary responsibility to address nuclear threats, and that all situations of non-compliance with nuclear treaties should be brought to its attention.

The Council reaffirmed, in particular, its strong support for the Treaty on the Non-Proliferation of Nuclear Weapons, calling on States that were not yet signatories to accede to it. It also called on States parties to comply fully with their obligations and to set realistic goals to strengthen, at the 2010 Review Conference, all three of the Treaty's pillars -- disarmament of countries currently possessing nuclear weapons, non-proliferation to countries not yet in possession, and the peaceful use of nuclear energy for all.

While the resolution did not target specific countries, the Council demanded that parties involved in "major challenges to the non-proliferation regime" comply fully with their obligations, and reaffirmed its call on them to find early negotiated solutions to their issues.

The text underlined the right to pursue peaceful nuclear energy under IAEA supervision, but also urged States to curb the export of nuclear-related material to countries that had terminated their compliance with Agency safeguards agreements. It also called for the enforcement of strict controls on nuclear material to prevent it from falling into dangerous hands.

In addition, the Council called upon all States to refrain from conducting nuclear test explosions and to ratify the Comprehensive Nuclear-Test-Ban Treaty in order to bring it into force as soon as possible. It called upon the Conference on Disarmament to quickly negotiate a treaty banning the production of fissile materials for explosive devices. "

The CTBT they refer to is detailed at the [CTBT site](#). The US is a signatory but did not ratify, so too is Iran a signatory but did not ratify. Russia is a signatory and it ratified the treaty. China is a signatory and did not ratify. Thus the US under Clinton did sign the treaty but Congress did not ratify it, in fact it rejected it. The current President seeks to now have the Treaty ratified by Congress.

Thus the CTBT has been around for over thirty years. There are two problems that still exist. They are:

1. Verification and Compliance: This is the issue regarding how the CTBT signatories can ascertain whether a signatory has been in compliance or whether it has violated the Treaty. Can this be accomplished technically or does it require teams of inspectors all over the world poking into the affairs of countries?
2. Violations and Controls: If a violation occurs what are the consequences? This is the classic problem.

Now historically the CTBT was at most tripartite. It consisted of the US, UK and USSR. We knew where to look and they knew where to look. We knew how to respond and the same for the

Soviets. The problem now is that with so many players we have a possibly unstable playing field. But more on that later.

In a 1982 article in Scientific American (when it was the scientific journal of record, not the flashy puff piece it seems to be today) Sykes and Evernden wrote on the issue of verification of a comprehensive nuclear test ban. Verification is always the first and often the most difficult step. Before discussing this seminal paper let me reflect on what the difficulty is with verification. In the 1970s there was concern about large weapons, the Mega Ton weapons, estimated at over 100,000 such weapons.

That would have been enough to destroy the world many times over. Yet there was also another concern, the small weapon. This was the 1-10 Kilo Ton weapon, the one we now call the brief case weapon, the one we saw then as a tactical weapon used in a land war in Europe. That could be tested and done so in an almost secret manner. Ironically it is the same low yield weapon which concern us now from the perspective of a terrorist attack and from the perspective of an Iranian or North Korean launch or sale. Low yield weapons are quite deadly, they resemble the one at Hiroshima, a 20 KT yield, more likely 10-12 KT. It did real damage.

Thus the verification problem simply stated is to detect a low yield test amongst a background of seismic and other noise. These tests can be conducted underground and thus can be hidden. In the 1960s and 1970s the DoD had several VELA programs focused on detecting nuclear tests. They ranged from VELA underground to VELA Hotel, a satellite program, run partly by the National Reconnaissance Organization, "NRO", the joint DoD and CIA satellite entity. These programs have continued over the past thirty plus years yet the best way still is via seismic sensing.

Back to the Sykes and Evernden article. They start by stating:

"Two treaties put into effect over the past 20 years have set limits on the testing of nuclear weapons. The Limited Test Ban Treaty of 1963, which has been signed by more than 120 nations, prohibits nuclear explosions in the atmosphere, the oceans and space, allowing them only underground. The Threshold Test Ban Treaty of 1976, a bilateral agreement between the U.S. and the U.S.S.R., prohibits underground tests of nuclear weapons with a yield greater than 150 kilotons. In the present climate of widespread pressure for more effective control of nuclear arms the idea of a comprehensive ban on all nuclear testing is receiving renewed attention.

Such an agreement would be an important measure. It might inhibit the development of new weapons by the major nuclear powers, and it might also help to prevent the spread of nuclear weapons technology to other countries. A halt to all testing was the original goal of the negotiations that led to the 1963 Limited Test Ban. New talks with the aim of achieving a total ban were begun in 1977 by the U.S., the U.S.S.R. and Britain, but the talks were suspended in 1980. In both cases the main impediment to a comprehensive treaty was the contention by the U.S. and Britain that compliance with the treaty could not be verified because sufficiently small underground nuclear explosions could not be reliably detected and identified.

In July the Reagan Administration announced that the test-ban negotiations with the U.S.S.R. and Britain will not be resumed. Once again the primary reason given was a lack of confidence in methods of verifying compliance."

They conclude by stating:

"A comprehensive test-ban agreement should not be regarded as a substitute for disarmament. Meaningful reductions in the nuclear threat must include a continuing and serious process of arms control; in this process, however, a comprehensive test-ban treaty could have an important part. The problems of negotiating such a treaty are overwhelmingly political rather than technical and must be recognized as such.

Before the suspension of negotiations between the U.S., Britain and the U.S.S.R. in 1980 tentative agreement had been reached on a number of issues. All three nations agreed that a test-ban treaty would include a prohibition of all tests of nuclear weapons in all environments, a moratorium on peaceful nuclear explosions until arrangements for undertaking them could be worked out, provisions for on-site inspections, a mechanism for the international exchange of seismic data and the installation of tamper proof seismic stations by each country in the territory of the others. The proposed treaty would have a term of three years. The agreements on the long-standing issues of on-site inspection, peaceful explosions and the placement of monitoring stations in each country represented important breakthroughs. It would be a setback for the cause of international security if this hard-won ground were now lost. "

We agree, that today even more than thirty years ago we have the technical means to verify. Yet those means also require inspection, on site open inspection, since the systems available provide high probability of a test or violation but on site inspection is the sine qua non gold standard. It must be open and timely. That then becomes the political issue. The second political issue is what does one do if there is a violation. That becomes the ultimate concern. In the days on the Cold War it mean the side finding the violation was then free to resume its own testing. It was a two player game, where the next step was simple. That no longer works since the game is multi player.

The final issue is the old Dr. Herman Kahn issue of Mutual Assured Destruction, MAD. Both the US and the USSR were to some degree rational players. They were not driven by religious fatalism and a willingness to sacrifice all for a belief. That changes the game dynamics. That was never a consideration in any of the studies in the Cold War. When looking at a psychological profile of any Soviet counterpart one always saw a family, a belief set, a basis in reality. Despite the Soviet and American rhetoric the fear was more one of some wild card error rather than a deliberate confrontation. Now we have just the opposite.

The problem of managing nuclear weapons is in a sense a true example of game theory. The key element of the game is the definition of what winning is. The reason why the US and USSR never came to blows was that both sides had understood the concept of a win, namely world dominance, and both sides had come to the realization that nuclear war meant world destruction and thus it was a game in which no one side could ever win. Both sides were rational and both sides had a common understanding of both what a win was and what the rules of the game were.

In the case of Iran and others the concept of what "the win is" is not anywhere near what it was with the US/USSR game. For them total destruction is the win. Thus the game is unbalanced. This is what makes the game with Iran a very dangerous game, it is a game being played by zealots. Unless the strategists understand this fully, then only dire consequences will result. It seems clear that Israel understands this, it is not at all clear that the US current Administration does.

Thus the approach by the current Administration in many ways resembles the Pollyanna approach by Carter and that led to no reasonable path. It took Reagan and his poker playing that brought rationality to bear. Yet the very nature of the game has changed, wild cards have been introduced, and the tools we have developed to handle this dangerous game are no longer viable. Nuclear weapons have a place if the other side has a value system which abhors the results as much as we would. If on the other hand the other side or sides seek the ultimate destruction, or further believe that the ultimate destruction is an eschatological necessity, the game changes totally.

Posted by Terry McGarty at [7:56 AM](#) 

Labels: [Commentary](#)

WEDNESDAY, SEPTEMBER 23, 2009

[WATCHING FOR INFLATION](#)



We have been watching both M2 and the CPI as shown above on the look out for any inflationary tendencies. So far so good. There is a creep in CPI, mostly energy and health care costs and a slow increase in M2. No problem seen here as of now.

Posted by Terry McGarty at [8:43 AM](#) 

Labels: [Economy](#)

[RECENT COMMENTARY ON THE SUGAR TAX](#)

The [Ethicist of the New York Times](#) has entered the battle of taxing carbs. First the mere thought that the Times has an ethicist is an oxymoron if I ever saw one. Is it that they need one or is it

that they believe that they can opine on what is right. But back to what was said. The article begins:

"Proposals to tax sugary drinks as a way to fight obesity and finance health care reform have found support from medical experts and some interest from President Obama while meeting resistance from the beverage industry in general and the Coca-Cola C.E.O. Muhtar Kent in particular. "I have never seen it work where a government tells people what to eat and what to drink," he told the Rotary Club of Atlanta last month. "If it worked, the Soviet Union would still be around." Is this sort of argument so dubious, and does it come from the maker of products so damaging, that Muhtar Kent should be dragged off in handcuffs — or worse?"

One would expect the CEO of Coke to say as such. But there is an example. It is the tax on cigarettes. It has worked and continues to work. We have shown that many times and it is detailed in our book, [Health Care Policy: Politics vs Reality](#).

He goes on to state:

"Assuredly, many factors affect our weight. But it doesn't follow that because a policy fails to address all of them, it should not address any. That the feds devote few resources to going after counterfeiters who mint fake quarters doesn't mean they should decline to pursue those who run off \$20 bills.

What's more, the multiple causes of a problem need not share equal significance. Studies suggest that sugary beverages are a key contributor to obesity. In its analysis, the Center on Budget and Policy Priorities notes that "Americans consume about 250-300 more daily calories today than they did several decades ago, and nearly half of this increase reflects greater consumption of high-sugar soft drinks." So there's a case to be made for giving serious consideration to a soda tax even if other steps are not taken."

To build upon the above let us recall the simple relationships:

1. It requires 3500 kcal for each added pound.
2. A BMI between 25 and 30 is overweight and over 30 is obese. Obesity is the primary cause of Type 2 Diabetes which costs us \$275 Billion in 2007, and it is growing.
3. The extra 300 kcal per day equals 2100 kcal per week, or 109200 kcal per year or 31.2 pounds per year!

We want to reduce health care costs so here is the target. It is not ethical it is economic.

In a recent [NEJM article](#) the authors state:

"Economists agree that government intervention in a market is warranted when there are "market failures" that result in less-than-optimal production and consumption. Several market failures exist with respect to sugar-sweetened beverages. First, because many persons do not fully appreciate the links between consumption of these beverages and health consequences, they make consumption decisions with imperfect information. These decisions are likely to be further

distorted by the extensive marketing campaigns that advertise the benefits of consumption. A second failure results from time-inconsistent preferences (i.e., decisions that provide short-term gratification but long-term harm). This problem is exacerbated in the case of children and adolescents, who place a higher value on present satisfaction while more heavily discounting future consequences.

Finally, financial "externalities" exist in the market for sugar-sweetened beverages in that consumers do not bear the full costs of their consumption decisions. Because of the contribution of the consumption of sugar-sweetened beverages to obesity, as well as the health consequences that are independent of weight, the consumption of sugar-sweetened beverages generates excess health care costs. Medical costs for overweight and obesity alone are estimated to be \$147 billion — or 9.1% of U.S. health care expenditures — with half these costs paid for publicly through the Medicare and Medicaid programs."

Our analysis presents a substantially greater number but they are within a factor of two which is not bad for this type of analysis. The NEJM authors then go on to discuss how the taxes would work. Let us look at this in a more general manner. We see the following mechanisms:

1. Tax at Point of Sale/Consumption: This is akin to the cigarette tax. We know that the cigarette tax works but it took many years and many tax increases to get it to function. Also there is a one to one mapping between tobacco and cancer for example. That is if you stop tobacco usage as in cigarettes you stop lung cancer. This is not the case with sugar. It is total kcal which must be modulated. Thus we would have to tax cookies, cakes, candies, and the like. It is more complex.
2. Tax at Point of Result: This is the proposal that everyone must be weighed each and every year and they get taxed on excess BMI. Thus, for example, you get weighed and pay \$1,000 per point over 25 if you are between 25 and 30 and say \$2000 for every point above 30. After all you get your car inspected each year and all you would then do is do the same for yourself! Thus if you desire to gain weight you can but you get taxed.

These two proposals look at extremes. One looks at one particular element and the second looks at the result. One attempts to modify behavior and the other penalizes the results. We feel that neither accomplishes the desired result and that the carb issue is more complex than tobacco but it worth continued study.

Posted by Terry McGarty at [8:00 AM](#) 

Labels: [Health Care](#)

[THE FCC AND THE INTERNET](#)

In 2006 we wrote a paper about [Internet Access and Neutrality](#) and in it we addressed the issue of what can a carrier do with packets that they transport across their network. We stated then and believe that it holds now that two facts are in evidence; (i) there is no express law delimiting the actions of any carrier and (ii) there is a basis in tort law which allows remedies in the event that a harm is done. Thus we stated that with no Federal Statute in place the best one could do was to wait until harm was done and then sue under one or several torts.

Now along comes the current FCC. One must remember that the FCC reports to Congress and is NOT part of the executive. Its current Chairman in line with the current President seems to be

moving in the direction of establishing an Administrative law, which he can then enforce with his executive powers and administer via his Administrative courts to ensure what he perceives is net neutrality. It is akin to the FCC being a ruling authority unto itself.

In the [Chairman's recent talk](#) he stated:

"...I believe the FCC must be a smart cop on the beat preserving a free and open Internet.

This is how I propose we move forward: To date, the Federal Communications Commission has addressed these issues by announcing four Internet principles that guide our case-by-case enforcement of the communications laws. These principles can be summarized as:

Network operators cannot prevent users from accessing the lawful Internet content, applications, and services of their choice, nor can they prohibit users from attaching non-harmful devices to the network.

The principles were initially articulated by Chairman Michael Powell in 2004 as the "Four Freedoms," and later endorsed in a unanimous 2005 policy statement issued by the Commission under Chairman Kevin Martin and with the forceful support of Commissioner Michael Copps, who of course remains on the Commission today. In the years since 2005, the Internet has continued to evolve and the FCC has issued a number of important decisions involving openness. Today, I propose that the FCC adopt the existing principles as Commission rules, along with two additional principles that reflect the evolution of the Internet and that are essential to ensuring its continued openness....

*The fifth principle is one of **non-discrimination** -- stating that broadband providers cannot discriminate against particular Internet content or applications. This means they cannot block or degrade lawful traffic over their networks, or pick winners by favoring some content or applications over others in the connection to subscribers' homes. Nor can they disfavor an Internet service just because it competes with a similar service offered by that broadband provider. The Internet must continue to allow users to decide what content and applications succeed....*

*The sixth principle is a **transparency principle** -- stating that providers of broadband Internet access must be **transparent about their network management practices**. Why does the FCC need to adopt this principle? The Internet evolved through open standards. It was conceived as a tool whose user manual would be free and available to all. But new network management practices and technologies challenge this original understanding. Today, broadband providers have the technical ability to change how the Internet works for millions of users -- with profound consequences for those users and content, application, and service providers around the world."*

These are laudable principles and in fact ones which we would support. However the FCC has no basis in law to promulgate them into the Administrative law code. It seems as if the Chairman has decided unilaterally to become the ruler of the cyber world! What basis does he have to make these laws. In fact the FCC has ruled in multiple previous cases that the provision of Internet

services was unregulated, beyond their jurisdiction and the Courts have supported such decisions. Thus one wonders what has changed in the law to give the FCC this authority. Or are we to expect that the FCC will rule, set the Administrative law in place, disrupt the industry, find itself in Court and over ruled again, with the net result being a massive cost to our economy. Perhaps it may be time to disband the FCC.

Now to some specific issues:

1. Why does the FCC believe it should apply these rules to wireless? The wireless carriers bought their spectrum, mostly at auctions. One need just look back at the PCS auctions of the mid 1990s and the rules that applied allowed the owners of this property the right to do whatever they wanted. There was not even an expectation of any regulation. This would be ex post facto and frankly illegal. What is the basis for this attempt by the FCC to delimit a property right? It violates the "takings clause" of the Constitution!
2. Wireless spectrum is limited and what right does the FCC have in unilaterally re-allocating it? The wireless spectrum is limited and demands real time spectrum management. Having been in this business for almost half a century this fact has been drilled home many times. What new divine revelation has come to the FCC Chairman to permit him to see beyond the laws of nature, perhaps his law degree has facilitated insight that engineers have missed!
3. There are costs in access, and the more access one uses the more costs are incurred. Who pays for those costs? It appears as if the FCC forgets that the Internet is not free. In the original model of the Internet there was an assumption of parity of usage. Namely that all users were pari passu in what they did, there were no data hogs. In today's world there are obese Internet users, the data hogs, those who download and upload massive amounts of video, thus loading up the network, and costing others. The carrier should be allowed to charge them. Yet the carrier at the same time should not use this as an excuse to gouge everyone else!

These are just a few questions. But as anyone familiar with the FCC process, the NPRM is just a fig leaf. The Chairman has already written his rules and has reached a conclusion. In fact he is so forthright to even state this as such:

"I've talked about what we need to do; now I'd like to talk about how we should do it. I will soon circulate to my fellow Commissioners proposed rules prepared by Commission staff embodying the principles I've discussed, and I will ask for their support in issuing a notice of proposed rulemaking. This notice will provide the public with a detailed explanation of what we propose to do and why."

We suspect that the next steps will be litigation and a costly battle!

Posted by Terry McGarty at [4:50 AM](#) 

Labels: [Broadband](#)

WEDNESDAY, SEPTEMBER 16, 2009

[THE BAUCUS PLAN: A QUICK NOTE, GOOD JOB!](#)

The new version of the [Baucus Plan](#) is an interesting read. We have reviewed it here in its earlier form and the latest version is not dramatically different. It is in many ways what we have been arguing for as well. Simply it is:

1. Universal
2. No Pre Existing Conditions
3. Incent a good life style
4. He uses 13% of gross income I use 10%
5. He does not state an express employee contribution but incents a minimum
6. He avoids a public plan
7. He moves the CCE to a private entity from the Government institution

All in all not a bad step forward

However he fails in the following:

1. No focus on obesity. He taxes smoking but obesity is greater and costs more
2. No tort reform

Other than that not a bad job. Congratulations Senator, it required courage to do this! It beats HR 3200 by several parsecs!

I will return to this after I get back from Washington.

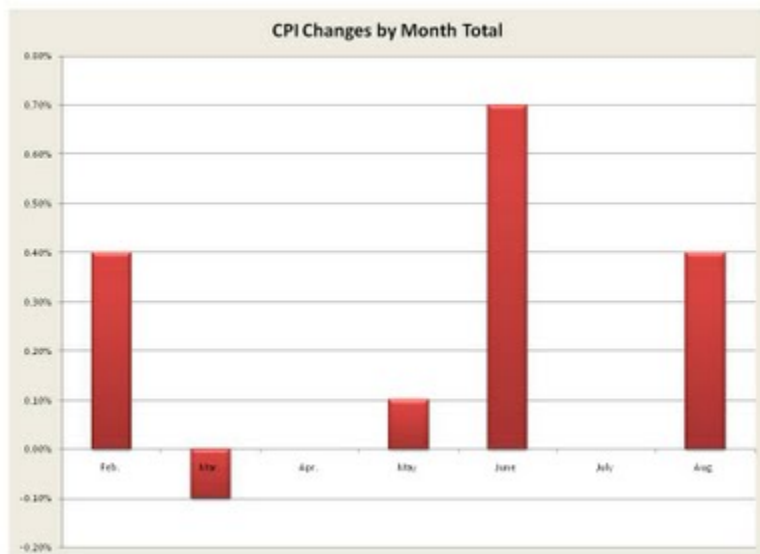
Posted by Terry McGarty at [4:20 PM](#) 

Labels: [Health Care](#)

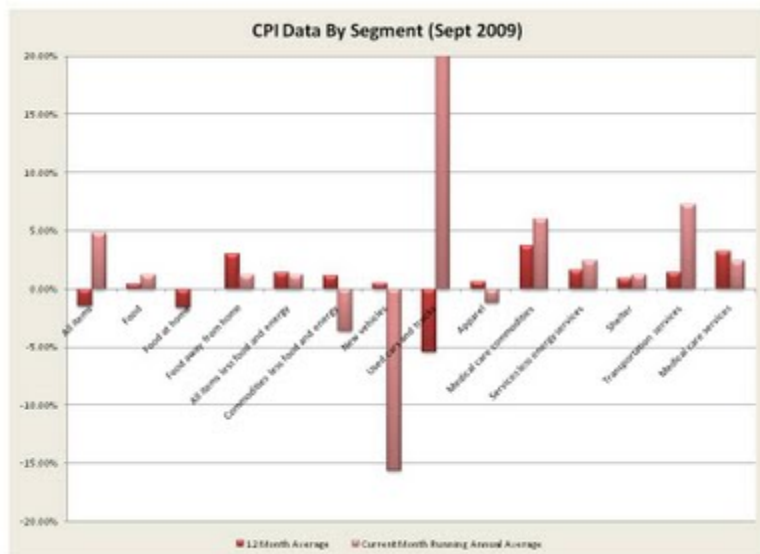
[CPI DATA AND INCREASES](#)

The Department of Labor issued the [CPI data](#) as of this morning. We depict it below.

First is the CPI total with month by month changes.



The total CPI is increasing driven by fuels costs and related costs. We show the details below:



Note the changes in actual annual and annualized from the last month. The spikes are in growth of auto sales, new versus used. Medical care services and commodities are the two largest after taking out the effect of rising oil costs.

The BLS summarizes this report as follows:

" On a seasonally adjusted basis, the Consumer Price Index for all Urban Consumers (CPI-U) rose 0.4 percent in August, the Bureau of Labor Statistics reported today. The index has decreased 1.5 percent over the last 12 months on a not seasonally adjusted basis. The 0.4 percent seasonally adjusted increase in the CPI-U was driven by a 9.1 percent rise in the gasoline index. This increase accounted for almost the entire advance in the energy index and over 80 percent of the overall increase. Despite the August increase, the gasoline index has fallen 30.0 percent over the last 12 months.

The indexes for food and for all items less food and energy both posted slight increases in August. The food index rose 0.1 percent following a 0.3 percent decline in July. The food at home index, which fell 0.5 percent in July, was unchanged in August. Of the six major grocery store food group indexes, three rose in August and three declined. The index for all items less food and energy also rose 0.1 percent in August, the second consecutive such increase. Increases in the indexes for used cars and trucks, medical care, public transportation and lodging away from home offset a decline in the new vehicle index. The index for all items less food and energy increased 1.4 percent over the last 12 months, the smallest 12-month increase in the index since February 2004."

Posted by Terry McGarty at [11:37 AM](#) 

Labels: [Economy](#)

[MEDICAL COSTS: SOME JUST DO NOT GET IT](#)

In a recent article by Worstall in the [AEI Journal](#) the author speaks of health care cost reductions. He refers to a paper by Baumol who argued that in certain industries such as a symphony orchestra it is just impossible to gain what could be called scale economies. Thus what he argues is that there may be a fundamental flaw in health care that will drive costs up as demand goes up. Specifically he states:

"What we really want to do is to routinize and mechanize as much of the medical process as we can, and the one spur, the workable incentive, that we know encourages this is that combination of greed, profits, the division of labor and specialization, and the urge to find cheaper ways of doing things which comes from that odd but unique interaction of capitalism and markets.

It is a basic truism that if you do not identify the source or cause of a problem then you cannot discover a workable solution to said problem. The current laboring of the elephant will indeed produce a mouse to address the perceived problems of healthcare unless we grasp the basic points—that we want more, not less, high-tech medicine and that to get from here to there we have to harness both markets and capitalism to our desires, not attempt to abolish them from the system.

In short, attempting to bend the cost curve through legislative fiat is simply silly, but to try and do so by limiting either capitalism and markets or innovation in new technologies is, quite frankly, insane."

Now he also refers to Emanuel's comments, the brother of the Chief of Staff of the current President:

"Which leads us on again to the idea that the way to reduce the inflation in medical costs is to curb the use of "high-tech" medicine. Dr. Ezekiel Emanuel, the president's healthcare adviser, is said to be a fan of this idea, which is worrying. For of course it is entirely and absolutely wrong. It is precisely and exactly technology that reduces medical costs by increasing the productivity of labor."

But more on that later, since Emanuel also urges rationing and only providing services to 15-55 year olds, and letting the rest for the most part to fend for themselves. Nice trick if you can do it. But what does one expect.

Now back to the AEI article. As we have argued the basic cost equation in health care is:

Costs = Population X Incidence X Procedures per Patient X Cost per Procedure

Thus we can try to reduce any one of these four elements. Yet the true issue as we have stated is the number of new procedures used. Again just look at heart failure and the 1970 6th Edition of Harrison's versus the 2008 17th Edition of Harrison's. We now perform dozens of more procedures, both diagnostic and treatment wise. Yes the unit costs has gone up but that is not the driver, it is the number of procedures for heart failure. Yet in the Type 2 Diabetes realm it is the incidence not the procedures. Thus it is possible to look at the ten major diseases and compare 1970 to 2010 and see whether it is procedures, incidence, or both which are the drivers. Then if one follows Emanuel we let the older and the younger die, perhaps, but Dr. Emanuel should note the problem is with those in the middle!

Posted by Terry McGarty at [3:43 AM](#) 

Labels: [Health Care](#)

[TUESDAY, SEPTEMBER 15, 2009](#)

[PORTFOLIO AS OF MID SEPTEMBER](#)

The above is the latest data on our baseline portfolio started last December 1st. The annualized returns remain quite high and it appears that we are well out of a recession if this is an indicator.

Posted by Terry McGarty at [5:46 PM](#) 

Labels: [Baseline Portfolio](#)

THE INSANITY OF THE LEFT

The New America Foundation in my opinion is an extreme left wing think tank supported by what one would surmise are the usual suspects. In a recent [article by one Mr. Hayes](#) they advocate for massive inflation to reduce the national debt. And we have shown before the national debt as a percent of GDP is rapidly approaching 100% and more. Hayes recommends that we permit massive inflation to deal with this debt. For those of us who lived through the inflation of Mr Carter, one of the worst presidents in the history of the world, we saw what that would do. I bought my home in New Jersey in 1980 with an 18.5% interest on the mortgage. It would have been cheaper on my Visa at the time! Do we want that.

First, I suspect this is part of the young left's program of eliminating the older folks. That's one way to solve the health care problem, get rid of those who will most likely die soon and cost money. For inflation will destroy all retirement savings which most likely are now in fixed income accounts.

Hayes states:

"Given that consumption makes up over 70 percent of the U.S. economy, the most worrying part of this huge debt burden is that of the household sector. In 1981, household debt as a percentage of GDP was 48 percent, in 1996 66 percent, and by 2009 it was nearly 97 percent. The last time the household debt to GDP ratio was near 1:1 was 1929. The average household credit card debt is \$8,329. Undergraduates leave college with, on average, \$27,803 in debt. One in four households is "underwater" on their mortgages, meaning they have negative equity.

It is not just American households that are in trouble. Corporate debt, particularly financial sector debt, has ballooned over the past several decades. In 1981, financial sector debt was just 22 percent of GDP; in 1996, it had climbed to 61 percent, and then exploded during the bubbles years to reach 120 percent of GDP in 2009. "

So we are fixing those younger folks who played the housing market at the expense of the older folks who have paid off their homes. Hayes is in my opinion one of the most evil humans I have seen if this is what he wants. He even makes Maureen Dowd appear angelic! And that is no mean accomplishment.

Hayes end his diabolical article by stating:

"Historically, this approach has been favored by inflation hawks, who feel that it would serve as a control on the temptation for the Fed to cut rates to spur economic growth, or to allow recovery to go on too long raising prices too much. In the context of promoting inflation, it would be used as a kind of check against the fears of spiraling inflation that a sustained rise in the price level might bring about. If global investors come to credibly believe the target, even if the target is 5 percent, then it will reduce speculation in commodities and gold and avoid a rush away from bonds. For investors can price a predictable rate of inflation into the futures markets now, creating stable prices, rather than rushing to place bets that inflation will go to 10 or 12 percent. (Some of those bets are likely to be placed regardless.)

Through an amazing historical coincidence, fate has put a man who studied the Great Depression at the helm of the Fed as we work through the greatest financial disaster since that time. Bernanke relied on his scholarship of that period to avoid that era's mistakes, injecting massive amounts of liquidity into the market with a variety of unorthodox and creative gambits. Now, he can help us work our way out of our debt overhang, and facilitate the creation of a new, more equitable, more robust economy by marshaling his other area of expertise. Inflation now."

Inflation destroys an economy. It makes investment uncertain, it reduces entrepreneurial investment, it destroys assets, and frankly it just makes costs rise. It will destroy the balance of trade, drive up interest rates for a long period, and combine that with the needed tax increases it will destroy the country. Other than that Mrs. Lincoln what did you think of the play?

Posted by Terry McGarty at [5:18 PM](#) 

Labels: [Economy](#)

WHEN YOU SPEAK, SAY SOMETHING

The [Economist](#) reflects on the current President's speech yesterday on Wall Street. They say:

"...He included some helpful words on the responsibility borne by homeowners for taking risks they could not afford.... he also urged banks to bring financial services to those currently outside the financial system, and put the consumer-protection agency first on his list of reforms....that the cost of future failures would fall on shareholders and creditors....it is far from clear that he will force money-market funds, a major source of bank funding, to give up their promise to return their capital to investors intact.

He pledged that if taxpayers ever had to step in again to rescue the system, they would get every cent back, a nonsensical promise. True, as Mr Obama pointed out, taxpayers have earned a 17% return on their "investment" in banks that have since bought the government out. But such figures, which are being disseminated with increasing regularity, ignore the money shelled out on institutions such as AIG, Fannie Mae and Freddie Mac, to say nothing of the myriad financing and bond-purchase programmes put in place to support the banks...."

It has been a year since the true start of the collapse and yes nothing has changed. The same group are in charge and even more so with the loss of the weak players. One must ask what do banks do that are in this mess, what value do they add to society. They do monetize certain assets but they all too often generate systemic risks which lead to financial disasters.

How does one regulate a group of people who will always find a way around what rules you have put in place. They are noted for that, they are the carpenter ants and termites of our society, working in the damp wet underbelly of our economy eating and consuming the very structures upon which we build the society. They serve a function, termites serve a function, as bankers monetize things, termites get rid of old wood and convert it into valuable compost. Yet let too close to the house they often cause a collapse.

Who will watch these termites? Good question, because the Government has consistently failed. The G 20 meeting in Pittsburgh will have as its focus this question, and perhaps that is why the current President chose this time to start a trade war with China, to deflect the issue. Saul Alinsky again?

Posted by Terry McGarty at [5:34 AM](#) 

Labels: [Commentary](#), [Economy](#)

SAUL ALINSKY AND CURRENT DAY POLITICS

I have been reading Saul Alinsky's book on Rules for Radicals. Alinsky is alleged, by some, to be the historical and intellectual leader of the community organizers of today including the current President. It was thus worth the effort to see what the man had said. The book was written in 1971, which was a time of significant cultural change.

Alinsky in his rules on Tactics lays out thirteen rules of power tactics. It is an interesting exercise to state them and see how they are reflected in the current political environment, by both sides.

1: Power is not only what you have but what your enemy thinks you have.

The number of "tea bag" marchers is but the tip of the iceberg. Telegraphing a larger number of people is critical. The enemy must recognize it and try to discount it.

2: Never go outside the experience of your people.

This is a critical dictum. Using large groups is a risky business, especially if you do not know what their full experience is. You may try to keep them in your intended and assumed experience base but somehow they bring their own to the table as well. Thus violence and racism and the like could come to the fore.

3: Whenever possible go outside the experience of the enemy.

This may mean bringing to the enemy the tactics which they found useful when they were in the position of the new minority. It does work in reverse.

4: Make the enemy live up to their own rules.

The Democrats always did this to the Republicans. When the pas President spoke in Congress a mass of vocal opposition erupted and there was no consequence and when one voice shouts out at the current President there is mass uproar. Make the "enemy" live up to their own standards. The corollary is that if you have no standards you can never be expected to live up to them.

5: Ridicule is man's most important weapon.

Just look at MSNBC and FOX! Both sides use it, it wears thin after a while.

6: A good tactic is one your people enjoy.

Yes, have a mass meeting with free lunch and rock music.

7: A tactic that drags on too long becomes a drag.

8: Keep the pressure on.

9: The threat is more terrifying than the thing itself.

This is a good one, it means that the threat is in the mind of the receiver. We see this all of the time in politics.

10: The major premise for tactics is the development of operations that will maintain a constant pressure on the opposition.

This seems best achieved by having your captive cable channel.

11: If you push a negative hard and deep enough it will break through the counterside.

Alinsky interprets this in an interesting way. He tells the tale of putting pressure on an organization which makes them take illegal actions by breaking and entering. He gets his enemy to do something wrong and then pounces on the advantage. Had Nixon only read Alinsky he might have finished his term. The tactic is to get the enemy to react in a manner that sets them up as the "bad guy", even to the extent of having them commit a "crime". Then come in and take advantage. This works if the "crime" is not too bad.

12: The price of a successful attack is a constructive alternative.

This is the risk the Republicans have in the health care debate. They must have the counter proposal, something which when the public option is dead they get to offer their and not accept what is proposed. The Alinsky tactic of power number 12 is a perceptive step in taking the high ground.

13: Pick a target, freeze it, personalize it, and polarize it.

This last one seems to be what has happened with the recent Van Jones affair. A typical community organizer had the tactics of Alinsky used brilliantly against him. Anyone familiar with the Vietnam War can see the advantage of being the under dog, knowing the land, having flexibility and targeting one after the other.

Reading through these rules is akin to that moment in the film Patton where George C Scott as Patton shouts, about Rommel, "I read your book!"

Posted by Terry McGarty at [4:59 AM](#) 

Labels: [Commentary](#), [Politics](#)

MONDAY, SEPTEMBER 14, 2009

[CHINA AND TRADE](#)

The [China Daily](#) reports on the filing of a WTO complaint against the US. It states:

"The Chinese government on Monday filed a formal complaint to the World Trade Organization (WTO) over steep U.S. tariffs imposed on Chinese-made tyres.

Under the WTO's dispute settlement system, the two countries will now have 60 days to try to resolve the dispute through consultations. If consultations fail, China can go further by requesting a WTO panel to investigate and rule on the case.

"China put forward a formal request for consultations with the U.S. under the WTO dispute settlement mechanism on the U.S. special safeguard measures against Chinese tyres," the Chinese mission to the Geneva-based body said in a statement....

U.S. President Barack Obama on Friday approved punitive tariffs up to 35 percent on all car and light truck tires from China in a so-called attempt to "remedy the clear disruption to the U.S. tire industry."

China had quickly denounced the U.S. move as a serious act of trade protectionism which violates WTO regulations."

The [People's Daily](#) also states:

"China launched anti-dumping and anti-subsidies investigations into some automobile and chicken products originally produced in the United States, the Ministry of Commerce (MOC) announced on Sunday.

The probe follows complaints from Chinese manufacturers. They alleged the above products entered the country's markets with an "unfair competition manner", which harmed domestic industries.

The ministry said the investigation was in accordance with the World Trade Organization rules and China's laws.

The MOC announced, China always firmly opposes protectionism. The country hoped all countries worked together to promote a quick recovery of the world economy."

The actions by the current Administration will appear to ignite a severe tariff and trade war at a time when it would result in the most harm to the US economy.

Posted by Terry McGarty at [12:43 PM](#) 

Labels: [China](#)

[AN OBSERVATION OR TWO ON LAST WEEK'S SPEECH](#)

The current President gave his speech last week regarding health care and there were two sentences worth examining. They are:

"But I will not back down on the basic principle that if Americans can't find affordable coverage, we will provide you with a choice. And I will make sure that no government bureaucrat or insurance company bureaucrat gets between you and the care that you need."

I am reminded of times in the 1970s when analysts I knew would spend days and weeks analyzing just a few words spoken from the Soviet Presidium to determine what was really going on as well as assessing the psychological profile of the speaker. One always knew who wrote the speech but the speaker often embedded it with nuances that are true reflections of themselves. Thus I will use these two sentences to attempt such a task.

The first sentence is a typical sentence of the type:

If A, then B.

A is a sufficient condition to effect result B. However it is not a necessary condition. For example he could have said:

If and only if A, then B

That would have meant that A was the trigger. It was sufficient but it was also necessary. Sufficient means one of many possible triggers, and unless detailed they are often hidden. One can always back track on sufficiency.

Thus the statement is valueless for anyone attempting to ascertain the viability of a public option.

Now to sentence 2.

"...I will make sure that no government bureaucrat or insurance company bureaucrat gets between you and the care that you need..."

Well let us look at our form of Government. The Congress creates the laws and the Executive only carries them out. If Congress were to pass a Bill, even over the objections of the President, Lincoln notwithstanding, the President must carry it out. The President has no authority over the law, the President carries out the law. Yet if the President were not a President but a King, then the King could carry out the laws because the King makes the laws. One may ask if there was some hidden message here.

This was a critical speech and as such most likely reflects the intent if not many of the words of the speaker. Careful analysis of each sentence tells a great deal about the intents of the speaker and their self view.

Posted by Terry McGarty at [8:37 AM](#) 

Labels: [Health Care](#)

[BROADBAND AND WASHINGTON](#)

I spent a few days in the belly of the beast last week, yes that is Washington, and I tried to better understand the broadband program. There were a few things I discovered.

First, if one were to logically approach broadband with the steps proposed one would do the following in the order presented:

1. Develop a Broadband Strategy
2. Collect Data on Where Broadband Is and Is Not having an Understanding from the Strategy what One Means by Broadband
3. Deploy Taxpayer Funds in a prudent manner to assist in that deployment.

However the current administration is doing this bassackwards. Namely they are:

1. Trying as quickly as possible to spend Taxpayer Money on Programs of questionable benefit.
2. Commence a measurement process to inventory what is out there.

3. Then via the FCC and its NOI process develop a strategy.

One is then forced to ask what basis is there for spending Taxpayer money if the Strategy is not available until after the money is out the door?

The answer seems to be that the Broadband Program is just a spending program. It is almost the Bernake program of throwing dollar bills from a helicopter. The only difference is that politicians will try and influence the dispersal.

Second, the FCC has issued a bunch of NOIs, Notices of Inquiry. In all my 45 years of looking at this process I have never seen such a collection of questions which have little to do with what the FCC is mandated to do. Yet one must remember that the FCC uses this process to fight off opposition from the DC Federal Appeals Court when litigation comes before them. The FCC need a "body of evidence", namely at least one document with the specific words or numbers which they then use to justify an often pre-ordained answer. Thus the anticipated thousands of replies to the NOIs will be sifter through to see that one justification. It is unlikely that the FCC will do any more than use the ones it need for its already determined answers.

It is only then that the process begins. Namely litigation, and the Federal Appeals Court in DC looks poorly upon almost all FCC dicta.

Posted by Terry McGarty at [8:14 AM](#) 

Labels: [Broadband](#)

WEDNESDAY, SEPTEMBER 9, 2009

[CBO BUDGET REVIEW](#)

It is always interesting to read the monthly [CBO Budget Review](#).

This month the opening paragraph states:

"The federal budget deficit for the first 11 months of fiscal year 2009 was almost \$1.4 trillion, CBO estimates, close to \$900 billion greater than the deficit recorded through August 2008. Outlays were \$518 billion (or 19 percent) higher and revenues \$365 billion (or 16 percent) lower than the amounts recorded during the same period last year. The estimated deficit includes net outlays of \$83 billion in support of Fannie Mae and Freddie Mac, although CBO believes that those two government-sponsored enterprises (GSEs) should be considered federal operations and the full scope of their activities should be incorporated into the budget. CBO estimates that spending increases and revenue reductions stemming from the American Recovery and Reinvestment Act of 2009 (ARRA) have totaled more than \$150 billion so far this year (excluding the impact on the budget from ARRA's effects on the economy).

*CBO recently issued new estimates of the budget outlook for 2009. Counting Fannie Mae and Freddie Mac in the budget, CBO estimates **that the deficit for 2009 would total about \$1.6 trillion**. If those GSEs are excluded from the budget and only payments to them from the Treasury and associated dividend receipts are counted (as has been the case in the Monthly Treasury Statements thus far), the recorded deficit will be approximately \$1.4 trillion..."*

That is a \$1.6 Trillion deficit! There must be a point when someone shouts STOP. We have been arguing since the beginning of this writing effort that the deficit is a problem and this deficit is just out of control. It is worth the monthly read of this report to see how things are progressing.

Posted by Terry McGarty at [2:13 PM](#) 

Labels: [Economy](#)

[MEDICARE END OF LIFE COSTS](#)

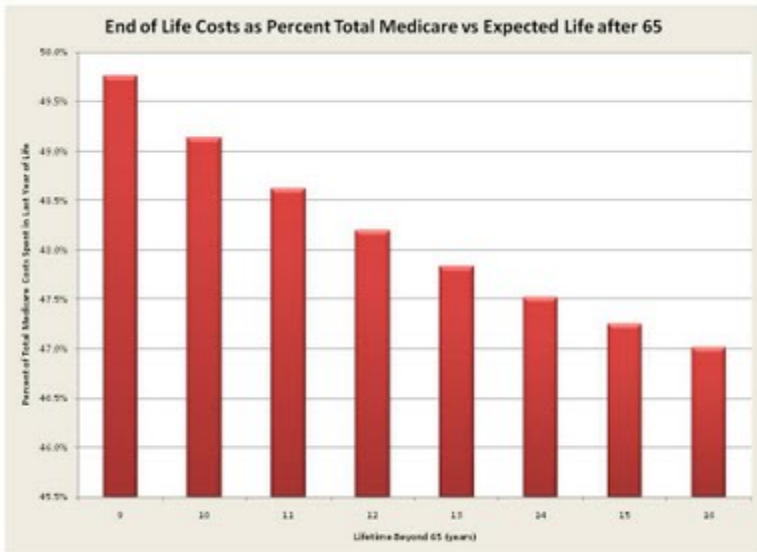
We have performed a simple calculation to determine the End of Life Costs, EOL, for Medicare patients and we present the analysis and results below.

The analysis starts with the following assumptions which are based upon current data:

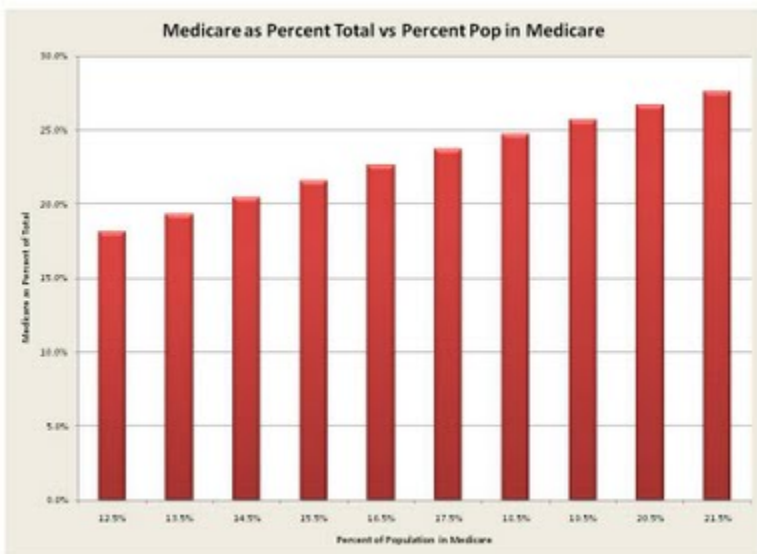
Number People (000) 310,000
Health Care costs (\$B) \$2,529
Number Medicare (000) 44,950
Percent Population in Medicare 14.5%
Medicare Costs (\$B) \$517
Medicare per Year per person (\$) \$11,500
No Non Medicare (000) 309,483
Non Medicare Costs (\$B) \$2,012
Non Medicare per year (\$) \$6,500
Lifetime Medicare (years) 12
End of Life Medicare \$66,500
% End of Life 48.2%
Medicare as % Total 20.4%

Thus we see that Medicare spends over 48% of the total on the EOL costs and currently Medicare is just over 20% of all health care costs.

The first chart below shows the percent of EOL as a fraction of the total Medicare costs versus the expected lifetime after 65. This shows that if people live longer than the percent decreases. This is a result of the assumption that they are generally well until their last year. We have assumed that the expenses per year for Medicare and non Medicare remain as they are at present.



We now present the second analysis. This is the Medicare costs as a percent of total health care as a function of the lifetime after 65. As expected it grows substantially.



This analysis using the data available demonstrates several factors. First the wisdom of the "urban legend" that 75-90% of all health care costs are in the last year of life are just wrong. At worst the percent of Medicare alone is never above 50% and that is based solely upon a smaller base. The actual percent of lifetime total costs is less than 12% assuming constant dollars.

Posted by Terry McGarty at [9:58 AM](#)

Labels: [Health Care](#)

[THE G20, PITTSBURGH AND BASEL II](#)

The G 20 will meet on 24-25 September in [Pittsburgh](#) and unlike the April meeting in London there has been limited pre-meeting discussion. France and Germany have proposed

compensation caps for bankers but that will never happen, since if all else fails they will just buy their own country. Problem solved.

There was a 5 September [Communique](#) issued which stated:

"1. We, the G20 Finance Ministers and Central Bank Governors, met ahead of the Pittsburgh Summit to assess our progress in delivering the Global Plan for Recovery and Reform and agree further actions to ensure sustainable growth and build a stronger international financial system. We reiterated the need for swift and full implementation of all the commitments made at the Washington and London Summits and have agreed the further necessary steps to strengthen the financial system, as set out in the accompanying declaration.

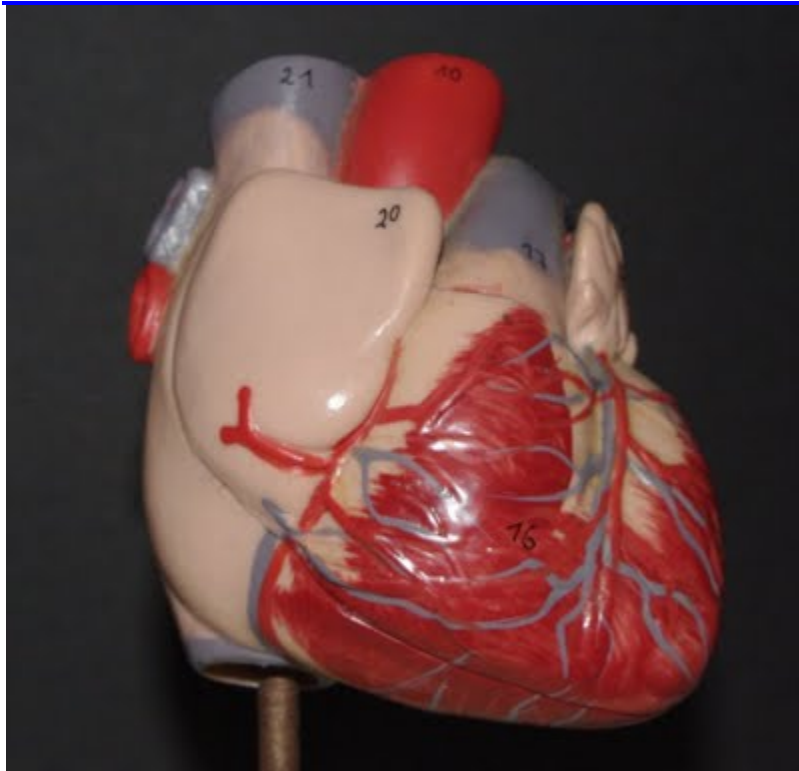
2. Our unprecedented, decisive and concerted policy action has helped to arrest the decline and boost global demand. Financial markets are stabilising and the global economy is improving, but we remain cautious about the outlook for growth and jobs, and are particularly concerned about the impact on many low income countries. We will continue to implement decisively our necessary financial support measures and expansionary monetary and fiscal policies, consistent with price stability and long-term fiscal sustainability, until recovery is secured."

This should be an interesting round to watch but there appear to be no flash points as of yet. The French and Germans still want compliance with Basel II and the US and UK are deferring.

Posted by Terry McGarty at [6:04 AM](#) 

Labels: [Economy](#)

[A FEW REASONS FOR RISING HEALTH CARE COSTS](#)



I have been reading a swath of economists and their analyses regarding the increases in health care costs. Mankiw has referred to several and the most obscure was that of Finkelstein at MIT who looks at the issue from the perspective of the microeconomist who is looking for correlations in time series data with no rational underlying model. As we have stated many times before, if one looks at the bottom up one can readily develop a model, and one which reflects reality.

Let us look at a simple model. That for analyzing ischemic heart disease. This is the heart disease which results from blockage of the arteries and is often reflected by people having Angina or shortness of breath. It is simply a plumbing problem.

From a cost perspective there are two questions; how do we diagnosis it and what does that cost, and how do we treat it and what does that cost? There is a third ancillary question and one quite important which is; does any of the treatments make any difference?

Let me answer the ancillary question first, yes the treatments reduce mortality by 50% over the past 40 years. Thus one does not have to be concerned with the issue of clinical effectiveness. Now one may ask is that a good thing, namely do we want to spend all that money on people who will just get old and die of something else anyway, well I leave that to the brilliant medical ethicist at such places as NIH, clearly the place we would want to go to for moral decisions. But alas I digress. Back to the first two questions; diagnosis and treatment.

We can consider two scenarios, performing this diagnosis and treatment in 1970 when the costs were low, remember mortality was twice what it is now, and then doing it today, forty years later. To do this we look at Harrison's in 1970 and Harrison's today, since they will provide the procedures.

1970 Scenario

Diagnosis; we used an EKG, a simple chest X Ray, a stress test on a tread mill, and a stethoscope.

Treatment: we used nitrates, nitroglycerin tablets, recommended rest, and very little else. Eventually the patient dies.

2010 Scenario

Diagnosis: we use the EKG, stress test, electron beam CT, Nuclear imaging, echocardiography, positron emission tomography, exercise perfusion scintigraphy and the like.

Treatment: It may start with medication such as nitrates and beta blockers and calcium channel blockers but soon progresses to catheter revascularization, or placing a stent, or even coronary artery bypass surgery. It may actually include several of these over time.

Now back to cost. The cost equation we have used can now be applied to ischemic disease. Namely the total health care costs for ischemic disease is:

Total (Ischemic Disease) = Population Size X Incidence (Ischemic Disease) X Procedure per Patient X Costs per Procedure

Thus we know the population, we know the incidence, neither of which we can do great deal to control, although we do have some influence over incidence by diet and the like, and we could control the costs, albeit they are not the problem, it is the procedures, diagnostic and treatment. Thus to look at and understand the costs of health care one MUST look from the bottom up and not from the top down. Looking at time series, doing regressions, and the like lets one see wonderful correlations but no causality and especially no way to control the system. One must look at this as a business and if you will as an engineer. How does it work at its very core and that what knobs can I twist to improve it?

As we have shown above the number of treatments have increased yet the mortality has decreased. Do we reduce the treatments and see an increase in mortality? This becomes a moral issue, the value of life, not just an economic issue.

There is another question which flows from this approach to the problem. Can health care ever exceed 100% of the GDP? This may be a self contradicting question but when one looks at the arguments about the exploding health care costs one seems to see that people look at health care as an ever increasing set of costs. You may just run out of physicians and surgeons before that ever happens. And a scenario one may truly have to worry about is that medical school grads may become like public school teachers in the 21st century, poorly educated and unionized! Just think of that horror story.

One need just look back to the 1930s and 1940s in New York City and Public School teachers were some of the best and brightest in the realm of education. Then they left and went to Wall Street. What filled their spots were in many ways what got public education where it is now. Will this also happen to medicine, will it be dumbed down so that the medical school grad of 2050 be the equivalent of a Practical Nurse of 2010, not disparaging a PN, but they are not asked to perform brain surgery. Then add making them unionized so that half-way through the operation they have to see the shop steward to decide if they will proceed since they are now on triple overtime. That will take care of all of the problems in health care.

Posted by Terry McGarty at [5:07 AM](#) 

Labels: [Health Care](#)

TUESDAY, SEPTEMBER 8, 2009

[THE BAUCUS PLAN AND MEDICARE](#)

We now include some of the items in the Baucus proposal we discussed in the last entry and Medicare.

1. Added Features to Medicare

Baucus proposes the following added features:

"Coverage for a Personalized Prevention and Wellness Plan. Beginning January 1, 2011, Medicare would cover a health risk assessment and wellness visit with a primary care provider

for all beneficiaries every other year. During this visit, beneficiaries would receive a personalized health improvement plan and schedule for Medicare covered and recommended preventive screenings.

Coverage of Preventive Services. *Cost-sharing would be removed for preventive services recommended by the U.S. Preventive Services Task Force (USPSTF). The proposal would give the Secretary authority to modify coverage of existing preventive services consistent with USPSTF recommendations.*

Incentives for Healthy Lifestyles. *The proposal would require the Secretary to establish a five-year initiative to explore providing incentives to Medicare beneficiaries who improve their health status and complete scientifically-based healthy lifestyle programs. The programs would target specific risk factors including high blood pressure, high cholesterol, tobacco use, overweight or obesity, diabetes, and falls prevention."*

As to the above:

(i) Medicare never covered annual physicals. Thus if a patient was to get coverage they would have to present with an ailment and the physician would have to record it as such. This became a problem because it is critical to catch problems early. Just because a patient has Diabetes, one cannot test for a PSA level unless there was some complaint. The physicians then "played" the system with the patient stating they had a urinary problem. This is now taken care of.

(ii) Preventive services is a potential conundrum. Take Type 2 Diabetes, what are the preventive services, nutritional and diet counseling? This has a potential for abuse.

(iii) Lifestyle is always good but it is a bit too late for many by the age of 65. Try getting a 70 years old morbidly obese patient to loose weight. You might just as well get the to fly!

2. Payment Controls

Baucus then goes on to describe payment controls as follows:

"Hospital Value-Based Purchasing. *The proposal would establish a value-based purchasing program for hospitals starting in 2011. Under this program, a percentage of hospital payment would be tied to hospital performance on quality measures ...*

Physician Value-Based Purchasing. *This provision would make improvements to the Physician Quality Reporting Initiative (PQRI) program, including requiring all eligible health professionals to participate ...*

Medicare Home Health Agency and Skilled Nursing Facility Value-Based Purchasing. *CMS is currently testing value-based purchasing models for these providers. ...*

Quality Reporting for Other Providers. *This provision would set providers – long-term care hospitals, inpatient rehabilitation facilities, PPS-exempt cancer hospitals and hospice providers*

– on a path toward value-based purchasing by requiring the Secretary to implement quality measure reporting programs ...

Strengthening the Quality Infrastructure. *Additional resources would be provided to HHS to strengthen the quality measure development processes for purposes of improving quality, informing patients and purchasers, and updating payments under federal health programs...."*

All of these efforts relate to meeting metrics as established by the Government. Frankly one wonders why this has not already been done. The law does not have to be changed to effect this. As we have also noted the most explosive growth area in Medicare is home health care. The logic was to get the patient out of a hospital and into the home where it would be less costly. We have shown that hospitals are still growing at 4-6% per year where home health care is growing at 10-15% per year. Somehow this is not working.

3. Payment Methods:

This is where the problems begin. Physicians will not participate in Medicare if they find that they will not be paid. As I have argued on multiple occasions the bundling issue is a barrier to having competent physicians. No physician worth their salt will subject themselves to the indentured servitude of a bundling system run by hospitals. Hospitals are the problem and not the solution.

The Baucus proposal states:

"Accountable Care Organizations. *Groups of providers who work together to improve the quality of care they deliver to Medicare beneficiaries would be able to keep half of the savings they achieve for the Medicare program over a three-year period.*

National Pilot Program on Payment Bundling. *This provision would direct the Secretary to develop a voluntary pilot program encouraging hospitals, doctors, and post-acute care providers to achieve savings for the Medicare program through increased collaboration and improved coordination of patient care by allowing the providers to share in such savings.*

Reducing Hospital Acquired Infections. *Starting in 2011, hospitals in the top 25th percentile of rates of hospital acquired conditions for certain high-cost and common conditions would be subject to a payment penalty under Medicare.*

Reducing Avoidable Hospital Readmissions. *This provision would direct CMS to track national and hospital-specific data on the readmission rates of Medicare participating hospitals for certain high-cost conditions that have high rates of potentially avoidable hospital readmissions. Starting in 2011, hospitals with readmission rates above a certain threshold would have payments for the original hospitalization reduced by 20% if a patient with a selected condition is re-hospitalized with a preventable readmission within seven days or by 10% if a patient with a selected condition is re-hospitalized with a preventable readmission within 15 days.*

Transitional Care Program. This provision would fund eligible hospitals and community-based partnership organizations that provide patient-centered, evidence-based transitional care services to Medicare beneficiaries at the highest risk of preventable re-hospitalization."

The last three are readily doable now. We have argued that they should and must be done and they lead to substantial costs savings. As to the first two, the group and bundling plan, that is a mandated change which would push the best physicians out of Medicare service. The net result would be that Medicare would be served by those willing to deal at a least common denominator. They will result in lower quality care.

There are changes proposed to Medicare Advantage and Medicare Part D. We refer the reader to those elements.

Posted by Terry McGarty at [4:11 PM](#) 

Labels: [Health Care](#)

[LATEST PROPOSAL FROM SENATOR BAUCUS](#)

Senator Baucus from the [Senate Finance Committee](#) has introduced a new proposal for health care and we want to discuss some initial issues here. The document is entitled [Framework for Comprehensive Health Reform](#).

Our first comments will be regarding the fee structure and the minimal coverage.

1. Fees

The plan says the following regarding fees:

"Beginning January 1, 2013, health insurance plans in the individual market would be required to offer coverage on a guaranteed issue basis and would be prohibited from excluding coverage for pre-existing health conditions. Limited benefit plans and lifetime limits would be prohibited, and health insurance companies would be prohibited from rescinding health coverage.

Health insurance premiums would be allowed to vary based only on tobacco use, age, and family composition according to the following ratios:

Tobacco use – 1.5:1

Age – 5:1

Family composition:

- *Single – 1:1*
- *Adult with child – 1.8:1*
- *Two adults – 2:1*
- *Family – 3:1*

Premiums could also vary to reflect geographic differences. Taking all these factors together, premiums could not vary by more than 7.5:1."

What this means is that the young get what would be a 7.5:1 reduction from the older folks, those below Medicare. That is generally not what is the case in a mandatory plan. One would assume that if you purchased insurance at say 18 years of age that you would pay into the plan over your

lifetime at some relatively constant rate. Otherwise you will be overburdening the middle aged people with children. One must remember that the family with children is paying for the health, education, and other expense for these children who will become the future taxpayers who will in turn pay for the costs of the single younger people when they get older.

This plan seems to fail in understanding the holistic nature of the society. Baucus seems to want to get the younger people who are not in the plan now into the plan by offering a low cost entry. This will add a dramatic burden on the middle class family. One can rationalize the ratio for family coverage but the steep dependence of rates on age will only burden the already overburdened middle class families.

Also the tax on smokers is good but there should be a comparable tax on overweight and obese individuals. There should be a 1.8-2.2 on overweight and 3.5-5.0 on obese individuals. They are the ones with chronic costs which go on for long periods. Smokers just die after 3 to 6 months with lung cancer.

2. Structure of the Plan

Baucus then goes on to say the following about the structure of the Plan:

"Benefit Options. Four benefit categories would be created: Bronze, Silver, Gold and Platinum, with the following actuarial values:

Bronze (minimum creditable coverage) = 65%

Silver = 73%

Gold = 81%

Platinum = 90%

A separate "young invincible" policy would be available in addition to these benefit options. This policy would be targeted to young adults who desire a less expensive catastrophic coverage plan but with a requirement that preventive services be covered below the catastrophic amount. Cost-sharing for preventive benefits would be allowed.

No health insurance policies could be issued (other than grandfathered plans) that do not meet the actuarial standards set for these plans. All health insurance plans in the non-group and small group market would be required, at a minimum, to offer coverage in the Silver and Gold categories.

All plans sold in the non-group and small group market would be required to cover the following benefits: preventive and primary care, physician services, outpatient services, emergency services, hospitalization, day surgery and related anesthesia, diagnostic imaging / screenings (including x-rays), maternity and newborn care, pediatric services (including dental and vision), medical / surgical care, prescription drugs, radiation and chemotherapy, and mental health and substance abuse services that meet minimum standards set by federal and state laws.

Plans would be prohibited from applying annual or lifetime limits on benefits. Cost-sharing would be eliminated for preventive services except where value-based insurance design is used, and out-of-pocket limits for all benefit categories would be tied to current HSA standards."

One assumes that what he means in the sloganed plan descriptions, his metallic metaphors to be precise, is that the plan as specified would pay 65% and you would have a 35% out of pocket requirement. He is stipulating that at a minimum any plan must be a 65% coverage of the stipulated benefits and that the individual would have to cover the remaining from their own funds. Frankly that is not unreasonable. He then stipulates that other plans could exist. The problem is why does he have to say anything more than the minimum. He should stay with the minimum plan and let the industry invent the others. The naming of the Plans, as he does, appears as if some staffer is trying to pretend that they know something about marketing...if they did, why don't they go into marketing and get out of Washington. Keep the minimum and get rid of the rest. Cute earns no one any points.

3. Minimum Benefits

Now to the minimum benefits,

1. Preventive and primary care: This is reasonable and frankly it applies to all plan participants so why talk of pediatric care as a separate line item.
2. Physician services: What does this mean? The Primary Care should cover the physician services and what is different here?
3. Outpatient service: Again, one assumes that outpatient is minor surgery and procedures such as a colonoscopy. If so why do we need day surgery and related anesthesia. The procedure includes the medication. One would not want a colonoscopy without versed and fentanyl.
4. Emergency services: This is clearly a reasonable service for emergencies and the like. There should however be a restriction or added fee if they are used for non-emergency purposes, colds and the like. One must drive abuse out of the ER.
5. Hospitalization: One assumes that this is the non-physician hospital charges and that the physician/surgeon charges are separate and under (1) above.
6. Day surgery and related anesthesia: One asks how is this different than outpatient.
7. Diagnostic imaging / screenings (including x-rays): One assumes that there is a reason for singling out this diagnostic procedure, especially for cost reduction. Otherwise this is a physician service as is (1).
8. Maternity and newborn care: As stated above this is also a physician service for the mother and for the child.
9. Pediatric services (including dental and vision): Regarding the physician services we feel it is already covered. Yet now we open the dental issue and this is a first. It is also another explosive cost that we never saw before.
10. Medical / surgical care: This is also confusing as regards to what? Is this for a surgeon, or what type of medical care.
11. Prescription drugs: This is reasonable within limits.
12. Radiation and chemotherapy: This should be part of the catastrophic coverage portion.
13. Mental health and substance abuse services: This must be well regulated because it has been shown to be an area open to significant abuse.

Oh yes, and the "young invincible" plan must be for Hill Staffers!

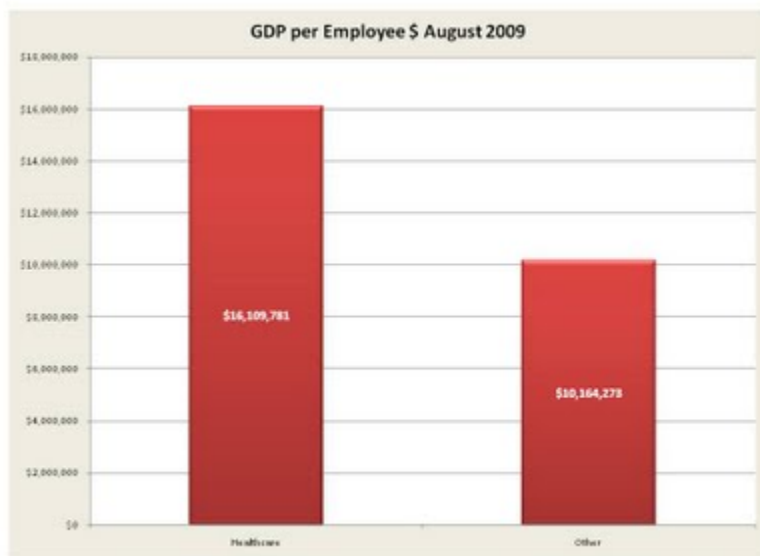
Posted by Terry McGarty at [1:46 PM](#) 

Labels: [Health Care](#)

MONDAY, SEPTEMBER 7, 2009

AN INTERESTING CHART

The following chart is an interesting calculation of GDP Dollars per Employee for Health Care and all other types of labor. Health care has 60% more GDP per employee than anything else. Does that mean more value or just a highly inefficient labor force. On this Labor Day I will let you decide.



Posted by Terry McGarty at [4:25 PM](#) 

Labels: [Economy](#), [Health Care](#)

MONDAY, SEPTEMBER 7, 2009

HAPPY LABOR DAY

It is a strange coincidence that the Unions are in favor of the Public Option. They will never be subject to the constraints of a public option since their union contracts specify benefits which frankly are the main overdrive element of health care costs. I know of many of these plans which provide very comfortable benefits and which are also costly. So why are the unions supporting something that will never impact them but will burden many others? Does this say something about the mindset of unions?

The unions get their goodies from the current Administration and in return they frankly could care less for the people who pay their salaries. So I ask again, why are the unions supporting a plan which does not affect them? Political payback....or is there something else going on here?

Posted by Terry McGarty at [4:01 PM](#) 

Labels: [Health Care](#), [Politics](#)

SUNDAY, SEPTEMBER 6, 2009

A FOURTH LETTER TO SENATORS

This is the fourth letter sent to Senators Menendez and Lautenberg. Menendez has responded by form letter each time. Lautenberg has never replied in any manner. One should remember that he

stood for election after the incumbent Democrat ran into some typical New Jersey legal problem. Frankly one may wonder of Senator Lautenberg is still amongst the living, and yet he will be re-elected well into the 22nd Century! And we are concerned about Central America!

Dear Senator,

I am writing your office again, for the fourth time this year, regarding the proposed Health Care Plans. I appreciate that you have returned a form response since it at least recognizes the receipt of my prior correspondence by your office. We have been studying this issue in depth and since my last letter I have completed a book detailing the analysis of health care as both policy and politics. Having been involved in this area for forty years I believe that with my experience starting and running my own business globally that the perspective of reality and the day to day needs of individuals provide some merit to my results.

I have enclosed White Paper Report of an analysis of a proposal for a Health Care Plan which we have recently developed. Unlike the current Administration's plan which will cost trillions this proposal actually returns funds to the Treasury. Let me briefly describe what this document details:

FIRST, THE PLAN MUST HAVE A SIMPLE AND UNDERSTANDABLE SET OF CORE PRINCIPLES.

I do not differ greatly from the current plan with two major exceptions; I vehemently oppose the public option and I strongly believe that the comparative clinical effectiveness ("CCE") needs to be done but outside the Government, and by professionals, namely Physicians and Surgeons, not Government appoint officials. The core principles should be:

- 1. Universal : All citizens and legal residents are covered and the Core benefits package is required*
- 2. Catastrophic Coverage: Pays for all Catastrophic Diseases and Accidents but for the Core Coverage Plan if Pays for CCE Treatments only of these disorders. The CCE treatments will be specified by a Board of Physicians and Physicians only and it shall be independent of any Federal Entity.*
- 3. Routine Care: Pays a fraction of all routine care and there is a Deductible of \$1,000 per person per year. This will take people out of the ER at more than \$1,000 per visit.*
- 4. National: Sell policies across all state lines and there must exist National Standards for all policies.*
- 5. Personal : Policies purchased by individual/family and all company plans are to be eliminated by a five year phase out. Employers will be expected to contribute to the personal plans.*
- 6. No Pre Existing Condition Constraint : No pre-existing condition constraints for the Core plan and a participant or their family can readily and without cost transfer between plans.*

7. Competitive : There must be a public market for these plans as there is for auto, home, life insurance and the Plans must be transparent and competitive, and added benefits may be provided above base price, The Plans must be regulated by the Federal Government at a National Level.

SECOND THERE MUST BE ACTIONS TAKEN TO REDUCE HEALTH CARE COSTS NOW FROM FACTORS WHICH ARE READILY CONTROLLABLE IN THE SHORT RUN.WE HAVE IDENTIFIED \$650 BILLION OR MORE OF COSTS WHICH WOULD REDUCE HEALTH CARE BY 30%.WE FURTHER BELIEVE THAT THIS COST CONTROL CAN BE A CONTINUING PROCESS.

This, as described in the enclosed, can be achieved via the following areas which in turn can cut 30% off the current expenditures on health care:

- 1. Obesity and Overweight and Type 2 Diabetes : Well over \$250 Billion or 12% of the health care costs can be eliminated by eliminating obesity. Or it can be paid for by taxing it.*
- 2. Smoking Related Diseases: There is still well over \$120 Billion of 6% of the total due to smoking related diseases. Again taxing this is one alternative.*
- 3. Defensive Medicine: This is an elusive but know practice. This can be reduced by tort reform.*
- 4. Misdiagnosis : This is not only costly based on fixing a problem but harms the patient. This can be reduced by a well evolved EMR.*
- 5. Nosocomial Infections: These hospital infections are a result of both poor sanitary practices and poor design of hospitals. I have argued for years that hospitals are not hotels, despite the need to comfort patients. We see too many hospitals with rugs and curtains, which are Petri dishes for infections.*
- 6. Re-hospitalizations: This is the classic Medicare problem if too early a release based on the hospital maximizing the Medicare profit and then seeing a rehospitalization.*
- 7. Retesting*
- 8. Excess Procedures: This is outright fraud. It is difficult to determine this but every physician has heard tales of Medicaid mills and the like.*
- 9. Controllable Diseases: We have managed to see a continuing incidence and mortality of cancers and this has begun to save not only lives but money.*
- 10. Drug Control: The use of generic drugs and the prevention of pharmaceutical advertising along with a costs informed drug ordering system on an EMR has shown that it can reduce the pharmaceutical costs by at least a factor of 2.*

11. Malpractice Costs: This is a simple matter of tort reform which I believe is essential.

THIRD, THE CORE PLAN MUST BE SUCH AS TO ENSURE THAT ALL ARE PEOPLE, CITIZENS AND LEGAL RESIDENTS, ARE COVERED WITH A CORE BENEFIT PACKAGE AS DESCRIBED AND THAT THE COSTS TO THE FEDERAL GOVERNMENT DO NOT EXCEED THE CURRENT EXPENDITURES.

Then we propose payment for the Core Plan is provided as follows:

1. Basic Payments: The Core Plan requires three types of basic payments; an annual out of pocket, a deductible, and an employer/self employed payment. We assume that the self employed will have to make the employer payment and that there is no tax benefit difference between what the employer or the self employed contributes.

2. Individual and Employer Caps: We assume that there is a cap on maximum payments from either the individual and the employer. The individual's total out of pocket payments, or a HH if that is the case for a family, must not exceed in our current example 10% of their gross income and an employer no more than 15% of the gross salary paid. These of course are changeable with resulting consequences in a more costly or less costly plan. For many below a certain gross income level this then creates a shortfall on the revenue required to cover the expenses. The shortfall would be from both HH and employer funds which would have to be made up.

3. Government Subsidies: The shortfall then must be made up from Government funding. We are suggesting that the current Medicaid funds be applied to this shortfall as we have shown above. This Core Plan would eliminate any need for Medicaid. Yet even if we then apply Medicaid funds we may still have a shortfall. We then suggest that we place a "bottom cap" on health care expenses. That is we have a maximum any HH can pay and we have a minimum that any HH must pay. For example we could establish an 8% of gross income as a minimum. Using this Plan the Treasury actually collects \$30 Billion in returns.

I am certain that I am not the only one who is considering such alternatives. I and many of my colleagues here in New Jersey as well as back In Massachusetts believe that there are better ways than HR 3200 which frankly is a disaster! Everyone wants a change, we know that change is required, and change is achievable. But not with the extreme Government heavy handedness of HR 3200.

Very truly yours,

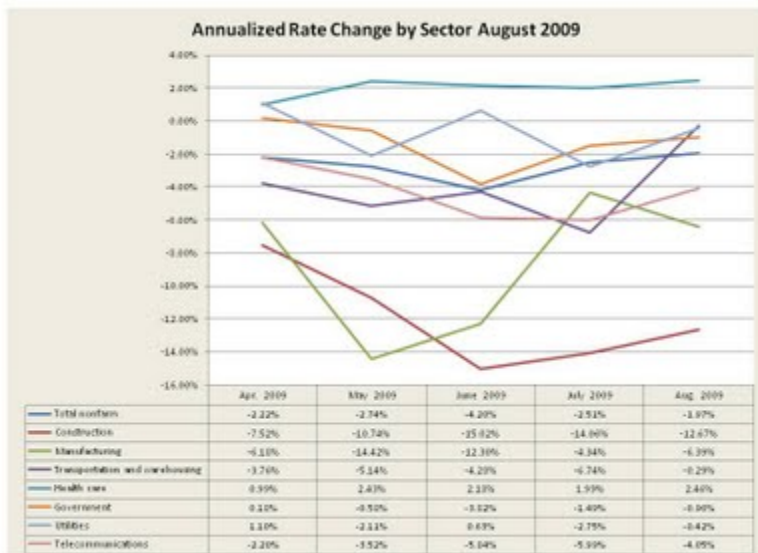
Posted by Terry McGarty at [4:21 PM](#) 

Labels: [Health Care](#)

[EMPLOYMENT DATA AND HEALTH CARE](#)

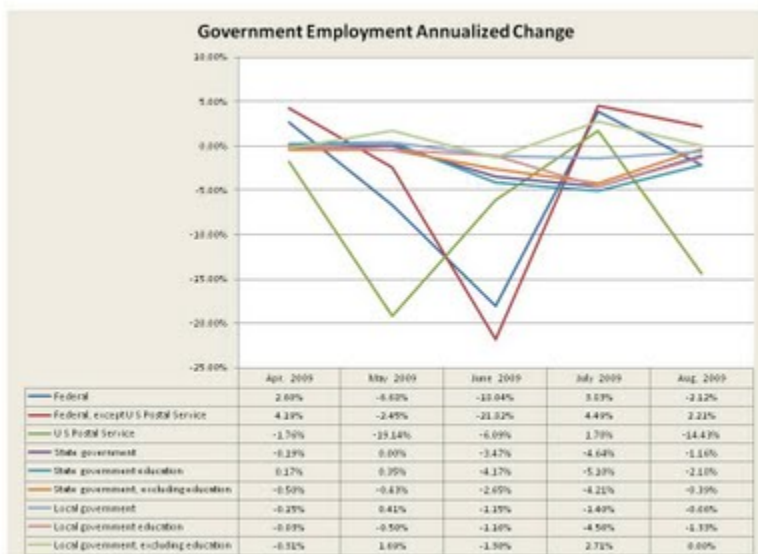
The DoL release [Employment Data](#) for August and it is worth an analysis. We show here several elements.

First, the total employment stats are shown below:



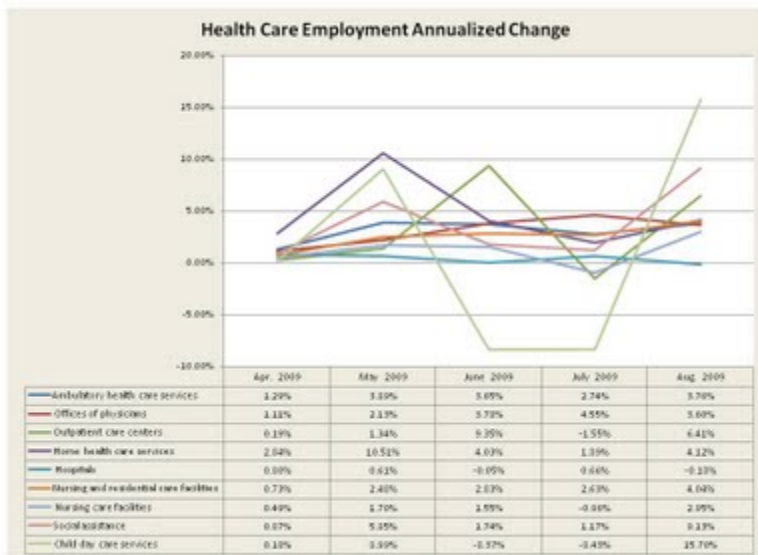
Note the overall continuing decline in all sectors including Government with one exception, Health Care. Construction is still declining at almost a 13% annual rate and manufacturing at 7%. Both of these are indicators of structure deterioration in the economy. Even Telecom is dropping at 4% rate. Yet Health Care is at +2-4% rate of increase in employment.

Second, let us look at Government as shown below.



The Federal Government is the only positive growth as we would expect given the current Administration. All State and Local elements are showing declines.

Third we look at Health Care below:



This is a concern. Outpatient Care, Child Care and Social Assurance Services are growing at or above double digits. This may be a clear sign of the out of control costs in Health Care. Even nursing care facilities are growing at 4% rates, well in excess of the population growth. This is one area which needs almost mandatory controls. It is not that disease incidence is increasing it is clearly a sign of the gross inefficiency in this sector. Every other sector has seen massive declines except health care.

Finally a brief view of M2 below shows a drop in M2 for the last few weeks.



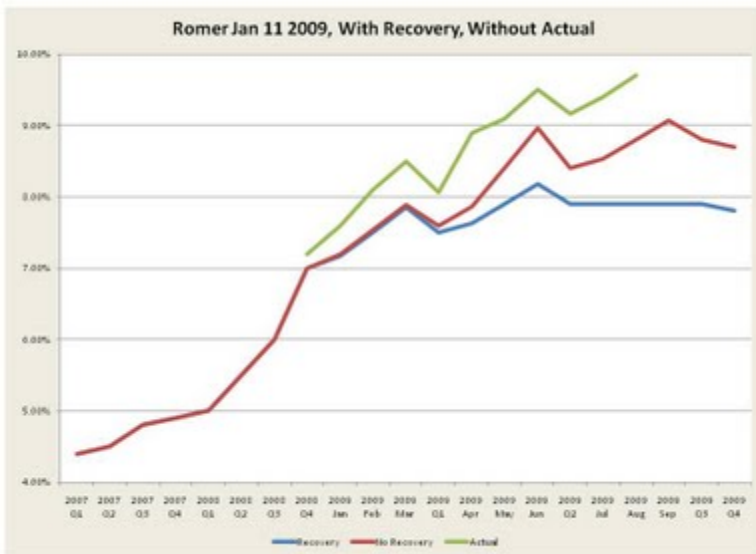
This decline in M2 bodes well for inflation control but we are reminded of the fact that banks still have massive reserves which we spoke about before.

Posted by Terry McGarty at [2:19 PM](#)

Labels: [Economy](#), [Health Care](#)

FRIDAY, SEPTEMBER 4, 2009

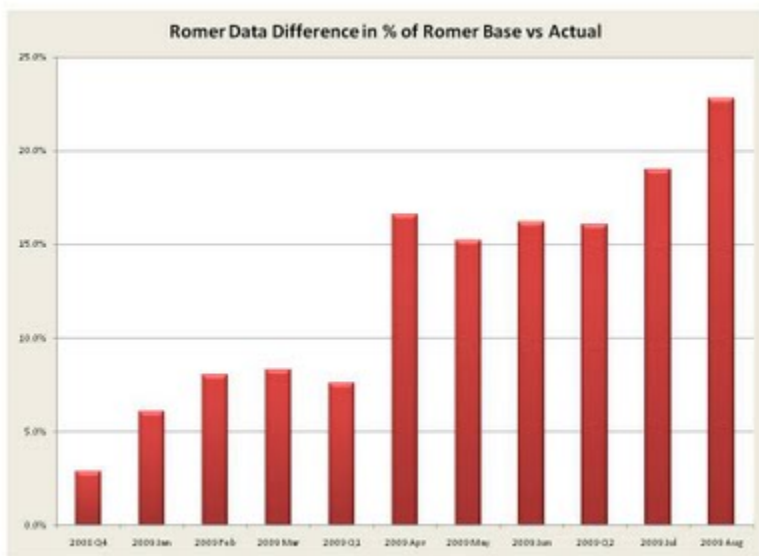
VARIATION IN THE ROMER EMPLOYMENT DATA



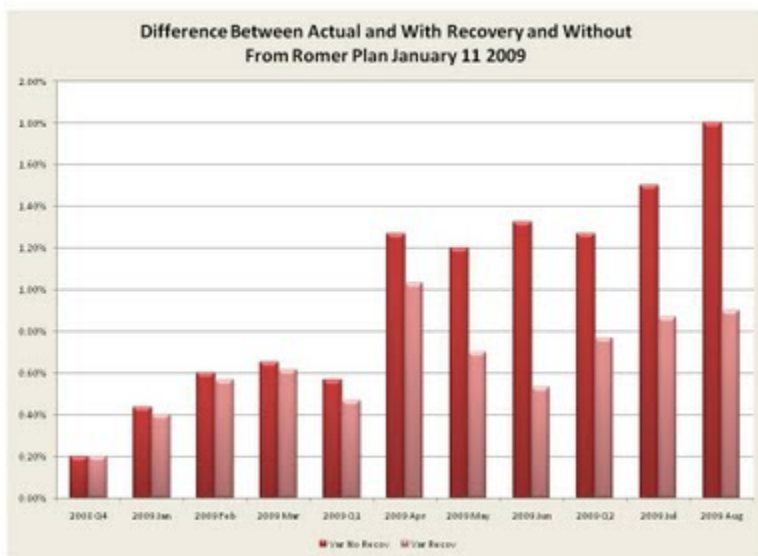
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The [DoL](#) has issued data for August. The data shows August unemployment at 9.7%, an increase from what it was in July. The data shown above is from the Romer Stimulus Plan model of January of this year and the actual data.

The following is the percent error of the Romer plan, and as we have continually said, even from the day of release of this Plan, it will never be achieved. It is the classic academic macroeconomist's playing that will never reflect reality.



The following is the variation in actual percentage point on a month by month basis of the Romer Errors. They have continued to grow on a month by month basis especially the variation in actual unemployment with the Stimulus Plan. Congress should just cancel the Stimulus and declare victory. For those of us who went through the Vietnam period, especially for those of us who were close to some decision makers, as I was as a young man, it is reminiscent of the same closed mindset. Vietnam was just a war but it managed to destroy the economy until 1982 with the new Republican Administration. It appears that this will be many times worse with Wars, Health Care and whatever else they want to throw into the burden of the future generations.



The strange thing is that the current Administration wonders why the response towards health care is so vitriolic. The answer is that people now have information, they have HR 3200, and they read it and discuss it. The very tool, the Internet and its open data access, which helped in an election can equally prove to be the very same tool to prevent mass collapse of the economy. Tracking the Romer Errors is just one clear reminder of the arrogance of the intellectual, the academic really needs to try their hand at creating wealth by creating a business and putting people to work. You see things differently then.

Posted by Terry McGarty at [8:25 AM](#)

Labels: [Economy](#)

THURSDAY, SEPTEMBER 3, 2009

HEALTHCARE DEMAND VERSUS THE ECONOMIC DEFINITION

The more I think of the issue of classic economic "demand" in health care the more I see that economists just do not get it. Demand in health care is for the most part driven by disease, not by some utility maximization. If there were no sick people only hypochondriacs would be in the market, yes a somewhat large market, but there would be no demand. Health care is not like an auto, you really don't need a car, just look at the people in New York City. Auto companies advertise to get people to buy cars.

This advertising thing is the whole essence of Galbraith and his *Affluent Society*, namely the big evil companies advertise and we dumb consumer respond like Pavlovian dogs. Galbraith is mostly wrong, except for teenage girls who seem to follow the trends like lemmings.

Now back to health care demand. If one agrees that it is relatively insensitive to advertising, for example one would have to admit that we do not get in line for a colonoscopy or a aortic valve replacement, or even a lung transplant, health care is demand drive by other non-Galbraithian factors.

Thus trying to get marginal propensities to consume health care is not only fruitless but just plain dumb. We know what drives health care demand, it is disease. The more disease the more demand. Then what drive costs, well two things; the procedures to treat the disease and the cost per procedure. Thus fifty years ago there was the same relative amount of breast cancer but its costs were low. We did not do a mammography, we did not do biopsies, we just did a plain and simple radical mastectomy after a palpable tumor was detected. Survival was low and we used no chemotherapy or radiation therapy and we did no testing for BRACA and the like. We just hacked away and sent the patient home. Cheap and efficient. Inhumane in today's terms. The acute leukemias of childhood were death warrants as was Hodgkin's Disease.

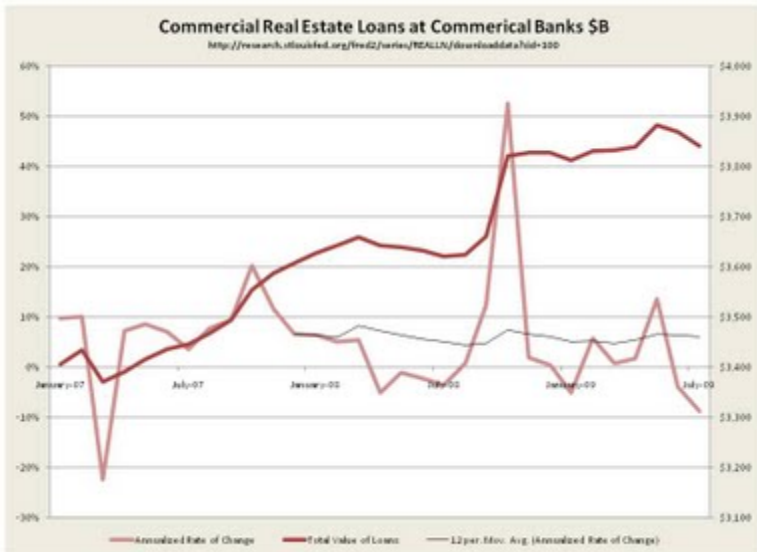
Thus trying to look at the demand in the classic economics sense is in itself nonsense. There are many demand models which one can develop for business which are bottom up models. For example we know how many broadband users there are, we know the data rate demanded by each, then we can postulate a total demand, we can "guess" at some market share and that would represent our revenue base potential. This is done a millions times a day on spreadsheets worldwide. But never by an economist. They get their demand curves from some providential utility function, descending from the almighty. Again balderdash!

Thus the more one considers using classic economics to analyze health care the more one sees its faults and failures. One should use standard business development models working for the facts, from the bottom up, from reality and from things we can do something about!

Posted by Terry McGarty at [10:15 AM](#) 

Labels: [Economy](#), [Health Care](#)

[**THE RISK OF COMMERCIAL LOANS**](#)

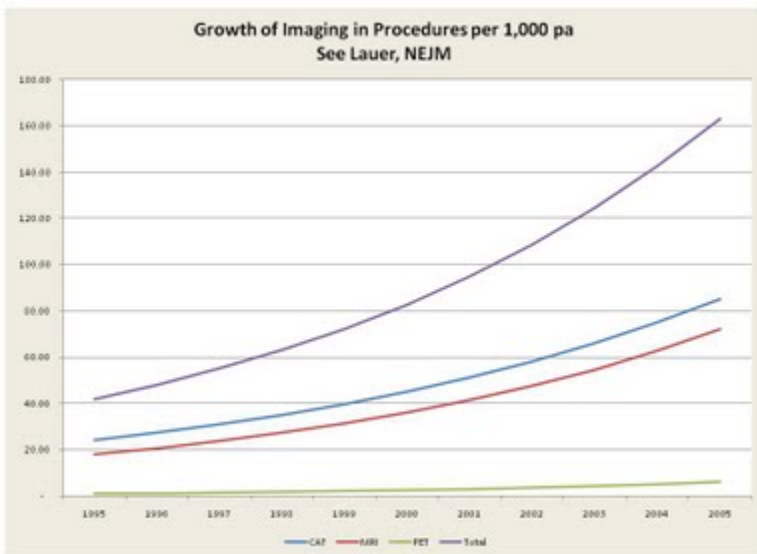


The growth in commercial loans remains flat to negative. As we had written nine months ago, the two remaining things to drop were commercial real estate and related loans and high yield debt financing which will come due momentarily. The commercial loans are reflective of the slow growth in the commercial sector and the continuing downward pressure on real estate there as well. Thus we are still quite concerned that problems here will keep the economy down. Banks have not changed their reserves since we last reported there as well.

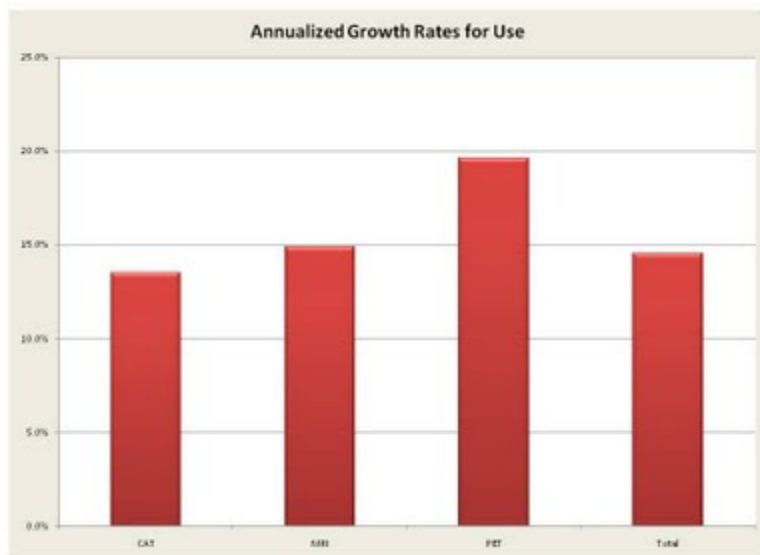
Posted by Terry McGarty at [10:10 AM](#)

Labels: [Economy](#)

[MEDICAL IMAGING COSTS, BENEFIT OR LIABILITY?](#)



In a recent NEJM article by [Lauer](#) the author presents data on the increased usage of imaging. We show the Figure above. The annual growth rates for each are shown below.



If we were to perform a simple calculation on these we see that at \$1,000 per MRI, a good Medicare number, that we have \$72,000 per year for MRIs per 1,000 people. That is \$72 per year per Medicare patient. Is that too much for the 65+ age group? The question is versus what. The other question is what was discovered that can be remedied. The problem with all imaging, and I have been a fan of imaging for almost 40 years now, having done my doctoral work there, is that the better it gets the more you find! There are a lot of things you find that if you never knew they were there you would never hear from. That is the conundrum.

Lauer also raises the most serious issue of ionizing radiation and CAT scans. As we go towards more complicated CAT scans, with multiple cuts and complexities we expose the patient to a truly excessive amount of radiation. Is this worth the risk? That is no longer just an academic question.

Lauer has done a great job in raising this issue. I would like just to extend the concern on what is often an incidental finding and the resulting plethora of tests needed to rule out every other problem.

Posted by Terry McGarty at [6:57 AM](#) 

Labels: [Health Care](#)

THURSDAY, SEPTEMBER 3, 2009

[SOCRATES, HEALTH CARE NEEDS YOU!](#)

It is always useful from time to time to reread Plato's dialogues with Socrates. For in such Gorgias and Meno, the good Socrates always gets the poor fellow on the other side to see that their argument collapses.

I read today a link from [Mankiw's blog](#) about the argument that we are not really spending too much on health care but possibly it is merely what we are demanding, namely economically we are in an open market and we are getting what we want.

Let me rephrase what I believe the argument is. Let us assume it is 1800 and we are looking at the cost of housing say in Boston. We see that instead of paying 5% of our income on housing and 50% on food, we are now spending 20% on housing and 25% on food. The argument could be that we are eating less and that housing prices are gouging the consumer. Yet, the truth is that the consumer now has their own town house, not a hovel above some warehouse in the North End and food production has become more efficient. Namely demand and supply are changing.

He then links to [DeLong](#) who states:

"In fact, the "we spend too much" argument makes little sense. There is no such thing as an amount that "should" be spent on healthcare, any more than there are pre-determined allocations that should go to housing, food, video games, or any other category of expenditure. The proper level of spending depends on the value derived from it, and in the end this level should be whatever results from the sum of consumer choices made in the light of the value received."

Which makes the argument. There is a bit of truth in what they are saying, namely the demand is increasing. We argued that well over a year ago, yet the demand has two elements, demand driven by wants and demand driven by needs. Thus the Type 2 Diabetes is a demand driven by "I want more food" and the need that "I need more insulin". Thus the economic demand argument is one which is highly complex when we talk of demand and I fell these economists are looking at this as say Gorgias did his rhetoric. Thus the need for Socrates.

Now to the second issue, the costs are increasing and they increased due to a simple equation, this I have used for thirty years in my many businesses:

Cost= Revenue Driver X Productivity Factor X Unit Cost

or

Cost of Health Care = Disease Incidence X Number Procedures Supplied X Unit Cost of Procedure

What does this mean? Well simply the driver is the incidence of the Type 2 Diabetes cases, it drives the revenue or in this case the cost of Type 2 Diabetes care. The Productivity factor is the types of procedures provided such as doctors visits per year per patient. The unit costs is what it costs to see a doctor. Thus costs is a bit complex, it is not just driven by the question of "I want more" The economists and pseud-economists are using their rhetorical terms to argue, they are the Gorgias of health care, successful and wealthy but wrong.

What drive the increase in costs;

1. Yes demand is a factor but it is a complex demand, demand which is pure classic consumer demand, "I want more", and demand driven by lifestyle. I will argue that based upon the analysis the latter dominates the former.

2. Yes there is cost inflation, namely beyond just more demand there is an internal process which is making what is delivered more costly. The classic examples are the still elusive defensive medicine and the fact that administrative overhead is so high for a system which is frankly in chaotic organization to deliver what it does.

Thus the observation that at any time in history the percent of what a nation spends on various things it uses, housing, food, health care, education, changes is a natural reflection of the evolution of the society. Yet it is also true that certain increase reflect not just the evolution but fundamental flaws in that section. Just look at the explosion of the costs of higher education. If one thinks health care is bad. look at the tuition and inefficiencies a Harvard! Yes MIT as well.

Posted by Terry McGarty at [5:19 AM](#) 

Labels: [Health Care](#)

WEDNESDAY, SEPTEMBER 2, 2009

[A SIMPLE HEALTH CARE PLAN - PART II](#)

We have just posted a White Paper on a [Simple Health Care Plan](#). It expands on our prior comments. One of the issues that I have been struggling with is how does one pay for this? The Simple Plan paper shows this in detail with the sensitivity analyses that go along with it.

In the White Paper we state:

The problem is simply stated; reduce costs while maintaining or increasing the positive outcomes. This is unachievable until we first solve the above simple problem. It is just data gathering and the ultimate responsibility is the Governments, but they seem to have no ability to address this issue.

To summarize what we have proposed and analyzed in this report, it is as follows:

1. It is essential to articulate a simple set of principles about which any plan is constructed and stay within those limited principles. Problems arise when Congress fails in this step and further when Congress uses this opportunity to address a plethora of other parochial issues and interests. A simple and focused statement of principles is the sine qua non for success and acceptance.
2. Proposing a simple Core Plan which achieves the goals established by the principles is the next step. The Plan may be modified as is necessary but the Core Plan must satisfy the principles and reflect the cost target which may be achieved, and the cost target must be materially lower than what is presently the case.
3. It is essential to recognize where the problems are, what is causing the costs to increase. Failure to recognize the way health care works, like any other business, and seeing what the drivers are, the productivity factors or elements used by the drivers, and the unit costs are, will result in not achieving success. Cost can be reduced by reducing demand from disease drivers, improving productivity and/or driving down unit costs. This is a simple and well understood concept in any business and health care is in many ways just another business.

4. Target Areas of cost reduction must be articulated, with action plans, schedules, and accountability applied to them. The Target Areas must be periodically updated in order to have a process which continually drives out costs.

5. Implementation of the Plan requires Government intervention in two areas. First the provision of a supervisory role over the Insurers to guarantee the standards are met and that a competitive environment is enabled and maintained. Second the Government must provide funds to those who cannot afford the Plan based on income. However it is essential that this income support function be managed to eliminate fraud and abuse.

The Plan we have proposed not only does not cost more but it returns \$ billion to the Treasury. What it does require is accountability on the part of people and the Government. It requires that Congress does not view Health Care as another cookie jar to be raided and as another vehicle to expand Washington. We have looked at this problem as we would look at any business in need of a turn around. It is doable, regrettably not by politicians!

Posted by Terry McGarty at [6:42 AM](#) 

Labels: [Health Care](#)

SUNDAY, AUGUST 30, 2009

[A SIMPLE HEALTH CARE PLAN](#)

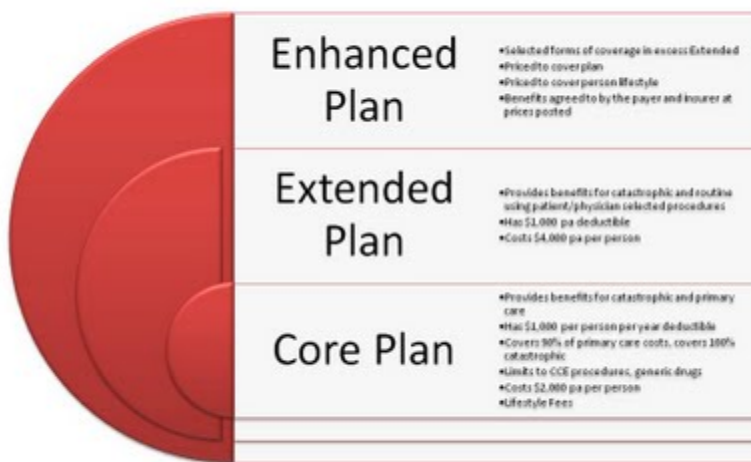
HR 3200 is everything and the kitchen sink. Thus I thought I would present a simple Health Care Plan in just seven slides. It does not include any Governmental Panels, Agencies or the like. Yes, it does include a Government Insurance Management Board, to set the minimum coverages and make certain the Insurers are following the rules, you can't trust anyone, especially Insurance Companies.

Well here goes:

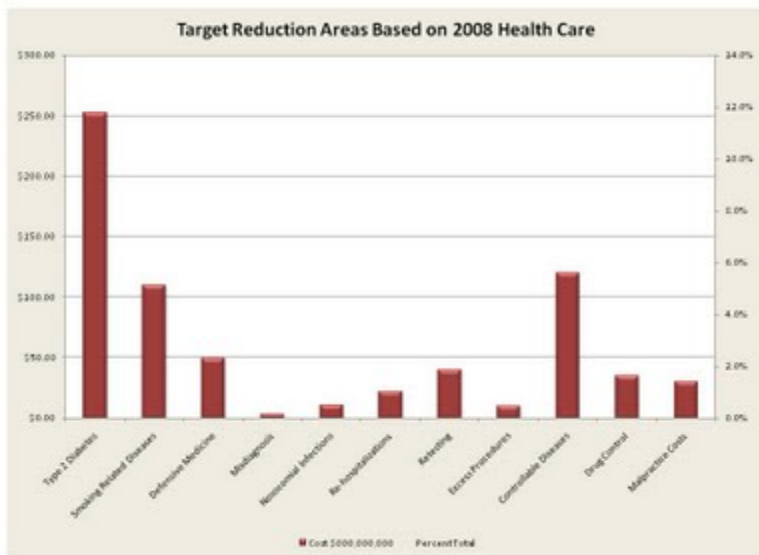
Step 1, Principles: The plan has the following core principles. It is a plan that covers everyone and has no exclusions and is purchased by every person and is thus portable. It is a national plan and has no state control. It is akin to life insurance but it has aspects of auto and house insurance. I know my left wing adversaries will yell foul as only they can but this can work.



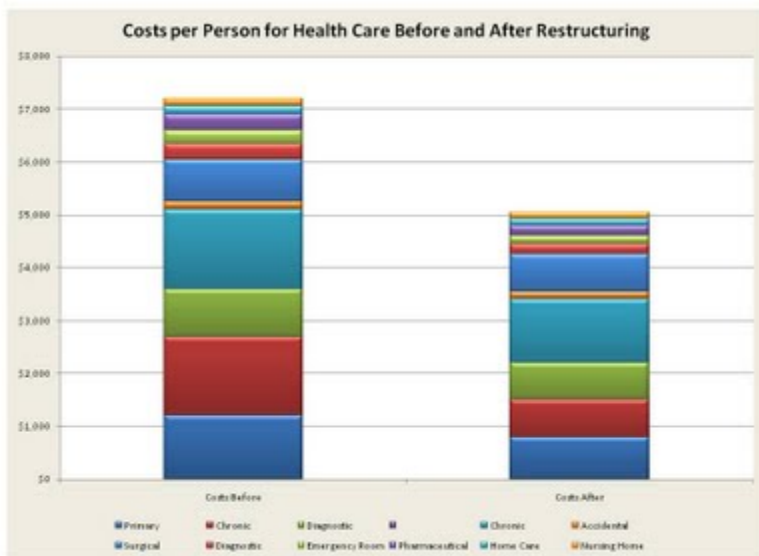
Step 2, It has a Minimum Plan and it Allows Anyone to Buy Up: The plan has a minimum Core Package. The Core Plan has both catastrophic coverage and has a primary care element. We want to keep the costs low so this Core Plan follows a CCE, Comparative Clinical Effectiveness, set of guidelines. You sign up for this Core Package and you then have to go generic and follow CCE. This is the lowest cost option. You also have an out of pocket and a deductible. Thus there is some modicum of financial incentive. Of course if you cannot pay then it gets subsidized. Then if you want more you can buy up.



Step 3, How do we Get the Costs Down? Well we follow the steps we proposed a week ago and the costs are reduced for the 2008 numbers as follows.

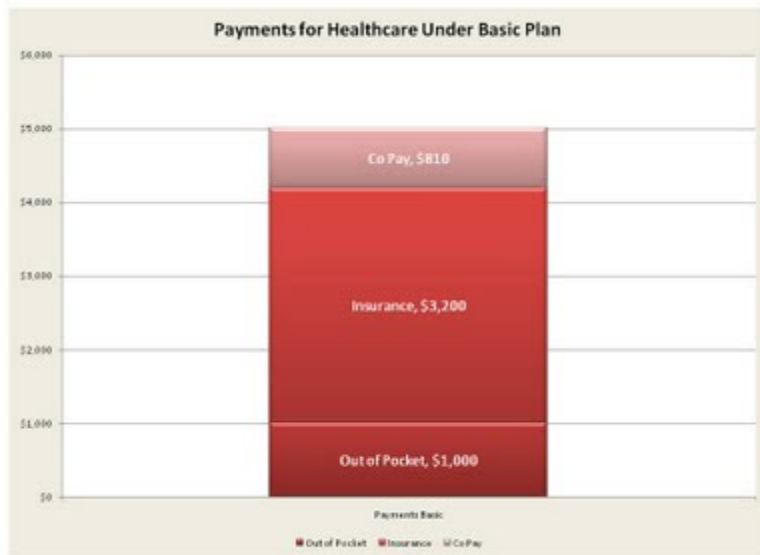


Step 4, Applying the Target Cost Reductions we see we can reduce the cost per person from what it is today of some \$7,200 per year to just over \$5,100 which is a 30% cost reduction. This we show below by cost area.



We have applied our plan to the costs as they were in 2008 and we have achieved the cost reductions by areas as shown.

Step 5, the Revenue from the subscribers is as shown below and it matches penny for penny what the costs are.



Thus we have a simple straightforward plan which has no overt costs other than what the Government decides its wants to reimburse people for. The plan costs total out of pocket what it costs for auto insurance per car in New Jersey. Since every person has a car the costs per person out of pocket is that amount. The other amounts for the insurance payments are additional and would have to come from their own resources and that may mean from their employer. I have avoided the tax issue but frankly the money should be taxable based solely on a fairness principle, but we avoid the discussion here.

So why cannot our wonderful Congress come up with something this simple?

Posted by Terry McGarty at [5:49 PM](#)

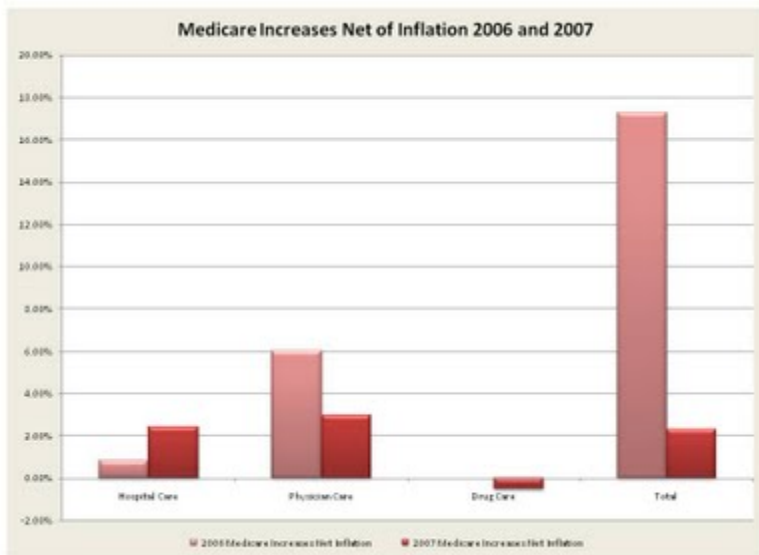
Labels: [Health Care](#)

FRIDAY, AUGUST 28, 2009

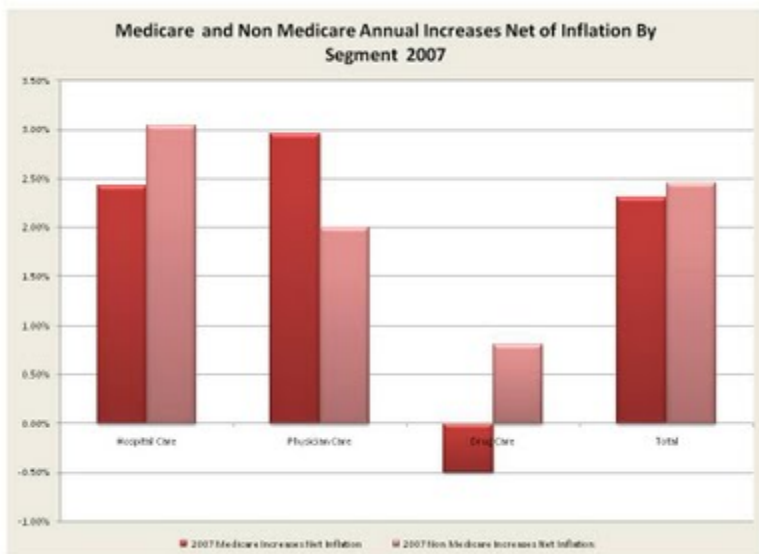
[SOME MEDICARE COMPS](#)

The following two charts are some useful medicare comps. The first shows the change in Medicare Pars A, B, and D from 2006 to 2007 looking at the annual rates of increase net of inflation in the expenditures. Notice that the total shows a great increase since the drug plan was introduced and cost \$47 Billion! Clearly this was a massive increase in benefits and one that was never anticipated in the original plan and one never planned for with contributions to the insurance plan itself.

The addition of Part D was not carefully analyzed and has caused the greatest rate of increase in Medicare. The Physician increase is larger than the hospital part and this is substantial. One can look at later years and see the projected increases in Physician payments would be reduced net of inflation and population growth. The hospital rates are still a concern however.



The second chart shows the rate of increase on 2007 alone for these same three areas but now comparing Medicare and Non Medicare. The comparison between these two is interesting since Medicare in this period paid Physicians more than did non Medicare plans.



All of this begs the question we have been asking which is how does one control costs. We believe that just capping rates is like putting a bandage over a melanoma! It still will kill you. You must understand the problem and remove it in its totality. The removal demands an understanding of the root cause which has not yet been addressed.

Posted by Terry McGarty at [5:13 PM](#) 

Labels: [Health Care](#)

[MONEY ISN'T EVERYTHING](#)

I am a reader of Prof Mankiw's blog and there are times I agree and times I disagree. But [today](#) there was a comment that I just down right disagree with, for it is classic elitist. He says:

"the above graph, showing that kids from higher income families get higher average SAT scores. Of course! But so what? This fact tells us nothing about the causal impact of income on test scores...The key omitted variable here is parents' IQ. Smart parents make more money and pass those good genes on to their offspring...."

As to the above statement I disagree, I strongly disagree. Having been involved in the early days of the MIT Minority Student program, "MITES", in the summer of 1974, and having taken on many of the students from that program over the years, having seen their careers, grow and succeed. having gone to their weddings, attended the funerals of their parents, I saw in them the same challenges that I had going to school in New York City fifty years ago where I was denied admission to Columbia University because I was a Catholic. These minority students came from poor homes, and their parent were poor not because as Professor Mankiw alleges they were dumb. They were poor because of circumstance. When I was at MIT, not Harvard, we had many first generation students, and the typical SAT score was 1500 or higher. That was when 1500 was a real hard number to get. And yest they were 800 Math and 700 Verbal.

Thus Prof Mankiw's allegation that only smart people make money and thus that is why there is a correlation, one misses the point that many smart people have dumb offspring, the list is too long to even mention, and many more poor people have very smart children! If Professor Mankiw had a little experience in genetics, alas my day job, he would better understand the emptiness of his allegation.

As to my students, many were immigrants, many from single parent families, and where are they today. Physicians, running their own international businesses, and major investment bankers in South Africa, a real challenge. I am proud of those students, and we stay close. What characterizes all of them is that they went into business, with the exception of the physicians, and they created jobs for many thousands of others. They did not hide in the halls of academia. According to Prof Mankiw they should never had even had the chance. Pity they went to MIT, did get the chance, and are giving back to many by creating jobs, the only way to truly create value.

Posted by Terry McGarty at [4:19 PM](#) 

Labels: [Commentary](#)

THURSDAY, AUGUST 27, 2009

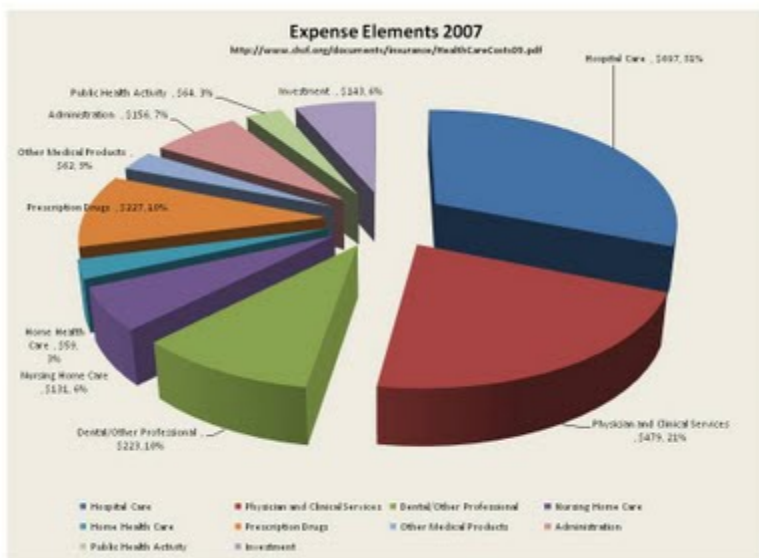
HEALTH CARE COSTS: LOOK AT THE FACTS

As we look at health care costs they are just like the costs in any other business enterprise. You can see them growing and the issue is why. Regrettably politicians and Congress specifically just are incapable of digging down deep and ascertaining what the problems and and how to fix them. First a general observation may be of some value.

The two segments of our economy which have costs growing well beyond inflation are health care and education. All of our other segments, the private ones, have increasing productivity.

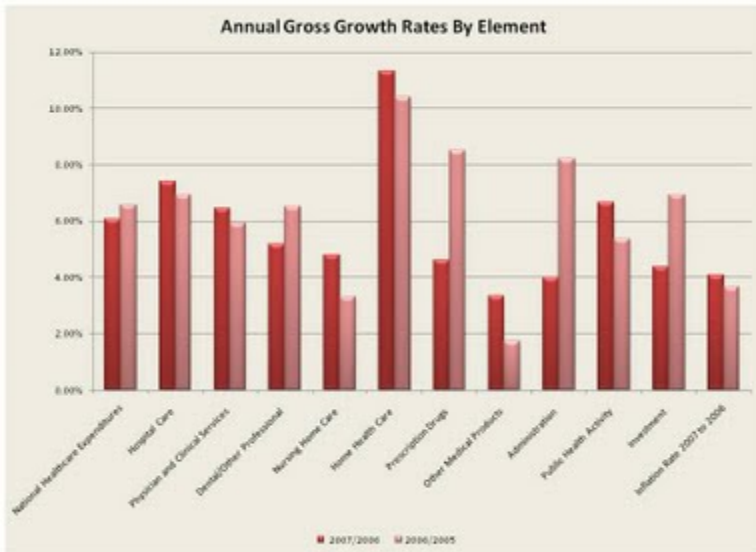
Someone should ask why. The general answer is increased regulation. In higher education there are more and more administrators whereas the faculty to student ratio is constant. In fact there are frequently fewer faculty. There are just more staff, and to do what, fill out forms and meet Government mandates. We know that health care administration is the fastest growing sector as well.

Now to several facts. First the expenses. We show these below for 2007.



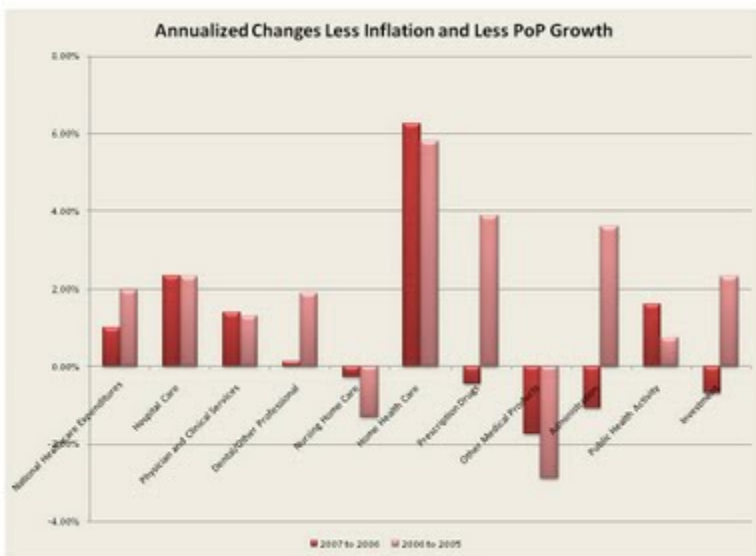
Here we see hospitals have 31% of the total and physicians have 21%, and these are the top two totalling 52%. Drugs are just 7% despite the cry that they are a major factor. Nursing home care and home health care currently represent 10% of the total.

Second, the rate of growth of these expenses is large. We show this in the following Figure.



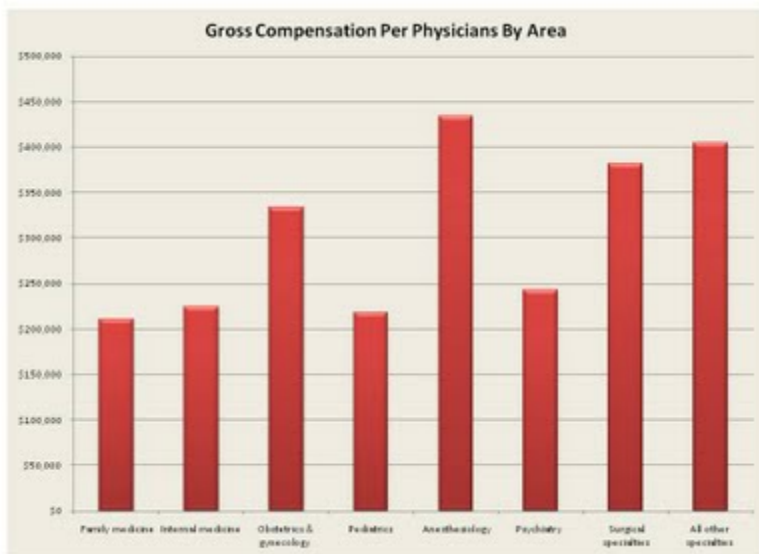
Presented this way these rates look frightening. Home health care and administration stand out. This should be a concern. Administration is 7% of the total costs and frankly they may be greater since there are administrative costs hidden in physician costs.

Fact 3 is that if we subtract inflation and population growth numbers some areas are showing productivity gains and others stand out. We show these below.

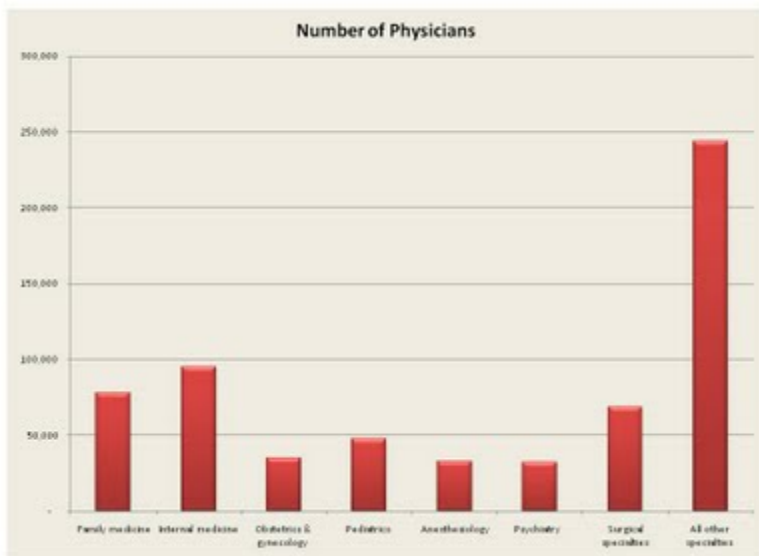


Presented in this manner we see that home health care, hospital care and physicians still stand out above the norm. The reasons must still be determined. One must remember that hospitals get almost half of their income from Medicare and Medicaid and these are highly controlled to DRGs, diagnostic related groups, and thus it is generally more difficult to have inflation if the Government is directly controlling costs. In addition and on the negative side there is an increase in uninsured which does drive up ER costs.

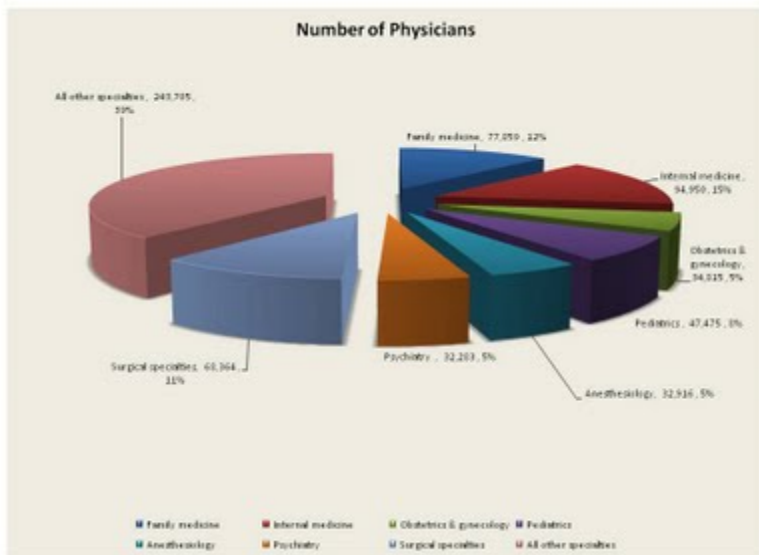
Fourth, physician costs are dominated by specialists as we show in the following Figure.



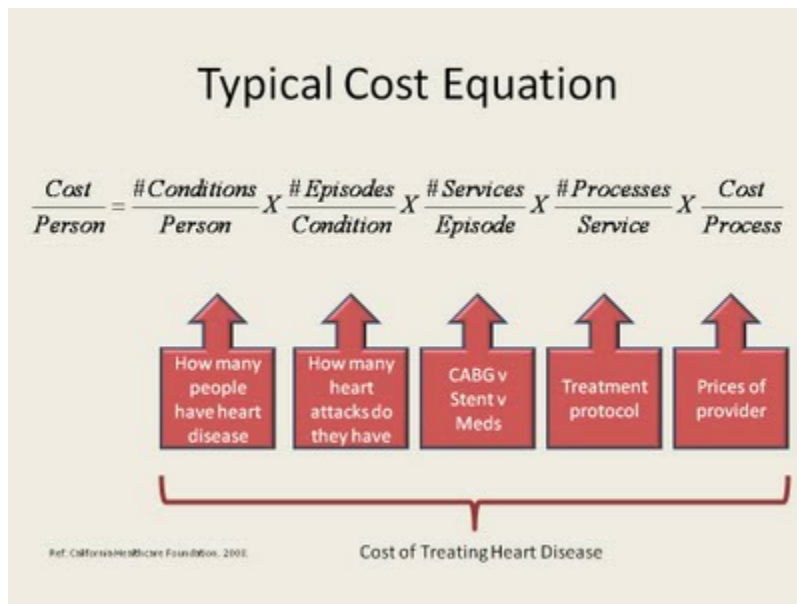
Fifth the specialists costs a greater deal, usually twice, what the internist does and there are many more of them as shown below.



We show this also in the Figure below:



But it still leaves us with the question regarding physicians; is it their salaries which are increasing, their overhead, the number of procedures, the cost per new procedure, the technology of the procedure, and so on. There is also the question of whether the costs have provided more benefit in terms of outcomes to the patient, the often heard cry for health care reformers. We argue that it will require digging down deeper into the details to determine this and the following Figure presents a paradigm to do so:



The total costs are readily broken down on a per person basis by disorder, its frequency, the medical service required, the processes per service and the costs per process. To date we have seen no such analysis from the Government and several private groups have done some preliminary work but not to the level required. This analysis is the necessary first step in both determining what is wrong in health care and what can be changed.

The problem is simply stated; reduce costs while maintaining or increasing the positive outcomes. This is unachievable until we first solve the above simple problem. It is just data gathering and the ultimate responsibility is the Governments, but they seem to have no ability to address this issue. As an aside, even getting the data from the Government web sites is near impossible. In contrast we have the financial data from the St Louis Fed site being sine qua non in ease of access and ease of use. The St Louis Fed is somewhat of a Government entity but then again it is in St Louis and not Washington.

Posted by Terry McGarty at [7:20 AM](#) 

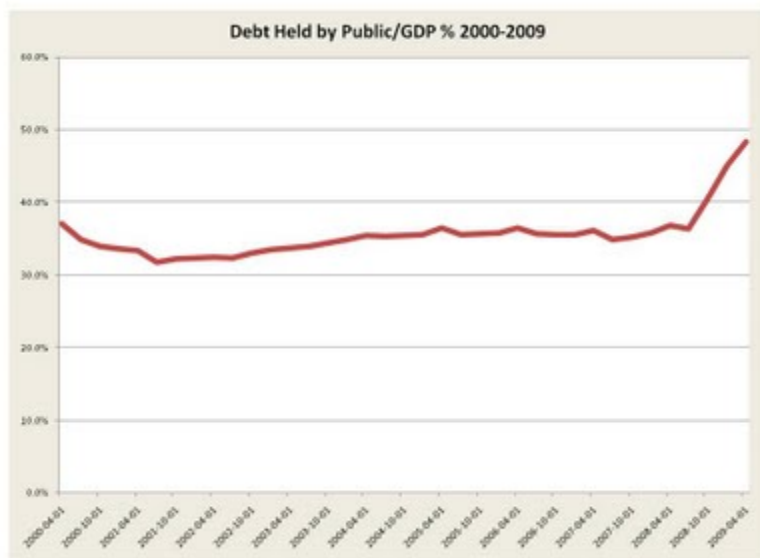
Labels: [Health Care](#)

TUESDAY, AUGUST 25, 2009

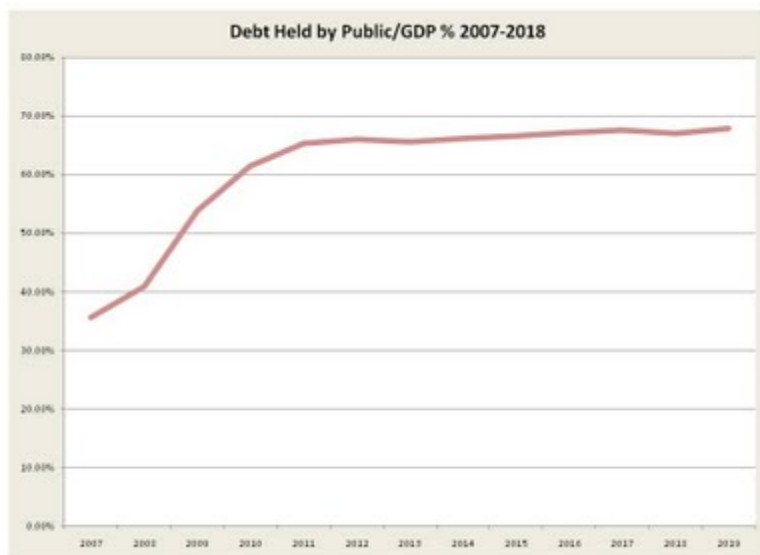
[THE FOLLOWING SHOW THE PROBLEM](#)

There are two graphs that show what the problem is and will be.

First the ratio of Debt Held by the Public to GDP from 2000 thru 2009. This is below:



Second is the ratio of Debt Held by the Public to GDP from 2007 thru 2018. This is shown below:



Now despite the 9/11 attack, the two wars, the tax cuts and every thing that the economists have bemoaned about Bush II we have a ratio kept around 30%. It does not grow until the financial or banking crisis hits. Then in the current Administrations proposals it explodes to almost 70% which is more than 2 time what it has been. Why is this happening. We have already paid out the financial funds, Medicare and SSI is NOT included in this debt since that is Intragovernmental and is another set of numbers. So why!

In addition once you get started there is no way given the economics brainpower in Washington that they ever can put a stop at even 70%. Things always overshoot. One must read the CBO report to better understand, but I feel the CBO is optimistic at best.

The CBO states:

"The dramatic expansion of the deficit in 2009 (up from 3.2 percent of GDP in 2008) results from a projected rise in outlays of 24 percent (the largest percentage increase since 1952) and a drop in revenues of 17 percent from last year's levels (the largest percentage drop since 1932).

Those changes have largely been the result of the severe economic downturn and the fiscal impact of federal policies enacted in response. On the basis of tax collections through July 2009, CBO expects federal revenues to decline by more than \$400 billion from last year's total. Revenues are projected to be 14.9 percent of GDP, nearly 3 percentage points below the 2008 level (see Summary Table 1).

Although CBO anticipates declines in almost all sources of revenue, the decrease is largely attributable to the drop in receipts from individual income taxes (which are expected to fall from 8.1 percent of GDP to 6.5 percent) and corporate income taxes (which are estimated to decline from 2.1 percent of GDP to 1.0 percent).

Outlays will rise by about \$700 billion this year, in CBO's estimation. Much of that increase results from legislation enacted in calendar year 2008 in response to turmoil in the housing and financial markets—in particular, \$133 billion for the Troubled Asset Relief Program (TARP) and \$291 billion for the estimated costs of placing Fannie Mae and Freddie Mac into conservatorship.

CBO expects that total spending in 2009 from funding provided by the American Recovery and Reinvestment Act (ARRA, Public Law 111-5) will reach about \$115 billion."

Thus we have decreasing revenue and increasing financial commitments to Government programs that went south. This is NOT a problem from banks, nor is it a Medicare/SSI problem, it is a problem resulting from legislation.

The CBO echos our concern:

"Both in dollar terms and in relation to the size of the economy, the imbalance in the budget projected for 2009 is significantly larger than at any time since World War II. At \$1.6 trillion, the expected deficit for this year will be nearly three and a half times the size of last year's deficit of \$459 billion. As a percentage of GDP, the 2009 deficit will be almost twice as large as any deficit in the past 60 years."

One of the major problem areas is the GSE, the Fannie and Freddie problems. The CBO states:

"Beginning in 2009, CBO is accounting for the GSEs' operations in its budget projections by computing the present value of anticipated cash flows using an appropriate discount factor that recognizes the riskiness of those cash flows. On the basis of projections of the entities' assets and liabilities over the long term, CBO estimates that including their operations in the budget will increase the federal deficit by \$291 billion this year and by about \$100 billion cumulatively between 2010 and 2019."

The second major drain is the Stimulus package which the CBO says:

"In February 2009, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimated that the American Recovery and Reinvestment Act of 2009 (ARRA, Public Law 111-5) would increase deficits by \$787 billion over the 2009–2019 period. About \$575 billion of that 11-year total would stem from increased outlays and \$212 billion from reduced revenues.¹ For fiscal year 2009, which ends on September 30, CBO estimated that the net impact on the deficit would be \$185 billion—a reduction of \$65 billion in revenues and an increase of \$120 billion in outlays. CBO has not completed a comprehensive update of its original estimate of the stimulus package. Indications to date are that, in total, the budgetary effects have occurred at about the pace CBO anticipated when it prepared its initial estimates."

The CBO then seaks of Medicare and SSI:

*"Spending for Social Security, Medicare, and Medicaid will have to be controlled to achieve a sustainable fiscal situation in future decades. **Last year, outlays for those three programs***

combined (not including offsetting receipts) accounted for about 9 percent of GDP. Spending for those programs is expected to rise rapidly over the next 10 years, outstripping the growth of GDP. By 2019, such spending is projected to total nearly 12 percent of GDP. Under long-term projections recently published by CBO, spending for those programs would continue to rise and could total almost 17 percent of GDP by 2035 if no changes are made to current law.

The dominant driver is the assumed explosion in Medicare due to organic health care costs increases. Again we remind the reader that as of now Medicare has been over funded by the recipient and SSI exorbitantly overfunded. The problem is Medicare organic unit health care cost increases. The real problem is that the Intragovernmental accounts will be exploding on top of these Debt in Public Hands accounts as well.

The real set of problems is the Stimulus and the GSE support. The remaining stimulus should be withdrawn, it is essential since it will drag down the economy. We have argued this since day one. Second the GSEs should be privatized, slowly but they must be taken off the books of the Government and kept off. These two simple steps will dramatically reduce the debt to GDP ratio.

Posted by Terry McGarty at [5:47 PM](#) 

Labels: [Economy](#)

[BROADBAND IN MASSACHUSETTS](#)

In the [Boston Globe](#) today it was announced that the Commonwealth submitted a request for \$105 million of Federal Funds. The Globe states:

"The Massachusetts Broadband Institute filed its request for the funds on Aug. 14....The agency wants to spend \$100 million to create a fiber-optic data network that would reach into 43 western Massachusetts communitiesthe network would be used by municipal governments and would sell access to private companies.....which in turn could sell broadband services to households and businesses.... state estimates the project could bring high-speed Internet service to more than 20,000 households..."

We had performed several feasibility studies in this area and reading what is published raises several issues:

1. We [estimated that the all in costs per HH](#) exclusive of franchise costs was [\\$3500](#). That means for 20,000 HH one would expect the all in costs as \$70 million. Thus what is the other \$30 million for?
2. [What about a franchise](#). The state seems to be providing a backbone. But once you put something on a pole you need a franchise, the major barrier to entry for Verizon, especially with Comcast. So is the State exempt, nice try.
3. One should remember the Big Dig, starting at \$2 billion and going to \$20 billion and still not done. So why think this will ever get completed.
4. Also think Mass Port Authority or Mass Turnpike. If a business wants transport from the Mass Broadband what do they think the Mass Broadband will do any differently from any other Mass agency.

5. The comments indicate that Verizon may sell off the western Mass properties. As we have argued for seven years that is their strategy. Why keep copper if you are no longer in the business. Mass has just done Verizon a favor, they gave them the excuse to leave.
6. If you are building a commercial real estate property the first thing you better do is get an anchor tenant. Who is going to do that function?
7. If Mass is doing the backbone who puts all the other stuff there like drops, installs etc and what are the terms of the transport agreement and what remedy does a seller have. Most likely none.

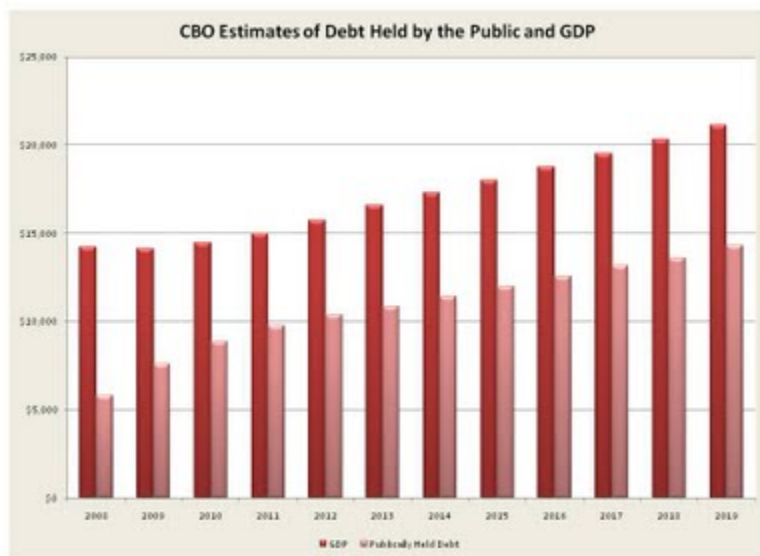
So if you liked the Big Dig you will love this one as well.

Posted by Terry McGarty at [2:47 PM](#) 

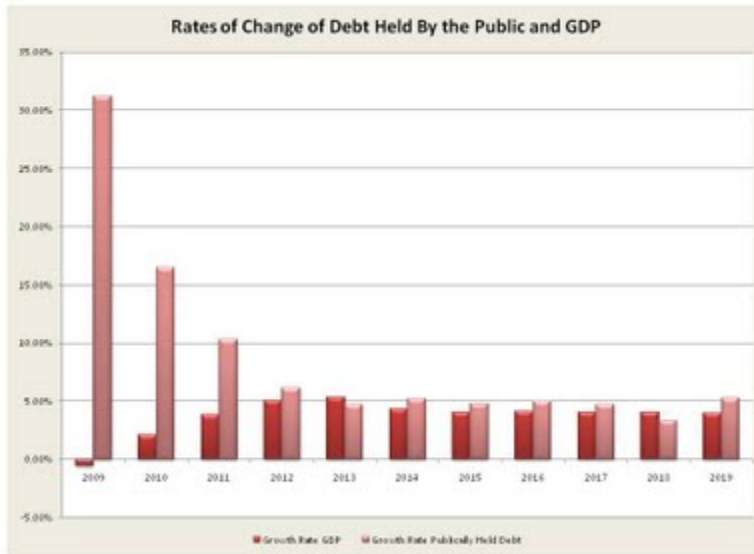
Labels: [Broadband](#)

[CBO AND THE EXPLODING DEBT](#)

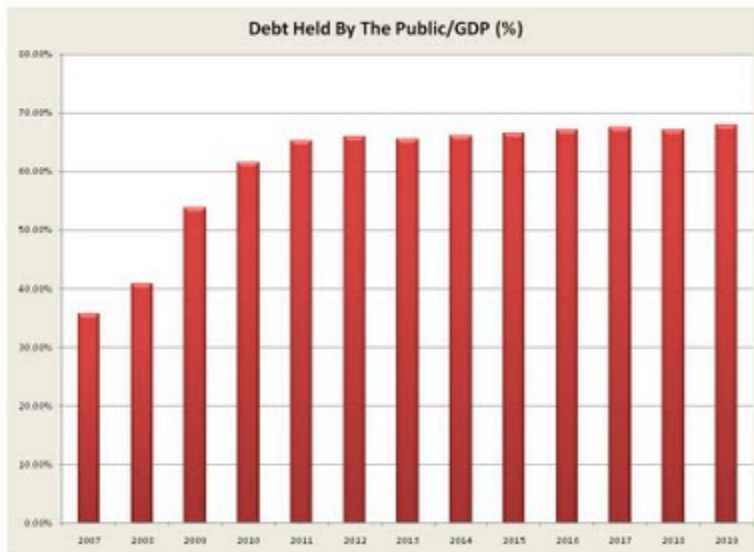
The [CBO](#) issued its report today regarding the Government's debt problems. Here are some highlights and comments.



First the estimates of the GDP and Publicly Held Debt as shown above. There is an assumption of substantial GDP growth and the Public Debt just continues. There is not word about the Intragovernmental Debt which is Social Security and the like. One must remember that the Government takes those funds, spends them, and then owes itself. There is at this time 40% of the total debt being intragovernmental, almost half. If we assume that that ratio continues one must remember that this debt held by the public is only 60% of the total debt!



Now the above shows the annual change. The Debt change is explosive for the next three years and on an ongoing basis stays above the rate of growth of the GDP. That is an UNSTABLE process. Clearly the White House is not focusing on solving the long term problem.



The above chart shows the debt held by the Public to the GDP and it is growing to almost 70%. Also remember that when you add the Intragovernmental Debt it raises this another 60% to a total of 130%! That will cause a collapse of the system. No one seems to be paying attention. This will destroy the economy.

There are several assumptions here which are worrisome:

1. The growth rates of the GDP may be overestimated. Given the money taken from the economy it is highly questionable if any entrepreneurial creation of value will occur. Between the taxes and the funds flowing into Government programs it will tend to wipe out the private sector.
2. There is not accounting for inflation. The only good news is the reappointment of Bernake but the Democrats in the Senate will have at him for reasons which I cannot fathom other than its Washington.
3. Who is to finance this debt and under what conditions. There could be private calls coming into to Treasury saying that the sovereign wealth funds are just not interested.

There are also a plethora of other concerns but this is a start.

Posted by Terry McGarty at [8:04 AM](#) 

Labels: [Economy](#)

MONDAY, AUGUST 24, 2009

[EPICTETUS, BARNEY FRANK, HEALTH CARE AND THE STOICS](#)

As one sees the debate on health care proceed, one is reminded of Epictetus and the Discourses. There is an interesting discussion in the Discourses II.121-17 where Epictetus tells his followers how to debate the layperson. It may help in today's debate. I was reminded of this when I viewed the Representative Frank debate. He and I may not agree on many things, yet I have found him to be one of the best legislators for his people, exceeded only by Senator Robert Byrd. He is from Bayonne, NJ, just over the Bayonne Bridge from my birth place, a place I cycled to many times.

He has that New York edge which seems to do him well in politics but perhaps Epictetus would help him in his debates:

Epictetus says:

"Our Stoic authorities have been quite precise in specifying the knowledge necessary for engaging in discussion; but we are quite untrained in our proper application of it. Give us a layman as our interlocutor and we are at a loss in dealing with the person. Having stirred him a little...we are unable to handle him further, and either we abuse him or mock him, saying: "He's a layman; it is impossible to deal with him."

Yet, when a real guide finds someone going astray, he leads him to the right path instead of mocking or abusing him and going away. You yourself then should show him the truth, and you will see that he does follow; but as long as you don't show him, don't mock him, but rather be aware of your own capacity.

How did Socrates Act?

He made a habit of compelling his interlocutor to be his witness, and did not need another witness...because he exposed the implications of that person's concepts so clearly that whoever it was became aware of his inconsistencies and gave it up...

Socrates did not say:

"Define malice for me."

and then when it had been defined respond with words;

"A bad definition, for the definition is not extensionally equivalent with the thing to be defined." Laymen find such technical jargon tiresome and difficult. But we can't give up. Yet, we are quite unable to stir them when we do use terms that enable them, by focusing on their own impressions, to respond yes or no. Understandably, then, at least those of us who are cautious recognize our inability and give up the matter. But when the impatient ones, who are more numerous, are involved in it, they get flustered and cause fluster, and finally walk away, after an exchange of abuse.

The first chief thing about Socrates was that he never got worked up at a discussion, never uttered anything abusive or aggressive, but put up with others abuse... What then? Well the thing isn't very safe, especially in Rome..."

Just switch Washington for Rome.

Posted by Terry McGarty at [11:39 AM](#) 

Labels: [Health Care](#)

[MEDICARE FACTS IN ANTICIPATION OF CBO REPORT](#)

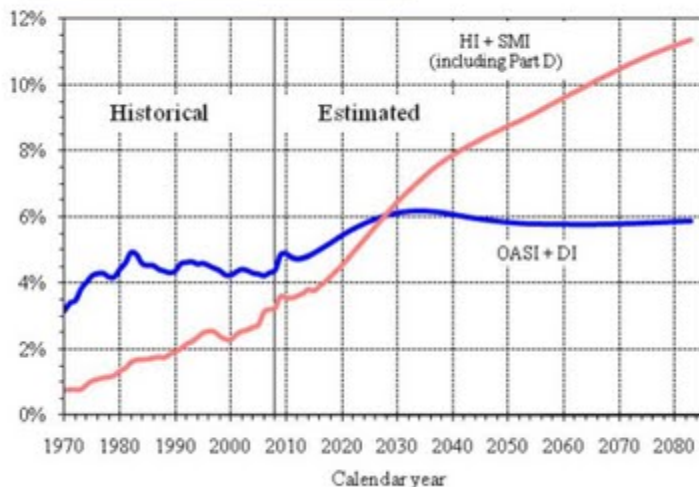
The CBO is to issue its report on August 25th on the increased deficit of some \$2,000 Billion. In anticipation we want to state a few facts about Medicare and SSI.

In a recent [Trustee Report from Medicare SSI](#) the authors Trustees first state the definition of the funds:

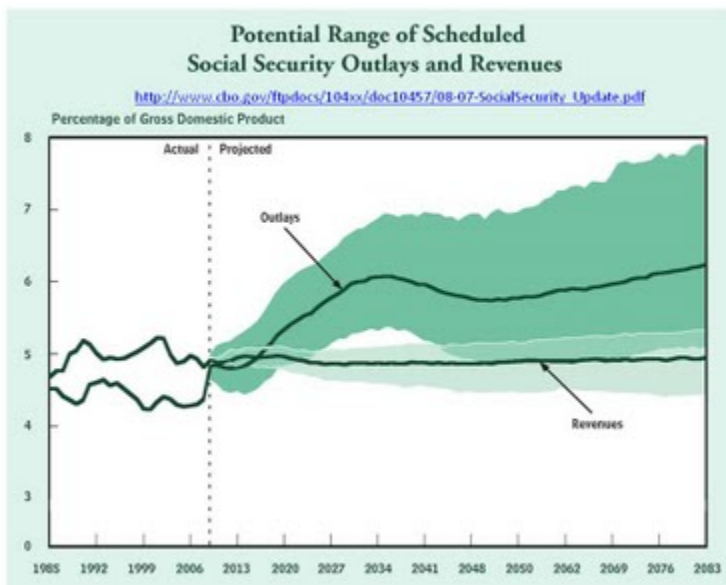
*"There are four separate trust funds. For Social Security, the **Old-Age and Survivors Insurance (OASI)** Trust Fund pays retirement and survivors benefits, and the **Disability Insurance (DI)** Trust Fund pays disability benefits. (The two trust funds are often considered on a combined basis designated OASDI.) For Medicare, the **Hospital Insurance (HI)** Trust Fund pays for **inpatient hospital and related care**. The **Supplementary Medical Insurance (SMI)** Trust Fund comprises two separate accounts: **Part B**, which pays for physician and outpatient services, and **Part D**, which covers the prescription drug benefit."*

Now the report presents the following chart:

Chart B—Social Security and Medicare Cost as a Percentage of GDP
<http://www.ssa.gov/OACT/TRSUM/index.html>



The issue is the concern regarding the explosion of Medicare, the HI and SMI terms. In a recent [CBO Report on SSI](#) they show a chart on SSI alone which is even more dire as shown below.



Here they are showing an even more explosive growth of SSI. These two will meet in the report to be issue on the morrow and all together these will set the scene for a battle on the exploding Government debt.

We wish to provides a few statistics regarding Medicare herein so that people can deal with the facts and not the politically motivated scare tactics.

Fact 1: What is Contribute to What by Whom? The following is the table which represents what we currently contribute from our salaries to SSI and Medicare. The following are percentages of gross income contributed by the employer and employee.

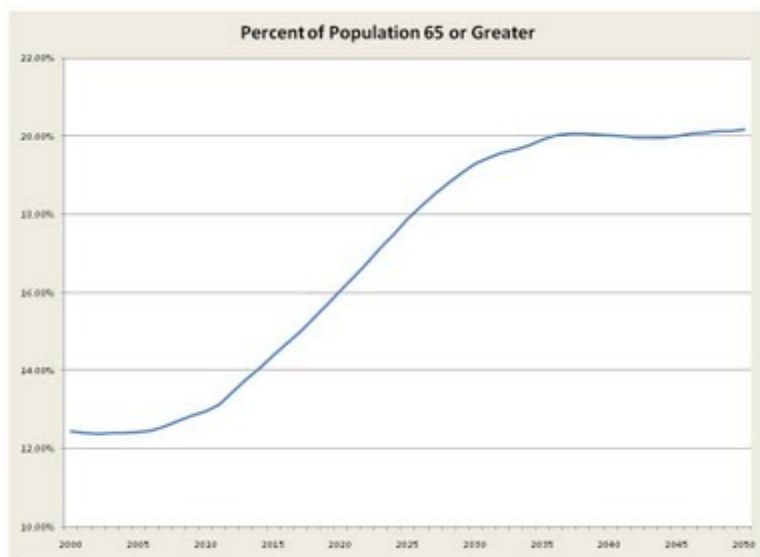
Employees: OASI-5.30 DI-0.90 OASDI-6.20 HI-1.45 Total-7.65

Employers: OASI-5.30 DI-0.90 OASDI-6.20 HI-1.45 Total-7.65

Combined Total: OASI-10.60 DI-1.80 OASDI-12.40 HI-2.90 Total-15.30

The total is 15.3% of the gross salary is contributed to these programs. 12.4% to SSI and 2.9% to Medicare. It is clear that SSI is substantially higher than Medicare and since Medicare is increasing due to health care costs one would suspect that this amount should increase. But by how much.

Fact 2: The over 65 population is growing as a percent of the total. This is shown below.

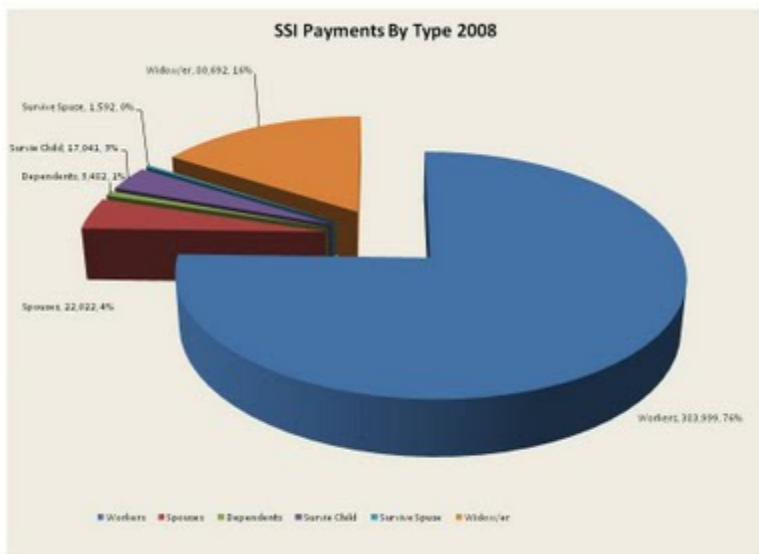


We will grow from 12% to just over 20% and almost two fold increase. This is less a longevity issue and more a demographic issue. We just are not having enough births and not enough immigration. There are several ways to address this. One is to move the age limits up to keep the percentages below say 15%. The other is to double the taxes.

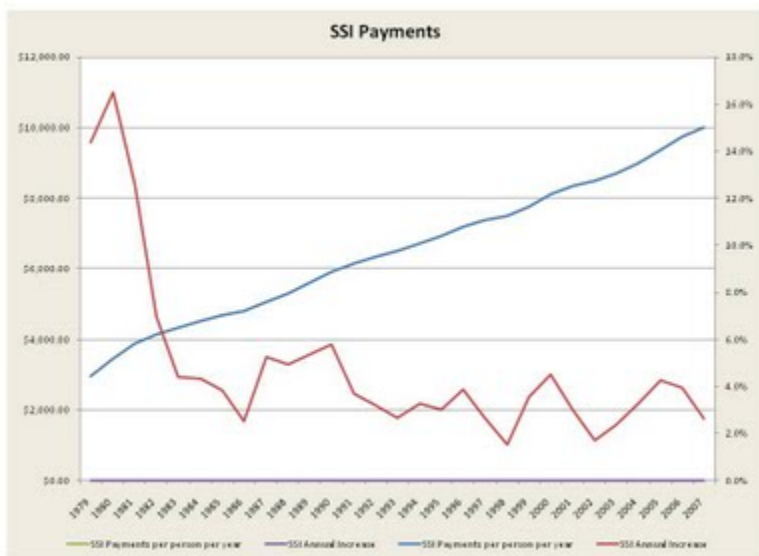
Yet it must be remembered that people have contributed and as to SSI their contributions have already paid for their SSI. Thus either solution only addresses a problem created by Congress who already spent the money. Getting more money will never solve the problem of an entity which will spend whatever it can get its hands on.

We have already begun increasing the SSI age yet we have not addressed the Medicare age. This is the main issue.

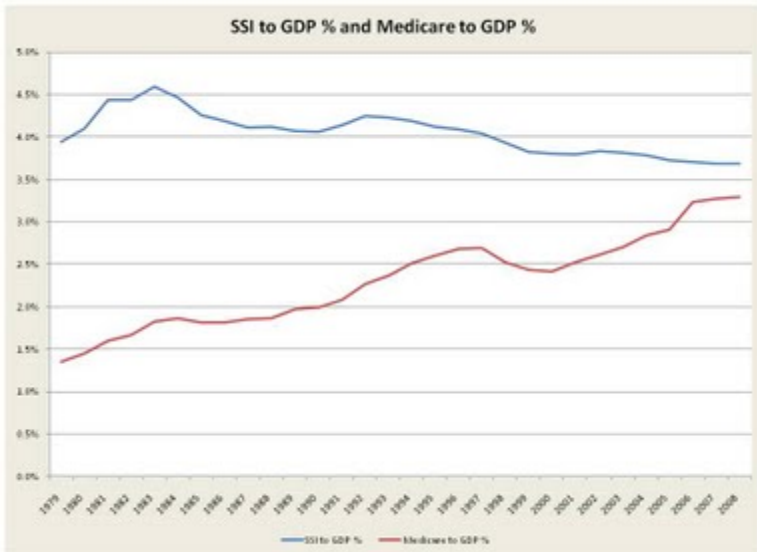
Fact 3: In SSI only 78% of the payment go to contributors. The following chart depicts the SSI payouts.



And SSI payments have remained at or below inflation, about 3% per annum. SSI payments are controlled by the Government and there are no exogenous factors such as are the case in Medicare. We show this below.

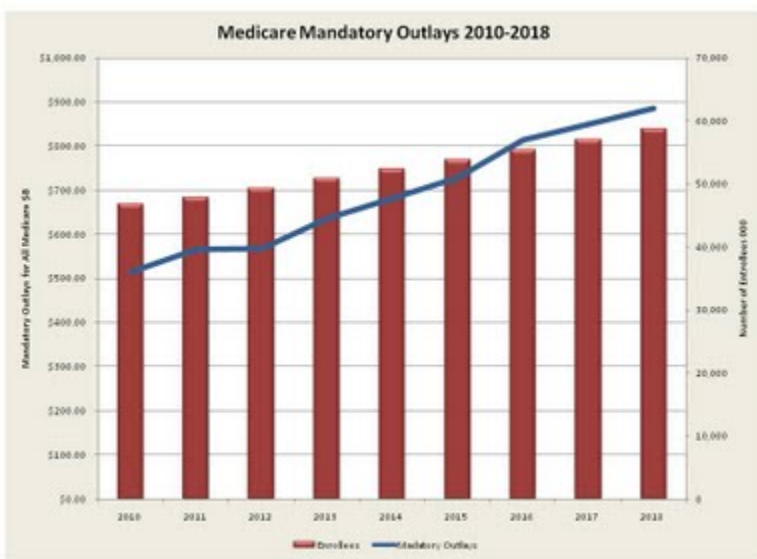


Fact 4: SSI has no exogenous drivers whereas Medicare does. Medicare has been increasing as a percent of GDP whereas SSI has not. We show this below.



This is the curve which the Trustee report is concerned about. This is data up to 2008. Note that Medicare is approaching the same percent GDP as is SSI and it is increasing faster. In addition note that we as employees contribute only 25% to HI as we contribute to SSI. Thus SSI is well funded going forward if one looks at the demographics, not the Trust fund which has already been raided, but on a going forward basis HI has a problem.

Fact 5: The Medicare Funds are fine for the next ten years but the long term demographics will cause problems. The drivers of the problems are twofold. First the slow growth of GDP as compared to health care. Second the lowering of the employee bases in terms of value added. Namely there will be more service and government employees and fewer people creating value, such as entrepreneurs. The following chart depicts the next ten years of Medicare.



Thus the concern is not just one of lowering health care costs, nor one of moving age limits upward, but one of creating a growing economy.

Posted by Terry McGarty at [5:57 AM](#) 

Labels: [Health Care](#)

SATURDAY, AUGUST 22, 2009

H1N1 AND CDC GUIDELINES

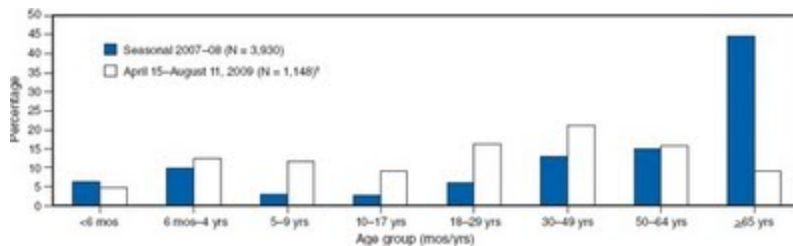
The [CDC issued guidelines](#) for H1N1 immunizations. They state that the following should be the first to be immunized:

"When vaccine is first available, ACIP recommends that programs and providers administer vaccine to persons in the following five target groups (order of target groups does not indicate priority):

- *pregnant women,*
- *persons who live with or provide care for infants aged <6>*
- *health-care and emergency medical services personnel,§*
- *persons aged 6 months--24 years, and*
- *persons aged 25--64 years who have medical conditions that put them at higher risk for influenza-related complications.¶*

These five target groups comprise an estimated 159 million persons in the United States. This estimate does not accurately account for persons who might be included in more than one category (e.g., a health-care worker with a high-risk condition). Vaccination programs and providers should begin vaccination of persons in all these groups as soon as vaccine is available."

Then in their data analysis they show the following chart:



One should note that the highest incidence is the over 65 group. This is also highest mortality. Is this perhaps the new Medicare Plan, just let them get H1N1?

Posted by Terry McGarty at [1:27 PM](#) 

Labels: [Health Care](#)

SATURDAY, AUGUST 22, 2009

CHINA'S GDP GROWTH

The newspaper [China Daily](#) announced today an anticipated GDP growth of 8.5% for Q3 2009. The article continues:

"China's gross domestic product will grow about 8.5 percent in the third quarter from a year earlier, picking up from the second quarter's 7.9 percent pace, a government think-tank said on Friday.

The bullish forecast comes against a background of anxiety in world markets that Chinese growth might falter as a boom in fiscal spending and bank lending peters out.

The State Information Center (SIC) said growth in bank credit would "normalize" in coming months but warned that any abrupt slowdown in lending would leave many State-backed projects unfinished and result in a new crop of non-performing loans.

New lending will rebound to about 500 billion yuan (\$73 billion) in August after shrinking to 356 billion yuan in July, the official China Securities Journal reported."

This is in a manner good for the US allowing China to continue to finance its customers but bad for the US because soon China will be able to stand alone. This growth is despite the US downturn.

Posted by Terry McGarty at [1:15 PM](#) 

Labels: [China](#)

[COMPARATIVE EFFECTIVENESS AND THE PRESIDENT'S WEEKLY ADDRESS](#)

In the [President's weekly address](#) today he said:

"And we've all heard the charge that reform will somehow bring about a government takeover of health care. I know that sounds scary to many folks. It sounds scary to me, too. But here's the thing: it's not true. I no sooner want government to get between you and your doctor than I want insurance companies to make arbitrary decisions about what medical care is best for you, as they do today. As I've said from the beginning, under the reform we seek, if you like your doctor, you can keep your doctor. If you like your private health insurance plan, you can keep your plan. Period."

The problem is that the section on Comparative Clinical Effectiveness in the bills is really establishing and institutionalizing a Government entity to specify what procedures to perform when. There is a great deal of benefit from CCE studies. As I have written before this process goes on in the medical profession on continuing basis. For years I have taken the semi-annual tests from the NEJM/Massachusetts Medical Society reviewing hundreds of paper for annual CME credit. It forces you to remain current in terms of what you may not see on a day to day basis. It looks at one study after another yet from year to year they change and from physician to physician they have varying levels of acceptance. The existing CCE process is the publishing of reports, looking at at hand clinical data and responses, and interacting with peers.

I have just read the book by Dr. Newman at Columbia P&S entitles [Hippocrates Shadow](#) and it is both well done and enlightening. It is a treatise if you will on what can go wrong with CCE especially if done by the Government. Newman gives a multiple of examples where physicians differ amongst themselves when diagnosing a disorder as well as what the best way to proceed is. Most physicians recognize this from the beginning.

The President most likely does not understand the details here and those proposing this fall it appears in two camps. The first camp are those who see this as a way to control costs, getting the "best" procedure and having everyone avoid spending money on procedures which have no benefit. The second camp are the academic physicians who have abstracted an ideal, the Platonic physicians if you will, and they feel that they can apply that ideal to all.

The reality is that the ideal just does not exist for very many reasons. I list a few:

1. No patient is like any other patient. People are different and as a physician you must understand and work around the differences.
2. Diseases are different even the same diseases. Pneumonia may not be the same in every patient and what one physician sees as pneumonia another may see as a pulmonary embolism, as Newman recounts.
3. Physicians make mistakes. True fact, they do. They most likely are not deliberate or due to incompetence but most likely due to some predisposition or lack of time to reflect. In a pressured environment of an office or an ER there is a continual flow of patients and the physician may just misinterpret or not see or hear a key element.
4. Patients never tell the same story twice. Patients are notorious for not telling all and telling too much of what is not relevant. They are scared and they are not trained observers. Even a physician as a patient does not get it right. Thus as a physician you are trying to get the trajectory of a moving target which is sending out chaff, a difficult task.

Thus the CCE model as proposed in the health care bills is in my opinion one of the worst elements. As the President has said, *"...I no sooner want government to get between you and your doctor than I want insurance companies to make arbitrary decisions about what medical care is best for you, as they do today..."* the only way this can be accomplished is to leave CCE in the hands of the Medical profession and NOT move it to the Government.

The President seems not to understand that people are reading the words of the bills and as they do so they see a disconnect from what he says and what is in writing. I am not saying that he is in any way misrepresenting the intent, he rightly seems to mean what he says, but someone should read what HR 3200 says and inform him, it does NOT say what he does.

Posted by Terry McGarty at [10:21 AM](#) 

Labels: [Health Care](#)

[SYSTEMS ENGINEERING AND MIT](#)

I was reading a few statements from the [MIT web site](#) regarding their development of a systems engineering program. One quote is from Joel Moses who I have known for a few years. Joel states:

"By 2020, Joel Moses hopes that engineering systems will be recognized "as having made significant contributions" to health care, energy, environment, financial services and the military. To achieve such an impact, the field should focus on "maybe the key issue" of system architecture. Each engineering field thinks of architecture in different ways and groups must communicate better with each other. Moses believes educators should teach "what makes for a good system architect," and that "systems thinking is important, but not enough." A good system architect sees things holistically. Moses notes as well, "the difference between designing a one-off versus a family of systems.""

I have seen the work of the MIT group in the area of broadband for example and there are major defects. First the academics have no hands on experience. They develop models which in many

ways do not relate to reality. For example the analyses neglected such costs as the franchise which can amount to the same capital requirement as the entire build. These "hidden costs", frequently found only by the person working hands on in the field are the surprises that the system engineer must anticipate. Systems engineering is an amalgam not just of the technology but of the economic and environmental factors which make up the world in which the system is to be employed. Possible the problem is also that systems may mean different things to different people. To build on Moses's "holistic" approach it is indeed critical to understand not just the technology, not just the life cycle, but the "hidden costs" in both developing and operating. This is a challenge for an academic environment. One can be a system designer in the development of a new computer but what is the role of the architect and system engineers in the larger challenges we now face.

As an entrepreneur, I have had to develop systems models which include financial impacts. And all too often I like so many others have failed to include some minor point which when it occurs is a failure mode. When the models are developed by academics they are often used for policy development and their impact can devastate an economy and not just a business. Thus there should be deeper concerns on the part of academics to reach out to the reality of the world at work.

Also they speak as if this process is something new. System Engineering has been around for ages. The System Architect, in a complex business/technical system, is often not even contemplated and the role is often left to the CEO and possibly CFO, and neither may be able to truly assesses the issues.

Let us take a look at a simple example in broadband development. There are many systems as well as business issues. What technology, what architecture, what services, what prices, what policy, what competitive strategies, what failure points, and the list goes on. Frankly if academics wants to get into this area it requires a strong infusion of technically and financially competent persons trained not only academically but with the experience in actually doing what they were trained in. The problem is that such individuals have little academic output and are older. This is the antithesis of the academic type they are looking for.

Thus despite the good words, the development of this truly needed profession will go wanting.

There is an area where the use of systems engineering professionalism is in dire need today. That is the area of health care. There is a need to develop a system from principles, develop models for costing and deployment, develop models for monitoring, and then seeking ways to validate and implement what is developed. Too many of those who opine on the health care issues do so from a model-less point of view and use at best anecdotes. Thus if MIT and others desire to enter into the complexities of system engineering perhaps the application to health care would be a challenge.

Looking at the issue, however, systems engineering is critical and the role of the architect is all too often neglected. It is the architect who creates the embodiment of the world view that is sought. It is not at all clear if architects are born or made. What is clear is that we need more. On that point I strongly agree with Professor Moses. How to get them will be an ongoing problem.

Posted by Terry McGarty at [10:06 AM](#) 

Labels: [Commentary](#)

[RUSSIA AND ITS VIEW BY THE REST OF THE WORLD](#)

Professor Richard Pipes has written a compelling article in [today's WSJ](#). Before commenting on Pipes article I would like to make a few points on my perspective. I worked with Professor Pipes in the early 1970s when he was at Harvard and I at MIT and the both of us were Democrats, Massachusetts Democrats at that.

He is a brilliant man and brings to the perspective he has the experience from central and eastern Europe. He knows the world. Then in the late 1970s when I was part of the Comprehensive Test Ban Treaty negotiations with the Russians as part of the Carter Administration I got a close up view of the Russian mind. It is not the west, it is not Europe, it is not even central Europe. Finally in the mid 90s to 2004 I had developed and ran my company in Russia as well as other central European companies. I opened the market with a few credit cards and a bunch of plane tickets in my pocket, no big corporate names behind me, yet I did have knowledge of the Russian and a few Russian friends, good friends.

As part of that in the late 1990s I presented a paper to a meeting of the Russian Duma members suggesting that they put fiber along their pipelines and double dip on the revenue stream. Create what I called a Russian hub for world communications. This was the Russian Transit Switch proposal. Their response at the time was consistent with Pipes' perception. I spoke as an American, sensitive as I was, yet an American. They rebelled and I was castigated for telling the Russians what they should do, for they would make their own decisions and they did not want any one else, especially and American, telling them. Once that blunt fact came to me I knew how to move forward and henceforth had no problems.

The Russians are a proud and brilliant people. They are open and friendly and just want respect. They will tolerate a great deal, for they have long suffered from many things, yet they have a willingness to deal with strangers on a par much better than say the French or English. My broken Russian is much better received than my well phrased French, and God forbid my Irish name in London.

Thus the point that Pipes makes about the current Vice President is telling. He says:

".....the recent remarks about Russia by Vice President Joe Biden in an interview with this newspaper were both gratuitous and harmful. "Russia has to make some very difficult calculated decisions," he said. "They have a shrinking population base, they have a withering economy, they have a banking sector that is not likely to be able to withstand the next 15 years."...

These remarks are not inaccurate but stating them publicly serves no purpose other than to humiliate Russia. The trends the vice president described will likely make Russia more open to cooperating with the West, Mr. Biden suggested. It is significant that when our secretary of state tried promptly to repair the damage which Mr. Biden's words had caused, Izvestiia, a leading Russian daily, proudly announced in a headline, "Hillary Clinton acknowledges Russia as a Great Power."

Indeed this is how the Russians respond and react. For example the US push to have NATO move east is in the Russian mind a threat and in reality it lends no value to NATO. NATO is a vestige of the Cold War and its members, other than the UK, are weak and have focused more inward to their own economic interests rather than security threats from Russia. The deployment of missiles in the Czech Republic and Poland is another example of sticking it to Russia.

In a 1996 NY Times article the famous George Kennan wrote regarding the expansion of NATO:

"Such a decision may be expected to inflame the nationalistic, anti-Western and militaristic tendencies in Russian opinion; to have an adverse effect on the development of Russian democracy; to restore the atmosphere of the cold war to East-West relations, and to impel Russian foreign policy in directions decidedly not to our liking. And, last but not least, it might make it much more difficult, if not impossible, to secure the Russian Duma's ratification of the Start II agreement and to achieve further reductions of nuclear weaponry."

Pipes then makes a very telling observation:

"The solution of the puzzle lies in the fact that during their 1,000-year old history of statehood, the Russians have virtually never been given the opportunity to elect their government or to influence its actions. As a result of this experience, they have become thoroughly depoliticized. They do not see what positive influence the government can have on their lives: They believe that they have to fend for themselves."

In my experience the Russian problem is also in their use of words. As we speak of the Mexican use of *Manana*, portraying the sense of disregard for immediacy, the Russian phrase, *Nyet problemi*, no problem, portrays an even greater insight. The Russian phrase when used means the proverbial has hit the fan. It takes the British tendency for understatement and moves it a mile or so forward. It is in my experience the embodiment of the Russian's disconnection from the system.

Thus Pipes has brilliantly captured the Russian mind and the continuing US diplomatic blundering in dealing with the Russians, in this Administration and even more so in the last. We just seem to have no understanding of the Russians, their importance, their culture and their future.

Pipes final comment is:

"For this reason, it is incumbent on the Western powers patiently to convince Russians that they belong to the West and should adopt Western institutions and values..... This will be a painful process, especially if the Russian government refuses to cooperate.... in the long run, it is the only way to curb Russia's aggressiveness and integrate her into the global community."

He is spot on with this recommendation. Russia must be integrated into the west. It will never be the democracy as we know it but it has all the elements of a major contributor to society and the economy. It must be respected and treated as an equal.

Now to the disappointment, not with Pipes but with how we have progressed as a society, namely American in the Internet age. One need just read the comments on the article to see where the American mindset is. First comments are raw, blunt, crass, and contain no thought. This seems to be the Internet world. They are anonymous, which engenders almost twelve year old bathroom humor. The comments also bring out another facet of the anonymous commentator, the ad hominem attacks, the viscous content free attacks. The Russians may have more concern about the comments than about Professor Pipes.

Posted by Terry McGarty at [6:48 AM](#) 

Labels: [Russia](#)

FRIDAY, AUGUST 21, 2009

FOCUSING ON COST SAVINGS

Cost Element	Notes	Cost (\$000,000,000)	Percent Total	Estimated Growth Rate	Comments	Reference
Page 2 Diabetes	This is all Type 2 Diabetes related costs.	2,082.80	33.0%	3.8%	This technical approach reduces consumption of pharmaceuticals as a portion of patients will be prevented from consuming.	Reference: Diets of consumption.
Creating Patient Experiences	This is the cost of creating related diabetes.	\$100.00	1.6%	-3.3%	This technical approach reduces consumption of pharmaceuticals as a portion of patients will be prevented from consuming. This has been estimated with two scenarios as follows.	ICG
Preventive Medicine	This is the cost of preventing avoidable, preventable and infectious and the related costs of diagnosis, care.				This is a very difficult metric to quantify. It will be a significant decrease from what is currently at present as it is difficult to measure whether the outcomes will be clinically recognizable.	Factor of 10
Medicines	This is the cost of all medical technologies of which a significant portion will be obsolete.	33.50	0.5%	8.2%	This is difficult to calculate for the future. To reduce the number of such technologies in the current market, there would have to be a significant reduction in the number of drugs. This could be a significant reduction.	ICG Report
Medical Device Costs	This is the cost of bought-in medical devices.	151.34	2.4%	8.5%	This is difficult to calculate for the future as it will be a significant reduction in the number of devices. This could be a significant reduction.	ICG Report
Biological Costs	This is the cost of biological materials and related costs that should be taken into account in the future.	122.88	2.0%		This is difficult to calculate for the future as it will be a significant reduction in the number of biological materials. This could be a significant reduction.	ICG 2009
Researching	This is the cost of the R&D efforts to develop new drugs that will be obsolete.	340.88	5.3%		This is difficult to calculate for the future as it will be a significant reduction in the number of drugs. This could be a significant reduction.	Handwritten: 2009 2008 p. 24
Device Procedures	This is the cost of procedures that are performed in the hospital or other settings. This includes the cost of the procedure, the cost of the device, and the cost of the procedure.				Placing cost data at the point of prescription using DRG technology.	Handwritten: 2008 2007
Specialty Care/High-Dose	These are the cost of high-dose specialty care for complex medical conditions.				Forecasting of patients can be used to reduce the number of patients and thereby reduce the cost of specialty care.	Handwritten: 2008
Chronic/Complex Diseases	These are the cost of chronic and complex diseases that require long-term treatment and care.	3,200.00	51.3%		Forecasting of patients can be used to reduce the number of patients and thereby reduce the cost of chronic and complex diseases.	Handwritten: Diets of consumption.
Drug Control	This is the cost of drug control efforts to reduce the number of drugs that are prescribed.	1,000.00	16.0%		Placing cost data at the point of prescription using DRG technology.	Handwritten: 2008 2007
Diagnostic Costs	This is the current cost of diagnostic tests and related costs.	1,000.00	16.0%		This is difficult to calculate for the future as it will be a significant reduction in the number of diagnostic tests.	ICG 2009 Report
Total		10,223.76	163.8%			

One of the tricks you learn when running a business and in seeking financing for new projects is that you must know the details of your projects and most importantly you must know your costs and how you will make money. Furthermore you must distill all of this down to one piece of paper which you can use as a "stage prop" in your pitches and guidance. The single paper must distill facts, numbers, strategy and execution all in one piece. It takes time but it is worth the effort. You can communicate with this result.

The current President has not yet reached that level. He appears to be still campaigning. As stated in a recent Financial Times article by Mort Zuckerman who states:

"We must learn from our history, specifically the birth pains of Medicaid and Medicare under Lyndon B. Johnson. His former policy aide, Joseph Califano, wrote about that experience. "No one had discovered MRIs, PETs, CAT scans, organ transplants, and exotic and expensive cancer chemotherapy. None of us anticipated the extraordinary leap in life expectancy that would lead Medicare to spend a third of its budget during the last year of a beneficiary's life and Medicaid to pump an even larger proportion of its dollars into nursing homes. Now we are in the early days of a revolution in neurology, genetics, molecular biology, stem cell research, mechanical hearts and lungs, and domino transplants that promise all sorts of [costly] cures that don't exist today." In other words, we must be aware of the potential expense of medical discoveries and be

cautious about congressional clairvoyance that claims it can project healthcare costs 10 years into the future."

Zuckerman criticizes the current President yet he targets Medicare as does the current President. Why has no one detailed the specifics and then from the specifics laid out an action plan. The truth of the matter is that there are areas well outside Medicare that costs can be saved.

I have prepared a report detailing many of these areas. The attached Table is a summary of 12 target areas for almost \$ cost reductions and almost 30% of the current expenditures. Medicare is \$400 B and only 17%. The last here is a summary, it is that one page statement of what can be done now.

Posted by Terry McGarty at [5:38 AM](#) 

Labels: [Health Care](#)

MONDAY, AUGUST 17, 2009

MEDICARE AND SOME DATA

Here are a few numbers regarding Medicare and the totality of health care costs. We use 2008 as a base year and round up all costs to \$2.5 trillion.

Metric (2008)

Total Pop (000)	304,000
Medicare PoP (000)	45,221
Total Costs \$000,000.000	\$2,500
Medicare Costs \$000,000,000	\$454
Percent Medicare PoP	14.9%
Percent Medicare Costs	18.2%
\$ per Medicare	\$10,046
\$ per Others	\$7,905
Lifetime Non Medicare	\$513,838
Lifetime Medicare	\$120,555

Now some observations:

1. The Medicare patient costs on average \$10,046 per year and since they live on average at most 12 years their total burden with 2008 care levels is \$120,555.
2. In contrast the non medicare patient costs \$7,905 per year and has a total burden till Medicare kicks in of \$513, 838. This is five times the Medicare burden.
3. 15% of the population are on Medicare and 18% of the health care costs go to Medicare. Considering that Medicare patients are much older, by definition, this is not an unreasonable spread.
4. 40 million of the people who should have insurance do not, so as a back of the envelope calculation they cost about \$320 billion per year, whereas Medicare costs \$454 billion. However the Medicare patient has for the most part contributed to Medicare but the uninsured has made no contribution. In fact it is reasonable to assume that this pool of uninsured, due to desire or

inability, may very well be more costly than Medicare. They are the ones with morbid obesity and they are the ones driving up the health care costs per GDP and they are the one hanging around in a chronic state of health. If choices should and must be made let us look there as well if not first perhaps. We truly need the wisdom of a Jonathan Swift to make things clear.

On the basic principle of fairness and equity, the person who contributed should receive before the person who has not. It is not at all clear if Congress and the Press have the slightest insight into the facts.

Posted by Terry McGarty at [8:38 AM](#) 

Labels: [Health Care](#)

[MEDICARE AS THE PUNCHING BAG](#)

In today's NY Times there were two op-ed pieces on Medicare. One from their erstwhile conservative voice and one from an author of a book.

Let me start by stating two facts:

1. **Medicare is an entitlement because the people entitled to it paid for it.** As we have demonstrated several times, the average worker in the US puts 65% more into Medicare than they will ever get out! Where does the money go, well Congress takes it and spends it. Medicare funding is NOT the problem, Congress is! On average a Medicare beneficiary lives 12 years and costs \$12,000 per year. Then they die! So all of you young folks who cannot deal with facts get over your complaining about grandma! Yet as [Douthat](#) states:

"In this future, somebody will need to stand for the principle that Medicare can't pay every bill and bless every procedure. Somebody will need to defend the younger generation's promise (and its pocketbooks). Somebody will need to say "no" to retirees...That's supposed to be the Republicans' job. They should stick to doing it."

I guess Douthat wants to Republicans then to Kill Grandma! Well Mr. Douthat, the Medicare recipient just wants some portion of their contribution back! One could argue looking at Mr. Douthat that his BMI being a bit over the mandatory 25.0 should himself be paying those of us who are not there for the care he will require for his aberrant lifestyle. That old saying of people in "glass houses" and their "stones".

On the left side of the Times spectrum, well more likely in their center, a [Mr. Dooling](#) states:

"With so much evidence of wasteful and even harmful treatment, shouldn't we instantly cut some of the money spent on exorbitant intensive-care medicine for dying, elderly people and redirect it to pediatricians and obstetricians offering preventive care for children and mothers? Sadly, we are very far from this goal. A cynic would argue that this can't happen because children can't vote (even if their parents can), whereas members of AARP and the American Medical Association not only vote but can also hire lobbyists to keep the money flowing."

Again, excuse me Mr. Dooling it is not your money but it was the money of the patient getting the care. I agree with the principles of advance directives and I have seen all too frequently the death of a loved one from a debilitating disease, cancer, and the like, and one recognizes that reasonable care is required. You cannot "save" a person with multiple brain mets from a malignant melanoma, or a colon cancer patient with massive ascites from the met to the liver or a

prostate patient with hundreds of bone mets. You can hopefully minimize their pain. The question is what basis does Dooling have for the massive amount of "exorbitant intensive care". As I look at the data and examine the processes the evidence for such explosive costs of the elderly are not there.

2. The Dominant Costs in Health care are from Lifestyle Disease States

As Mackey from Whole Foods stated:

"Unfortunately many of our health-care problems are self-inflicted: two-thirds of Americans are now overweight and one-third are obese. Most of the diseases that kill us and account for about 70% of all health-care spending—heart disease, cancer, stroke, diabetes and obesity—are mostly preventable through proper diet, exercise, not smoking, minimal alcohol consumption and other healthy lifestyle choices."

Also [Leonhardt](#) states:

"The promise of that system is undeniably alluring: whatever your ailment, a pill or a procedure will fix it. Yet the promise hasn't been kept. For all the miracles that modern medicine really does perform, it is not the primary determinant of most people's health. J. Michael McGinnis, a senior scholar at the Institute of Medicine, has estimated that only 10 percent of early deaths are the result of substandard medical care. About 20 percent stem from social and physical environments, and 30 percent from genetics. The biggest contributor, at 40 percent, is behavior."

In the analysis of my recent [Book](#) I clearly make this point using data and projecting forward. The problem is not the old folks who have contributed to their Medicare twofold but the young fat folks who will have lifestyle disease well ahead of any 70 year old who has at best 7 more years of life.

The Press, on both left and right, seem to be at war with the old folks, their parents, those in Medicare. This is not going to end well.

Posted by Terry McGarty at [6:15 AM](#) 

Labels: [Health Care](#)

MONDAY, AUGUST 17, 2009

[US TELECOM AND THE BUSINESS PRESS](#)

In a recent article in the [Economist](#) the author states:

"Telecoms operators are seeing customers abandon landlines at a rate of 700,000 per month. Some analysts now estimate that 25% of households in America rely entirely on mobile phones (or cellphones, as Americans call them)—a share that could double within the next three years. If the decline of the landline continues at its current rate, the last cord will be cut sometime in 2025."

Well, so what! Verizon has a brilliant strategy with FIOS and its selling of its unprofitable properties. Let us briefly re-examine this strategy. We had presented it in 2002 in a paper we

delivered to the White House staff. At that time we called it "The Imminent Collapse of Telecom" but it was the collapse of copper. It was not the collapse of the business.

The Verizon Strategy is simply three steps"

Step 1, Get Rid of the Junk:

Verizon is focusing on fiber and mobile, not copper. Thus in all markets which are not amenable to fiber, economically or otherwise, they sell it off. Look at Fairpoint, Frontier, Hawaii. Why keep something which is not consistent with the strategy.

Step 2, Build the Mobile Franchise

The mobile franchise is a valuable and growing franchise. When I was COO of NYNEX Mobile, a predecessor to Verizon Wireless, I saw and stressed the fact that mobile was not just a replacement for a wire but was a continual contact point with the customer. The management at the time wanted to keep the minute rate up and ensure a high ARPU. I, on the other hand, argued for penetration, even at lower ARPU because we could then expand services on the platform.

Step 3, Migrate to Low Cost Fiber

This is a simple step. Focus on markets that are profitable in fiber and build it out. Pay for this by selling central offices and have cash left over. Move to the multimedia business. Brilliant! Now instead of thousands of Central Offices and inefficient union technicians they move to two IP based hubs and use outsourced fiber optic techs. Their costs drop through the ground. Copper is highly unreliable in the long term. Fiber is glass, it lasts forever, unless cut, say by the unions as they are wont to do frequently in New York!

The critics on one I really do not get. Take for example the quote from the same article:

"Nonetheless Verizon and AT&T, its main competitor, are still mostly "wireline", says Craig Moffett, an analyst with Bernstein Research. According to his calculations, both firms' landline businesses generate more than 50% of revenues, and an even higher share of costs. The two firms and Qwest, America's third-biggest landline operator, have already shed thousands of jobs and announced further lay-offs to cut costs. But the accelerating loss of landlines will put increasing pressure on profit margins, argues Mr Moffett, as the high fixed cost of running the network is spread over an ever smaller number of customers. It is also likely to lead to higher bills for captive customers such as businesses with switchboards, which cannot do away with their landlines so easily."

Moffett just does not get it. Verizon is dumping bad markets, rebuilding good markets, and using fiber to drive down long term costs while providing a platform which will control the electronic marketing and distribution channels of the future. They will be the only electronic shopping mall operator in their regions! Brilliant. Does Moffett not think that Seidenberg, who started his career as a craftsperson does not understand the costs of copper! He is a genius in strategy and Moffett appears just not to understand!

He continues:

"Even if Verizon and AT&T can overcome their "wireline problem", says Mr Moffett, it will not go away. Most telecoms operators do not have a mobile business to fall back on. Fairpoint, a firm which took over some of Verizon's landline business, is struggling. Hawaiian Telcom filed for bankruptcy in December, not least because it was losing landline customers at a rapid clip. Such a fate raises the question of what will happen to the industry's huge unfunded pension liabilities. Taken together, the future obligations of AT&T and Verizon are as big as those of General Motors before its recent bankruptcy."

Two quick observations.

First, Verizon has dumped its junk on Fairpoint, Fronteir and Hawaii. The Hawaii case was one where it was purchase by Carlyle Group with Bill Kennard the former FCC Chair running it. So much for Washington insiders. Before it was taken over it was always a goldmine. New Management sent it down the tubes.

Second, the balance sheets, well if anyone looked they would see as we wrote a couple of years ago that Verizon for one is sitting on hundreds of billions of real estate! It is on the books at cost. They sell it off as they need it. Take 60 State Street in Boston. That alone could pay off the build out of fiber for the suburbs! Then there is the Back Bay CO and on and on! The real estate Mr. Moffett is not chopped liver, even in today's market.

Moffett is finally quoted as:

"The danger, says Mr Moffett, is that regulators will introduce new taxes on wireless and broadband services. Revenues from new services would then be used to keep an obsolete infrastructure alive—a recipe for lower growth. At that point, he says, the "wireline problem" really will be everyone's problem."

Why in God's name would Verizon want to keep the copper! They are selling it off as quickly as they can and overbuilding at a similar pace. This makes absolutely no sense! Verizon, when it builds a FIOS system, closes down the copper. It is a quid pro quo!

Posted by Terry McGarty at [5:46 AM](#) 

Labels: [Telecom](#)

FRIDAY, AUGUST 14, 2009

[PREVENTIVE CARE: WHAT DOES IT MEAN](#)

The CBO issued a report on the [ineffectiveness of preventive care](#). The report states:

" Preventive medical care includes services such as cancer screening, cholesterol management, and vaccines. In making its estimates of the budgetary effects of expanded governmental support for preventive care, CBO takes into account any estimated savings that would result from greater use of such care as well as the estimated costs of that additional care. Although different types of preventive care have different effects on spending, the evidence suggests that for most preventiveservices, expanded utilization leads to higher, not lower, medical spending overall."

The [NEJM article](#) used as a reference by Cohen et al states:

"Indeed, some evidence does suggest that there are opportunities to save money and improve health through prevention. Preventable causes of death, such as tobacco smoking, poor diet and physical inactivity, and misuse of alcohol have been estimated to be responsible for 900,000 deaths annually — nearly 40% of total yearly mortality in the United States. Moreover, some of the measures identified by the U.S. Preventive Services Task Force, such as counseling adults to quit smoking, screening for colorectal cancer, and providing influenza vaccination, reduce mortality either at low cost or at a cost savings."

As they say, 40% is not chopped liver. Thus the outright dismissal of screening is a bit much. Let us continue to my favorite topic, Type 2 Diabetes. In the [paper by Hu et al](#) on Type 2 Diabetes in women the authors state:

"Our findings support the hypothesis that the majority of cases of type 2 diabetes could be prevented by the adoption of a healthier lifestyle."

In our analysis we have determined that Type 2 Diabetes results in a cost of about 12% of the total health care budget and furthermore the growth in health care costs as a percent of GDP is correlated to the increase in obesity and overweight with 99%+ correlation. This is a lifestyle issue and a prevention issue. Take the 40% mentioned above, add 12% from Type 2 Diabetes and if my arithmetic is correct we have 52% (I apologize if I have added apples and oranges but I seek to make the point". That is quite a large number.

Yet [Krauthammer](#) states:

"That's a hypothetical case. What's the real-life actuality? In Obamaworld, as explained by the president in his Tuesday town hall, if we pour money into primary care for diabetics instead of giving surgeons "\$30,000, \$40,000, \$50,000" for a later amputation -- a whopper that misrepresents the surgeon's fee by a factor of at least 30 -- "that will save us money." Back on Earth, a rigorous study in the journal Circulation found that for cardiovascular diseases and diabetes, "if all the recommended prevention activities were applied with 100 percent success," the prevention would cost almost 10 times as much as the savings, increasing the country's total medical bill by 162 percent. That's because prevention applied to large populations is very expensive, as shown by another report Elmendorf cites, a definitive review in the New England Journal of Medicine of hundreds of studies that found that more than 80 percent of preventive measures added to medical costs. "

The data appears to reject this conclusion. Prevention, albeit requiring patient cooperation, does prevent disease and save money. Just measuring HbA1c does nothing. To paraphrase Osler, if all else fails, *look and listen to the patient*. Obesity is the primary cause of Type 2 Diabetes as is smoking on lung diseases, and much of cardiovascular diseases. The devil is in the details and perhaps the naysayers should look a bit more in the details.

Yet this still posits the question as how does one get obese people to reduce their burden. One can look at a Pigou type approach and tax the consumption chain, namely carbs, tax the effect change, namely weighing people as part of their tax return, or just bearing an exploding, pardon the pun, burden on all of us. Prevention in many areas is the beginning of the process, not the end, and one should not abandon the beginning. Selecting the way to get to the end may be politically more difficult.

Posted by Terry McGarty at [11:15 AM](#) 

Labels: [Health Care](#)

[NTIA AND ITS REVIEWERS](#)

NTIA has issued a [call for reviewers](#) for the various broadband proposals due momentarily. They state:

*"In this time of need for so many Americans, thank you so much for taking a moment to consider how you might help President Obama and your Federal Government deliver on the promise of economic recovery through the Recovery Act's **Broadband Technology Opportunities Program and Broadband Initiatives Program**.*

We need the help of experienced professionals like you to ensure the success of the BTOP grant program by lending some of your valuable hours to helping review the many applications we expect to receive over the coming months for broadband grant funding. To be considered as a reviewer you must have significant expertise and experience in at least one of the following areas:

- 1) the design, funding, construction, and operation of broadband networks or public computer centers;*
- 2) broadband-related outreach, training, or education;*
- 3) innovative programs to increase the demand for broadband services.*

We are committed to ensuring that reviewers come from diverse backgrounds and areas of the United States. Please feel free to circulate this "Call for Reviewers" to other individuals or organizations that may be sources of qualified reviewers"

The USDA and its RUS entity has done these reviews in house using a team of trained and seasoned professionals who have the burden of looking at a wide swath of proposals and spending considerable time reviewing the ones they select to fund in an almost extreme detail. Having successfully gone through that process I hold the RUS staff in high esteem. They have a challenging task since they are the keepers of the taxpayers money and they will be there if something goes wrong.

Now NTIA was never set up to do what RUS has been doing for three quarters of a century. Thus one suspects they need to be creative and seek alternatives to staffing up in a professional manner. Yet this reach out may readily result in a plethora of conflicts and a mix in expertise and competence to make the results problematic at best.

Consider what would happen if you started a venture capital firm and you just went to the public to assist on due diligence. You would lose a great deal of money.

Reviewing broadband is a complex process. It took us two years to get a proposal in and that was based upon having thirty years of experience with each member of the team. It meant walking down streets, doing market research, having technical expertise and being able to financially model the business and assess the risks and how to navigate around them. Despite all this we

never closed because we could not get a franchise on the par with the existing cable company. Each town wanted twice as much as they got from cable. The economics would never support that.

Thus I come back to the simple set of facts and ask how any of this can be done. For we know:

1. Broadband using fiber requires a franchise and a franchise takes excessive time and costs as much as the fiber installation. Broadband using fiber also require pole attachments which are controlled by telcos and power companies and are also costly and a timely process.
2. Wireless broadband using even a modest amount of power require a license and they have been already auctioned or if it is new spectrum it is costly and delayed in time.
3. WiFi works in urban areas to some degree but it is a major challenge in rural and ex-urban markets. The signal just does not travel very far, we have gotten 1,000 feet at the very best!

Thus the three major approaches have very high barriers to entry. As for satellites and others extreme approaches they are also beyond the pale of cost effectiveness.

Thus will NTIA get professional reviewers, I doubt that. They may very well get enthusiastic individuals who want to see the self fulfilling prophecy come to fruition, yet they may for the most part lack the professional expertise required. In contrast there sits the RUS professionals doing their Herculean tasks in a manner respecting the value of the taxpayers money. A contrast in Government.

Posted by Terry McGarty at [8:48 AM](#) 

Labels: [Broadband](#)

[THE KLUCH "КЛЮЧ" LADY](#)

In the old Soviet days when you stayed at an Intourist Hotel, there was a Kluch or Key lady on every floor. You gave her the key to your room when you left and you retrieved the key when you returned. She was KGB. She was a very low level KGB but she recorded your comings and goings. in detail If you were in the slightest suspected on some infraction of the rules, you were warned. There was always a safe in your room, and if you were not well enough trained in the ways of the KGB, you might think of leaving something of value in the safe. When you returned to your room, if the Key Lady suspected something, the KGB would have your safe opened, a bit ajar, nothing touched, but you now knew that they were watching.

Well thanks perhaps to some readers, I am now on the White House mailing list from Mr. Axelrod, my safe, to use the metaphor, has been opened, nothing touched, but it is clear that there are key ladies afoot watching and reporting.

Posted by Terry McGarty at [8:26 AM](#) 

[TUESDAY, AUGUST 11, 2009](#)

[A STRANGE PRESCRIPTION](#)

I just read a note on the [Health Care blog by Dr. Lundberg](#) a highly respected physician. He makes several proposals to reduce health care costs.

He suggests:

"1. Intensive medical therapy should be substituted for coronary artery bypass grafting (currently around 500,000 procedures annually) for many patients with established coronary artery disease, saving many billions of dollars annually....2. The same for invasive angioplasty and stenting (currently around 1,000,000 procedures per year) saving tens of billions of dollars annually."

Yes it would save billions but at what human cost. He is suggesting pharmaceutical treatment rather than surgical. However with 90% blockage or more there is no evidence that drugs will do anything. This is strange since the body of medical evidence is overwhelming that surgery and stents do have beneficial results. The question is the classic \$/QALY result but even there we have a positive result.

He continues:

"3. Most non-indicated PSA screening for prostate cancer should be stopped. Radical surgery as the usual treatment for most prostate cancers should cease since it causes more harm than good. Billions saved here....4. Screening mammography in women under 50 who have no clinical indication should be stopped and for those over 50 sharply curtailed, since it now seems to lead to at least as much harm as good. More billions saved."

Yikes is the best I can say. The evidence on breast cancer is overwhelming as well. Just search either JAMA or NEJM and you need go no deeper into the specialty journals. There is the prostate cancer debate which really is a debate on the genetic makeup of the specific type of prostate cancer. Watchful waiting works on those indolent forms but regrettably we do not have adequate genetic markers readily available. In fact PSA screening is a great way to accumulate the data.

He continues:

"5. CAT scans and MRIs are impressive art forms and can be useful clinically. However, their use is unnecessary much of the time to guide correct therapeutic decisions. Such expensive diagnostic tests should not be paid for on a case by case basis but grouped along with other diagnostic tests, by some capitated or packaged method that is use-neutral. More billions saved...6. We must stop paying huge sums to clinical oncologists and their institutions for administering chemotherapeutic false hope, along with real suffering from adverse effects, to patients with widespread metastatic cancer. More billions saved."

Yes on the imaging he may have a point. In the old days the physician could determine what ligament was at fault by just examining the motion of the limb and at the other extreme one could do an untra sound on an ovary before the MRI and CAT of the abdomen. However to distinguish between a block or bleed stroke there is no other way, you need a CAT. As to chemotherapy, take taxol and breast cancer, it does work, take the childhood leukemias, they are cured now whereas thirty years ago the child died. So I am amazed as to this out of hand dismissal of chemotherapy. Yes it is problematic with many cancers, such as melanoma, but there is clinical evidence of where it works and where it does not.

Finally he says:

"7. Death, which comes to us all, should be as dignified and free from pain and suffering as possible. We should stop paying physicians and institutions to prolong dying with false hope, bravado, and intensive therapy which only adds to their profit margin. Such behavior is almost unthinkable and yet is commonplace. More billions saved."

One could not agree more. The classic phrase spoken by a dying patient is something like, "It's time to go now..." and the patient all too often knows that the end is near. Managing pain, managing and respecting dignity, they are all critical. The past blog on advance care planning speaks to that issue. Yet as we have stated there the issue is all too often a cultural and family issue, less the patient qua patient.

Dr. Lundberg is so respected a physician and is such a figure of prominence in the Medical profession that it is a question why he made these remarks. As one would typically ask, what is the basis for your statement, and also at what cost; human and financial?

Posted by Terry McGarty at [12:45 PM](#) 

Labels: [Health Care](#)

[HR 3200 AND END OF LIFE COUNSELING](#)

Physicians often have quite difficult tasks to perform as regards to their patients. Some of the most difficult are those of informing parents of the impending death of a child and the dealing with families of older individuals who have failed to leave behind their wishes regarding health care. The latter task often results in the physician taking extreme measures in order to avoid potential litigation from children or other survivors resulting from may be perceived as failing to "take all measures" to save their loved one. Also concomitant with this side of the problem is the side as relates to the patient who is put through many, and often painful, procedures which add significantly to health care costs.

Many people, but not close to a majority, have living wills, powers of attorney, medical directives, and the like which dictate how far medical professional should go and when to just let the patient go in a natural manner, and perhaps with as much dignity as possible. The problem with these directives, also called advance directives, is that they are legal and not medical documents, and they often require a discussion amongst the parties in a calm and rational manner. This is often not what occurs. There are many stories relating to "pulling the plug" and the litigation related thereto.

In an attempt to move the ball forward on this issue the medical bill HR 3200 has included a section on Advance Directives. We discuss this here. At its core it is an essential step forward. Yet it places the issue in the hands of the physician who may not be the best person to address the issues with the patient if they are doing so after having advised the patient of their condition.

The section in HR 3200 amends the section of the Social Security Act, specifically [Sec. 1861. \[42 U.S.C. 1395x\]](#) which is a set of definitions relating to what services a physician may perform and how they may be compensated.

Now HR 3200 states:

"DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

TITLE II—MEDICARE BENEFICIARY IMPROVEMENTS

Subtitle C—Miscellaneous Improvements

SEC. 1233. ADVANCE CARE PLANNING CONSULTATION.

(a) **MEDICARE.—(1) IN GENERAL.—**Section 1861 of the Social Security Act (42 U.S.C. 1395x) is amended—

(A) in subsection (s)(2)—(i) by striking “and” at the end of subparagraph (DD); (ii) by adding “and” at the end of subparagraph (EE); and (iii) by adding at the end the following new subparagraph: “(FF) advance care planning consultation (as defined in subsection (hhh)(1));”; and

(B) by adding at the end the following new subsection: “Advance Care Planning Consultation”

(hhh)(1) Subject to paragraphs (3) and (4), the term ‘advance care planning consultation’ means a consultation between the individual and a practitioner described in paragraph (2) regarding advance care planning, if, subject to paragraph (3), the individual involved has not had such a consultation within the last 5 years. Such consultation shall include the following:

“(A) **An explanation by the practitioner of advance care planning, including key questions and considerations, important steps, and suggested people to talk to.**

“(B) **An explanation by the practitioner of advance directives, including living wills and durable powers of attorney, and their uses.**

“(C) **An explanation by the practitioner of the role and responsibilities of a health care proxy.**

“(D) **The provision by the practitioner of a list of national and State-specific resources to assist consumers and their families with advance care planning,** including the national toll-free hotline, the advance care planning clearinghouses, and State legal service organizations (including those funded through the Older Americans Act of 1965).

“(E) An explanation by the practitioner of the continuum of end-of-life services and supports available, including palliative care and hospice, and benefits for such services and supports that are available under this title.

This is a difficult task for the physician since in many ways the physician must diagnose, inform the patient, and then proceed to tell the patient about the details of an advance directive. If however this is accomplished under non life threatening situations perhaps the physician can

have such a conversation. However the conversation should involve family members, and often that is where the rub occurs. The Bill does not recognize this problem, nor necessarily should it, but this is often the main concern. The Medicare patient is NOT being asked to execute a DNR, the patient is being informed and hopefully executes a document which expresses the patient's interests which the patient shares with the physician and their family. The problem is many people will just delay this process, as many people die without wills. The Bill continues:

“(F)(i) Subject to clause (ii), an explanation of orders regarding life sustaining treatment or similar orders, which shall include—

“(I) the reasons why the development of such an order is beneficial to the individual and the individual’s family and the reasons why such an order should be updated periodically as the health of the individual changes;

“(II) the information needed for an individual or legal surrogate to make informed decisions regarding the completion of such an order; and

“(III) the identification of resources that an individual may use to determine the requirements of the State in which such individual resides so that the treatment wishes of that individual will be carried out if the individual is unable to communicate those wishes, including requirements regarding the designation of a surrogate decision maker (also known as a health care proxy).

The Bill continues in a quite rational manner and expresses the intent to have the patient express their wishes. Hopefully if this is done then the issue of excess treatment and excess costs may be mitigated for fear of not adhering to the patient's unspoken wish. The problem here is that the issue related to subsequent malpractice litigation is still open. Even with a proxy, and an advance, there may be family problems and litigation which the physician may fear. The Bill had the opportunity to clearly address this but it failed. I believe that this would have made a significant improvement. Namely giving the physician a "safe harbor" from litigation by following and advance directive.

The Bill continues:

“(ii) The Secretary shall limit the requirement for explanations under clause (i) to consultations furnished in a State—

“(I) in which all legal barriers have been addressed for enabling orders for life sustaining treatment to constitute a set of medical orders respected across all care settings; and

“(II) that has in effect a program for orders for life sustaining treatment described in clause (iii).

“(iii) A program for orders for life sustaining treatment for a States described in this clause is a program that—

“(I) ensures such orders are standardized and uniquely identifiable throughout the State;

“(II) distributes or makes accessible such orders to physicians and other health professionals that (acting within the scope of the professional’s authority under State law) may sign orders for life sustaining treatment;

“(III) provides training for health care professionals across the continuum of care about the goals and use of orders for life sustaining treatment; and

“(IV) is guided by a coalition of stake holders includes representatives from emergency medical services, emergency department physicians or nurses, state long-term care association, state medical association, state surveyors, agency responsible for senior services, state department of health, state hospital association, home health association, state bar association, and state hospice association.

There is the issue of a patient having an advance directive in one state and being treated in another and there being a conflict of laws. This has always been a problem in law and there is an immense body of law on conflict of laws. Yet since time is of the essence here was another opportunity for Congress to thread the needle but they passed. Perhaps it is just too steep a hill to climb?

The Bill continues:

“(2) A practitioner described in this paragraph is— “(A) a physician (as defined in subsection (r)(1)); and “(B) a nurse practitioner or physician’s assistant who has the authority under State law to sign orders for life sustaining treatments.

“(3)(A) An initial preventive physical examination under subsection (WW), including any related discussion during such examination, shall not be considered an advance care planning consultation for purposes of applying the 5-year limitation under paragraph (1).

“(B) An advance care planning consultation with respect to an individual may be conducted more frequently than provided under paragraph (1) if there is a significant change in the health condition of the individual, including diagnosis of a chronic, progressive, life-limiting disease, a life-threatening or terminal diagnosis or life-threatening injury, or upon admission to a skilled nursing facility, a long-term care facility (as defined by the Secretary), or a hospice program.

“(4) A consultation under this subsection may include the formulation of an order regarding life sustaining treatment or a similar order.

The above just covers procedural issues. It continues:

“(5)(A) For purposes of this section, the term ‘order regarding life sustaining treatment’ means, with respect to an individual, an actionable medical order relating to the treatment of that individual that—

“(i) is signed and dated by a physician (as defined in subsection (r)(1)) or another health care professional (as specified by the Secretary and who is acting within the scope of the

professional's authority under State law in signing such an order, including a nurse practitioner or physician assistant) and is in a form that permits it to stay with the individual and be followed by health care professionals and providers across the continuum of care;

“(ii) effectively communicates the individual's preferences regarding life sustaining treatment, including an indication of the treatment and care desired by the individual;

“(iii) is uniquely identifiable and standardized within a given locality, region, or State (as identified by the Secretary); and

“(iv) may incorporate any advance directive (as defined in section 1866(f)(3)) if executed by the individual.

“(B) **The level of treatment indicated under subparagraph (A)(ii) may range from an indication for full treatment to an indication to limit some or all or specified interventions. Such indicated levels of treatment may include indications respecting, among other items—**

“(i) the intensity of medical intervention if the patient is pulse less, apneic, or has serious cardiac or pulmonary problems;

“(ii) the individual's desire regarding transfer to a hospital or remaining at the current care setting;

“(iii) the use of antibiotics; and

“(iv) the use of artificially administered nutrition and hydration.”

The above details the advance notice and it follows generally accepted and used standards. Finally there are details on payments and the like.

(2) PAYMENT.—Section 1848(j)(3) of such Act (42 U.S.C. 1395w-4(j)(3)) is amended by inserting “(2)(FF),” after “(2)(EE),”.

(3) FREQUENCY LIMITATION.—Section 1862(a) of such Act (42 U.S.C. 1395y(a)) is amended—

(A) in paragraph (1)— (i) in subparagraph (N), by striking “and” at the end; (ii) in subparagraph (O) by striking the semicolon at the end and inserting “, and”; and (iii) by adding at the end the following new subparagraph: “(P) in the case of advance care planning consultations (as defined in section 1861(hhh)(1)), which are performed more frequently than is covered under such section;”; and

(B) in paragraph (7), by striking “or (K)” and inserting “(K), or (P)”.

(4) EFFECTIVE DATE.—The amendments made by this subsection shall apply to consultations furnished on or after January 1, 2011.

(b) EXPANSION OF PHYSICIAN QUALITY REPORTING INITIATIVE FOR END OF LIFE CARE.—

(1) PHYSICIAN'S QUALITY REPORTING INITIATIVE.—Section 1848(k)(2) of the Social Security Act (42 U.S.C. 1395w-4(k)(2)) is amended by adding at the end the following new paragraphs: “(3) PHYSICIAN'S QUALITY REPORTING INITIATIVE.—

“(A) IN GENERAL.—For purposes of reporting data on quality measures for covered professional services furnished during 2011 and any subsequent year, to the extent that measures are available, the Secretary shall include quality measures on end of life care and advanced care planning that have been adopted or endorsed by a consensus-based organization, if appropriate. Such measures shall measure both the creation of and adherence to orders for life sustaining treatment.

“(B) PROPOSED SET OF MEASURES.—The Secretary shall publish in the Federal Register proposed quality measures on end of life care and advanced care planning that the Secretary determines are described in subparagraph (A) and would be appropriate for eligible professionals to use to submit data to the Secretary. The Secretary shall provide for a period of public comment on such set of measures before finalizing such proposed measures.”.

(c) INCLUSION OF INFORMATION IN MEDICARE & YOU HANDBOOK.— (1) MEDICARE & YOU HANDBOOK.—

(A) IN GENERAL.—Not later than 1 year after the date of the enactment of this Act, the Secretary of Health and Human Services shall update the online version of the Medicare & You Handbook to include the following:

(i) An explanation of advance care planning and advance directives, including— (I) living wills; (II) durable power of attorney; (III) orders of life-sustaining treatment; and (IV) health care proxies.

(ii) A description of Federal and State resources available to assist individuals and their families with advance care planning and advance directives, including— (I) available State legal service organizations to assist individuals with advance care planning, including those organizations that receive funding pursuant to the Older Americans Act of 1965 (42 U.S.C. 93001 et seq.); (II) website links or addresses for State-specific advance directive forms; and (III) any additional information, as determined by the Secretary.

(B) UPDATE OF PAPER AND SUBSEQUENT VERSIONS.—The Secretary shall include the information described in subparagraph (A) in all paper and electronic versions of the Medicare & You Handbook that are published on or after the date that is 1 year after the date of the enactment of this Act.

The strange issue here is the quality issue. We have written on that extensively and although it related obliquely to real patient care here it is just a hanging reminder that to the author's of HR 3200 the term quality seems to be purely quantitative measure and reports.

In an [NEJM paper by Bloche](#) in 2005 after the Schiavo case he states:

"Anger, denial, and other nonrational influences can lock family members into warring stances over whether to treat a devastating illness aggressively or discontinue life-sustaining measures. What is remarkable, given the intensity of the feelings at stake, is how rarely such conflicts make their way to court. It is a measure of how discreetly such squabbles are handled that we know little about how often they arise. And it is a measure of people's character under this pressure that families usually come together to make these judgments or to honor the preferences their loved ones have expressed."

It is for this reason that one can say "Prior planning prevents poor performance"

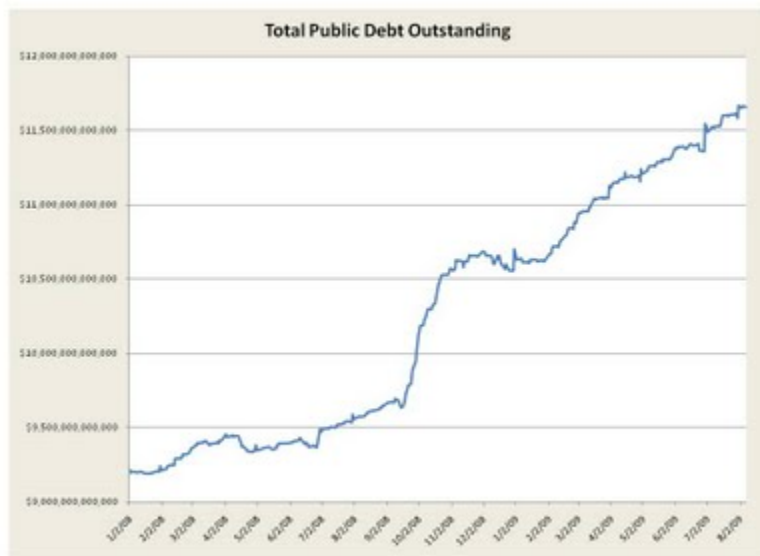
This portion of the bill, HR 3200, is in my opinion a well written, well directed, and needed step. It will be a difficult step to take for the physicians and even more difficult for compliance. There does not appear to ban anything new or striking in this section. It contains what physicians have been seeking for many years now, yet the human factor on the patient side will be a barrier. It will have a strong cultural and psychological element. It most likely will not be achieved as quickly as one would like. It also benefits the patient, it is not a threat to any patient, it allows them to maintain control over their lives and to do so with dignity and respect.

Posted by Terry McGarty at [8:53 AM](#) 

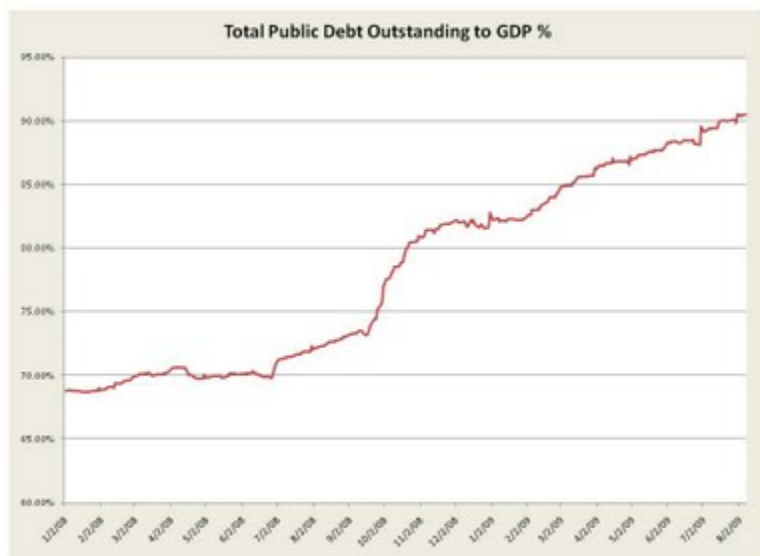
Labels: [Health Care](#)

[NATIONAL DEBT: DISTURBING NUMBERS](#)

The National Debt has been growing at an amazing rate. We show its growth over the last eighteen months below. There was the clear jump in an attempt to meet the "Financial Crisis" and then a levelling off and then the debt takes off again.



But what is more alarming is the growth in the debt as a percent of the GDP. We show that below. We have now exceeded the 90% line. We have gone from the high 60% level to over 90% in a mere 18 months! That of all the other metrics we look at should be the most terrifying. And the trend continues.



Posted by Terry McGarty at [5:01 AM](#) 

Labels: [Economy](#)

MONDAY, AUGUST 10, 2009

SENATOR WYDEN'S PLAN: AN IRA/401K FOR HEALTH CARE

[Senator's Wyden's plan for Health Care](#) provisioning is a simple one, and in many ways a very viable and attractive plan. He states as follows:

1. It Creates Exchanges; State Wide or National

"The Free Choice Proposal gives every American the ability to either choose to keep the coverage they have or pick a plan that works better for them and their family. It guarantees both choice and portability by creating a path for employers to insure their workers through a national or state-based insurance marketplace known as the "Exchange.""

The operative phrase is marketplace exchange. In many ways we have that in 401 K plans, one goes to a marketplace provider. The key underlying elements of the Wyden plan he implies appears to be:

- a. Universal
- b. Portable

- c. No pre-existing condition limits
- d. Competitive prices
- e. Reasonable set of required coverage for catastrophic diseases

2. It is paid for the most part by Employers and then Transitioned to the Individual. He makes the statement as to how this is covered. It is done as follows:

"Under this proposal:

1) Employers that offer group health coverage must offer the equivalent of a minimum benefit plan, contribute at least 70% of the premium, and offer at least one other health plan of greater actuarial value; or

2) Employers that do not offer the choice of a low cost option must offer workers a voucher worth at least 70% of the average of the three lowest cost plans in the exchange; or

*3) **With an adequate transition, employers can take their entire group to the exchange where they would receive a group discount so long as they provide at least 70% of the cost of average of the three lowest cost plans in the exchange; or***

4) Employers that do not offer health insurance choices, a voucher, or go to the exchange, would have to pay a "fair share" fee which would be a percent of the national average of the three lowest cost plans in each state."

This is a great idea because it transitions the relationship between the coverage from the insurer and the employer to the insurer and the insured. Our analysis sees this as the most efficient manner. The devil is always in the detail, and in this case the mandatory coverage issue. But this is a great idea and Senator Wyden deserves praise for trying it. Unfortunately Senator Baucus has dismissed it out of hand, for reasons one in Washington alone can fathom.

Posted by Terry McGarty at [8:45 AM](#) 

Labels: [Health Care](#)

[CAP AND TRADE AND A LITTLE HISTORY](#)

Prof Mankiw at Harvard published another article in last [Sunday's NY Times](#) commenting on the current Cap and Trade Bill. Back in May I wrote an [analysis of HR 2454](#) or the Cap and Trade Bill. But let me go back to a simple example before I address Mankiw, who I greatly respect but with whom I disagree on this issue, and the cap and trade bill.

Let us consider a simple example from the 19th century.

1. Let us assume that a railroad company builds a set of tracks from city A to city B and it is length 100 miles.
2. Let us assume that along the track between the two cities are 100 farms each a mile on both sides of the track, and each owned by a different farmer.

3. Let us assume further that each farmer grows corn, say each farmer grows 40 acres of corn and that the yield is 1,000 bushels per acre and that the farmer would get 40,000 bushels selling at \$50 per bushel. That is \$2 million per farm per year.

4. Now assume that the railroad has a choice of good brakes, namely ones which do not make any sparks, and bad brakes, those which make sparks. The cost difference is \$500 per brake per year, a typical train has 100 brakes and would cost \$50,000 per year and there are ten trains, thus costing an additional \$500,000 per year. The railroad management does not want to spend the money because they want higher profit.

5. Now assume that once a year one of the trains using the cheap brakes sends off a spark and that results in a corn field burning down, all 40 acres, all \$2 million dollars.

6. Now the farmer sues the railroad and gets his \$2 million plus costs back, albeit with some transactions costs and time.

7. The railroad must increase its rates to its passengers to reimburse the farmer. It would have been better off with the better brakes.

8. In the end the passenger pays the costs.

Now this is cap and trade, in some simple manner. The sparks are the negative externalities of Mankiw, really the corn field fire is, the sparks are only the proximate cause. The court is the clearing mechanism, the offender gets to pay ex post facto. Yet the offender knows the risks ab initio but does not accurately calculate the frequency of occurrence.

Yet as we discussed in HR 2454 the House in its glorious wisdom placed the dog catcher, the hot dog vendors, the hat seller, and every other special interest group in the middle of this process. Instead of the courts being the sole arbitrator, as in the train example, and in an auction cap and trade a simple auction process, they have distributed the process across a wide set of special interest groups. I refer you again to the [older blog entry](#).

Mankiw says:

"How much does it matter? For the purpose of efficiently allocating the carbon rights, it doesn't. Even if these rights are handed out on political rather than economic grounds, the "trade" part of "cap and trade" will take care of the rest. Those companies with the most need to emit carbon will buy carbon allowances on newly formed exchanges. Those without such pressing needs will sell whatever allowances they are given and enjoy the profits that resulted from Congress's largess.

The problem arises in how the climate policy interacts with the overall tax system. As the president pointed out, a cap-and-trade system is like a carbon tax. The price of carbon allowances will eventually be passed on to consumers in the form of higher prices for carbon-

intensive products. But if most of those allowances are handed out rather than auctioned, the government won't have the resources to cut other taxes and offset that price increase. The result is an increase in the effective tax rates facing most Americans, leading to lower real take-home wages, reduced work incentives and depressed economic activity. "

The problem is greater in a way. The HR 2454 proposal "gives" away credits to a plethora of special interest entities, Congressionally controlled. It makes the railroad analogy of one where each town hall mayor along the railway can get his share of the money for his goody bag of treats and political investments and the price that the railway is charged could become astronomical. Transparency would disappear. It would be akin to driving from New York to Miami in the 1950s and 1960s and being stopped for speeding in every town from Virginia to Georgia by every local sheriff and fined for driving while having your cylinders moving, the out of state definition of speeding.

Mankiw has a point but he should have dug deeper into what is hidden in HR 2454 a bit more.

Posted by Terry McGarty at [6:22 AM](#) 

Labels: [Cap and Trade](#)

THURSDAY, AUGUST 6, 2009

[GOOGLE, AT&T, APPLICATIONS AND WHAT BUSINESS ARE THEY IN NOW?](#)

In an article in the NY Times today there is an article entitled [Is Google Voice a Threat to AT&T?](#) by David Pogue which recounts the battle between Google voice apps and the Apple/AT&T combo. I refer you to a White Paper I wrote almost two years ago entitled [Electronic Marketing and Distribution Channels: Is This How Google is to Make Money?](#) where I stated that Google could and it appears has developed a strategy to utilize multiple electronic marketing and distribution channels to "sell" their products.

Apparently Pogue has not gotten that far in his thinking. Let me state a few facts:

1. Phone calls qua phone calls are almost free. You generally no longer pay per call or per minute. You pay a fixed fee for access to the network. The fee bears no relationship to usage. It is purely an access fee.
2. Money is made by selling the apps. Cellular phones now make money via apps and not via connectivity for voice service.
3. Apps will be the future of the old telecom business, and the telecom company will become the shopping mall operator of the apps access.

If Pogue understood this then he would have a better insight to the issue. Why should AT&T be fearful of disintermediation by Google on a voice service. It really does nothing to what should be their business model. Yet AT&T is still in the dark ages. Verizon recognizes the change and Verizon has positioned its mobile business to maximize that opportunity.

The future of the mobile industry, and perhaps fiber as well, will be as the electronic shopping mall of the future. The mall operator can control the look of the mall and the types of retailers who are present. As I stated in the White Paper:

"Many years ago when I was at Warner Cable, we had developed a two-way full motion video-on-demand system, which we wanted to deploy on the cable system. It was in our minds an electronic Shopping Mall. It built upon the already existing two-way system, which had been deployed, called Qube. That was in 1981. This was before, I suspect, 50% or more of the Google staff were born. As part of my efforts to obtain customers I went with our group directly to the potential suppliers of goods and one of them was the owner of Foley's, a major department store in Huston. It was a typical hot and humid July day in Huston and we stood outside the store with the owner and watched the people enter, in those days almost all were women. The owner told us to watch for them when they left. We stayed there for several hours and watched as they left, and then owner returned and said, "What did you see?"

My immediate reply was "What should I be looking for?" He then replied' "The Customers" I saw customers coming out of the store all holding several Foley's bags, all filled to the brim with Foley's products. My reply was. "They all bought something." He then said. "Something, they bought lots, and I would bet that nine out of ten did not buy the thing they came here for in the first place. The lesson, young man, is that to run a store successfully you have to get the customer in and then you have to get them to buy as much as you can before they leave."

That was a lasting impression."

The real question is what is Google doing to monetize its apps? They still are the one trick pony despite Eric Schmidt's assertions to the contrary. In our White Paper we stated two years ago:

"The paradigm we have used for Google is that of the shopping mall operator. They get to bring the customers to the mall and then they get to share in the profits. However, if we combine the Localism construct as well we then get the paradigm inverted. Namely, instead of the mall being where we bring the customers to the supplies, in the use of 700 MHz and Localism we get the supplies brought to the customer. This is a dramatic shift in the way the world works, but it is a shift, which is consonant and resonant with the way the world is going. Using broadband wireless, we can now create extensions of the mall, of the classic agora, we no longer need a "place" as defined by real estate but we get a place as defined by the contact, connection and experience.

If Google can replicate what they have done with advertising, in the use of wireless broadband then they can replicate the experience in a long term and sustainable manner. This is the redefining moment for Google. This is what would take them from being the "one trick pony" to the unlimited creator of markets."

This is a Foley's type business, albeit not with a brick and mortar store. Pogue does not see or understand this. I saw this thirty years ago, hopefully the techys at Google will see it soon also, before it passes them by.

Posted by Terry McGarty at [2:48 PM](#) 

Labels: [Telecom](#)

[WEDNESDAY, AUGUST 5, 2009](#)

[OBESITY AND REPORTERS](#)

Somehow I stumbled across an article by Megan McArdle entitled [A Rambling Response On Obesity](#) in this week's Atlantic. The author contends to be a libertarian but back to that later.

She contends:

"I do agree with some ... core propositions:

- Study after study shows that most people are unable to lose more than a small percentage of their body weight and keep it off"

That is a true fact but the contrary fact is that a few do manage to keep the weight off. Why the few, well the answer I have from experience is will power. If you know what happens when you have nephropathy from Type 2 Diabetes, a direct result of excess weight, then you heed the call of the portent and change. Most people lack the will power, just as we control smoking and alcohol, we have a duty to control obesity. It harms the obese person and it harms the others who have managed to control their weight by having them pay the incumbent costs.

Remember the basic formula:

Input - Output = Net Accumulation

And with weight it is 3500 kcal per pound. You burn 2000 kcal per day and you eat 2500 kcal per day, those cookies and sodas, then it is 1 pound per week or 52 pounds per year! It is no more difficult than that.

She continues:

"- There is evidence to show that this is physiologic rather than psychological--it is nearly impossible for very heavy people to simply "eat less and exercise more" to a "normal" weight"

My response is are you nuts. It is the law of mass balance. Plain and simple. We just stated it above. It works everywhere, it is almost a tautology! She continues:

"- The fact that this often operates through the appetite system does not mean it's "all in their heads" or a lack of will power. ..."

It is pure and simple will power. Do not eat that candy, do not drink that soda, diet all the time, yes it is painful but eventually you will get used to it, just weigh yourself.

"-Much of the panic about the obesity epidemic comes from lumping all weights together-- everyone over a BMI of 30 becomes an obese people with high relative risks for various diseases, even though the whatever health risks exist among the lower overweight ranges are not anything like the dire health effects of morbid obesity..."

This I do not think I fully understand. Obesity, BMI above 30, results in excess inflammatory responses in the body. Inflammatory responses result in retinopathy, nephropathy, and neuropathy, as well as cardiovascular deterioration and cancers. The inflammatory responses reduce the immune responses of the body. Yes, a BMI of 22 in a person will not guarantee that they will not get a melanoma. Less sun exposure may help but most likely they have the gene that predisposes them. In contrast a BMI of 33 or excess alcohol in a person with prostate cancer may exacerbate it and turn it into an aggressive form.

She continues:

"- At the moment, it's unclear whether there are any adverse health effects associated with overweight or even mild obesity, and to the extent that there are adverse effects, it is also unclear whether they are a result of the body fat, ..."

This regrettably is just wrong. See my recent book on Health Care Policy. The author then takes her erstwhile libertarian stand and says:

*"To be sure, even I, the **pessimistic libertarian**, do not see any actual means for the government to prevent food processors from making their food taste very good. ...The government could **raise the price of fat, salt, and sweeteners, processed food, and restaurant meals**. But I very much doubt that if our legislators actually enacted a food tax adequate to prevent obesity, they would get much thanks from anyone except the sort of people who ask each other, with wide eyes, if anyone else has noticed how disgustingly fat all the people are at the mall--and never eat at Cheesecake Factory. So I think that this, too, is unlikely. "*

But these people are costing the rest of us considerable sums. As we had shown in an earlier entry obesity is the major driver for the increase in health care costs. That means those of us who manage to keep within the limits are paying for those who do not. In auto insurance those who have multiple speeding tickets pay more than those who have none.

It is a fundamental principle of fairness. Libertarians believe that people should be allowed to do whatever they want IF it does no harm to others. Obesity costs me money, that is harm, thus you have no right to over eat especially if we mandate universal health care, or even if we as a society agree to give you dialysis treatments for your failed kidneys as a benefit from the taxpayers.

Whenever I read dicta of this type I am amazed that they are built on a total lack of information and presented with pomposity only found in journalists! Yes, this was a rambling response that she presented and lacking in logic and facts.

Posted by Terry McGarty at [10:32 AM](#) 

Labels: [Health Care](#)

MONDAY, AUGUST 3, 2009

[NY FED IS JUST A MONTH BEHIND ME!](#)

I just read a release of a Federal Reserve Bank of New York, Staff Reports, [Why Are Banks Holding So Many Excess Reserves?](#) and it was amazing. They were just one month behind [my report](#) on the same issue which [I wrote about here in my blog](#). Except they forgot about inflation. It is always heart warming to see the Billion dollar bank so slow on the up take as compared to a gritty old "engineer" type. Oh well after all they are just economists!

Here is the key chart which is identical to ours:

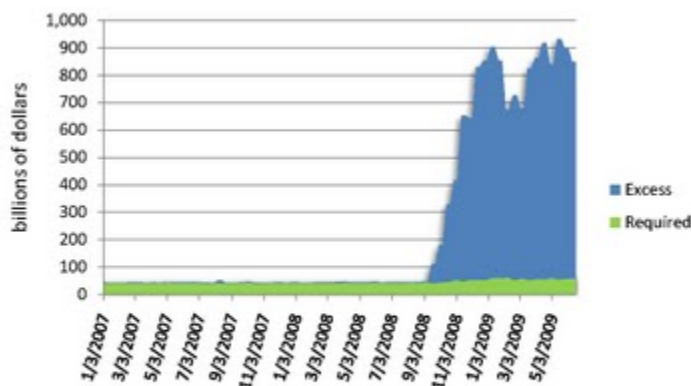


Figure 1: Aggregate Reserves of Depository Institutions

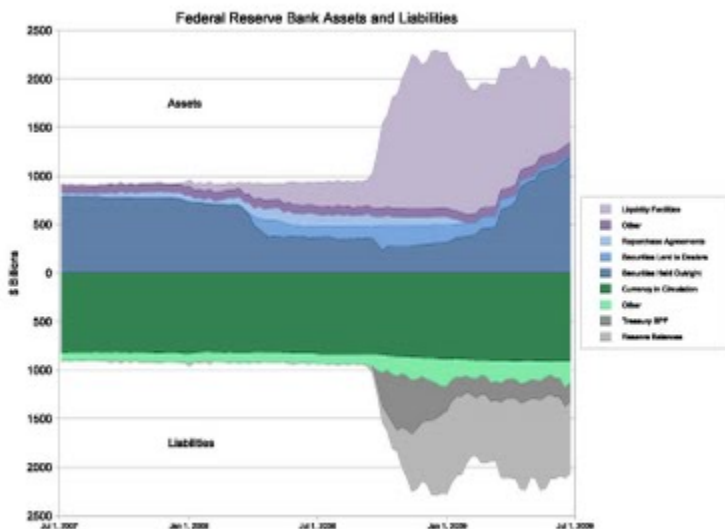
Source: Federal Reserve Statistical Release H.3

These authors state:

"The quantity of reserves in the U.S. banking system has risen dramatically since September 2008. Some commentators have expressed concern that this pattern indicates that the Federal Reserve's liquidity facilities have been ineffective in promoting the flow of credit to firms and households. **Others have argued that the high level of reserves will be inflationary.** We explain, through a series of examples, why banks are currently holding so many reserves. The examples show how the quantity of bank reserves is determined by the size of the Federal Reserve's policy initiatives and in no way reflects the initiatives' effects on bank lending. **We also argue that a large increase in bank reserves need not be inflationary, because the payment of interest on reserves allows the Federal Reserve to adjust short-term interest rates independently of the level of reserves.**"

I agree that some say this is inflationary as I have done and the NY Fed says it is not. Well they just failed to do the analysis. Again why am I not surprised. As engineering students they would have been failed out and sent to political science!

Their argument is depicted in the following chart.



The following is the heart of their argument:

"The idea that banks will hold a large quantity of excess reserves conflicts with the traditional view of the money multiplier. According to this view, an increase in bank reserves should be "multiplied" into a much larger increase in the broad money supply as banks expand their deposits and lending activities. The expansion of deposits, in turn, should raise reserve requirements until there are little or no excess reserves in the banking system. This process has clearly not occurred following the increase in reserves depicted in Figure 1. Why has the money multiplier "failed" here?"

"The textbook presentation of the money multiplier assumes that banks do not earn interest on their reserves. As described above, a bank holding excess reserves in such an environment will seek to lend out those reserves at any positive interest rate, and this additional lending will decrease the short-term interest rate. This lending also creates additional deposits in the banking system and thus leads to a small increase in reserve requirements, as described in the previous section. Because the increase in required reserves is small, however, the supply of excess reserves remains large. The process then repeats itself, with banks making more new loans and the short-term interest rate falling further."

Yet the fact of the matter is that the funds are still out there ready to flow into the M2 stream and that is what leads to inflation. What will draw the money back is the issue. The fail to answer that. They answer that as follows:

"Some observers have expressed concern that the large quantity of reserves will lead to an increase in the inflation rate unless the Federal Reserve acts to remove them quickly once the economy begins to recover. Meltzer (2009), for example, worries that "the enormous increase in bank reserves — caused by the Fed's purchases of bonds and mortgages — will surely bring on severe inflation if allowed to remain." Feldstein (2009) expresses similar concern that "when the economy begins to recover, these reserves can be converted into new loans and faster money growth" that will eventually prove inflationary. Under a traditional operational framework, where the central bank influences interest rates and the level of economic activity by changing the quantity of reserves, this concern would be well justified. Now that the Federal Reserve is paying interest on reserves, however, matters are different.

When the economy begins to recover, firms will have more profitable opportunities to invest, increasing their demands for bank loans. Consequently, banks will be presented with more lending opportunities that are profitable at the current level of interest rates. As banks lend more, new deposits will be created and the general level of economic activity will increase.

Left unchecked, this growth in lending and economic activity may generate inflationary pressures. Under a traditional operating framework, where no interest is paid on reserves, the central bank must remove nearly all of the excess reserves from the banking system in order to arrest this process. Only by removing these excess reserves can the central bank limit banks' willingness to lend to firms and households and cause short-term interest rates to rise.

Paying interest on reserves breaks this link between the quantity of reserves and banks' willingness to lend. By raising the interest rate paid on reserves, the central bank can increase market interest rates and slow the growth of bank lending and economic activity without changing the quantity of reserves. In other words, paying interest on reserves allows the central bank to follow a path for short-term interest rates that is independent of the level of reserves. By choosing this path appropriately, the central bank can guard against inflationary pressures even if financial conditions lead it to maintain a high level of excess reserves."

We hope their timing on this issue will be better than what they did before. But we now have a Treasury Secretary who ran this place before!

Posted by Terry McGarty at [6:36 AM](#) 

Labels: [Economics](#)

OBESITY AND HEALTH CARE COSTS

One can perform an interesting study to see what effect certain diseases have on health care costs. Cancer incidence has not changed dramatically, other than being able to detect it sooner, such as in prostate cancer, and other non-obesity related diseases have also not changed greatly in incidence.

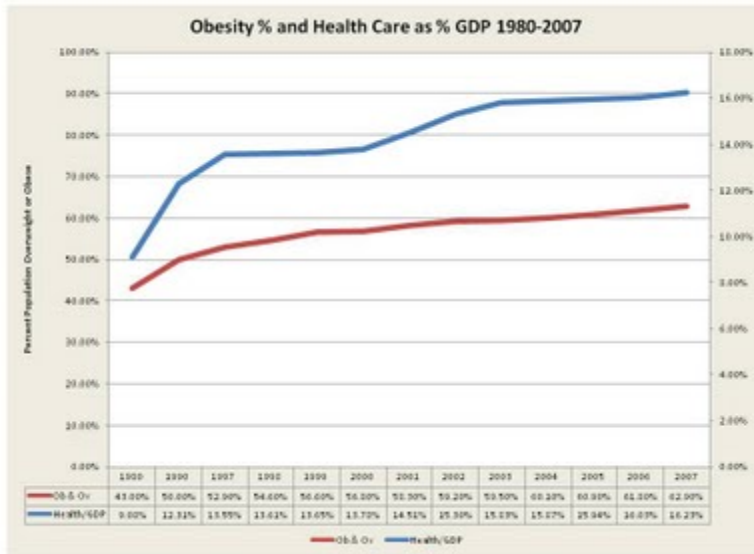
The word from the pundits is that we are spending more on health care, delivering too much to people. They never ask if the "people" have increased the demand as a result of some controllable exogenous factor, separate and apart from how health care works.

Well lets do something new, let us look at the data. First a chart from the CDC on obesity and overweight ("O&O") prevalence in the US. We show it below.

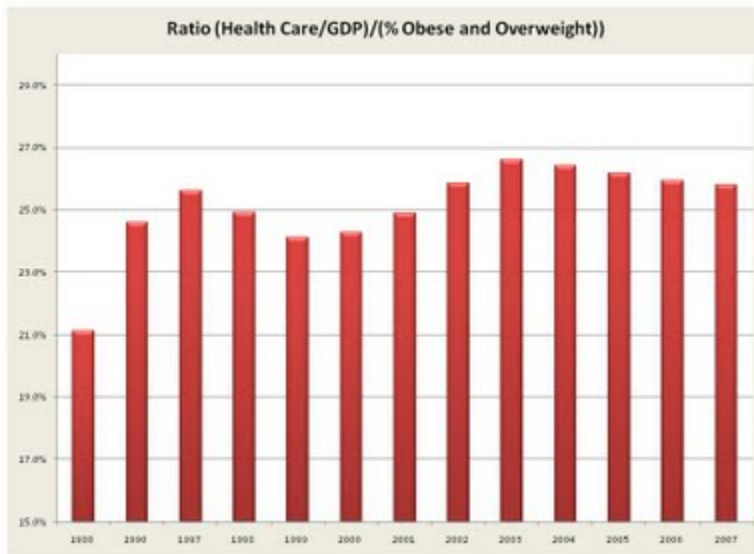


This shows a growth in the O&O factors tremendously over the past fifty years. Perhaps there is a correlation with costs of health care and perhaps, just perhaps the O&O is causative. And then perhaps we can see how large it will become if O&O reaches 100%! And even then we can ask what can we do about it? After all we could do the same thing if we calculated what would happen is we had every driver drive drunk! And at 90 mph on top of that!

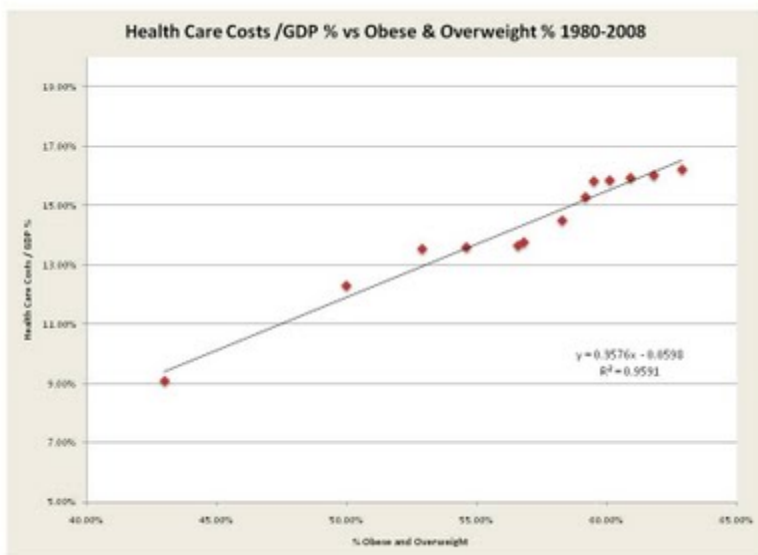
Now let us plot the O&O and the Health Care Costs as a percent of GDP (HC/GDP) for the periods.



A pattern begins to form. Now we can plot the ratio of HC/GDP to O&O, to see if that ratio has remained somewhat constant, implying a possible causal relationship. It appears below:



The result is interesting, it is somewhat constant. Thus we then plot a scatter plot of these two variables as below:



And behold, we see that the growth in HC/GDP correlates very well with O&O prevalence! Perhaps the main driver, as we have argued in more details elsewhere, is the explosion in O&O? If that is what it seems to be, then the current Administration's approach to control HC/GDP growth will never work other than by rationing and letting old people just die! Perhaps the problem is less the old folks but more the fat young folks who will cause the major chronic health care loads in the future. If we let O&O go to 100%, the HC/GDP ratio goes to 30%! Close to the number we have all seen in the scare tactics of the current Administration. Yet the problem is NOT the health care system it is the people who allow themselves to explode on unhealthy diets and become morbidly obese! They are the ones who are costing the system. They are the ones who can be controlled!

Thus what can be done. Despite my dislike of the Mankiw idea of the Pigou Club of taxing to reduce demand, here I believe it works and works well for beneficial purposes. If you cannot tax excess BMI, a fee say \$1,000 per year per 1.0 in excess of 25.0, then tax the foods which get there, processed and fast foods!

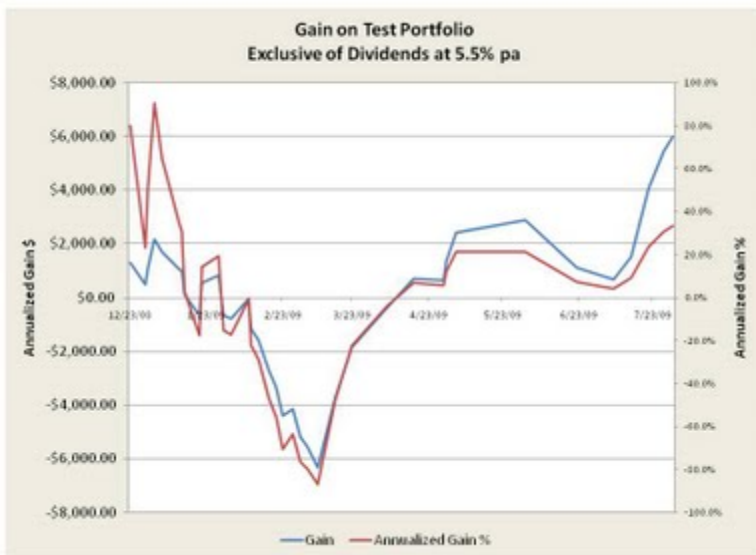
Also having posted this I read [Posner's blog](#) and suggest it is worth the read on this same topic. He does not deal with data and facts but he is persuasive none the less.

Posted by Terry McGarty at [3:58 AM](#) 

Labels: [Health Care](#)

SUNDAY, AUGUST 2, 2009

[THE PORTFOLIO AT THE END OF JULY](#)



This is our tracking portfolio. We saw the drop after the change in Administration and the rise has continued with an annualized gain of 33.4% without the dividends and with dividends it is 38.9%. This seems to show, along with the data on housing and to some degree on GDP and slight turning of the economy, and one could say a great turn. Yet the concern is that this was done without much input from the Stimulus. Summers was asked repeatedly today on the NBC Meet The Press, as friendly a venue as you could have for this Administration, if the turn is occurring without the Stimulus then why the Stimulus.

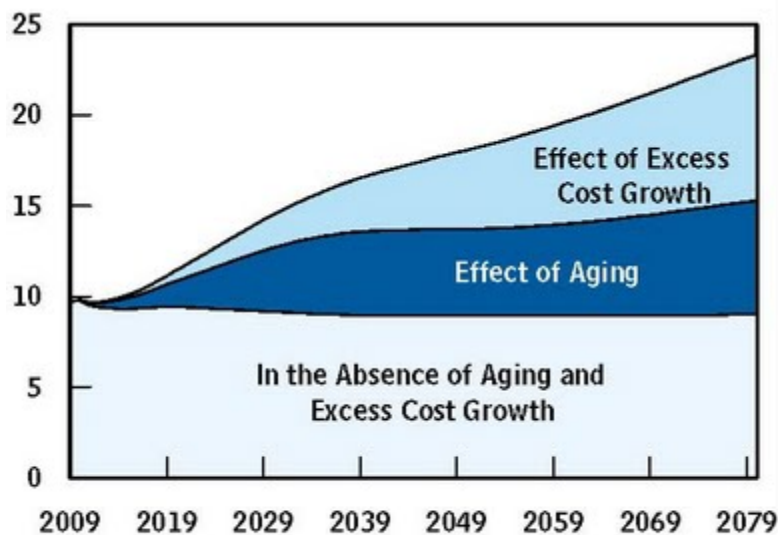
He was adamant that it continue no matter what. I guess that is the good Professor Summers, he seems in my opinion to fixate on his present position until he comes up with his next position. Perhaps this works in academia but this is all of our economic lives he is playing with!

Posted by Terry McGarty at [2:00 PM](#) 

Labels: [Baseline Portfolio](#)

SUNDAY, AUGUST 2, 2009

[CBO REPORT ON THE BUDGET AND HEALTH CARE](#)



Source: Congressional Budget Office.

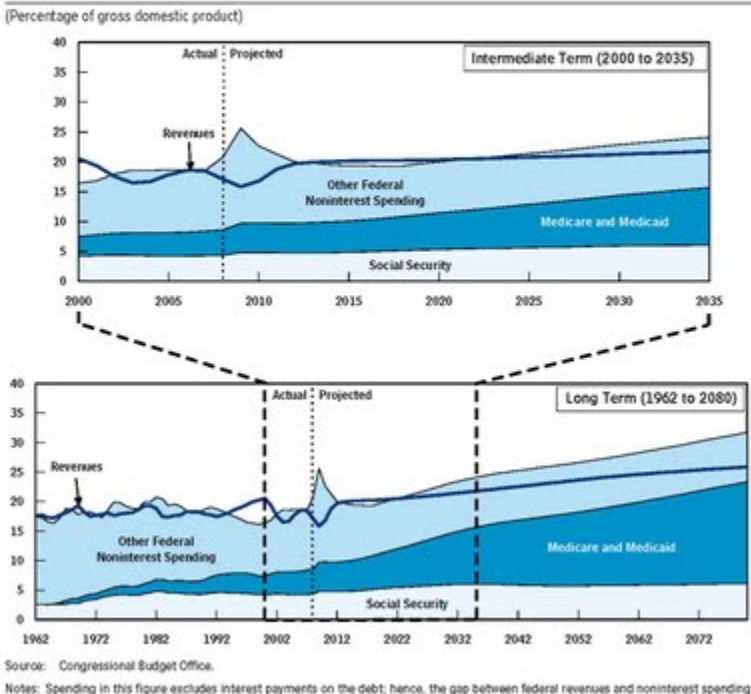
On July 16th the CBO published a report on [The Long-Term Budget Outlook](#) and we review the results here. There is also a more detailed [Report](#) by the CBO on the same topic.

The first chart is their presentation of the percent of the GDP which will go to care of the aging and excess growth. This chart is purportedly to provide a basis for changing Social Security and Medicare/Medicaid. By 2079 almost 25% of the GDP will flow in this area.

The following chart details one scenario. It is the Extended Baseline Scenario. They state:

"The "extended-baseline scenario" adheres most closely to current law, following CBO's 10-year baseline budget projections for the next decade and then extending the baseline concept beyond that 10-year window. The scenario's assumption of current law implies that many policy adjustments that lawmakers have routinely made in the past will not occur."

Figure 1.
Federal Revenues and Noninterest Spending, by Category, Under CBO's Extended-Baseline Scenario



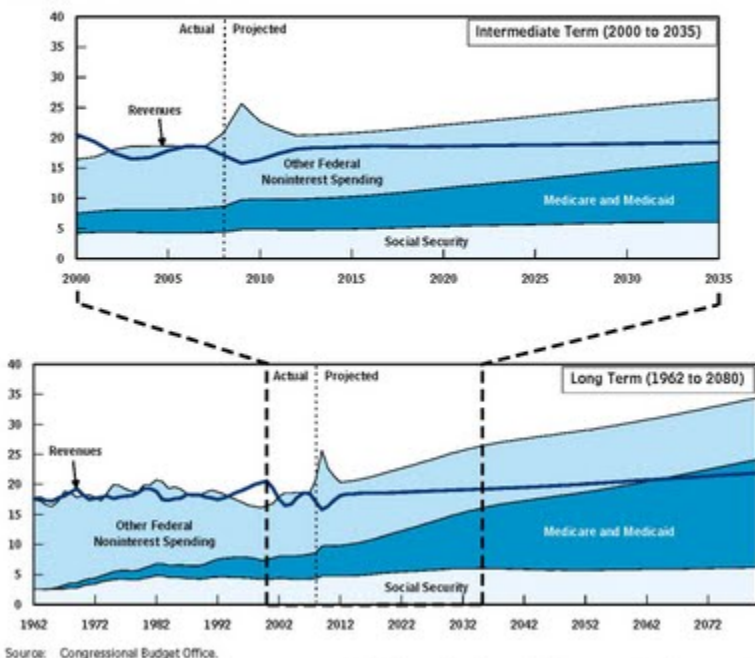
The second chart is for the second scenario. This is the Alternative Fiscal Scenario. They define it as:

"The "alternative fiscal scenario" represents one interpretation of what it would mean to continue today's underlying fiscal policy. This scenario deviates from CBO's baseline even during the next 10 years because it incorporates some policy changes that are widely expected to occur and that policymakers have regularly made in the past. Different analysts might perceive the underlying intention of current policy differently, however, and other interpretations are possible."

Figure 2.

Federal Revenues and Noninterest Spending, by Category, Under CBO's Alternative Fiscal Scenario

(Percentage of gross domestic product)



The CBO continues to state:

"Long-term budget projections require a stable economic backdrop. For these projections, CBO assumed that even a large increase in federal debt would not affect economic growth or real rates of interest after the first 10 years..."

"Holding down the spiraling levels of debt projected under either scenario could therefore result in significant economic benefits. However, accomplishing that goal would require some combination of substantial revenue increases and substantial spending decreases relative to current law. Those changes would have their own economic and social costs."

"One policy that would prevent the increase in debt would be to raise revenues in line with the projected rise in spending. As evidenced by the estimated fiscal gap, the required increase in revenues under that approach would be large. If the increase occurred through higher marginal tax rates, incentives to work and save would be reduced and economic growth would slow."


"An alternative policy would be to hold the growth of spending in line with the growth of the economy. That approach would require significant changes in the Medicare and Medicaid programs. Many experts believe that a substantial share of spending on health care contributes little, if anything, to the overall health of the nation, so changes in government policy have the potential to yield large reductions in federal spending without harming health. However, translating that potential into reality would require tough choices. It would ultimately depend on policymakers' willingness to put ongoing pressure on the health sector to achieve efficiencies in the delivery of health care."

These recommendations are in effect (i) tax more to pay for the costs, and (ii) don't spend the money because the old will die anyway! I suggest that people who reach Medicare age by 2079 should begin worrying now. I also suggest that Congress understand, as we have documented in one of our [White Papers](#), that the typical American will have contributed 65% more to Medicare than they will ever collect! The same and even more applies to Social Security! The issue is Congress spending the money on programs that was targeted for benefits already paid for.

As the columnist Mr. Krugman states in the [NY Times](#):

*"...It's not just that many Americans don't understand what President Obama is proposing; many people don't understand the way American health care works right now. **They don't understand, in particular, that getting the government involved in health care wouldn't be a radical step: the government is already deeply involved, even in private insurance.... And that government involvement is the only reason our system works at all.... The key thing you need to know about health care is that it depends crucially on insurance...**"*

The problem Mr Krugman seems to not recognize is that in Medicare the Government collects the money and then spends it elsewhere and when it agrees to pay is slow rolls the payments and sets the fees at excessively low rates. Imagine if Mr Krugman were paid say \$0.05 per word as a stringer or perhaps \$5 per student per lecture as dictated by the Government and then after mountains of paperwork got only 70% of the bills a year later! Perhaps that is a good idea for we could have the Government control the spiralling costs of college as they do Medicare costs. What is good for the goose is good for the gander!

Posted by Terry McGarty at [12:15 PM](#) 

Labels: [Health Care](#)

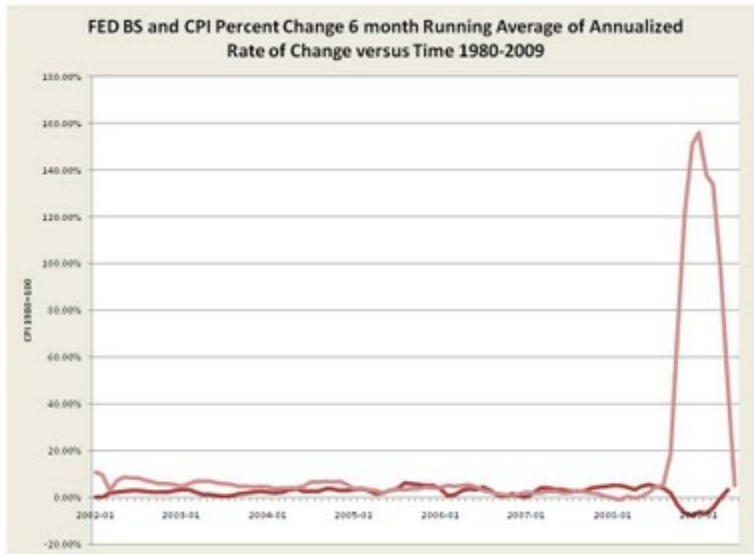
[THE FED, ITS BALANCE SHEET, THE CPI, AND INFLATION](#)

We have been looking at possible canaries in the mine shaft in light of our concern regarding inflation. As we have stated before we believe that based upon the recent FED actions that there is a portent for massive inflation. Somewhere in the back of Bernake's mind is the set of controls to fly thru this, akin to a Luke Skywalker feat, and one may dread, something that Summers could never do.

So here is another try. Consider the following. We have analyzed the FED BS and the CPI data and have looked at annualized percent changes average over a six month interval using monthly data.

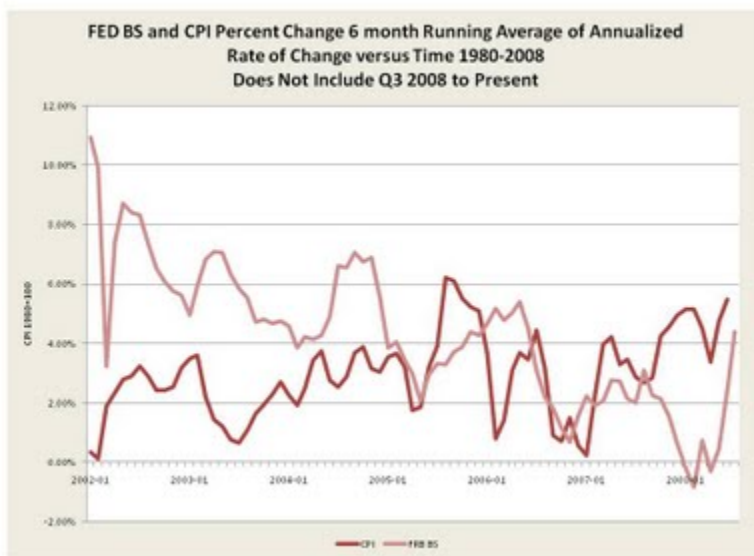
We present three curves:

1. The Long Term Data: This is a telling chart since it clearly shows the spike in the FED BS as we have discussed at length. The spike is a clear anomaly so we really want to see if there is a cause and effect here that can be determined,



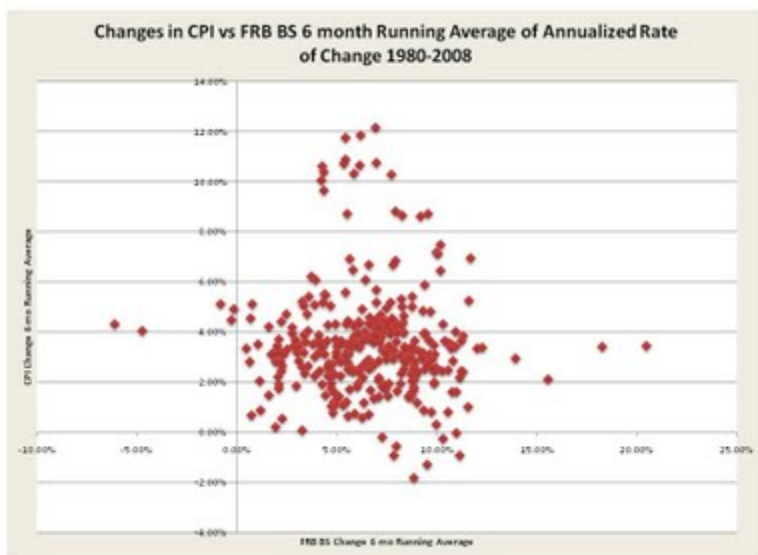
2. The Recent Data: The chart below shows the data above but ends in July 2008 so we do not see the explosion. Again we ask is there some relationship. Namely if the inflation is $IN(k)$ for some interval then do we have some relationship as:

$IN(k+m) = a \cdot BS(k)$, where IN is inflation annualized change m units from time k and BS is the FED BS annualized change at time k . a is some constant. So does this make some sense?



Frankly we do not see a great correlation but there may very well be something there.

3. A Look for a Correlation: We now take the above and plot the two data points in a scatter plot. This we have shown below.



Again we may see something here but it is akin to hoping we can see something. Interesting but not definitive.

Posted by Terry McGarty at [10:50 AM](#) 

Labels: [Economy](#)

SATURDAY, AUGUST 1, 2009

[ANOTHER LETTER TO SENATORS ON HEALTH CARE](#)

July 31, 2009

Dear Senator,

I am writing your office again to comment on the current proposed health care plans. I have reviewed HR 3200 as the benchmark plan, and am pleased that Senator Baucus and more reasonable heads in the Senate will attempt to mitigate the extreme positions of the House. Having now spoken with well over a hundred physicians in the State,, I find that they are communicating their concern and distrust in the House Bill to their patients.

This means that there is a massive undercurrent of dislike and in many senses distrust of Congress that for reasons unknown the legislation as passed in the House will be a massive burden and penalty on Americans. This also means that HR 3200 as current structured is one of the worst pieces of legislation ever enacted. You and the Senate can do much to remedy this and create a bill to have pride in, and to satisfy the needs of your constituents. Let me point out the main concerns and opposition.

A GOVERNMENT SPONSORED PLAN MUST BE ABANDONED: Everyone sees that universal coverage and cost containment are essential yet they also see how Congress has taken the funds out of Social Security and Medicare to spend elsewhere. There is more a gross distrust of Congress that is of paramount concern before the fear of a Government Plan.

SMALL BUSINESS PENALTIES SHOULD BE ELIMINATED BY MANDATING UNIVERSAL PERSONAL COVERAGE: Small business and entrepreneurs see the 8% tax as extortionary. They rather pay for performance and let their employees seek out their own insurance. That is why private Exchanges are preferred and why also taxing benefits are agreed to.

CONGRESS SHOULD TAX MEDICAL BENEFITS, ESPECIALLY EXCESSIVE BENEFITS AND PLANS, AND CREATE A TRUE LEVEL PLAYING FIELD: The Democrats in Congress are seen as being in the pockets of the Unions and this is nowhere seen more clearly than in the structure of exorbitant Union benefit plans which have lifetime duration and costs extensive amounts and in turn drive up health care costs. issue to deal with. The Union workers are not just the GM type but more importantly the Government workers, Federal, State and Local. New Jersey has a dark history of gross excess compensation hidden in these plans. That is why taxing excess plans, say those costing more than \$12,000 per year, is essential. It also will raise the money to fund those uninsured.

ELIMINATE FEDERALLY CONTROLLED MEDICAL HOMES: The Medical Home concept has great merit but the control of them by the Federal Government flies in the face of achieving results. The Government should avoid any contact in this area.

BUNDLING AND OTHER ONEROUS PAYMENT OPTIONS: We have all seen what HMO type controls had done in the 1990s and bundling and capitation are the same pig just put in a different dress, it is still a pig!..

TORT REFORM WILL REDUCE PROCEDURES AND CUT COSTS:We have argued again and again that the most significant driver of excess costs is the lack of tort reform. Given end of life costs, those with Medical Directives and DNRs will cost little if anything. The people with the demand to do whatever to maintain a suffering patient result in the physician and all other health care providers taking extreme measures not to be sued by the family when the ultimate end eventually comes. If Congress ever hopes to reduce costs the answer is in your hands and there are many fine options on the table.

THE IRS SHOULD NOT BE THE ENFORCER: HR 3200 has the IRS as the enforcer. I really suggest you seek an alternative. Such a choice will result in long term problems. I believe this is obvious.

LET THE MEDICAL PROFESSIONS HANDLE THE COMPARATIVE CLINICAL EFFECTIVENESS AS THEY DO NOW: The CCE issue is a complex issue. Medical professional societies and their publications as well as University Laboratories continue to do and publish and critique their own procedures. One need look no further than NEJM and JAMA which weekly assess new methods and procedures. Each physician takes CME hours each year to expand what they do as a normal part of their practice, and there is the re-certification process on top of that. Having a Government agency get into the fray will be highly counterproductive. The system works now, improve it, do not break it.

PATIENT RESPONSIBILITY AND MOTIVATION MUST BE MANDATED BY CONGRESS: 18% of the 2-4 year olds in New Jersey are obese! The CDC just published that this week. We are second only to Virginia in 2-4 year old obesity. That means they will grow to be obese and have all the health problems of the obese. Obesity we have calculated costs us 15-18% of our health care budget today and it is exploding. One could argue that the cost increases are almost totally driven by obesity. I see no other way than taxing it out of existence as we did with cigarettes. New Jersey should be ashamed of such a statistic. Yet 41% of black females in the South are obese! Thus we have a pandemic. This is clearly a call for Congress to do something and do it now.

This is my third letter on the same subject. My physician friends have asked me again and again to raise this issue since I seem to have become a point person. Yet you and your fellow Senators are at a singular point to make changes in HR 3200 and its relatives in a positive direction and achieve a long term success and not create a burden on all Americans. The above are my most recent comments and observations.

Very truly yours,

Posted by Terry McGarty at [7:41 PM](#) 

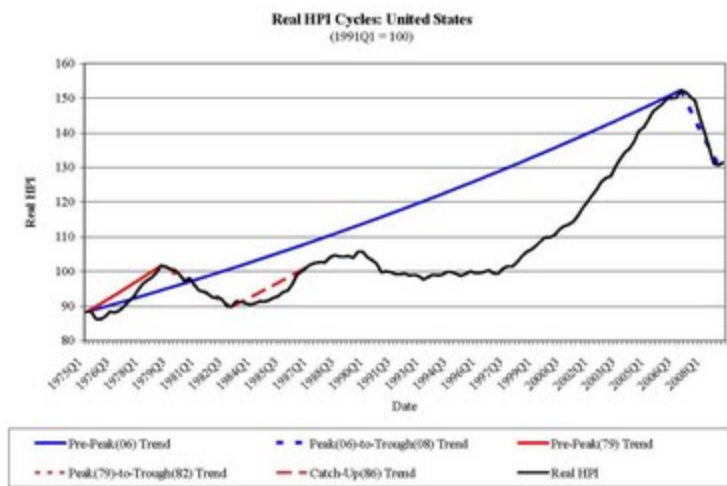
Labels: [Health Care](#)

[AN INTERESTING REPORT](#)

The [Federal Housing Finance Agency](#) has published an interesting report on previous downturns in housing and it shows some rather interesting cyclical data.

There are four charts of interest.

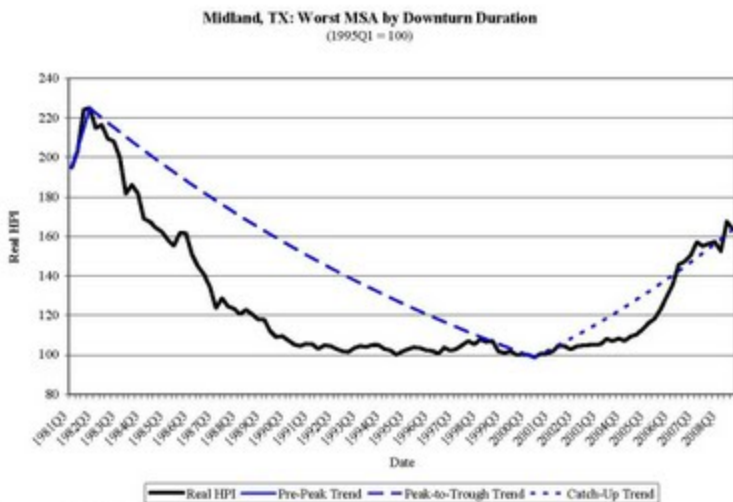
1. The overall housing price levels. This clearly shows the bubble and it should have been clear to all.



Source: Federal Housing Finance Agency

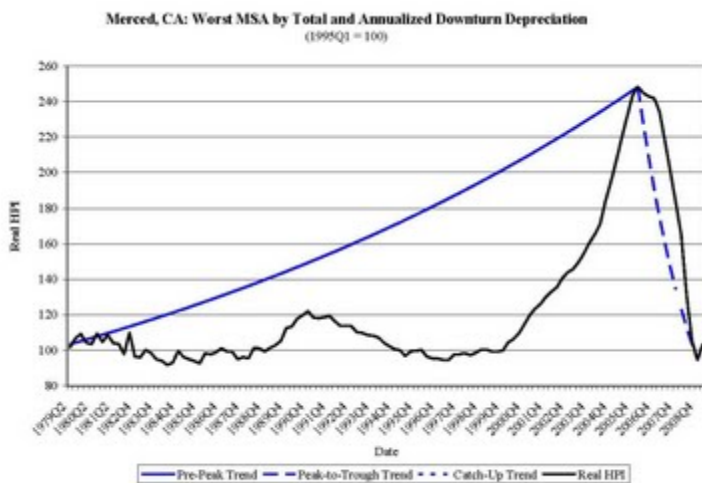
2. Midland Texas and its collapse. This was two decades ago. It still has not recovered.

Figure 1



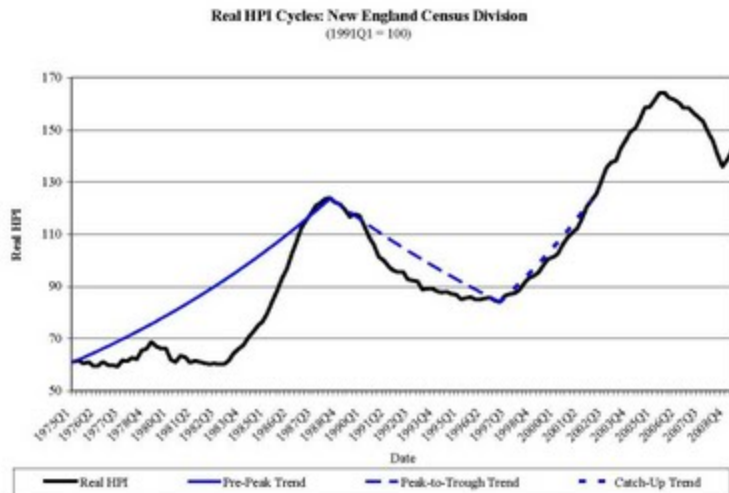
Source: Federal Housing Finance Agency

3. The West Coast Collapse at Merced, California. This is the most recent of the problems and may follow Midland.



Source: Federal Housing Finance Agency

4. The Cyclical New England Market. This shows the cycles in these types of markets akin to the business cycle.



Source: Federal Housing Finance Agency

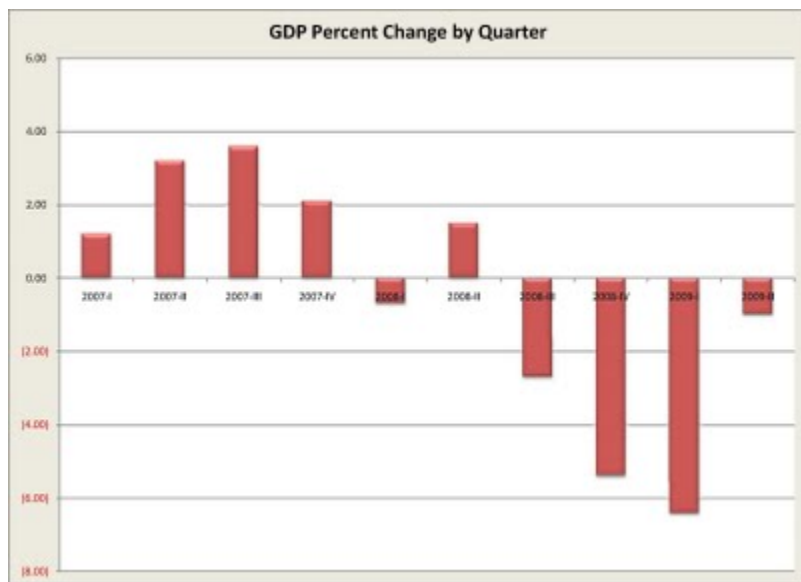
Posted by Terry McGarty at [3:35 PM](#)

Labels: [Economy](#)

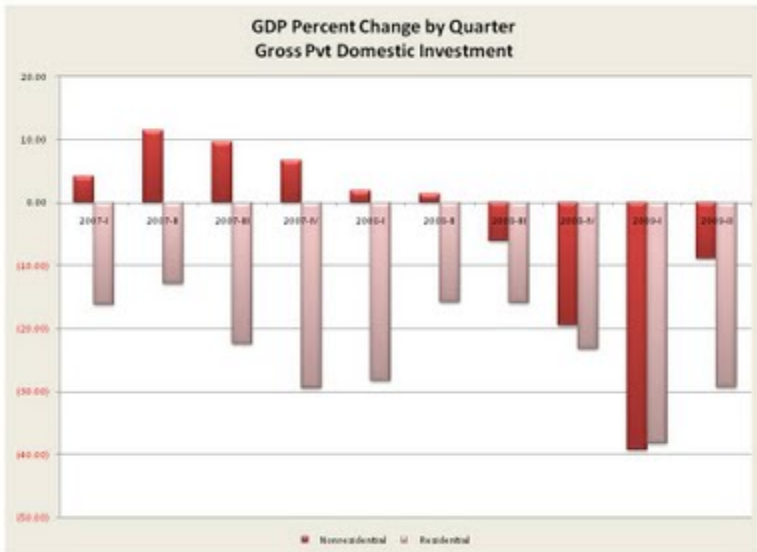
THE ECONOMY: GOOD NEWS AND BAD NEWS

Several weeks ago we said here that the recession was now problematic. Yesterday the Administration said so as well. Good to see they are paying attention to details. Yet today I want to review in a bit more detail the data from the GDP results and tie that into the inflation analysis we have been doing.

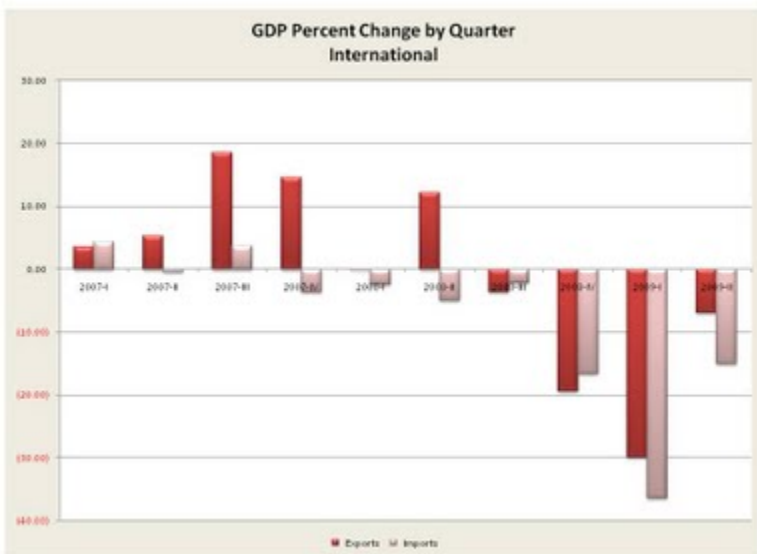
1. **Total GDP Change:** As the press has reported the total change is less negative than before. It shows a positive trend and one should have some feeling of relief from this. However we must look at the details deeper.



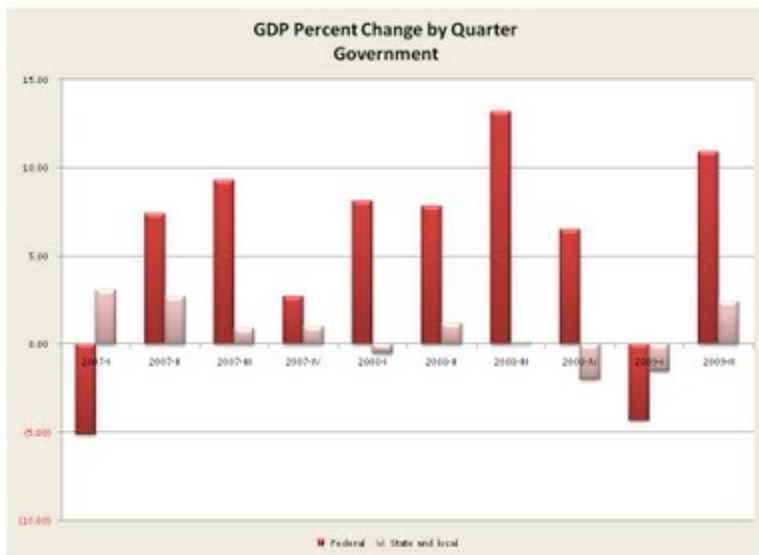
2. **Total Domestic Change:** Here we have the change in domestic GDP investment. It is still quite negative and shows an improving trend but it is slow to recover.



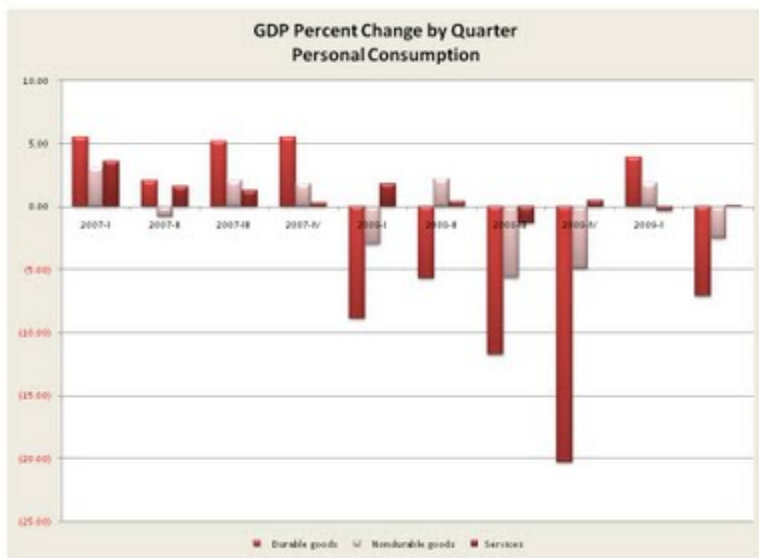
3. **Total International Change:** International imports and exports have improved and are in fact above Q4 of 2008. This is an indication that the global economy is recovering in other areas as well.



4. **Government Spending:** The following chart depicts the change in Government Spending. This is anticipated but disturbing. It is the only one which is almost consistently high. The Federal Change is massive and it is this change which has moved everything up. The State change is also larger than many prior quarters and one would assume that the Stimulus is just pumping money here. Where the money is being spent is another matter.



5. **Personal Consumption:** The following chart is the GDP change in the Personal Consumption area. Not that it is not improving but that it also going down. People are not buying for themselves. We were surprised at this because this tends to show a loss in confidence. This is a trend we believe tells a great deal about the individual sentiment.



6. **Inflation:** As we have done before we have calculated inflation from its underlying components, namely changes in GDP, changes in money velocity and changes in M2. The interesting fact here is that inflation is starting to rise if ever so slowly. This is what we have been fearing all along. However the cause is debatable. The drop in personal expenditures and the explosion in Government expenditures seems to indicate it is from Government spending.



Posted by Terry McGarty at [2:40 AM](#) 

Labels: [Economy](#)

TUESDAY, JULY 28, 2009

[HR 3200 AND THE EXCHANGE: A GOVERNMENT REGULATORY MECHANISM](#)

The Health Insurance Exchange is a major part of the HR 3200 Bill. Simple stated the Exchange is a co-op wherein a group is established and then negotiates some "good" deals for its members. The AMA and many other professional groups have exchange type functions and they work reasonably well.

The problem with health care today is the residual of company provided plans and many being gold plated and not taxed. This is particularly true of Union members and Government employees whose benefits have exploded over the years and the benefits are compounded by the lack of taxation. The benefits then extend to their early retirement resulting is ever so much more explosive costs. Just look at GM and the State of California!

Along comes HR 3200 and it says that the Government and ONLY the Government can do exchanges. It takes it one step further and creates a public plan that will drive out all other players, level playing field notwithstanding. We will examine this in detail.

Just to put our opinions on the table. We believe in the following:

1. Universal coverage, no leakage, no scamming the system
2. Individual and not corporate or employer coverage
3. Taxation of coverage on an before-tax basis
4. Catastrophic coverage mandate for all
5. Out of pocket expenses expected unless you want to pay for the added benefit, and
6. Exchanges are an ideal platform to accomplish this. By exchanges we mean private and group based exchanges, and not a public Federal Government managed exchange.

We detailed this in our most recent book on [Health Care Policy](#).

Now Exchanges for the purpose of purchasing health insurance may be a structure whose time is coming. In the recent [NEJM article by Frank and Zeckhauser](#) they state:

"Exchanges focus on the purchase of insurance for individuals, households, and groups of small employers — all of which will be more likely to obtain coverage if it is made more affordable or

more available, and certainly if it is made mandatory. Exchanges mimic some functions that are performed by large employers as purchasers, including assembling, organizing, and disseminating information about competing health plans; enacting policies that promote risk pooling; specifying benefit packages; negotiating premiums; limiting the number and types of plans that may be marketed; and structuring the enrollment and plan selection process. They thus seek to extend to all consumers the benefits of having a large employer purchase one's insurance."

They continue as follows:

"Should exchanges play a similarly active role in structuring and managing the health insurance market, so as to guide people to appropriate plans, enhance competition, and thereby improve quality and reduce price? A few decades ago, the conventional wisdom in economics was that individuals could make effective choices in markets, even when the options were numerous and complex. Extensive research in behavioral economics calls this belief into question. In many circumstances, particularly when uncertainties and high stakes are involved, consumers have trouble making good decisions. The purchase of health insurance presents just such challenges. Hence the potential benefits of exchanges.

"Consumers facing complex, uncertain, and consequential choices may also rely on simple rules of thumb. An analysis of Medicare recipients choosing among PDPs suggests that they used such rules to their detriment⁵ — for example, by overweighting premium outlays and slighting the total expected out-of-pocket costs. As a result, many chose a plan that was expected to be more costly and offered no advantages in terms of features or quality. "

These experiences suggest that exchanges should be structured to foster effective consumer choices, and thereby efficient outcomes, by providing consumer-friendly information about the coverage, cost, and quality of different plans. Ironically, one way to enhance the prospect of informed choices is to limit the number of options. Plans then compete on price, quality, or both in order to be included. Requiring plans to offer identical features would promote competition and facilitate decisions but limit choice. The trade-off between these objectives should be carefully weighed by officials legislating, designing, and operating exchanges."

HR 3200 is filled with elements of creating exchanges. Unlike many of the other exchange ideas floating about the HR 3200 is a Government controlled Exchange including a public plan. We feel that it is worth the while to look at this legislation in some detail. By deconstructing the law as written one gets to see what is in the mind of those who wrote it. They clearly despise private enterprise and demand ultimate Government control. We will see this play out as we go through the key sections on the Exchange. Let us start the process.

In HR 3200 the details about an exchange are in Title II and the three following subtitles. These are shown below.

TITLE II—HEALTH INSURANCE EXCHANGE AND RELATED PROVISIONS

Subtitle A—Health Insurance Exchange

Subtitle B—Public Health Insurance Option

Subtitle C—Individual Affordability Credits

In subtitle A we have the details of the exchange. The full set of elements are shown below.

Subtitle A—Health Insurance Exchange

Sec. 201. Establishment of Health Insurance Exchange; outline of duties; definitions.

Sec. 202. Exchange-eligible individuals and employers.

Sec. 203. Benefits package levels.

Sec. 204. Contracts for the offering of Exchange-participating health benefits plans.

Sec. 205. Outreach and enrollment of Exchange-eligible individuals and employers in Exchange-participating health benefits plan.

Sec. 206. Other functions.

Sec. 207. Health Insurance Exchange Trust Fund.

Sec. 208. Optional operation of State-based health insurance exchanges.

Subtitle B—Public Health Insurance Option

Sec. 221. Establishment and administration of a public health insurance option as an Exchange-qualified health benefits plan.

Sec. 222. Premiums and financing.

Sec. 223. Payment rates for items and services.

Sec. 224. Modernized payment initiatives and delivery system reform.

Sec. 225. Provider participation.

Sec. 226. Application of fraud and abuse provisions.

Subtitle C—Individual Affordability Credits

Sec. 241. Availability through Health Insurance Exchange.

Sec. 242. Affordable credit eligible individual.

Sec. 243. Affordable premium credit.

Sec. 244. Affordability cost-sharing credit.

Sec. 245. Income determinations.

Sec. 246. No Federal payment for undocumented aliens.

Now let us detail several of the key parts of this Title. First, the establishment of the Exchange as follows:

(a) ESTABLISHMENT.—There is established within the **Health Choices Administration** and **under the direction of the Commissioner a Health Insurance Exchange** in order to **facilitate access of individuals and employers**, through a transparent process, to a variety of **choices of affordable, quality health insurance coverage**, including a **public health insurance option**.

Thus this statement does the following:

1. Establishes a Health Choice Administration, a new Government Agency
2. Creates a Commissioner
3. Facilitates an exchange for affordable and quality health insurance
4. Creates a public option

The Commissioner now has the authority as stated:

(b) OUTLINE OF DUTIES OF COMMISSIONER.—In accordance with this subtitle and in coordination with appropriate Federal and State officials as provided under section 143(b), the Commissioner shall—

- (1) under section 204 **establish standards for, accept bids from, and negotiate and enter into contracts with, QHBP offering entities** for the offering of health benefits ...
- (2) **facilitate outreach and enrollment** in such plans of Exchange-eligible individuals and employers
- (3) conduct such activities related to the **Health Insurance Exchange as required, including establishment of a risk**

Now the individuals are granted access as follows:

(a) ACCESS TO COVERAGE.—In accordance with this section, all individuals are eligible to obtain coverage through enrollment in an Exchange...

(b) DEFINITIONS.—In this division:

(1) **EXCHANGE-ELIGIBLE INDIVIDUAL.**—The term "Exchange-eligible individual" means an individual who is eligible ...

(2) **ACCEPTABLE COVERAGE.**—For purposes of this division, the term "acceptable coverage" means any of the following:

(A) **QUALIFIED HEALTH BENEFITS PLAN COVERAGE.**—Coverage under a qualified health benefits plan.

(B) **GRANDFATHERED HEALTH INSURANCE COVERAGE; COVERAGE UNDER CURRENT GROUP HEALTH PLAN.**...

(C) **MEDICARE.**—Coverage under part A of title XVIII of the Social Security Act.

(D) **MEDICAID.**—Coverage for medical assistance under title XIX of the Social Security Act,

...

Thus you have to must be in the exchange unless you are poor, old, or grandfathered. Thus as written it will eventually drive all out of the grandfathered plans into the Exchange Plans. The benefits are as described below:

SEC. 203. BENEFITS PACKAGE LEVELS.

(a) **IN GENERAL.**—*The Commissioner shall specify the benefits to be made available under Exchange-participating health benefits plans during each plan year, consistent with subtitle C of title I and this section.*

(b) **LIMITATION ON HEALTH BENEFITS PLANS OFFERED BY OFFERING ENTITIES.**—The **Commissioner may not enter into a contract** with a QHBP offering entity under section 204(c) for the offering of an Exchange-participating health benefits plan in a service area **unless the following requirements are met:**

(1) **REQUIRED OFFERING OF BASIC PLAN.**—The entity offers only one basic plan for such service area.

(2) **OPTIONAL OFFERING OF ENHANCED PLAN.**—If and only if the entity offers a basic plan 0 for such service area, the entity may offer one enhanced plan for such area.

(3) **OPTIONAL OFFERING OF PREMIUM PLAN.**— If and only if the entity offers an enhanced plan for such service area, the entity may offer one premium plan for such area.

(4) **OPTIONAL OFFERING OF PREMIUM-PLUS PLANS.**—If and only if the entity offers a premium plan for such service area, the entity may offer one or more premium-plus plans for such area. All such plans may be offered under a single contract with the Commissioner.

Now the law starts to specify the minimum and maximum plan offerings in statutory law. This is very dangerous because as all plan administrators well know as medicine changes we want the plans to adapt. But by making this statutory law we make it near impossible to ever change it. These four divisions further make such changes near impossible. Now they detail the options:

(c) **SPECIFICATION OF BENEFIT LEVELS FOR PLANS.**—

(1) **IN GENERAL.**—The **Commissioner shall establish the following standards** consistent with this subsection and title I:

(A) **BASIC, ENHANCED, AND PREMIUM PLANS.**—Standards for levels of Exchange participating health benefits plans: basic, enhanced, and premium (in this division referred to as a "basic plan", "enhanced plan", and "premium plan", respectively).

(B) **PREMIUM-PLUS PLAN BENEFITS.**— **Standards for additional benefits that may be offered, consistent with this subsection** and sub title C of title I, under a premium plan (such a plan with additional benefits referred to in this division as a "premium-plus plan").

(2) **BASIC PLAN.**—

(A) **IN GENERAL.**—A basic plan shall offer the essential benefits package required under title I for a qualified health benefits plan.

(B) **TIERED COST-SHARING FOR AFFORDABLE CREDIT ELIGIBLE INDIVIDUALS...**

(3) **ENHANCED PLAN.**—A enhanced plan shall offer, in addition to the level of benefits under the basic plan, a lower level of cost-sharing as provided...

(4) **PREMIUM PLAN.**—A premium plan shall offer, in addition to the level of benefits under the basic plan, a lower level of cost-sharing as provided ...

(5) **PREMIUM-PLUS PLAN.**—A premium-plus plan is a premium plan that also provides additional benefits, such as adult oral health and vision care, approved by the Commissioner. The portion of the premium that is attributable to such additional benefits shall be separately specified.

Now what are these four levels. Let us start at the end, the Premium Plus. This is the Union Plan, the payback to the Unions for ensuring the election of the current President. They are now immortalized into law! You cannot make this up.

1. Now back to Basic. This is the minimum coverage with the maximum payment.
1. Enhanced is the minimum coverage with a minimum payment.
1. Premium is the maximum coverage with maximum payment.
1. Then we are back to the gold plated Union Plans. Affordable only by companies who will NOT be competing in a world economy, like...well like the Government...and most likely no other company which will survive.

Now how ill this be paid for. The answer is as follows:

(4) **DIRECT PAYMENT OF PREMIUMS TO PLANS.**—Under the enrollment process, individuals enrolled in an Exchange-participating health benefits plan shall pay such plans directly, and not through the Commissioner or the Health Insurance Exchange.

Now we are finally at the Public Plan:

SEC. 221. ESTABLISHMENT AND ADMINISTRATION OF A PUBLIC HEALTH INSURANCE OPTION AS AN EXCHANGE-QUALIFIED HEALTH BENEFITS PLAN.

(a) **ESTABLISHMENT.**—For years beginning with Y1, the Secretary of Health and Human Services (in this sub title referred to as the "Secretary") shall provide for the offering of an Exchange-participating health benefits plan (in this division referred to as the "public health insurance option") that ensures choice, competition, and stability of affordable, high quality coverage throughout the United States in accordance with this subtitle. In designing the option, the Secretary's primary responsibility is to create a low-cost plan without compromising quality or access to care.

(b) **OFFERING AS AN EXCHANGE-PARTICIPATING HEALTH BENEFITS PLAN.**—

(1) **EXCLUSIVE TO THE EXCHANGE.**—The public health insurance option shall only be made available through the Health Insurance Exchange.

(2) **ENSURING A LEVEL PLAYING FIELD.**—Consistent with this subtitle, the public health insurance option shall comply with requirements that are applicable under this title to an Exchange-participating health benefits plan, including requirements related to benefits, benefit levels, provider networks, notices, consumer protections, and cost sharing.

(3) **PROVISION OF BENEFIT LEVELS.**—The public health insurance option—

(A) shall offer basic, enhanced, and premium plans; and

(B) may offer premium-plus plans...

(g) **ACCESS TO FEDERAL COURTS.**—The provisions of Medicare (and related provisions of title II of the Social Security Act) relating to access of Medicare beneficiaries to Federal

courts for the enforcement of rights under Medicare, including with respect to amounts in controversy, **shall apply to the public health insurance option** and individuals enrolled under such option under this title in the same manner as such provisions apply to Medicare and Medicare beneficiaries.

Thus the Public Plan will have elements like private plans, shall be run by the Government, people will be allowed to sue, and the Secretary and reporting Commissioner will decide what to offer and at what price.

In addition there is nothing in the Bill, HR 3200, to make this self supporting. Namely the Government may easily subsidize this Plan. The "level playing" field statement is ambiguous at the least and open to continuous litigation at the worst.

Now what does the Public Plan charge? The following details that:

SEC. 223. PAYMENT RATES FOR ITEMS AND SERVICES.

(a) RATES ESTABLISHED BY SECRETARY.—

(1) IN GENERAL.—The Secretary shall establish payment rates for the public health insurance option for services and health care providers consistent with this section and may change such payment rates in accordance with section 224.

(2) INITIAL PAYMENT RULES.—

(A) IN GENERAL.—Except as provided in subparagraph (B) and subsection (b)(1), during Y1, Y2, and Y3, the Secretary shall base the payment rates under this section for services and providers described in paragraph (1) on the **payment rates for similar services and providers under parts A and B of Medicare.**

(B) EXCEPTIONS.—

(i) PRACTITIONERS' SERVICES.—Payment rates for practitioners' services otherwise established under the fee schedule under section 1848 of the Social Security Act shall be applied without regard to the provisions under subsection (f) of such section and the update under subsection (d)(4) under such section for a year as applied under this paragraph shall be not less than 1 percent.

(ii) ADJUSTMENTS.—The Secretary may determine the extent to which Medicare adjustments applicable to base payment rates under parts A and B of Medicare shall apply under this subtitle.

(3) FOR NEW SERVICES.—The Secretary shall modify payment rates described in paragraph (2) in order to accommodate payments for services, such as well-child visits, that are not otherwise covered under Medicare.

(4) PRESCRIPTION DRUGS.—Payment rates under this section for prescription drugs that are not paid for under part A or part B of Medicare shall be at rates negotiated by the Secretary.

(b) INCENTIVES FOR PARTICIPATING PROVIDERS.—

(1) INITIAL INCENTIVE PERIOD.—

(A) IN GENERAL.—The Secretary shall provide, in the case of services described in subparagraph (B) furnished during Y1, Y2, and Y3, for payment rates that are 5 percent greater than the rates established under subsection (a).

(B) SERVICES DESCRIBED.—The services described in this subparagraph are items and professional services, under the public health insurance option by a physician or other health care practitioner who participates in both Medicare and the public health insurance option.

(C) SPECIAL RULES.—A pediatrician and any other health care practitioner who is a type of practitioner that does not typically participate in Medicare (as determined by the Secretary) shall also be eligible for the increased payment rates under subparagraph (A).

(2) **SUBSEQUENT PERIODS.**—Beginning with Y4 and for subsequent years, the Secretary shall continue to use an administrative process to set such rates in order to promote payment accuracy, to ensure adequate beneficiary access to providers, and to promote affordability and the efficient delivery of medical care consistent with section 221(a). Such rates shall not be set at levels expected to increase overall medical costs under the option beyond what would be expected if the process under subsection (a)(2) and paragraph (1) of this subsection were continued.

(3) **ESTABLISHMENT OF A PROVIDER NET WORK.**—Health care providers participating under **Medicare are participating providers in the public health insurance option unless they opt out in a process established by the Secretary.**

(c) **ADMINISTRATIVE PROCESS FOR SETTING RATES.**—Chapter 5 of title 5, United States Code shall apply to the process for the initial establishment of payment rates under this section but not to the specific methodology for establishing such rates or the calculation of such rates.

(d) **CONSTRUCTION.**—Nothing in this subtitle shall be construed as limiting the Secretary's authority to correct for payments that are excessive or deficient, taking into account the provisions of section 221(a) and the amounts paid for similar health care providers and services under other Exchange-participating health benefits plans.

(e) **CONSTRUCTION.**—Nothing in this subtitle shall be construed as affecting the authority of the Secretary to establish payment rates, including payments to provide for the more efficient delivery of services, such as the initiatives provided for under section 224.

(f) **LIMITATIONS ON REVIEW.**—There shall be no administrative or judicial review of a payment rate or methodology established under this section or under section 224.

Finally the Public Plan will introduce many ways to practice Medicine such as bundling and the Medical Home construct. The opening part of the enabling legislation in HR 3200 is the most telling here. This is accomplished in the following parts:

SEC. 224. MODERNIZED PAYMENT INITIATIVES AND DELIVERY SYSTEM REFORM.

(a) **IN GENERAL.**—For plan years beginning with Y1, the **Secretary may utilize innovative payment mechanisms and policies to determine payments for items and services under the public health insurance option. The payment mechanisms and policies under this section may include patient-centered medical home and other care management payments, accountable care organizations, value based purchasing, bundling of services, differential payment rates, performance or utilization based payments, partial capitation, and direct contracting with providers.**

The above goes to the heart of the Government taking control over health care. They do:

1. Medical Home: This may have value for chronic patients.
2. Accountable Care Organizations
3. Value Based Purchasing
4. Bundling: This places hospitals in charge as we have argued before.
5. Differential Payments
6. Capitation: This was the procedure which HMOs used to ration and deny care!

These are the worst of the worst of the HMO era! They will in my opinion and in the opinion of many other practicing physicians destroy health care. It continues:

(b) **REQUIREMENTS FOR INNOVATIVE PAYMENTS.**— The Secretary shall design and implement the payment mechanisms and policies under this section in a manner that—

(1) seeks to—

- (A) improve health outcomes;
- (B) reduce health disparities (including racial, ethnic, and other disparities);
- (C) provide efficient and affordable care;
- (D) address geographic variation in the provision of health services; or
- (E) prevent or manage chronic illness; and

(2) promotes care that is integrated, patient centered, quality, and efficient.

(c) **ENCOURAGING THE USE OF HIGH VALUE SERVICES.**—To the extent allowed by the benefit standards applied to all Exchange-participating health benefits plans, the public health insurance option may modify cost sharing and payment rates to encourage the use of services that promote health and value.

(d) **NON-UNIFORMITY PERMITTED.**—Nothing in this subtitle shall prevent the Secretary from varying payments based on different payment structure models (such as accountable care organizations and medical homes) under the public health insurance option for different geographic areas.

Well that is it. Let us review the HR 3200 Exchange proposals:

1. Controlled by a Commissioner
2. Forces everyone to ultimately participate
3. Specifies what services are provided at what price.
4. Establishes a public plan with no parity with private plans, namely the Government can underwrite
5. Results in the elimination of Private Plans by word of law
6. Restructures any and all medical compensation into Government specified, controlled, prices, and allocated processes and procedures.

Exchange are worthwhile. They work well in free and open markets. Government controlled exchanges working under the letter of the law are a disaster. The overhead will cause irreparable harm to the citizens and destroy the US Medical community as we know it. Please just read the words. They were in my opinion written by an evil mind!

Posted by Terry McGarty at [6:18 PM](#) 

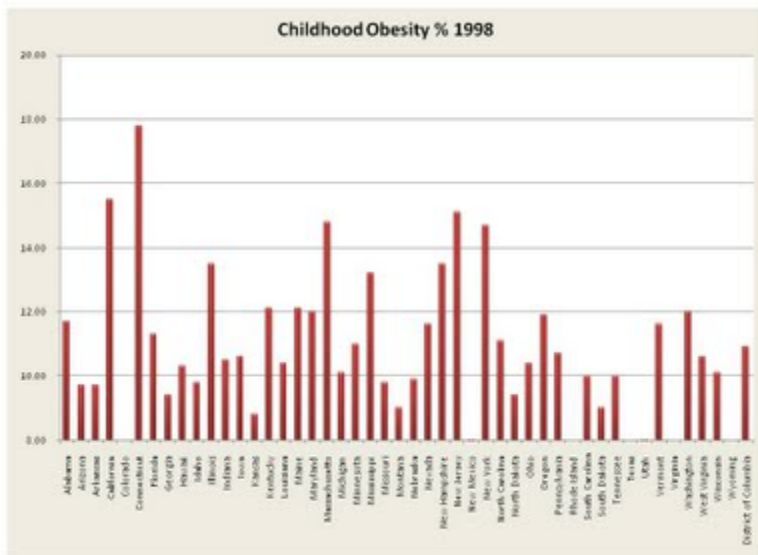
Labels: [Health Care](#)

[CHILDHOOD OBESITY](#)

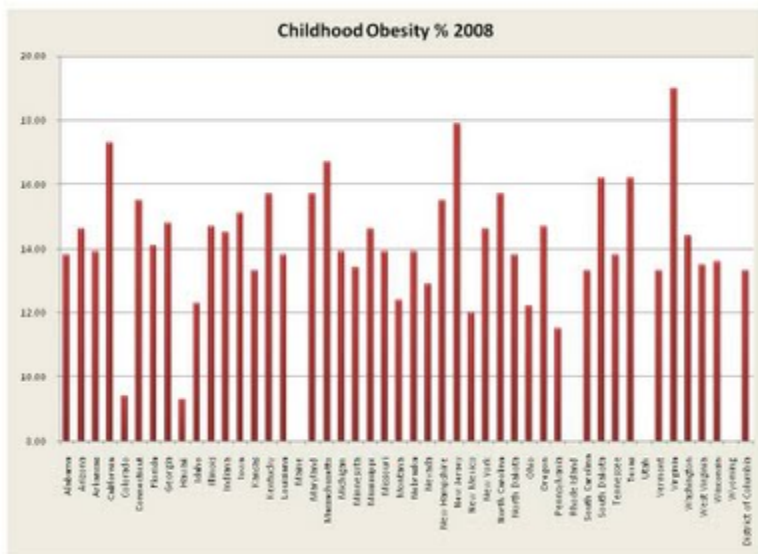
There are two interesting posts that I will comment upon today. The first is a [CDC post on Childhood Obesity](#). The second is a cost analysis of obesity in [Health Affairs](#).

First the one on childhood obesity. I present the data in a somewhat different form than the CDC as below.

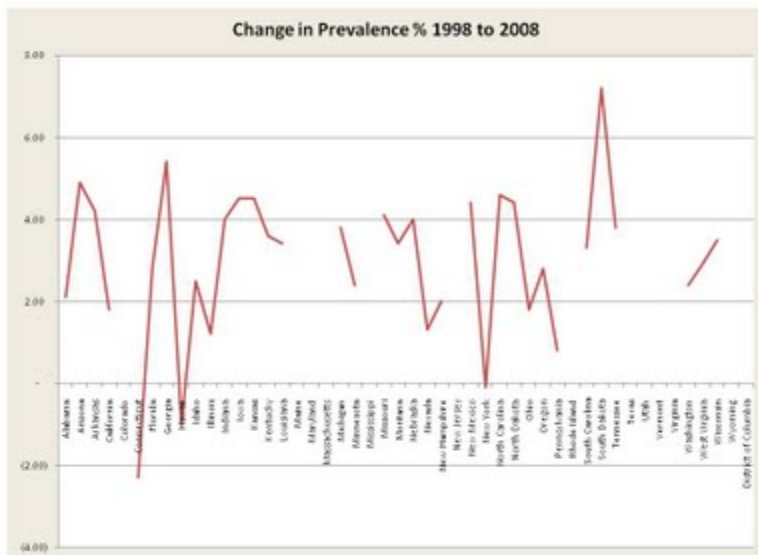
(i) CDC presents the 1998 stats on percent of 2-4 year olds in 1998. Note the variation between the states.



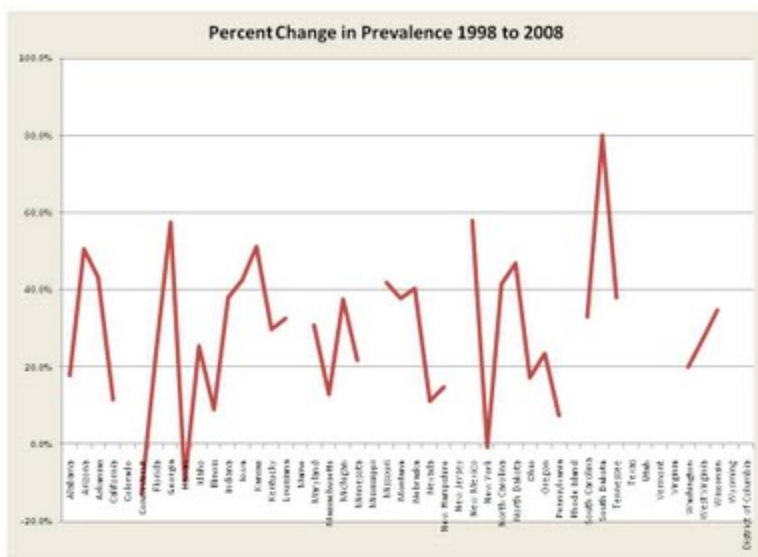
(ii) Now the percent of 2-4 year olds ion 2008. Now not the sudden upward explosion and the growth in certain states. New Jersey and Virginia have the largest prevalence in this data set.



(iii) Now the change in actual prevalence from 1998 to 2008. This is instructive but we use the following chart for better resolution.



(iv) Finally the percent change in prevalence in the same time period. This shows the explosive growth, appearing at 20% over this period. This is for 2-4 year olds! Not teenagers of older people. They will never get rid of this problem and this is the ticking time bomb of health care.



The CDC study states:

"The findings indicated that obesity prevalence among low-income, preschool-aged children increased steadily from 12.4% in 1998 to 14.5% in 2003, but subsequently remained essentially the same, with a 14.6% prevalence in 2008. Reducing childhood obesity will require effective prevention strategies that focus on environments and policies promoting physical activity and a healthy diet for families, child care centers, and communities."

Now for the Health Affairs report. It is by Finkelstein et al and it reports:

"In 1998 the medical costs of obesity were estimated to be as high as \$78.5 billion, with roughly half financed by Medicare and Medicaid. This analysis presents updated estimates of the costs of obesity for the United States across payers (Medicare, Medicaid, and private insurers), in separate categories for inpatient, non-inpatient, and prescription drug spending. We found that the increased prevalence of obesity is responsible for almost \$40 billion of increased medical spending through 2006, including \$7 billion in Medicare prescription drug costs. We estimate that the medical costs of obesity could have risen to \$147 billion per year by 2008..."

Their approach is dramatically different than our, in our [Diabetes White Paper](#), where we stated:

"... demonstrates the potential impact an economic control of behavior can have in reducing a major health care cost. Type 2 Diabetes is caused by obesity in almost all cases. It currently, in 2008 costs, accounts for almost \$275 billion annually or 12% of all health care costs. We estimate that by 2020 it will account for 25% of health care costs and is growing at 10-11% per annum. It is possible to control this at the source by taxing "carbs" as we have taxed tobacco. This paper presents the case from the perspective of the medical evidence, costs factors and economic control models."

In our approach we did a bottom up analysis based upon prevalence and incidence of disease states and costs per year per disease state. The Finklestein approach was performed by a statistical study of patients. Although they are half of our value they we fell justify the numbers we have arrived at. Clearly Type 2 Diabetes is and will explode as a major driver for health care costs. The Medical Home approach just institutionalizes this. We still firmly believe that the solution is via some form of controlling taxation as was done with tobacco.

Posted by Terry McGarty at [7:51 AM](#) 

Labels: [Health Care](#)

MONDAY, JULY 27, 2009

[THE PORTFOLIO](#)



The standard portfolio we have been tracking is doing quite well. Perhaps with Congress in deadlock and their vacations coming up the market felt that perhaps nothing will happen, good thing perhaps. Just look what happened to the market when they passed the stimulus bill. Maybe there is something in this chart.

Posted by Terry McGarty at [6:04 PM](#) 

Labels: [Baseline Portfolio](#)

SUNDAY, JULY 26, 2009

[ARROW, KRUGMAN, HEALTH CARE AND PLUMBERS](#)

I once worked with a fellow who told me a tale about his father the plumber and the service business. The tale went this way. The plumber, his father, was called to a home for a blocked up toilet. It was late one evening and perhaps the home owner had eaten what he should not have, but alas, the toilet presented an infinite obstacle. So into the home goes the plumber, cost being no obstacle, and in this emergency he entered the bathroom, closed the door, used his plunger a few times, and then sat back, had a cigarette, in those days you could, read the newspaper, and after an hour he emerged and presented the home owner with a bill which the homeowner gratefully paid and slept well the remainder of the night.

The moral of this tale is that a plumber is in the service business, he does not advertise, he is a small businessman, he gets paid for the "service" he provides, not the complexity of the task, and his bill may be greater the greater the emergency.

The homeowner did not have a Government supplied Plumber Care Plan, the home owner did not have some right to Plumber Care, yet somehow the plumber got paid. I would hazard to guess that plumbers in today's market net more per year in take home, per hour, than pediatricians, internists, or psychiatrists. Perhaps not as much as a cardiologist, but their crafts have a great deal in common.

[Krugman in his NY Times blog](#) makes the following statement:

"There are two strongly distinctive aspects of health care. One is that you don't know when or whether you'll need care — but if you do, the care can be extremely expensive. The big bucks are in triple coronary bypass surgery, not routine visits to the doctor's office; and very, very few people can afford to pay major medical costs out of pocket..."

I dare say this applies to plumbers, electricians, even dare I say lawyers. They are all in the service business, almost all independent and you never know when you need them but when you do they better be there. He continues:

"This tells you right away that health care can't be sold like bread. It must be largely paid for by some kind of insurance. And this in turn means that someone other than the patient ends up making decisions about what to buy. Consumer choice is nonsense when it comes to health care. And you can't just trust insurance companies either — they're not in business for their health, or yours."

Well plumbing, electrical work, legal representation also is NOT sold like bread Mr. Krugman, but you as a strong liberal may not be aware of the working man.

Also you purchase auto and home insurance. You select the coverage you want. Take an umbrella policy, you get to buy one just in case your home liability is exceeded in some special circumstance. You do the same with auto. The state specifies a minimal level of liability but you almost always increase that plus if your car is not too old you add comprehensive. You never know when there is some accident. People buy their own insurance, albeit mandated in part, all over this country, and the world. In addition until the Government caused health care to be an employee "right" due to their wage and price controls, it was an individual responsibility, and did have insurance at the individual level for catastrophic illnesses. Thus Mr. Krugman's statements in my opinion are false at face value.

He continues:

"The second thing about health care is that it's complicated, and you can't rely on experience or comparison shopping. ...That's why doctors are supposed to follow an ethical code, why we expect more from them than from bakers or grocery store owners."

But the plumber is the very same. You want to do your own plumbing, electrical work, legal representation. Remember the old adage "A defendant who has himself as his lawyer has a fool for a client..." well Mr. Krugman it applies to a lot more than medicine.

Mr. Krugman opens the piece with the reference to Ken Arrow, [Uncertainty and the Welfare Economics of Health Care](#). Arrow states the following special characteristics of health care:

"A. The Nature of Demand The most obvious distinguishing characteristics of an individual's demand for medical services is that it is not steady in origin as, for example, for food or clothing, but irregular and unpredictable..."

My simple answer is look at the plumber. Look at the lawyer. Look at the electrician. There are lots of things out there that are the same in demand as health care.

"B. Expected Behavior of the Physician: It is clear from everyday observation that the behavior expected of sellers of medical care is different from that of business men in general. These expectations are relevant because medical care belongs to the category of commodities for which the product and the activity of production are identical."

So what are lawyers, chopped liver! There are hundreds of professions, accountants to name another, where the product and the activity are the same. The definition is the personal services industry, it even has an SIC code! But this was an 1963 article, in the days of Galbraith, where economists viewed the world as large corporations against the common man! Prof Arrow in my opinion is outright wrong. I even did electrical work in 1963! He continues:

"C. Product Uncertainty: Uncertainty as to the quality of the product is perhaps more intense

here than in any other important commodity. Recovery from disease is as unpredictable as is its incidence. In most commodities, the possibility of learning from one's own experience or that of others is strong because there is an adequate number of trials."

It is clear that Prof Arrow never went to a civil or criminal trial, especially with a jury. Remember the OJ Simpson trial! Oh yes, which one?

It is not worth continuing except to reiterate the Krugman comment at the beginning of his blog:

"One of the most influential economic papers of the postwar era was Kenneth Arrow's [Uncertainty and the welfare economics of health care](#), which demonstrated — decisively, I and many others believe — that health care can't be marketed like bread or TVs."

Well Mr Krugman, it is my belief that Prof Arrow may have been culturally impaired due to his lack of exposure to plumbers and electricians. The argument lacks merit and the Krugman rant does likewise.

Posted by Terry McGarty at [9:51 AM](#) 

Labels: [Health Care](#)

[MEDICAL HOME: EUPHEMISM FOR RATIONING?](#)

HR 3200 is rant with Government controls. I did not realize how much until I have spent days reading it. Every special interest, every wacko Congressperson, every fringe player have had their chance at throwing something in this festering soup. Today we talk of the Medical Home. Nice sounding name, is it not? But beware.

In a [CNN](#), of all places, web piece by Shawn Tully, the author lists five areas of major concern in the health bills. Some are spot on and some are open for interpretation. Yet hidden in the middle of the article is the following:

"The Senate bill requires that Americans buying through the exchanges -- and as we've seen, that will soon be most Americans -- must get their care through something called "medical home." Medical home is similar to an HMO. You're assigned a primary care doctor, and the doctor controls your access to specialists. The primary care physicians will decide which services, like MRIs and other diagnostic scans, are best for you, and will decide when you really need to see a cardiologists or orthopedists.

Under the proposals, the gatekeepers would theoretically guide patients to tests and treatments that have proved most cost-effective. The danger is that doctors will be financially rewarded for denying care, as were HMO physicians more than a decade ago. It was consumer outrage over despotic gatekeepers that made the HMOs so unpopular, and killed what was billed as the solution to America's health-care cost explosion."

Before commenting let us present the Bill and its wording. We use HR 3200 since I have been studying that at length. The Bill states:

"DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

TITLE II—MEDICARE BENEFICIARY IMPROVEMENTS Sec. 1302. Medical home pilot program.

SEC. 1302. MEDICAL HOME PILOT PROGRAM.

(a) IN GENERAL.—Title XVIII of the Social Security Act is amended by inserting after section 1866D, as inserted by section 1301, the following new section:

“MEDICAL HOME PILOT PROGRAM “SEC. 1866E.

(a) ESTABLISHMENT AND MEDICAL HOME MODELS.—

“(1) ESTABLISHMENT OF PILOT PROGRAM.— The **Secretary shall establish a medical home** pilot program (in this section referred to as the ‘pilot program’) **for the purpose of evaluating the feasibility and advisability of reimbursing qualified patient-centered medical homes for furnishing medical home services** (as defined under subsection (b)(1)) **to high need beneficiaries** (as defined in subsection (d)(1)(C)) and **to targeted high need beneficiaries** (as defined in subsection (c)(1)(C)).”

Now you must begin to parse the words. They are important. We will get to defining a Medical Home in a moment but read the enabling legislation. It is:

1. a pilot program
2. Targeted, and that I believe is an operative word, to (i) high need beneficiaries and (ii) targeted high need beneficiaries. Frankly I do not see the difference other than the word targeted, but wait, the Bill defines these terms.

The Medical Home pilot will do the following:

“(3) MODELS OF MEDICAL HOMES IN THE PILOT PROGRAM.—The pilot program shall evaluate each of the following medical home models: “(A) INDEPENDENT PATIENT-CENTERED MEDICAL HOME MODEL.—Independent patient centered medical home model under subsection (c). “(B) COMMUNITY-BASED MEDICAL HOME MODEL.—Community-based medical home model under subsection (d).”

Now to the Definitions:

“(b) DEFINITIONS.—For purposes of this section: ‘

“(1) PATIENT-CENTERED MEDICAL HOME SERVICES.—The term ‘patient-centered medical home services’ means services that—

“(A) provide beneficiaries with direct and ongoing access to a primary care or principal care by a physician or nurse practitioner who accepts responsibility for providing first contact, continuous and comprehensive care to such beneficiary;

“(B) coordinate the care provided to a beneficiary by a team of individuals at the practice level across office, institutional and home settings led by a primary care or principal care physician or nurse practitioner, as needed and appropriate;

“(C) provide for all the patient’s health care needs or take responsibility for appropriately arranging care with other qualified providers for all stages of life;

“(D) provide continuous access to care and communication with participating beneficiaries;

“(E) provide support for patient self-management, proactive and regular patient monitoring, support for family caregivers, use patient-centered processes, and coordination with community resources;

“(F) integrate readily accessible, clinically useful information on participating patients that enables the practice to treat such patients comprehensively and systematically; and

“(G) implement evidence-based guidelines and apply such guidelines to the identified needs of beneficiaries over time and with the intensity needed by such beneficiaries.

“(2) PRIMARY CARE.—The term ‘primary care’ means health care that is provided by a physician or nurse practitioner who practices in the field of family medicine, general internal medicine, geriatric medicine, or pediatric medicine.

“(3) PRINCIPAL CARE.—The term ‘principal care’ means integrated, accessible health care that is provided by a physician who is a medical subspecialist that addresses the majority of the personal health care needs of patients with chronic conditions requiring the subspecialist’s expertise, and for whom the subspecialist assumes care management.”

“(B) COMMUNITY-BASED MEDICAL HOME DEFINED.—In this section, the term ‘community-based medical home’ means a nonprofit community-based or State-based organization that is certified under paragraph (2) as meeting the following requirements:

“(i) The organization provides beneficiaries with medical home services.

“(ii) The organization provides medical home services under the supervision of and in close collaboration with the primary care or principal care physician or nurse practitioner designated by the beneficiary as his or her community-based medical home provider.

“(iii) The organization employs community health workers, including nurses or other non-physician practitioners, lay health workers, or other persons as determined appropriate by the Secretary, that assist the primary or principal care physician or nurse practitioner in chronic care management activities such as teaching self-care skills for managing chronic illnesses, transitional care services, care plan setting, medication therapy management services for patients with multiple chronic diseases, or help beneficiaries access the health care and community-based resources in their local geographic area.”

In some ways this is starting to sound like the old Public Health system of the 1920s and 1930s. Now to the high need beneficiary we spoke about above:

“(C) HIGH NEED BENEFICIARY.—In this section, the term ‘high need beneficiary’ means an individual who **requires regular medical monitoring, advising, or treatment.** ”

In a way this is the chronically ill, the Type 2 Diabetic, the congestive heart failure, the patient with COPD. It seems not to include the cancer patient, the broken leg, or even the day to day practice of medicine. It seems targeted at those who frankly use most of the health care facilities by their continuing return to them.

The program will be evaluated on the following:

“(e) EXPANSION OF PROGRAM.—

“(1) EVALUATION OF COST AND QUALITY.— The Secretary shall evaluate the pilot program to determine—

“(A) the extent to which medical homes result in—

“(i) **improvement in the quality and coordination of health care services, particularly with regard to the care of complex patients;**

“(ii) improvement in reducing health disparities;

“(iii) reductions in preventable hospitalizations;

“(iv) prevention of readmissions;

“(v) reductions in emergency room visits;

“(vi) improvement in health outcomes, including patient functional status where applicable;

“(vii) **improvement in patient satisfaction;**

“(viii) improved efficiency of care such as reducing duplicative diagnostic tests and laboratory tests; and

“(ix) reductions in health care expenditures...”

The patient concerns is seventh. But frankly the intent is not bad. It takes those patient who often dominate the costs, in almost all cases there is an existing diagnosis and course of the disease, and manages it. This is a patient management system. If you have Type 2 Diabetes they will try to manage you. If you have COPD the same applies. You may live a long time but the way it is managed now you may be seeing dozens of physicians and wasting resources. Is this rationing? Frankly I think not. It is good sense. It also is a trial.

And now how much will this cost? Well the Bill states:

“(1) OPERATIONAL COSTS.—For purposes of administering and carrying out the pilot program (including the design, implementation, technical assistance for and evaluation of such program), in addition to funds otherwise available, there shall be transferred from the Federal Supplementary Medical Insurance Trust Fund under section 1841 to the Secretary for the Centers for Medicare & Medicaid Services Program Management Account \$6,000,000 for each of fiscal years 2010 through 2014. Amounts appropriated under this paragraph for a fiscal year shall be available until expended.

“(2) PATIENT-CENTERED MEDICAL HOME SERVICES.—In addition to funds otherwise available, there shall be available to the **Secretary for the Centers for Medicare & Medicaid Services**, from the Federal Supplementary Medical Insurance Trust Fund under section 1841—

“(A) **\$200,000,000 for each of fiscal years 2010 through 2014** for payments for medical home services under subsection (c)(3); and

“(B) **\$125,000,000 for each of fiscal years 2012 through 2016**, for payments under subsection (d)(5). Amounts available under this paragraph for a fiscal year shall be available until expended.”

That is only a bit shy of \$2 billion. Peanuts!

So let's go back to the CNN article. Our approach has been to deal with the facts. The Medical Home is a Medicare Trial, and a worthwhile one indeed if it stays to the chronically ill. The author of the CNN article seems to imply that this Trial applies to all! I cannot find that in HR 3200. This continues a problem I have with the media, they fail to reference the specific statement, the words, and then they go off in a screaming tangent. Upon my first reading of the CNN piece I thought there would be fire here amongst the smoke. No, sorry, it may even be a great idea!

Posted by Terry McGarty at [5:38 AM](#) 

Labels: [Health Care](#)

[TYPE 2 DIABETES AND FATTYS](#)

In a recent article in [Science](#) the author does a wonderful job in providing an up to date review of just where the research is on Type 2 Diabetes and obesity.

The author concludes:

“One observation that seems indisputable is that when individuals lose weight, they become more insulin sensitive. If nothing else, this has given researchers the confidence to assume that excess body fat—particularly in the abdomen and around the internal organs— is a fundamental cause of insulin resistance. But that still avoids the question of what causes insulin resistance in lean individuals. This is something few researchers will even address, although one possibility is that they, too, simply can’t store fat safely in subcutaneous pads.

“The biggest question in the whole field of insulin resistance is still this direction of causality,” says O’Rahilly. “Does obesity make you insulin resistant? Or does underlying factor x cause both obesity and insulin resistance?””

Yet the remaining fact is that Type 2 Diabetes is prevalent in obese people 100 to 1 more times in those not and the article does articulate the fact that fat is the primary cause of inflammation which in turn is a causative factor in the insulin collapse chain.

Posted by Terry McGarty at [4:49 AM](#) 

Labels: [Health Care](#)

SATURDAY, JULY 25, 2009

[WHAT SIDE IS PEGGY NOONAN ON?](#)

I confess that I am not a follower of [Peggy Noonan](#), she tends to be a bit too much, but alas seeing the title of the most emailed article on the [WSJ](#) on health care I clicked and there I was smack dab in the middle of a [Noonan article](#).

Now as some of you may know I have gathered some knowledge on health care over the past 42 years, not enough ever to practice, God forbid, I like the disease more than the patient, a kind of Dr House persona, but at least I think I know a bit.

Now Noonan makes several points:

1. First she states "*make it illegal for a doctor not to charge or a hospital to fudge around, with mercy, in its billing*" but the point is not billing nothing and not charging but billing and ever collecting. One will always have a bad bunch who over bill, but for the most part physicians are the most honest people I know. Just look at the alternative, bankers and politicians, and I live in New Jersey, here they pols make the Mafia look like Mother Theresa!

2. The Bill does "*allow for or mandate taxpayer funding of abortion*" and this of course is a hot button, it is an in your face from the left wing Democrats. Yet the Bill gives an option for Christian Scientists to seek their own treatment from Practitioners and Nurses. This inclusion was really dumb on the part of the Dems, primarily because there are so many Catholic Hospitals and this would drive them out of existence. I know that Catholics are not well thought of, being one, but why eliminate what they do that has great value. There were ways to allow this without mandating. But again and alas it was the in your face politics from the left wing Dems.

3 This I totally disagree with! She states "*educated people who are at the top of American life feel they have the right to make very public criticisms of . . . let's call it the private, pleasurable but health-related choices of others...*" She continues "*Under a national health-care plan we might be hearing that a lot. You don't exercise, you smoke, you drink, you eat too much, and 'the rest of us have to pay for it.'*" Now here I depart. I depart strongly. If you were to drive drunk, text all the time, and do so at 90 mph, then I want you not only to pay more for your insurance but I want you off the road, period. If you are a fatty, smoke, and fail in general to care for yourself, and we have a universal plan, then I want you to either stop or pay more.

Now look at the new Surgeon General, a bit over the limit. Now look at the web site of the Surgeon General. It has a [page on childhood obesity](#) and a pledge that it asks children to sign. The Surgeon General letter for children states:

"Help Prevent Childhood Overweight and Obesity and Secure a Healthy Future for our Children

Today, more than 12.5 million children – 17 percent of children and adolescents ages 2 to 19 - are overweight. Teaching children the importance of healthy eating and physical activity at a young age is necessary to help prevent overweight and obesity in this country. Together we can make a difference.

As Surgeon General, I ask you to join this movement to help children achieve and maintain a healthy weight by making this promise:

SURGEON GENERAL'S PLEDGE

I pledge to:

- *Be a role model by making healthy choices for myself.*
- *Help children be physically active through everyday play and participation in sports.*
- *Support children's healthy eating habits.*

A healthy future is our gift to our children.

Signature"

One may very well ask if this pledge will be removed when the new Surgeon General arrives. One of her parents allegedly died of Diabetes and she appears to be obese if not morbidly so. Yes Ms. Noonan, people in glass houses, well not quite that aphorism! But you get the point.

Posted by Terry McGarty at [7:57 AM](#) 

Labels: [Health Care](#)

SATURDAY, JULY 25, 2009

[NEW BOOK ON HEALTH CARE POLICY](#)

I have just posted a book called [Health Care Policy: Politics vs Reality](#), a draft, which is an edited compilation of my White Papers since January. You may find it of interest since it places all of the factors on the table.

I especially enjoy my comments on Medicare. I state:

There have been many arguments that Medicare is broken. We will show here that such a statement is far from the truth. Indeed Congress is broken and is literally stealing money from Medicare. We will do this with a simple example.

"1. Assume that a person starts work in 1970 at the salary of \$16,000 per year. They get raises of 5% per year until they retire at 65 in 2005. Their final salary is \$107,000 per year.

2. Each year they have contributed 3% of their gross salary to the Medicare fund. That is gross with no cap. Assuming the fund invests the contribution at an average 6% rate for that period and it is compounded then in 2005 they have \$165,000.

3. Now they retire at 65 and they have an actuarial life of 12 more years. Medicare costs an average of \$12,000 per year as we show below. The net present value of these 12 payments of \$12,000 is \$100,000.

4. But, and this is an important BUT, they have contributed \$65,000 more than they will ever collect! Where did the money go? Congress spent it!

5. This gets worse the more you make. In the following chart we show how the contribution explodes as salary explodes. Remember the costs are the 12 years times the \$12,000. They are the same for everyone. The more you make the more the

Government collects."

I think all those at or near Medicare age should think of this fact. You more than paid for it and Congress just appropriated your money for themselves!

Posted by Terry McGarty at [7:46 AM](#) 

Labels: [Health Care](#)

[WE ARE BUSY IN THE GARDEN](#)



We are in the garden doing hybridizing. It means up at 4:30, watch out for the deer, keep the fences in tact, choose the plants, get the pollen before the bees do, do the crosses, enter the data, take the photos, enter the data, post to the web, and resort the data. A metaphor for life. But at the end we get new and beautiful hybrids.



The subtlety of color, the complexity of the patterns and the softness of the petals. Just thought I give all a break! After all Congress will be adjourning before they decide on health care, good idea!

Posted by Terry McGarty at [7:40 AM](#) 

Labels: [Commentary](#)

WEDNESDAY, JULY 22, 2009

[QUALITY, HR 3200, AND THE MEANING OF LIFE, LITERALLY!](#)

I have written about [quality in health care](#) a few weeks ago and have just published a [White Paper](#) on health care quality. In reading HR 3200 I see that they too have included quality. In fact the Bill is called:

H. R. 3200 “America’s Affordable Health Choices Act of 2009” *“To provide affordable, quality health care for all Americans and reduce the growth in health care spending, and for other purposes.”*

Now as we have said before quality is truly in the eye of the beholder, in this case the patient. If one has prostate cancer, quality care is not lots of morphine and just letting it met to the bone. Quality is engaging the patient in the process of managing his disease. Each patient is different, each patient has a different world view. Some dread incontinence, some sexual dysfunction, some pain. Thus the treatment of a patient, quality treatment, is a personalized interaction between patient and physician.

In HR 3200 they introduce sections defining as best as a politician can the idea of quality. It starts as follows:

“H. R. 3200 “America’s Affordable Health Choices Act of 2009”.

DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

TITLE IV—QUALITY

Subtitle C—Quality Measurements

SEC. 1441. ESTABLISHMENT OF NATIONAL PRIORITIES FOR QUALITY IMPROVEMENT.

Title XI of the Social Security Act, as amended by section 1401(a), is further amended by adding at the end the following new part:

“PART E—QUALITY IMPROVEMENT ‘ESTABLISHMENT OF NATIONAL PRIORITIES FOR PERFORMANCE IMPROVEMENT’ SEC. 1191.

(a) ESTABLISHMENT OF NATIONAL PRIORITIES BY THE SECRETARY.—The Secretary shall establish and periodically update, not less frequently than triennially, national priorities for performance improvement.

“(b) RECOMMENDATIONS FOR NATIONAL PRIORITIES.—In establishing and updating national priorities under subsection (a), the Secretary shall solicit and consider recommendations from multiple outside stakeholders.

“(c) CONSIDERATIONS IN SETTING NATIONAL PRIORITIES.—With respect to such priorities, the Secretary shall ensure that priority is given to areas in the delivery of health care services in the United States that—

“(1) contribute to a large burden of disease, including those that address the health care provided to patients with prevalent, high-cost chronic diseases;

“(2) have the greatest potential to decrease morbidity and mortality in this country, including those that are designed to eliminate harm to patients;

“(3) have the greatest potential for improving the performance, affordability, and patient centeredness of health care, including those due to variations in care;

“(4) address health disparities across groups and areas; and

“(5) have the potential for rapid improvement due to existing evidence, standards of care or other reasons.”

It then goes on to define quality as follows:

“(d) DEFINITIONS.—In this part:

“(1) CONSENSUS-BASED ENTITY.—The term ‘consensus-based entity’ means an entity with a contract with the Secretary under section 1890. ‘

“(2) QUALITY MEASURE.—The term ‘quality measure’ means a national consensus standard for measuring the performance and improvement of population health, or of institutional

providers of services, physicians, and other health care practitioners in the delivery of health care services...."

This is a deadly definition of quality. It is akin to what the [Brits have in their national system](#) where they use the QALY approach to the rationing of health care. The QALY approach looks at a disease and looks at the average quality of life for a variety of treatments. For example we consider prostate cancer. There are three treatments; do nothing, prostatectomy, radiation therapy. Each of these has an outcome and has a patient result in quality of life measurements. Thus is we consider the quality measures some weighted average of pain, sexual dysfunction and incontinence, then we get a quality measure for each treatment for each period of time after diagnosis. We then obtain the average across the country and see that for example doing nothing may have the least impact, the patient has longer time with no sexual dysfunction and incontinence and they die faster so the time with pain is less. Then we assign a cost. Doing nothing is cheap, just lots of morphine if the Government even allows that. The Brits then rank each treatment by the \$/QALY and permit the lowest cost treatment only! That means often doing nothing!

But what is wrong with this you may ask, for Congress has in effect placed this in the new Bill! What is wrong is that every patient is different and we are assuming the average. If you are average then you get the correct treatment. If you are not then you are mistreated.

Parsing the above definition is telling. Let us proceed:

1. "***national consensus***": this means an average across all and disregard to the individual. Medicine is a profession which deals with persons, individuals, and not large groups. Each person with prostate cancer is different. However the Congress drives this to an average. The Brit's QALY approach is just that, an average. God forbid if your disease is one sigma either way, the plan drives to the mean.
2. "***performance and improvement of population health***" This is NOT individual health, not individual quality, but the population as a whole, as an average. This takes the practice of Medicine and throws it out the door. Why take patient histories, just do a test, diagnose the disease, and use what is in column A. Why perhaps we do not need physicians, that good old obese GS 10 can handle it all on their own!
3. "***or of institutional providers of services, physicians, and other health care practitioners***" This again focuses on the delivery, and one suspects the costs of the delivery. If we make them all size 10. I remember the tale a fellow grad student told me at MIT. He lived on a Kibbutz and he was 6" 5" and had a size 14 shoe. The Kibbutz only had size 6 thru 10 shoes. He never got shoes because he was outside the range that was acceptable in the Kibbutz. Thus he move to the States where he could get shoes. In the HR 3200 plan it assumes that the delivery will be those size 6-10 shoes and God forbid if you have a 14 foot, You die!

The Bill then continues:

‘‘***SEC. 1192. DEVELOPMENT OF NEW QUALITY MEASURES.***

(a) AGREEMENTS WITH QUALIFIED ENTITIES.—

“(1) IN GENERAL.—The Secretary shall enter into agreements with qualified entities to develop quality measures for the delivery of health care services in the United States.

“(2) FORM OF AGREEMENTS.—The Secretary may carry out paragraph (1) by contract, grant, or otherwise.

“(3) RECOMMENDATIONS OF CONSENSUS BASED ENTITY.—In carrying out this section, the Secretary shall—

“(A) seek public input; and

“(B) take into consideration recommendations of the consensus-based entity with a contract with the Secretary under section 1890(a).

“(b) DETERMINATION OF AREAS WHERE QUALITY MEASURES ARE REQUIRED.

—Consistent with the national priorities established under this part and with the programs administered by the Centers for Medicare & Medicaid Services and in consultation with other relevant Federal agencies, the Secretary shall determine areas in which quality measures for assessing health care services in the United States are needed.

“(c) DEVELOPMENT OF QUALITY MEASURES.—

“(1) PATIENT-CENTERED AND POPULATION BASED MEASURES.—Quality measures developed under agreements under subsection (a) shall be designed—

“(A) to assess outcomes and functional status of patients;

“(B) to assess the continuity and coordination of care and care transitions for patients across providers and health care settings, including end of life care;

“(C) to assess patient experience and patient engagement;

“(D) to assess the safety, effectiveness, and timeliness of care;

“(E) to assess health disparities including those associated with individual race, ethnicity, age, gender, place of residence or language;

“(F) to assess the efficiency and resource use in the provision of care;...”

Finally the Bill defines the Stakeholders who will assist in the definitions. It states:

"SEC. 1443. MULTI-STAKEHOLDER PRE-RULEMAKING INPUT INTO SELECTION OF QUALITY MEASURES....

“(6) *MULTI-STAKEHOLDER GROUPS.*—For purposes of this subsection, the term ‘multi-stakeholder groups’ means, with respect to a quality measure, a voluntary collaborative of organizations representing persons interested in or affected by the use of such quality measure, such as the following:

- “(A) *Hospitals and other institutional providers.*
- “(B) *Physicians.*
- “(C) *Health care quality alliances.*
- “(D) *Nurses and other health care practitioners.*
- “(E) *Health plans.*
- “(F) *Patient advocates and consumer groups.*
- “(G) *Employers.*
- “(H) *Public and private purchasers of health care items and services.*
- “(I) *Labor organizations.*
- “(J) *Relevant departments or agencies of the United States.*
- “(K) *Biopharmaceutical companies and manufacturers of medical devices.*
- “(L) *Licensing, credentialing, and accrediting bodies.*”

Does anyone notice who is missing from this list? The patient. There should be one and only one advocacy group and that should and must be the patient. The patient along with their physician should decide. Not some gang from Washington or the south side of Chicago!

Who (what) is a patient advocacy group? It is some political organization whose sole purpose is its own continuation. They, the Government, have all of these "stakeholders", entities interested in lining their own nests and pockets, but the poor patient is left out in the cold. Remember this bill looks at the average patient, not even plus or minus one standard deviation. The arrogance of assembling this group of people is an insult to the American patients who as taxpayers are paying for this collections of lobbyists. This Bill is a full employment Bill for Lobbyists!

Finally the Bill advocates the use of these measures as follows:

"SEC. 1444. APPLICATION OF QUALITY MEASURES.


(a) *INPATIENT HOSPITAL SERVICES.*—Section 1886(b)(3)(B) of such Act (42 U.S.C. 1395ww(b)(3)(B)) is amended by adding at the end the following new clause:...

“(x)..

(I) *Subject to subclause (II), for purposes of reporting data on quality measures for inpatient hospital services furnished during fiscal year 2012 and each subsequent fiscal year, the quality measures specified under clause (viii) shall be measures selected by the Secretary from measures that have been endorsed by the entity with a contract with the Secretary under section 1890(a).*

“(II) In the case of a specified area or medical topic determined appropriate by the Secretary for which a feasible and practical quality measure has not been endorsed by the entity with a contract under section 1890(a), the Secretary may specify a measure that is not so endorsed as long as due consideration is given to measures that have been endorsed or adopted by a consensus organization identified by the Secretary. The Secretary shall submit such a non-endorsed measure to the entity for consideration for endorsement. If the entity considers but does not endorse such a measure and if the Secretary does not phase-out use of such measure, the Secretary”

Finally we have the Secretary of HHS selecting the quality measures! Health care is now a fully political process! You cannot make this up. The poor patient is thrown onto the ash heap of politics and their health care is reduced to political whims!

Posted by Terry McGarty at [4:00 PM](#) 

Labels: [Health Care](#)

READING HR 3200: THE IRS AS ENFORCER

I have often admired the intelligence and persistence of Talmudic Scholars, those wise men who dedicate their lives to understanding the law, Hebrew Law, the law of God. The writings are presented and then discussed, debated, and interpreted. Then the opinions are recorded. In HR 3200 we need the wisdom of a fine group of such men. This is not a statement meant for humor of any type, it is a statement of sincere respect and of desperate need.

There are many [blogs](#) out there which are flailing about making statements that have at best questionable merit. I have been spending time reading this bill, slowly and not as well as any scholar, but having been through this process many times before helps but still leaves much in question.

In today's discussion we talk about the IRS becoming the police force for the Health Care Bill, HR 3200, a fact which seems to have been missed. People speak of getting health care from the motor vehicle bureau, but imagine having the IRS oversee your compliance. One agency more feared than the Taliban is the IRS. Never, never, I repeat, never, get the IRS upset. Overpay taxes, avoid deductions, and do whatever to stay away from their tentacles. But alas this Bill places them in the middle as the enforcer. Let me quote from the Bill.

"TITLE III—SHARED RESPONSIBILITY

Subtitle A—Individual Responsibility

SEC. 301. INDIVIDUAL RESPONSIBILITY.

For an individual's responsibility to obtain acceptable coverage, see section of the Internal Revenue Code of 1986 (as added by section 401 of this Act).

SEC. 322. SATISFACTION OF HEALTH COVERAGE PARTICIPATION REQUIREMENTS UNDER THE INTERNAL REVENUE CODE OF 1986.

(a) FAILURE TO ELECT, OR SUBSTANTIALLY COMPLY WITH, HEALTH COVERAGE PARTICIPATION REQUIREMENTS.—For employment tax on employers who fail to elect, or substantially comply with, the health coverage participation requirements described in part 1, see section 3111(c) of the Internal Revenue Code of 1986 (as added by section 412 of this Act).

(b) OTHER FAILURES.—For excise tax on other failures of electing employers to comply with such requirements, see section 4 of the Internal Revenue Code of 1986 (as added by section 411 of this Act).

TITLE IV—AMENDMENTS TO INTERNAL REVENUE CODE OF 1986*Subtitle A—Shared Responsibility***PART 1—INDIVIDUAL RESPONSIBILITY****SEC. 401. TAX ON INDIVIDUALS WITHOUT ACCEPTABLE HEALTH CARE COVERAGE.**

(a) IN GENERAL.—Subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new part: “Subpart A—Tax on Individuals Without Acceptable Health Care Coverage “Sec. . Tax on individuals without acceptable health care coverage. “SEC. . TAX ON INDIVIDUALS WITHOUT ACCEPTABLE HEALTH CARE COVERAGE.

“(a) TAX IMPOSED.—In the case of any individual who does not meet the requirements of subsection (d) at any time during the taxable year, there is hereby imposed a tax equal to 2.5 percent of the excess of—

“(1) the taxpayer’s modified adjusted gross income for the taxable year, over

“(2) the amount of gross income specified in section 6012(a)(1) with respect to the taxpayer.

SEC. 6050X. RETURNS RELATING TO HEALTH INSURANCE COVERAGE.

“(a) REQUIREMENT OF REPORTING.—Every person who provides acceptable coverage (as defined in section (d)) to any individual during any calendar year shall, at such time as the Secretary may prescribe, make the return described in subsection (b) with respect to such individual.

“(b) FORM AND MANNER OF RETURNS.—A return is described in this subsection if such return—

“(1) is in such form as the Secretary may prescribe, and

“(2) contains—

“(A) the name, address, and TIN of the primary insured and the name of each other individual obtaining coverage under the policy,

“(B) the period for which each such individual was provided with the coverage referred to in subsection (a), and

“(C) such other information as the Secretary may require.

“(c) STATEMENTS TO BE FURNISHED TO INDIVIDUALS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each primary insured whose name is required to be set forth in such return a written statement showing—

“(1) the name and address of the person required to make such return and the phone number of the information contact for such person, and

“(2) the information required to be shown on the return with respect to such individual. The written statement required under the preceding sentence shall be furnished on or before January 31 of the year following the calendar year for which the return under subsection (a) is required to be made.”


Well, what does this say. I think it simply states that the IRS will become the policeman for compliance. You must report your coverage to the IRS, if you do not have any you them must pay a fine, and if you falsely make statements then you are guilty of tax fraud. Remember that the IRS already has rules and regulations to take your property if you defraud them and in addition you have now added to your tax burden. Our Secretary of the Treasury has just gathered more power, and one who himself had problems with the taxes.

One must also remember that the Bill from Congress when signed by the President becomes an authorizing legislation. It authorizes HHS and Treasury Secretaries to them create the Administrative law to enforce this. Administrative law is the billions of lines of law which implement the legislation passed. It is controlled by administrative law judges, not judges and juries, who make non recourse decisions. There are more administrative law judges than civil and criminal judges combined.

This is a shadow judicial system which in many ways flies in the face of the Constitution. The create Star Chambers, a practice which the Constitution eschewed, but via these types of legislation have returned.

It is a shame that we have many bloggers making statements without basis. There are true concerns in this Bill, concerns which need study. Where are the Talmudic Scholars in this realm? It may not be our souls at risk but it is our bodies!

For anyone who has ever been audited, remember, the IRS code is the only US code which assumes you are guilty until you prove you are innocent!

Posted by Terry McGarty at [12:00 PM](#) 

Labels: [Health Care](#)

TUESDAY, JULY 21, 2009

[BERNAKE, THE FED, AND WHAT WE HAVE WORRIED ABOUT!](#)

Fed Chairman Bernake published a letter in the [WSJ](#) today stating:

*"The exit strategy is closely tied to the management of the Federal Reserve balance sheet. When the Fed makes loans or acquires securities, the funds enter the banking system and ultimately appear in the reserve accounts held at the Fed by banks and other depository institutions. **These reserve balances now total about \$800 billion, much more than normal.** And given the current economic conditions, banks have generally held their reserves as balances at the Fed.*

*But as the economy recovers, banks should find more opportunities to lend out their reserves. That would **produce faster growth in broad money (for example, M1 or M2)** and easier credit conditions, which could ultimately result in inflationary pressures—unless we adopt countervailing policy measures. When the time comes to tighten monetary policy, we must either eliminate these large reserve balances or, if they remain, neutralize any potential undesired effects on the economy."*

This is what we have been complaining about for months, since October of last year and it was the basis of our most recent White Paper. He continues:

*"The **exit strategy is closely tied to the management of the Federal Reserve balance sheet.** When the Fed makes loans or acquires securities, the funds enter the banking system and ultimately appear in the reserve accounts held at the Fed by banks and other depository institutions. **These reserve balances now total about \$800 billion, much more than normal.** And given the current economic conditions, banks have generally held their reserves as balances at the Fed."*

Again this is exactly what we have been arguing. It is the control of M2 growth as the Fed balance sheet implodes. This still means drastic inflation. Bernake knows the problem and this may be a plea to Congress to keep him there to manage it. Not to put Summers in his place. We feel the replacement of Bernake with Summers would potentially destroy the US economy. Bernake is always looking over his shoulder, reconsidering and re-planning, he is highly adaptive. In our opinion Summers totally believes in his current plan at least until he comes up with another. Just look at the stimulus plan, it frankly is not working. Bernake is an adaptive self checking individual, so keep him there.

Just look at his options for an exit strategy:

"First, the Federal Reserve could drain bank reserves and reduce the excess liquidity at other institutions by arranging large-scale reverse repurchase agreements with financial market participants, including banks, government-sponsored enterprises and other institutions. Reverse

repurchase agreements involve the sale by the Fed of securities from its portfolio with an agreement to buy the securities back at a slightly higher price at a later date.

Second, the Treasury could sell bills and deposit the proceeds with the Federal Reserve. When purchasers pay for the securities, the Treasury's account at the Federal Reserve rises and reserve balances decline....

Third, using the authority Congress gave us to pay interest on banks' balances at the Fed, we can offer term deposits to banks—analogueous to the certificates of deposit that banks offer their customers....

Fourth, if necessary, the Fed could reduce reserves by selling a portion of its holdings of long-term securities into the open market.

Each of these policies would help to raise short-term interest rates and limit the growth of broad measures of money and credit, thereby tightening monetary policy..."

Yes, increasing short term rates will occur and we believe there will be an inversion of the yield curve and a modest recession resulting from that rebound. It is necessary. Yet the snake in the wood pile of this plan is the tax and deficit explosions created by the current President. We are already seeing the destruction of many small venture capital companies and thus the elimination of long term value. If the policies continue we could become worse than France, Germany perhaps...

Posted by Terry McGarty at [7:36 AM](#) 

Labels: [Economy](#)

[COMPARATIVE CLINICAL EFFECTIVENESS AND HR 3200](#)

In evaluating parts of HR 3200 as we did yesterday we have now begun to delve into the more arcane parts. Let us address the parts of the bill that refer to CCE. There appear to be two. and they are:

DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

TITLE IV—QUALITY

Subtitle A—Comparative Effectiveness Research

SEC. 1181. (a) CENTER FOR COMPARATIVE EFFECTIVENESS RESEARCH ESTABLISHED.—

*(1) IN GENERAL.—The Secretary shall establish within the **Agency for Healthcare Research and Quality a Center for Comparative Effectiveness Research** (in this section referred to as the "Center") to conduct, support, and synthesize research (including research conducted or supported under section 1013 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003) with respect to the outcomes, effectiveness, and appropriateness of health care services and procedures in order to identify the manner in which diseases, disorders,*

and other health conditions can most effectively and appropriately be prevented, diagnosed, treated, and managed clinically.

Thus the Secretary of HHS shall establish another Government Agency to do this CCE effort. Amongst its duties will be:

"(A) conduct, support, and synthesize research relevant to the comparative effectiveness of the full spectrum of health care items, services and systems, including pharmaceuticals, medical devices, medical and surgical procedures, and other medical interventions;

(B) conduct and support systematic reviews of clinical research, including original research conducted subsequent to the date of the enactment of this section;"

Yet it does not end here for it further states:

*"(1) IN GENERAL.—The Secretary shall establish an independent **Comparative Effectiveness Research Commission** (in this section referred to as the "Commission") to oversee and evaluate the activities carried out by the Center under subsection (a), subject to the authority of the Secretary, to ensure such activities result in highly credible research and information resulting from such research..."*

Thus we have a new Government body plus an oversight group. Its purpose is:

*"(A) **determine national priorities for research** described in subsection (a) and in making such determinations consult with a broad array of public and private stakeholders, including patients and health care providers and payers;"*

Thus this group will decide what the research priorities should be. This is a bit backwards to say the least. There is a well established infrastructure in the US and elsewhere where such research is being done in a peer review manner on a daily basis. Why do we need a Government entity and oversight. As far as one can see this is acting as the guiding light. Research is NOT done that way, it is highly distributed and combative. Ideas and data are thrown into the arena and allowed to be digested and the truth, whatever it may be, is supposed to emerge. I continue to come back to the prostate studies and the rebuttals. This can be done and is done daily in NEJM and the other professional journals. Why have the Government do what is already being done, and done well.

Then the Bill continues as follows:

"DIVISION C—PUBLIC HEALTH AND WORKFORCE DEVELOPMENT

TITLE IV—QUALITY AND SURVEILLANCE

Subtitle D—Adapting Workforce to Evolving Health System Needs

SEC. 2401. IMPLEMENTATION OF BEST PRACTICES IN THE DELIVERY OF HEALTH CARE.

“PART D—IMPLEMENTATION OF BEST PRACTICES IN THE DELIVERY OF HEALTH CARE

“SEC. 931. CENTER FOR QUALITY IMPROVEMENT.”

It is to create:

*“(a) IN GENERAL.—There is established the **Center for Quality Improvement** (referred to in this part as the ‘Center’), to be headed by the Director.”*

Its function is to:

*“(1) **identify existing best practices** under sub section (e);*

*“(2) **develop new best practices** under sub section (f);*

*“(3) **evaluate best practices** under subsection (g);*

*“(4) **implement best practices** under subsection (h);*

*“(5) **ensure that best practices are identified, developed, evaluated, and implemented under this section consistent with standards adopted by the Secretary...**”*

Now in reading the above one sees that implementing under subsection (h) is most critical. This states:

“(h) IMPLEMENTATION OF BEST PRACTICES.—

*“(1) IN GENERAL.—The Director shall enter into **voluntary arrangements** with health care providers (including hospitals and other health facilities and health practitioners) in a State or region to implement best practices identified or developed under this section. Such implementation—*

“(A) may include forming collaborative multi-institutional teams; and

“(B) shall include an evaluation of the best practices being implemented, including the measurement of patient outcomes before, during, and after implementation of such best practices.

“(2) PREFERENCES.—In carrying out this sub section, the Director shall give priority to health care providers implementing best practices that—

“(A) have the greatest impact on patient outcomes and satisfaction;

“(B) are the most easily adapted for use by health care providers across a variety of health care settings;

“(C) promote coordination....”

Thus as best we can see, there are now two new CCE institutions and several committees but the implementation is **voluntary**.

This question is why is this necessary since it is being done and done well already, and why does the Government believe that it can not only do this but do it better! This is centralizing medical research and the results when the process is naturally a distributed process. No one study is ever definitive, no two patients are the same, and no Government plan ever works as anticipated.

Posted by Terry McGarty at [7:09 AM](#) 

Labels: [Health Care](#)

MONDAY, JULY 20, 2009

[HR 3200 : HEALTH CARE I THINK](#)

[HR 3200](#) is the health care bill approved by Dodd and Kennedy sent from the House. We look at it in some detail here. Here we go:

H. R. 3200 : “America’s Affordable Health Choices Act of 2009”

DIVISION A—AFFORDABLE HEALTH CARE CHOICES

TITLE I—PROTECTIONS AND STANDARDS FOR QUALIFIED HEALTH BENEFITS PLANS

Subtitle A—General Standards

Subtitle B—Standards Guaranteeing Access to Affordable Coverage

Subtitle C—Standards Guaranteeing Access to Essential Benefits

Subtitle D—Additional Consumer Protections

Subtitle E—Governance

Subtitle F—Relation to Other Requirements; Miscellaneous

Subtitle G—Early Investments

1. Insurance Market Reforms. Subtitle A will reform the individual and group health insurance markets in all 50 states to promote availability of coverage for all individuals and employer groups. **Under these new requirements, premium payments for insurance policies within each market will be permitted to vary only by family**

structure, geographic region, the actuarial value of benefits provided, tobacco use and age. Rates specifically will not be permitted to vary based on gender, class of business, or claims experience. Rating by age will be permitted to vary by no more than a factor of two to one. Insurers will be permitted to incentivize health promotion and disease prevention practices. Guaranteed issue and guaranteed renewability will be required in all states in each individual and group health insurance market. (§ 2701, 2702, 2703)

They will allow for age but not weight! There are many healthy old folks but a great deal more fat young people. This is clear age discrimination, but wait it gets worse.

2. **Bringing Down the Cost of Health Care Coverage.** Health insurers offering group or individual policies will be required to publically report the percentage of total premium revenue that is expended on clinical services, quality and all other non-claims costs as determined by the Secretary of Health and Human Services. (§ 2704)

Transparency should apply even to their public option.

3. **Prohibiting Discrimination Based on Health Status.** In issuing health insurance policies, insurers will not be permitted to establish terms of coverage based on any applicant's health status, medical condition (including physical and mental illness), claims experience, prior receipt of health care, medical history, genetic information, evidence of insurability (such as being a victim of domestic violence), or disability. (§2706)

This is essential if you want universal coverage.

4. **Ensuring the Quality of Care.** Health insurance policies will be required to include financial incentives to reward the provision of high quality care that include case management, care coordination, chronic disease management, wellness and health promotion activities, child health measures, activities to improve patient safety and reduce medical errors, as well as culturally and linguistically appropriate care. (§2707)

This is the door to rationing. They get to define "quality" and like Pirsig and his motorcycle it can drive you crazy or kill you!

5. **Coverage of Preventive Health Services.** Health insurance policies will not be allowed to impose more than minimal cost sharing for certain preventive services endorsed by the U. S. Preventive Services Task Force as clinically and cost effective, for immunizations recommended by the CDC, and for certain child preventive services recommended by the Health Resources and Services Administration. (§2708)

Again the Government gets to define preventive. Why one wonders is the Government in the profession of Medicine, they do not even have a license.

6. **Extension of Dependent Adults:** All individual and group coverage policies will be required to continue offering dependent coverage for children until the child turns age 26, according to regulations to be established by the Secretary of Health & Human Services. (§2709)

The extension to age 26 is nothing more than forcing parents to pay for their liberated children. At 21 they should be on their own. The pressure of doing so will make them responsible.

7. No Lifetime or Annual Limits. No individual or group health insurance policy will be permitted to establish lifetime or annual limits on the dollar value of benefits for any enrollee or beneficiary. (§ 2710)
8. Notification by Plans Not Providing Minimum Qualifying Coverage. Health plans that fail to provide minimum qualifying coverage shall notify enrollees prior to enrollment or re-enrollment, according to regulations to be established by the Secretary of Health & Human Services. (§ 2711)
9. Promotion of Choice of Health Insurance. **The Secretary will develop standards for Gateways plans to provide summaries of benefits in a standard format.** Also prohibits rescission of coverage after plan issue and provides grants to States to establish health insurance customer assistance Prohibition of Discrimination Based on Salary. Health insurers will not be permitted to limit eligibility based on the wages or salaries of employees. (§ 2719)
10. **No Changes to Existing Coverage. There is no requirement that an individual must terminate his or her coverage in a plan in which the individual was enrolled prior to enactment of this Act. Family members, new employees, are able to enroll in health plans operating prior to enactment. This provisions in this subtitle will not apply to any individual or plan in which enrollment began prior to the effective date of the Act regardless of whether the individual renews coverage.** The provisions of the subtitle do not apply to collective bargaining agreements ratified prior to the date of enactment or self-insured group health plans. Existing coverage plans are also excluded from the risk adjustment procedures established in section 142. The subtitle applies if significant changes are made to the existing health insurance plan, according to regulations to be established by the Secretary of Health & Human Services. (§ 131, 132, 133)

You must really read the Bill and between the lines.

TITLE II—HEALTH INSURANCE EXCHANGE AND RELATED PROVISIONS

Subtitle A—Health Insurance Exchange

Subtitle B—Public Health Insurance Option

Subtitle C—Individual Affordability Credits

1. **Building on the Success of the Federal Employees Health Benefit Program so All Americans have Affordable Health Benefit Choices. It is the sense of the Senate that Congress should establish a means for All Americans to have affordable choices in health benefit plans, in the same manner as Members of Congress. (§ 141)**

2. Affordable Choices of Health Benefit Plans. **Each state will have an Affordable Health Benefit Gateway, established either by the state or by the Secretary of Health and Human Services that will be administered through a governmental agency or non-profit organization.** Within 60 days of enactment, the Secretary will make planning grant awards to states to undertake activities related to establishing their own Gateway. The Gateway exists to facilitate voluntary purchase of health insurance coverage and related insurance products at an affordable price by qualified individuals and qualified employer groups. States may require benefits in addition to essential health benefits but must assume additional costs. Risk pools include all enrollees in an individual plan or a group health plan. The Gateway will include a public health insurance option. The Gateway will establish procedures to qualify interested health plans to offer their health insurance policies through the Gateway. (§ 3101)
3. Gateway Functioning. **The Gateway will develop tools to enable consumers to make coverage choices, and set up open enrollment periods to enroll in qualified health plans. After initial federal financial support, Gateways will become financially self-sustaining through establishing a surcharge on participating health plans. The Gateways will use risk adjustment mechanisms to remove incentives for plans to avoid offering coverage to those with serious health needs. Gateways will establish enrollment procedures to enable individuals to sign up for coverage, including Gateway plans with premium credits,** Medicaid, CHIP, and others. The Secretary will establish a website through which individuals may connect to their state Gateway to purchase coverage. States may form regional Gateways operating in more than one state; states may establish subsidiary regional Gateways, as long as each Gateway serves a distinct region. (§ 3101)
4. Existing Markets. **If individuals like their current coverage, they can keep it. Licensed health insurers will be able to sell health insurance policies outside of the Gateway. Any resident will be able to purchase health insurance outside the Gateway, including policies which do not meet standards to be a qualified health plan.** States will regulate health insurance sold outside the Gateway. State insurance regulators will perform their traditional obligations regarding consumer protection and market conduct. For qualified health plans sold through the Gateway, the Secretary will issue regulations regarding marketing, network adequacy, and understandability for consumers. The Secretary will establish policies to facilitate enrollment, including use of electronic enrollment tolls, and provide grants to enhance community-based enrollment and public education campaigns, and policies for the certification of qualified health plans. (§ 3101)
5. Financial Integrity. The Department of Health and Human Services will oversee the financial integrity of Gateways by conducting annual audits, requiring financial reporting, and other measures, and the Secretary may rescind payments from state Gateways that fail to follow federal requirements. The Secretary shall also establish procedures and protections to guard against fraud and abuse. Additionally, the Comptroller General will conduct ongoing reviews of Gateway operations and administration. (§ 3102)

6. **Program Design.** The Secretary shall establish the essential health care benefit design which shall include at least ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health and substance abuse services, prescription drugs, rehabilitative and abilitative services and devices, laboratory services, preventive and wellness services, and pediatric services. The Secretary must submit a report to Congress certified by the Chief Actuary of the Centers for Medicare and Medicaid Services that the health benefits meet these requirements. Develops a one-time, temporary, and independent commission to advise the Secretary in the development of the essential benefit package. (§ 3103)
7. **Qualifying Coverage.** Qualifying coverage includes any coverage under which an individual is enrolled on the date of enactment of the law, and – after the date of enactment – coverage the meets the criteria for minimum qualifying coverage to satisfy personal responsibility standards, and coverage which meets grandfather standards. Coverage through Medicare, Medicaid, the CHIP, TRICARE, Veteran’s Health, FEHB, the medical program of the Indian Health Service, a state health benefit high risk pool, and others meet the conditions for minimum qualifying coverage. A religious exemption will also apply to these standards. Coverage is determined to be unaffordable if the premium paid by the individual is greater than 12.5 percent of the individual’s adjusted gross income. The Secretary shall establish an affordability standard and procedures for updating this standard linked to the Consumer Price Index for urban consumers. (§ 3103)
8. **State Participation.** States have three options regarding their preferred participation in the Gateway. An “establishing state” is one that proactively seeks such status to launch its Gateway as early as possible and which meets the requirements of the law. A “participating state” requests that the Secretary establish an initial Gateway once all necessary insurance market reforms have been enacted by the state into law, and other requirements have been met. In a state that does not act to conform to the new requirements, the Secretary shall establish and operate a Gateway in the state after a period of six years, and such state will become a “participating state.” Until a state becomes either an establishing or participating state, the residents of that state will not be eligible for premium credits, an expanded Medicaid match, or small business credits. (§ 3104)
9. **Navigators.** States will receive federal support to contract with private and public entities to act as health coverage “navigators” to assist employers, workers, and self-employed individuals seeking to obtain quality and affordable coverage through Gateways. Entities eligible to become navigators could include trade, industry and professional organizations, unions and chambers of commerce, small business development centers, and others. The navigators will conduct public education activities, distribute information about enrollment and premium credits, and provide enrollment assistance. Health insurers or parties that receive financial support from insurers to assist with enrollment are ineligible to serve as navigators. (§ 3105)

10. Community Health Insurance Option. **The Secretary will establish a community health insurance option that complies with the health plan requirements established by this title and provides only the essential health benefits established in section 3103, except in States that offer additional benefits.** There are no requirements that health care providers participate in the plan or that individuals join the plan. The premiums must be sufficient to cover the plan's cost. The Secretary shall negotiate rates for provider reimbursement. Reimbursement rates will be negotiated by the Secretary and shall not be higher than the average of all Gateway reimbursement rates. A "Health Benefit Plan Start-up Trust Fund" will be created to provide loans for the initial operations of the community health insurance plan, which the plan will be required to pay back no later than 10 years after the payment is made. After the first 90 days of operation, the community health plan will be subject to a Federal solvency standard, established by the Secretary, and will be required to have a reserve fund that is at least equal to the dollar value of incurred claims. Each state will establish a State Advisory Council to provide recommendations to the Secretary on the policies and procedures of the community health insurance plan. (§ 3105)
11. **Contracting of Community Health Insurance Option. The Secretary shall contract with qualified nonprofit entities to administer the community health insurance plan in the same manner as Medicare program contracting. The contractor will receive a fee from the Department of Health and Human Services, which may be increased or reduced depending on the contractor's performance in reducing costs and providing high-quality health care and customer service.** Contracts will last between 5 and 10 year-terms, at the end of which there will be a competitive bidding process for new and renewed contracts. (§ 3105)

TITLE III—SHARED RESPONSIBILITY

Subtitle A—Individual Responsibility

Subtitle B—Employer Responsibility

This section details the requirements for both personal and company payments. This should be read carefully.

1. Shared Responsibility Payments. **All individuals will be required to obtain health insurance coverage.** Exemptions will also be made for individuals for whom affordable health care coverage is not available or for those for whom purchasing coverage creates an exceptional financial hardship. The minimum penalty to accomplish the goal of enhancing participation in qualifying coverage will be no more than \$750 per year. Individuals deemed to lack availability to affordable coverage (as determined in section 3103), Indians, individuals living in states where Gateways are not yet, and individuals with
2. Reporting of Health Insurance Coverage. **Health plans providing qualified health insurance will file a return containing information regarding health insurance**

coverage. The return shall include basic information including the number of months during which the individual was covered. Health plans shall provide this information in writing to covered individuals. **The IRS shall notify individuals who file income tax returns and are not enrolled in qualifying coverage and shall include information on services available through the Gateway.** Employers must provide written notification informing employees about the Gateway. (§ 6055)

3. Shared Responsibility of Employer. Employers with more than 25 employees who do not offer qualifying coverage (as determined in section 3103) or who pay less than 60 percent of their employees' monthly premiums are subject to a \$750 annual fee per uninsured full-time employees and \$375 per uninsured part-time employees. For employers subject to the assessment, the first 25 workers will be exempted. Beginning in 2013, the penalty amounts will be adjusted using the Consumer Price Index for urban consumers. Employers with 25 or fewer employees are exempt from penalties and are eligible for program credits in section 3112. (§ 3115) Definitions: (§ 3116)
 - a. **Public health insurance option: Policy under discussion.**
 - b. **Eligible individuals are citizens or lawfully admitted permanent residents of the U.S. who are enrolled in a qualified health plan.** Those eligible for other public programs are not eligible for credits, but a special rule applies to CHIP. Those in CHIP (or their parents) are able to determine whether staying in CHIP works best for them, or whether moving to the Gateway is best. Either choice is permissible, but the individual cannot "double dip" by getting funding from both the Gateway and CHIP.
 - c. Qualified employer is an employer who chooses to make employees eligible for a qualified health plan. If enrollment takes place through a Gateway, the employer must meet State or federal criteria. The initial federal criteria are set so that only small firms are qualified. Participating employers with up to 50 employees may continue participation in the Gateway if they subsequently grow to more than 50 employees.
 - d. **Qualified health plan means a plan has certification issued by a Gateway and is offered by a licensed health insurance company.** The health insurer must agree to offer at least one qualifying health plan with appropriate cost sharing levels, comply with regulation and pay any surcharge. This includes the community health insurance option.
 - e. Additional health plan requirements: Plans must make available for enrollees and potential enrollees descriptions of benefits offered, service area, cost-sharing, premiums, access to providers and grievance/appeals procedures.
 - f. **Quality standards for health plans: Plans must provide the essential health care benefits established in this Act and be accredited by the National Committee for Quality Assurance or an equivalent entity.** Plans must implement incentives for high quality care and improving health outcomes through strategies such as reporting, case management, care coordination, chronic disease management compliance initiatives and prevention of hospital readmission. Plans must encourage patient safety and reduction of medical errors through best practices, evidence based medicine and health information technology.

- g. A qualified individual is residing in a participating or establishing State, not incarcerated, not eligible for Medicare or Medicaid, TRICARE, FEHBP, or any qualifying employer-sponsored coverage.
- h. An eligible employee is an individual for whom if the employer-sponsored coverage does not meet criteria for minimum qualifying coverage or is not affordable for the employee.
- i. Adjusted gross income is determined by section 62(a) of the Internal Revenue Code.

TITLE IV—AMENDMENTS TO INTERNAL REVENUE CODE OF 1986

Subtitle A—Shared Responsibility

Subtitle B—Credit for Small Business Employee Health Coverage Expenses

Subtitle C—Disclosures To Carry Out Health Insurance Exchange Subsidies

Subtitle D—Other Revenue Provisions

DIVISION B—MEDICARE AND MEDICAID IMPROVEMENTS

TITLE I—IMPROVING HEALTH CARE VALUE

Subtitle A—Provisions Related to Medicare Part A

Subtitle B—Provisions Related to Part B

Subtitle C—Provisions Related to Medicare Parts A and B

Subtitle D—Medicare Advantage Reforms

Subtitle E—Improvements to Medicare Part D

Subtitle F—Medicare Rural Access Protections

TITLE II—MEDICARE BENEFICIARY IMPROVEMENTS

Subtitle A—Improving and Simplifying Financial Assistance for Low Income Medicare Beneficiaries

Subtitle B—Reducing Health Disparities

Subtitle C—Miscellaneous Improvements

TITLE III—PROMOTING PRIMARY CARE, MENTAL HEALTH SERVICES, AND COORDINATED CARE

TITLE IV—QUALITY

Subtitle A—Comparative Effectiveness Research
Subtitle B—Nursing Home Transparency
Subtitle C—Quality Measurements
Subtitle D—Physician Payments Sunshine Provision
Subtitle E—Public Reporting on Health Care-Associated Infections

TITLE V—MEDICARE GRADUATE MEDICAL EDUCATION

TITLE VI—PROGRAM INTEGRITY

Subtitle A—Increased Funding To Fight Waste, Fraud, and Abuse
Subtitle B—Enhanced Penalties for Fraud and Abuse
Subtitle C—Enhanced Program and Provider Protections
Subtitle D—Access to Information Needed To Prevent Fraud, Waste, and Abuse

TITLE VII—MEDICAID AND CHIP

Subtitle A—Medicaid and Health Reform
Subtitle B—Prevention
Subtitle C—Access
Subtitle D—Coverage
Subtitle E—Financing
Subtitle F—Waste, Fraud, and Abuse
Subtitle G—Puerto Rico and the Territories
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TITLE VIII—REVENUE-RELATED PROVISIONS

TITLE IX—MISCELLANEOUS PROVISIONS

DIVISION C—PUBLIC HEALTH AND WORKFORCE DEVELOPMENT

TITLE I—COMMUNITY HEALTH CENTERS

TITLE II—WORKFORCE

Subtitle A—Primary Care Workforce

Subtitle B—Nursing Workforce

Subtitle C—Public Health Workforce

Subtitle D—Adapting Workforce to Evolving Health System Needs

TITLE III—PREVENTION AND WELLNESS

TITLE IV—QUALITY AND SURVEILLANCE

Subtitle A. National Strategy to Improve Health Care Quality

1. **National Strategy for Quality Improvement in Health Care: The U.S. lacks a coherent strategy to improve the quality of the nation's health care system. The Secretary of HHS is directed to establish a national quality strategy and implement its priorities. Health outcomes, as well as quality initiatives to improve them, vary widely across the country.** The National Strategy aims to reduce geographic variations in care quality and reduce health disparities while improving the delivery of health care services, patient health outcomes, and population health. The Secretary will identify priority areas to improve the delivery of health care services. Additionally, quality improvements will eliminate waste and improve efficiency in the health care system. [§ 201]
2. **Interagency Working Group on Health Care Quality: The U.S. lacks an effective way in which to share and implement quality initiatives. The President is directed to create an inter-agency Working Group to coordinate, collaborate and streamline federal quality activities around the national quality strategy. The Working Group will also share best practices and lessons learned among all health care sectors and government agencies.** The quality activities will be related to the priorities defined in the national strategy. Agencies will be required to develop individual strategic plans and then to report to both Congress and the public on the progress toward implementing the strategic plans. [§ 202]

This is a very dangerous and potentially deadly action. It makes the Government the Chief of Medicine for all patients in the US. This is the dumbest thing I have ever seen.

3. Quality Measure Development: **The U.S. lacks an effective way in which to comprehensively measure health care quality. The Director of the Agency for Health Care Research and Quality (AHRQ) is directed to provide grants to organizations, such as specialty societies, to develop measures in "gap" areas where**

no quality measures exist, or where existing quality measures need improvement, updating, or expansion. Measures will be developed according to priority areas related to care coordination, patient experience, health disparities, and the appropriateness of care. Quality measures developed through grants under this program will be made publicly available. [§ 203]

We have quality measures being developed and changed all the time. One need just look at NEJM or JAMA. Do we want the Government doing this! Are you insane!

4. Quality Measure Endorsement, Public Reporting; Data Collection: The U.S. lacks a streamlined, interoperable, quality measure endorsement and reporting system. AHRQ is directed to establish a streamlined quality measure endorsement process. It is directed to contract with a consensus based organization, such as the National Quality Forum, to evaluate and endorse quality measures for use with Federal health programs. The Secretary is given the discretion about whether to adopt the measure. The data from the reporting of these quality measures will be made available in a user-friendly format to inform providers, patients, consumers, researchers, and policymakers. [§ 204]
5. Collection and Analysis of Quality Measure Data: To facilitate public reporting, the Secretary will establish a process to collect, validate and aggregate data on quality measures. The Secretary will also provide grants and contracts for the collection and aggregation of quality measures as well as for analysis of health care data. [§ 205]

Subtitle B. Health System Quality Improvement

1. Health care delivery system research; Quality Improvement Technical Assistance. **A Patient Safety Research Center is established in AHRQ. In addition to supporting research, technical assistance and process implementation grants will be made to local providers to teach and implement best practices. Best practices help deliver care safely. The Patient Safety Research Center will strengthen best practice research and dissemination.** Creating grants to identify and disseminate best practices to local providers will prevent medical errors and reduce their associated costs. One such practice is the Pronovost Checklist, which uses ten simple steps to properly insert a catheter and eliminate line infections. [§ 211]

This is the "best practices" home. Imagine if you will a GS 10 writing the best practices. The GS10 has a BMI of 38 and can barely write. The GS10 has a GRE diploma and has worked their way up HHS. They will control your life. You cannot sue the Government and this GS10 is hidden from all. They will control your life, so just die now!

2. **Community Health Teams. The Secretary is directed to create a program to fund Community Health Teams. States or state-designated entities would be eligible for grants under this program. Community Health Teams will be established to support the development of medical homes by increasing access to comprehensive, community based, coordinated care.** A patient's care is coordinated by an integrated team of providers that includes primary care providers, specialists, other clinicians and

licensed integrative health professionals as well as community resources to enhance wellness and lifestyle improvements. It is patient-centered and holistic in its orientation. [§ 212]

3. Grants to Implement Medication Management Services in Treatment of Chronic Disease. The Secretary, through the new Patient Safety Research Center within AHRQ, will provide grants to support local health providers for medication management services. Medication management services help manage chronic disease, reduce medical errors, and improve patient adherence to therapies while reducing acute care costs and reducing hospital readmissions. This program attempts to evaluate and determine the best practices and develop quality measures specific to this service provided by pharmacists and other types of providers. [§ 213]
4. Regionalized Systems for Emergency Care, including Acute Trauma. This section provides funding by the Assistant Secretary for Preparedness and Response to states or local governments to help improve regional coordination of emergency services. Access to the emergency medical system will be facilitated and a mechanism to ensure that patients are directed to the most appropriate medical facility will be established. Inter-facility resources will be tracked and coordinated in real time. [§ 214]
5. Trauma Care Centers and Service Availability. This section reauthorizes and improves the trauma care program, providing grants by the Secretary of HHS to states and trauma centers to strengthen the nation's trauma system. Grants are targeted to assist centers in underserved areas susceptible to funding and workforce shortages. [§ 215]
6. **Reporting and Reducing Preventable Readmissions. Hospitals will be required by the Secretary of HHS to report preventable readmission rates. Hospitals with high re-admission rates will be required to work with local patient safety organizations to improve their care transition practices including the effective use of discharge planning and counseling.** [§ 216]

This is the beginning of the bundling process which we have discussed.

7. Program to Facilitate Shared Decision Making. **The Secretary of HHS will give grants to the National Quality Form to develop, test, and disseminate educational tools to help patients and caregivers understand their treatment options. Materials will assist patients to decide with their provider what treatments are best for them based on these beliefs and preferences, options, scientific evidence, and other circumstances.** Providers will be educated on the use of these tools. Quality measures related to utilization of these tools as well as patient and caregiver experiences will be developed. [§ 217]

And they are adding in costs.

8. Presentation of Drug Information. A process will be established for the FDA to evaluate and determine if the use of drug fact boxes in advertising and other forms of

communication for prescription medications is warranted. A standardized, quantitative summary of the relative risks and benefits developed by FDA is an effort to clearly communicate drug risks and benefits and support clinician and patient decision making processes. [§ 218]

9. Center for Health Outcomes Research and Evaluation. **The Secretary of HHS shall establish a new Center within the AHRQ that will promote health outcomes research and evaluation that enables patients and providers to identify which therapies work best for most people and to effectively identify where more personalized approaches to care are necessary for others. An Advisory Commission representing diverse interests will be established by the Secretary and public input will be sought in order to ensure research conducted is meaningful to patients and providers.** [§ 219]

This Committee will be politically appointed and they will also control your health. There will be no peer review and no recourse or remedy. They may likely be political cronies with no professional background practicing medicine at a meta level. No country does this now, not even Canada.

10. Demonstration Program to Integrate Quality Improvement and Patient Safety training into health professionals' clinical education. Grants will be provided by AHRQ to academic institutions to develop and implement academic curricula that integrate quality improvement and patient safety into health professionals' clinical education. [§ 220]
11. **Improving the Health of Women. This section will improve the health and the quality of care for women by making permanent women's health offices that currently exist within HHS and its agencies. Statutory authorization for federal women's health offices ensures women's health programs affecting prevention, treatment, and research will continue to receive the attention they require in the twenty-first century.** [§ 221]

So what are men, chopped liver!

12. Administrative Simplification. Enacted in 1996, the HIPAA law promised to simplify the administration of health care – yet that promise has gone largely unrealized. Since 1996, the potential of information technology to streamline commerce has increased exponentially, but the HIPAA standards have not kept pace. This section updates administrative simplification standards for the electronic age by requiring new technical standards designed to provide a common technical platform for more seamless administration of health care. This section includes a provision to ensure timely updating of standards for electronic data interchange to meet evolving requirements in health care administration. [§ 222]

TITLE V—OTHER PROVISIONS

Subtitle A—Drug Discount for Rural and Other Hospitals

Subtitle B—School-Based Health Clinics

Subtitle C—National Medical Device Registry

Subtitle D—Grants for Comprehensive Programs To Provide Education to Nurses and Create a Pipeline to Nursing

Subtitle E—States Failing To Adhere to Certain Employment Obligations

Posted by Terry McGarty at [5:33 AM](#) 

Labels: [Health Care](#)

MONDAY, JULY 20, 2009

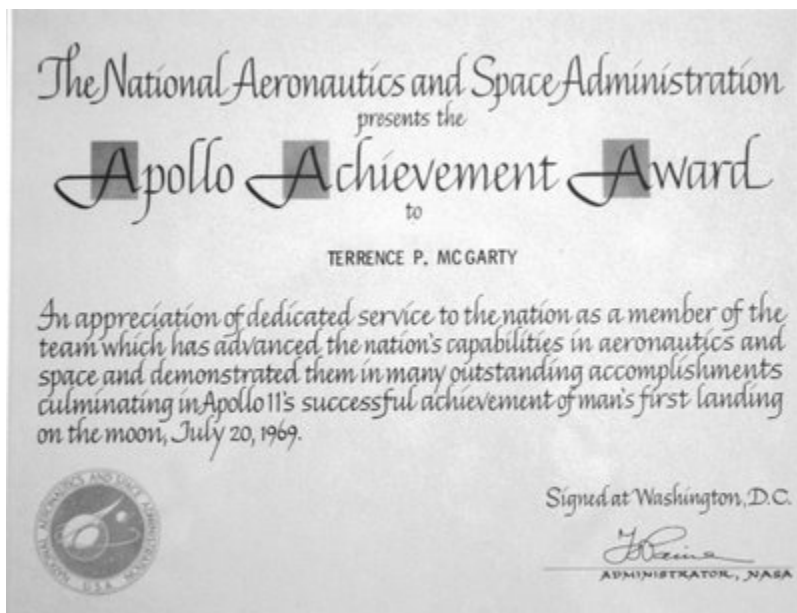
[40 YEARS AGO TODAY](#)



Forty years ago today Apollo XI landed on the moon. I had spent much of the prior few years working at the MIT Instrumentation Laboratory under Doc Draper, a true genius, where I was the one who finalized the star tracker used on this mission and more importantly Apollo XIII.

I had completed my task and we had seen it work on other missions. It was the summer of 1969 and I also had a few other academic duties, since I always did multiple tasks in Cambridge and Boston. Yet the day of the landing I found myself with my son at Mt Auburn Hospital treating a salmonella infection, a true case of dysentery. This was a bit terrifying in a 3 year old. Thus between re-hydration and IVs with antibiotics I missed the moon landing. This was in a way a rather symbolic act having been so close to the very thing. I had placed my equipment in the capsule and had made certain it functioned. My son and his friends had even "tested" the capsule we had at the I Lab. But here I was with reality dealing with an infection.

I did receive many rewards for my participation as shown here. But I never saw it live. I never regretted that because what I was doing was much more a contribution to humanity.



This one was the specific MIT award as well.



But what of Apollo and what good if any did it do. Looking back over 40 years I fear that I am one of perhaps few who believe that it did more harm than good. It took a generation of young technical people and put them in a "space" program, or for many in some military or intelligence program, applying their technical skills to non-economic purposes. At the same time Japan and Germany were tooling up for the 70s. That is when we were zoomed by us and the US had to retool again. The Americans are resilient, they survived Nixon, Johnson, Carter and Roosevelt. Thus there is hope.

What Apollo also shows, as a corollary to the above "brain drain" is that large Government programs can take great resources from the productive parts of an economy and place them in

Government hands and this results in a loss of international competitiveness. The essence of the current Administration's Stimulus program is a replica of this old program.

One must remember however that no less than two years after Apollo XI, in 1971, when I completed my doctoral degrees that there were no jobs, not just a few, but none. MIT had no recruiters show up on campus, no matter what degrees you had, the NY Times had no ads, they always had pages and pages, but in June 1971 they had none, we dropped off the gold standard, wage and price controls were in place, the War in Vietnam still raged, and the economy was worse off than even the great Depression! Sound familiar?

Yes we got rid of Nixon, but Ford and Carter were no gifts from the gods, they continued to set us back. Fortunately Government programs absorbing human talent and economic capital were cut back and people, as is their want, set to work creating new businesses, the entrepreneur did more for the economy and people in general than all Apollo engineers together. It was getting Government out of the way that turned the "Depression" of 1969-1980 around. This is a lesson we should understand and remember, and not the sending of men to the moon.

Posted by Terry McGarty at [2:44 AM](#) 

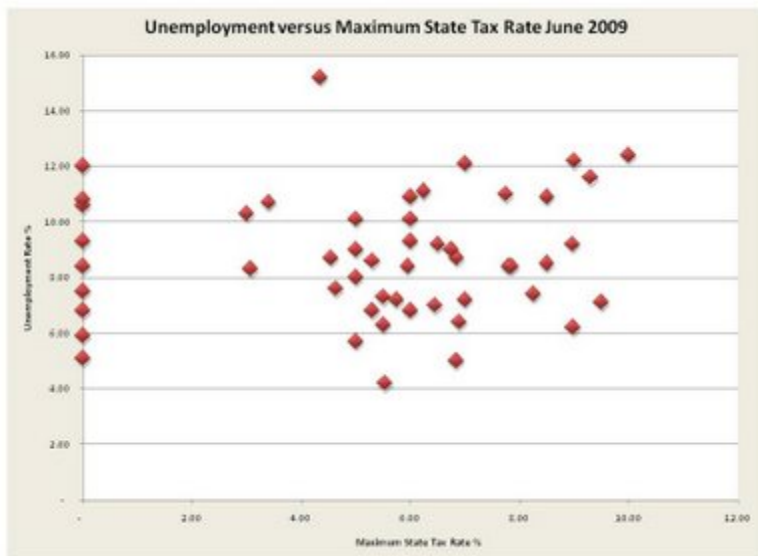
Labels: [Commentary](#)

SATURDAY, JULY 18, 2009

UNEMPLOYMENT AND STATE TAXES: MYTH OR REALITY?

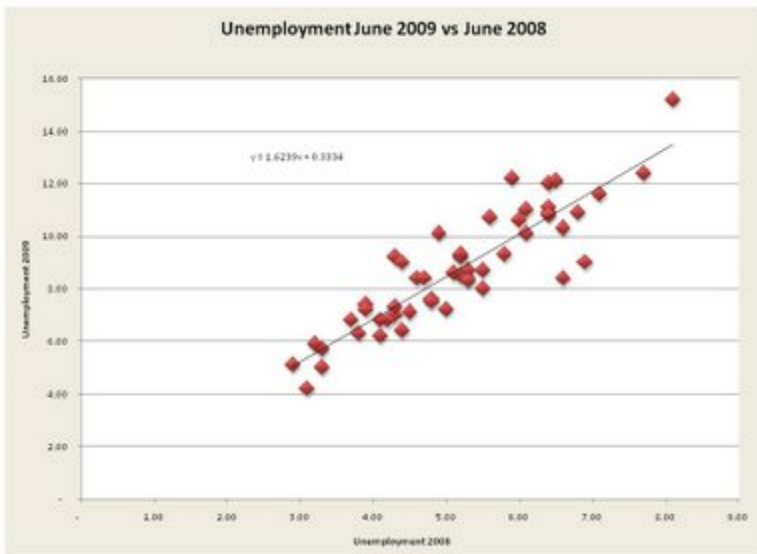
There has been talk that states with low tax rates have lower unemployment than states with greater tax rates. We have looked at the data in some detail and the conclusion seems to be that it makes no difference. Thus New Hampshire, Florida and Texas are really no different if we look at all the states.

First we look at unemployment as of June 2009 and the maximum tax rate in the states. We show this below.



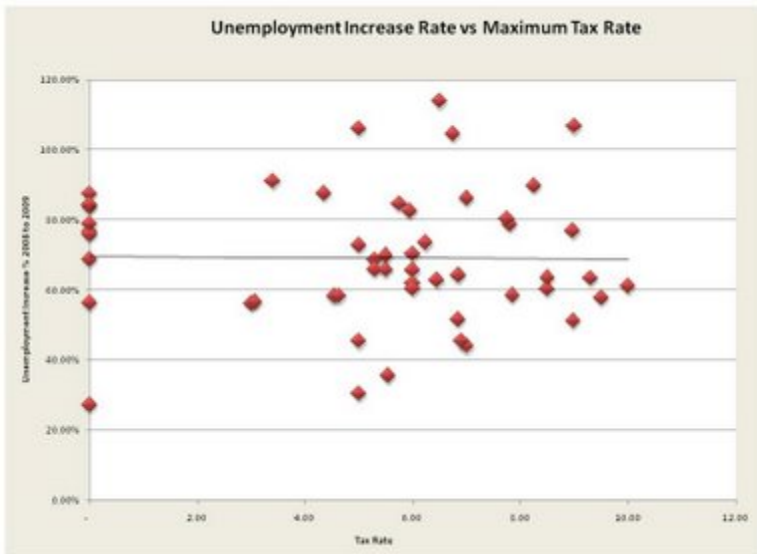
We have analyzed this data and there does not seem to be any significant trend.

Then we looked at 2008 versus 2009 and we shown that below:



Here the trend seems to be an increase uniformly across the board with little significant difference.

Finally we looked at percent increases from 2008 to 2009 versus the state tax rate. This we show below:



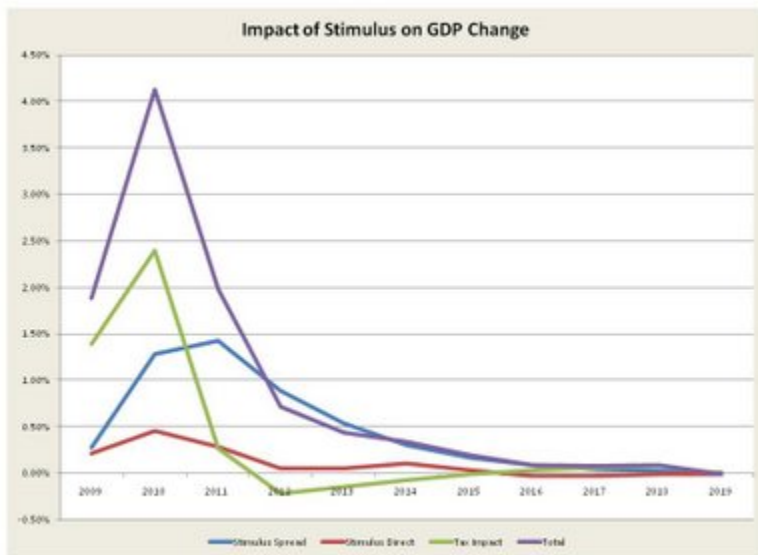
The trend line is flat. There may be great variance but little trend. Thus we conclude that state taxation rates are not a driver or selective agent for unemployment.

Posted by Terry McGarty at [5:05 PM](#) 

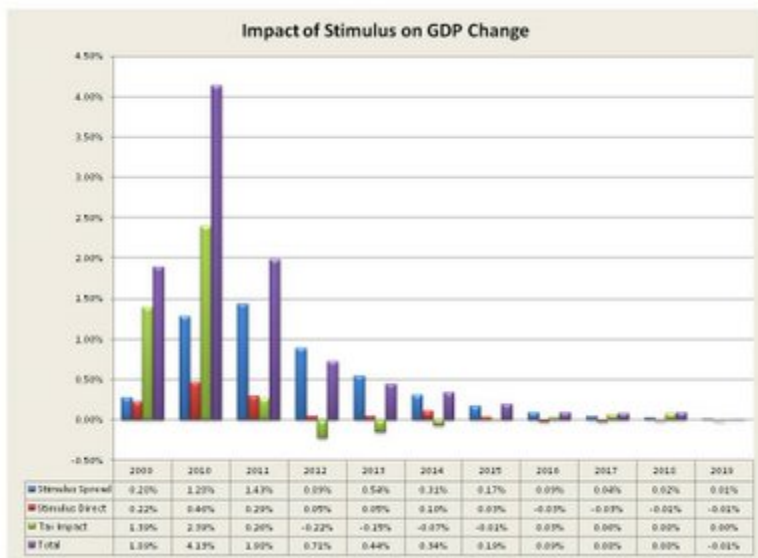
Labels: [Economy](#)

THURSDAY, JULY 16, 2009
WE TOLD YOU SO!

In February we published a [White Paper on the Stimulus Plan](#). The impact on the GDP was analyzed and presented. We reiterate it here. The following chart was in the White Paper.



The data can be presented also as below:



Simply put we states that at best we would see a limited impact in 2009 if they deployed the funds and then a peak in 2010 and then it lingers slowly over ten years. This was in February, it is now July. What has transpired:

1. The Stimulus is leaking slowly and mostly to pay States.

2. The tax portion has been abandoned, there really is no tax reduction, and in fact with Cap and Trade we have a massive long term increase. One should remember that the current macroeconomists do assume that the consumer does look ahead, and in the consumer mind there is still doom in the future.

3. The graphs are increases in GDP resulting from the stimulus and do not account for reductions in the GDP from inherent failures in the economy. Thus a 4% increase in 2010 may be a real 1% increase at best.

4. The crazy programs such as broadband and the electronic medical records, amounting to \$100 billion of the \$750 billion will take years. Remember that broadband requires spectrum and a license, there are none, or a franchise, which takes years. So do not hold your breath. To make matters worse the people seeking broadband funds are all those who have no business experience and even worse do not know anything about deploying infrastructure. The blind leading the blind!

So, what is happening?

1. We see some signs of recovery without any stimulus.

2. The current Congress is placing a tax burden on the people which may kill the economy for fifteen to twenty years, remember Roosevelt. The truth is not everyone liked what he did. And they were not Republicans only.

3. Inflation is always a fear for now in this downturn the Fed is doing the opposite of the Fed in the 1930s, it is reducing rates and blowing up the money supply.

Just remember we told you here first. The [Wall Street Journal](#) lists the top 25 economics sites. We know many of them but remember they are macroeconomists or investor types. They always fail to dive into the real details. They were often the ones who got us where we are today.

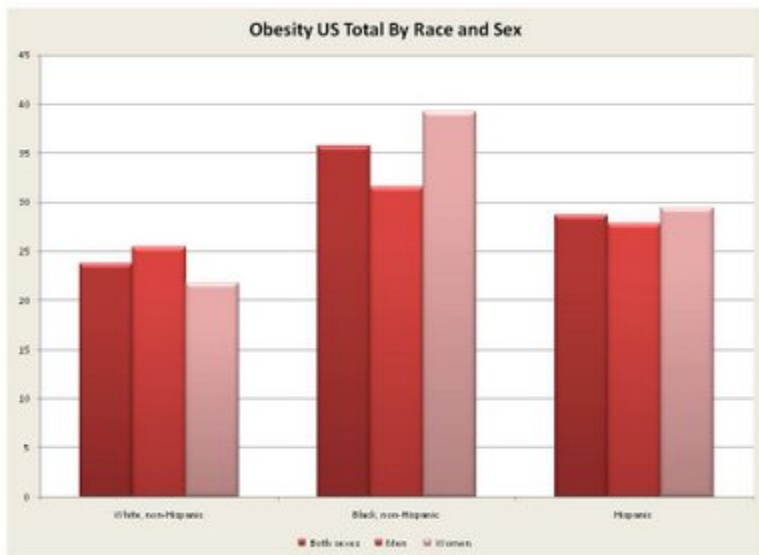
Posted by Terry McGarty at [6:58 PM](#) 

Labels: [Economy](#)

[THE HEALTH CARE BILL, THE SAVINGS ARE RIGHT IN FRONT OF YOU!](#)

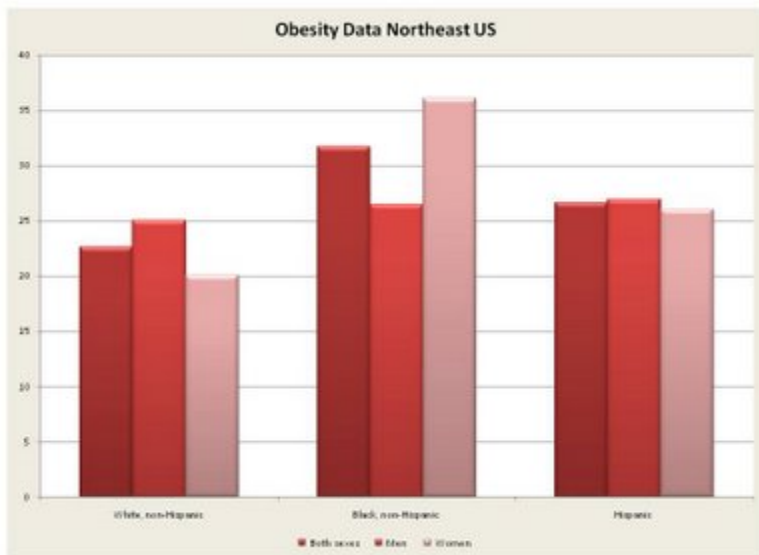
The [CDC](#) today released data on obesity in the US. This is obesity, really really fat people, not just overweight. Obesity is a BMI in excess of 30, you are a tubby, you come down with Type 2 Diabetes, then kidney failure, nephropathy, eye problems, heart problems, you costs hundreds of billions.

The data for the US is shown below by race,

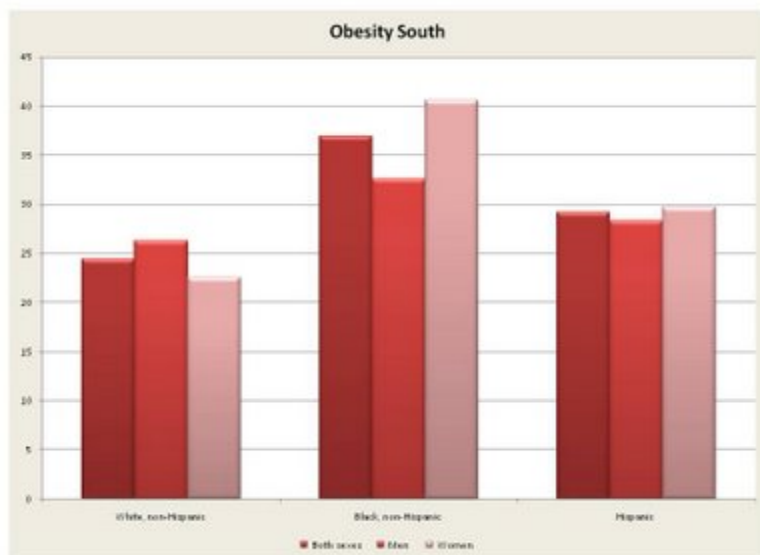


The rates amongst blacks is greatly above whites but Hispanics are also at an elevated rate. No matter all rates are excessive. As it stands Type 2 Diabetes costs almost \$300 billion annually in a \$2.5 Trillion health care bill. The solution is simple, stop eating, just like stop smoking. The way to achieve it is also simple, tax the heck out of it! Why tax small business to get them to provide health insurance when you can go to the source of the problem, fat people! We all pay for their ailments.

The data for the northeast is shown below:



The data for the south is shown below;



The south shows a greater disproportion of obesity amongst blacks. This results in a proliferation of Type 2 Diabetes diseases. We have analyzed this in one of our [White Papers](#).

The CDC report continues:

"Obesity is associated with increased health-care costs, reduced quality of life, and increased risk for premature death... Common morbidities associated with obesity include coronary heart disease, hypertension and stroke, type 2 diabetes, and certain types of cancer... As of 2007, no state had met the Healthy People 2010 objective to reduce to 15% the prevalence of obesity among U.S. adults... An overarching goal of Healthy People 2010 is to eliminate health disparities among racial/ethnic populations. To assess differences in prevalence of obesity among non-Hispanic blacks, non-Hispanic whites, and Hispanics, CDC analyzed data from Behavioral Risk Factor Surveillance System (BRFSS) surveys conducted during 2006--2008. Overall, for the 3-year period, 25.6% of non-Hispanic blacks, non-Hispanic whites, and Hispanics were obese. Non-Hispanic blacks (35.7%) had 51% greater prevalence of obesity, and Hispanics (28.7%) had 21% greater prevalence, when compared with non-Hispanic whites (23.7%). This pattern was consistent across most U.S. states."

In a [CBO letter](#) to Congressman Rangel, a rather rotund Congressman, not an ad for compliance, the CBO states:

" On a preliminary basis, CBO and the JCT staff estimate that the proposal's provisions affecting health insurance coverage would result in a net increase in federal deficits of \$1,042 billion for fiscal years 2010 through 2019. That estimate primarily reflects \$438 billion in additional federal outlays for Medicaid and \$773 billion in federal subsidies that would be provided to purchase coverage through the new insurance exchanges. Not all enrollees in the exchanges would receive subsidies, but the average subsidy among those who would be subsidized is projected to rise from roughly \$4,800 in 2015 to roughly \$6,000 in 2019. The other main element of the proposal that would increase federal deficits is the tax credit for small

employers who offer health insurance, which is estimated to reduce revenues by \$53 billion over 10 years."

The assumptions in this \$trillion estimate are:

"The proposal's major provisions—including the establishment of an individual mandate to obtain insurance, an expansion of eligibility for the Medicaid program, and the creation of new insurance exchanges through which certain people could purchase subsidized coverage—would be implemented beginning in 2013.

- 1. All legal residents would be required to enroll in a health insurance plan meeting certain minimum standards or face a tax penalty. Individuals not required to file a tax return would be exempt from the penalty; exemptions for hardship and other reasons would be determined by a new and independent federal agency overseeing the health insurance exchanges.*
- 2. The penalty assessed on people who would be subject to the mandate but did not obtain insurance would equal 2.5 percent of the difference between their adjusted gross income ... and the tax filing threshold. The amount of the penalty could not exceed the national average premium for plans offered in the exchanges.*
- 3. New health insurance policies sold in the individual and group insurance markets would be subject to several requirements regarding their availability and benefits. Insurers would be required to issue policies to all applicants and could not limit coverage for people with preexisting medical conditions. In addition, premiums for a given plan could not vary because of enrollees' health but could vary because of their age by a factor of two ... Individual policies that were purchased before 2013 and maintained continuously thereafter would be "grandfathered," meaning that they would not have to conform to the new rules but would still fulfill the individual mandate. Existing group policies would have to conform to the new rules by 2017.*
- 4. In order to fulfill the individual mandate, policies that were not grandfathered would have to cover a broadly specified minimum benefit package (which was assumed to have the same scope of benefits as seen in a typical employer-sponsored plan) and would have to have a minimum actuarial value of 70 percent and a limit on out-of-pocket costs no greater than \$5,000 for individual coverage and \$10,000 for family coverage. (A health insurance plan's actuarial value reflects the share of costs for covered services paid by the plan.) After 2013, the maximum levels of those out-of-pocket caps would be indexed to general inflation.*
- 5. The proposal would establish a national exchange through which certain individuals and employers could purchase health insurance; states could also opt to operate their own exchanges ... All insurance plans sold through an exchange would be required to cover the "basic" benefit package described above. "Enhanced" plans would have an actuarial value of 85 percent, and "premium" plans would have an actuarial value of 95 percent.*
- 6. Except as specified below, individuals and families who enroll in exchange plans and have income between 133 percent and 400 percent of the federal poverty level (FPL) would be eligible for premium subsidies and cost-sharing subsidies (see table below). Federal premium subsidies in a given area would be tied to the average premium of the three lowest-cost plans providing basic coverage in the exchange in that area. The*

- subsidies would limit an enrollee's contribution to a percentage of income ranging from 1.5 percent to 11.0 percent (see table); those caps would not be indexed over time. The federal government would fully fund cost-sharing subsidies, which would increase the actuarial value of enrollees' coverage to specified tiers based on income.*
7. *Eligibility for subsidies would be determined on the basis of adjusted gross income... Participants would have to provide information from their prior-year tax return during a fall open enrollment period for coverage during the next calendar year... Each exchange would be given authority to obtain such information about taxpayers from the Internal Revenue Service as necessary to verify the information provided on income from the prior year. Individuals who did not qualify for a subsidy on the basis of their prior-year income would be allowed to apply for a subsidy on the basis of specified changes in their circumstances. Individuals receiving subsidies would be required to report changes in income and family composition during the year and, if changes occurred, would have their eligibility redetermined.*
 8. *People not enrolled in other coverage would be allowed to purchase insurance in an exchange at their own expense. Employers meeting specified size requirements would also be allowed to let their workers choose any of the plans available in the exchange...*
 9. *A "public plan," run by the Department of Health and Human Services, would be offered through the exchanges. That plan would pay Medicare rates plus 5 percent for physicians and other practitioners (and those rates would not be determined by the sustainable growth rate formula used in Medicare but instead were assumed to grow with the Medicare economic index); Medicare rates for hospitals and other services and supplies that are on fee schedules; and negotiated rates for drugs and other items and services that are not on a fee schedule. Medicare providers would not be required to participate in the public plan.*
 10. *Eligibility for the Medicaid program would be expanded to all nonelderly individuals and families with income at or below 133 percent of the FPL. The federal government would pay 100 percent of the costs of newly eligible enrollees. States would be required to maintain their current eligibility levels for existing groups indefinitely. The federal government would fully subsidize the cost for some parents and childless adults who are currently covered by Medicaid under existing waivers that expand coverage. People eligible for Medicaid could not receive subsidies via an exchange. Newborns who would otherwise be uninsured would be automatically enrolled in Medicaid for 60 days (with the federal government paying 100 percent of their costs during that period), at which point there would be a determination of their eligibility for Medicaid or for subsidies provided through an exchange.*
 11. *Medicaid payment rates for primary care services would be increased to 80 percent of Medicare rates in 2010, 90 percent in 2011, and 100 percent beginning in 2012. The federal government would pay 100 percent of the cost of those increases. There would be a maintenance-of-effort requirement for the Children's Health Insurance Program through 2013, at which point the program would be terminated. Firms with an annual employee payroll above \$250,000 would be subject to a "play-or-pay" requirement. Employers could "play" by offering coverage that meets the minimum benefit standards described above and making a minimum contribution toward the premiums (72.5 percent for individual premiums and 65 percent for family premiums). Firms that do not meet those requirements would be subject to a payroll tax, with the rate depending on their*

annual payroll, as follows: 2 percent, for firms with a payroll between \$250,000 and \$300,000; 4 percent, for firms with a payroll between \$300,000 and \$350,000; 6 percent, for firms with a payroll between \$350,000 and \$400,000; and 8 percent, for firms with a payroll above \$400,000. Employers could choose to “play” for full-time employees and “pay” for part-time employees and could also make separate elections for separate lines of business.

12. *Employers offering coverage would also be required to automatically enroll workers in single coverage.*
13. *In 2013, full-time employees with an offer of employer-sponsored insurance would not be permitted to receive subsidies via an exchange (under an approach known as a “firewall”). Thereafter, those employees could receive the subsidies only if their contribution for that coverage was deemed unaffordable—which would be defined as exceeding 11 percent of their income. Part-time employees could receive the subsidies with no restrictions. Beginning in 2014, employers offering coverage would be required to pay the exchange a percentage of their average payroll per worker for each employee obtaining coverage with the exchange. ...*
14. *A tax credit for small employers would be available. It would be permanent, not advanceable or refundable, and would phase out as employers’ size and average wages increased. The smallest firms with average wages below \$20,000 would receive a credit equal to 50 percent of the employer’s share of premiums. The credit would phase out for employers with between 10 and 25 employees and average wages between \$20,000 and \$40,000 and would not be available for workers with wages above \$80,000; those wage amounts would be indexed to the consumer price index."*

We see that what Congress and Rangel and those in the House are doing is constructing a Plan to be a Government Plan, with NO recognition of facts, such as reducing illness and individual responsibility. We have supported universal coverage for more than 20 years.

The CBO report lists the health care shortfall as follows:

NET IMPACT OF COVERAGE SPECIFICATIONS (\$ Billion)

2010 \$3
 2011 \$4
 2012 \$1
 2013 \$69
 2014 \$107
 2015 \$141
 2016 \$158
 2017 \$171
 2018 \$187
 2019 \$202
 2010-2019 \$1,042

BUT. if we solve the obesity problem we save multiples of this cost every year! Why is Congress defaulting on this issue. It is more than a tax on soft drinks, it is a change in lifestyle, it is the Victory Gardens of WW II.

Yet we have also offered the need for individual responsibility by having out of pockets costs paid for non life threatening procedures and insurance on an individual basis. The who problem here has been precipitated by company funded plans, an artifact or Roosevelt, we will most likely be bemoaning this as an artifact of the current President for generations to come.

Posted by Terry McGarty at [3:46 PM](#) 

Labels: [Health Care](#)

TUESDAY, JULY 14, 2009

[WELL THEY FINALLY DID IT: YOUR LIFE COSTS TOO MUCH!](#)

The [National Cancer Institute](#) just posted a note that Physicians treating cancer patients should (must?) tell the patient how much it will cost and then focus them on the less expensive path! Imagine just being told you have breast or ovarian cancer, or that your child has leukemia, and then being told about how much it will cost and then why you should select the cheapest treatment! This is the new health care world.

The NCI note states:

"The skyrocketing cost of medical care has been front and center in the current deliberations over how to reform the country's health care system. A new [guidance statement](#) released last week by the American Society of Clinical Oncology (ASCO) tackles one component of the issue head on, urging oncologists to discuss the potential financial costs of care with their patients. These clinician/patient discussions about cost, the guidance statement declares, are "a key component of high-quality care."

It continues in classic bureaucratic fashion:

"The new guidance statement, published in the Journal of Clinical Oncology, is intended to help not just oncologists, Dr. Schnipper explained, but also other stakeholders—including patients, insurers, and industry members—better understand how cost can affect care choices and decisions."

I love the word "stakeholder". It is corporate jargon meaning something I have never figured out. It is akin to the statement "walk the talk". Try that on anyone who speaks English as a second language, they try to parse it and get no where.

The note continues:

"Oncologists should acknowledge in discussions with patients that treatments may be very expensive and "should seek to identify any specific cost-related barriers to optimal treatment," the guidance document recommends. To aid in these discussions, oncologists should be "armed with information that will help them assess and communicate the value of specific cancer treatments," including trying to quantify "how much benefit might be expected from a particular therapeutic option."

The question is what happened to quality care. Does this mean that if you are seventy that you should not be treated for prostate or colon cancer since you are due to die soon anyhow. Is this

the approach that Senator Kennedy used in his decision process, doubtful. But it may very well be the decision process for a ten year old dying with ALL. Are we interested in quality care or low cost care. Apparently we rather do it on the cheap for those who cannot pay.

I fear that this is the first shot across the bow of the destruction of one of the best health care systems in the world.

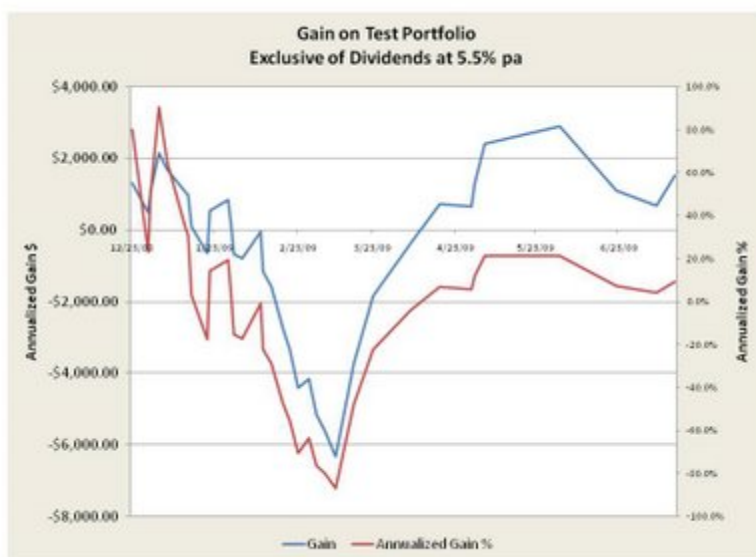
The final quote is chilling:

"We're not saying that physicians should be experts on insurance or even have all the direct conversations [with patients]," stressed Ms. Blum, a patient representative on the ASCO task force. "But it has to be some place in the care protocol. Ideally, the physician would talk about the relative costs and benefits of treatment, but the doctor doesn't have to be the one to help the patient sort out what a situation will allow them to choose."

Posted by Terry McGarty at [5:01 PM](#) 

Labels: [Health Care](#)

[PORTFOLIO UPDATE](#)



We thought it would be worth looking at our sample portfolio as we described just as the current Administration entered the scene. We have been tracking it since December 1, 2008 when we "purchased" it. It is a breadbasket group. It consists of:

Verizon
DOW
IBM
J&J
Kraft
DuPont
Alcoa

We now have a dividend yield of 5.6% and a stock yield of 9.1% for a total annualized yield of 14.7%. There has been a recovery of sorts. We agree that based upon our data as we have been presenting it the Recession is slowing yet we still feel that we will hit 10.5% unemployment since we will overshoot staffing cuts but the other side will still be explosive with the results from the stimulus.

Posted by Terry McGarty at [3:37 PM](#) 

Labels: [Baseline Portfolio](#)

[PROSTATE SCREENING REBUTTAL](#)

In [NEJM](#) today there are several letters to the Editor criticizing the reports on the effectiveness of screening. We wrote about this when the reports came out two months ago. We said the PLCO trial using a PSA of 4.0 was flawed. Well it is good to see we are not the only ones who see that flaw.

The first letter to the Editor by Catalona states:

"The results of the Prostate, Lung, Colorectal, and Ovarian (PLCO) Cancer Screening Trial (ClinicalTrials.gov number, NCT00002540) by Andriole et al.1 were released prematurely, at the same time that Schröder et al.2 were reporting, on the basis of the European Randomized Study of Screening for Prostate Cancer (ERSPC) (Current Controlled Trials number, ISRCTN49127736), that screening with prostate-specific antigen (PSA) saves lives (March 26 issue). The PLCO trial is being portrayed as the underpinning for proposed changes in the mindset of physicians and patients that prostate-cancer screening and treatment do more harm than good. However, the PLCO trial used an outdated PSA cutoff and permitted the enrollment of a large proportion of men (>40%) who had undergone prostate-cancer screening in the previous 3 years. Furthermore, more than 50% of the control subjects underwent screening during the study. Most men with abnormal results in the screening group did not undergo prostate biopsy for 1 year or more."

We said this and more. The letter by Preston states:

"It is important to recognize that the two randomized trials of PSA screening reported by Andriole et al. and Schröder et al. do not relate directly to the question of whether we should be doing PSA screening. They relate to whether screening should be expanded beyond the levels that are typical of the populations in which the trials were conducted — levels that are reflected in the control groups and in pretrial conditions.."

This is an example of the CCE, comparative clinical effectiveness, run amuck. It was obvious to anyone slightly familiar with the results that they were just outright wrong, they asked the wrong question. The great NY Times as we noted ganged on and said that PSA testing had no value. Well what else would one expect from the Times. We wrote just a few days ago also about a Times article with a woman physician saying men should just wait, watchful waiting. I always ask what would happen is a male physician said that to a woman. Yet in the same [NEJM](#) issue there was a paper on Ovarian cancer. And yes by a man. The author concludes:

"Ovarian cancer that is diagnosed on the basis of symptoms is often at an advanced stage. Early detection, which is associated with improved survival, depends on effective screening strategies."

Studies have shown that screening with the use of serum tumor markers (especially CA-125), ovarian imaging with transvaginal ultrasonography, or a multimodal strategy can detect ovarian cancer at an earlier stage, but trials that have been completed to date have not included a control group for direct comparison, and no trial has yet shown improved overall survival for women undergoing screening. Pending the results of the two large ongoing, randomized, controlled trials,^{20,35} I would advise against screening in a patient who is at average risk, such as the woman described in the vignette."

Yet the article starts by stating:

"A 56-year-old woman presents to her physician, requesting screening for ovarian cancer. She reports the recent death of a friend from ovarian cancer at the age of 65 years. The patient has no family history of ovarian or breast cancer. The physical examination, including pelvic and rectal examination, is normal. Should the physician recommend screening for ovarian cancer?"

If a woman patient comes in and tells her physician that she is concerned and that there was a family history, then to avoid being sued, and frankly to be in good practice, the physician should perform an ultrasound and do a CA125 test. There are many false positives in post menopausal women and the costs we have argued in our analysis are not unreasonable. The risk is that ovarian cancer tends to grow at a rapid rate and 90 screening for high risk women would be recommended, despite there being little if any clinical bases for that.

This does continue to raise the risk of CCE and the dangers in a Government health care plan which inherently has rationing as a means to control costs. Death from either of these cancers is painful and debilitating and can become unnecessary if the research is done in an open and peer reviewed manner independent of Government intervention. The alternative should be unthinkable.

Posted by Terry McGarty at [3:03 PM](#) 

Labels: [Health Care](#)

TUESDAY, JULY 14, 2009

HAPPY BASTILLE DAY!



Allons enfants de la Patrie
 Le jour de gloire est arrivé
 Contre nous de la tyrannie
 L'étendard sanglant est levé (bis)
 Entendez vous dans les campagnes mugir ces féroces soldats
 Ils viennent jusque dans vos bras, égorger vos fils, vos compagnes
 Aux armes citoyens !
 Formez vos bataillons !
 Marchons, marchons, qu'un sang impur abreuve nos sillons

Posted by Terry McGarty at [3:09 AM](#) 

Labels: [Commentary](#)

MONDAY, JULY 13, 2009

HOUSING AND PRODUCTIVITY

The NY FED published a paper [Productivity Swings and Housing Prices](#) this month by Kahn. It is an interesting analysis of housing prices driven by productivity increase. In some simple sense they state that the housing price $H(t)$ is a function of productivity, $P(t)$. That is in a linear model we would have:

$$dH(t) = aH(t)dt + bP(t)dt + cI(t)dt + dn(t)$$

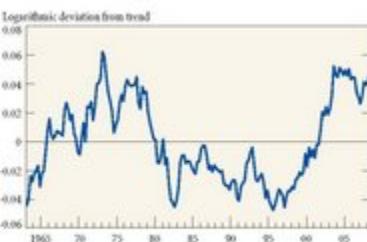
where $I(t)$ is the interest rate, and $n(t)$ is a collection of random disturbance to pricing. They show the data as we show below.

Chart 1
Trends in U.S. Inflation-Adjusted Home Price Indexes



Sources: Federal Housing Finance Agency (FHFA); U.S. Bureau of the Census; Standard and Poor's (S&P).
 Note: The vertical axis is a logarithmic scale.

Chart 2
Trends in Productivity



Sources: U.S. Bureau of Labor Statistics; author's calculations.
 Note: Productivity is measured as nonfarm output per hour relative to a linear (constant growth) trend.

They state:

" During the most recent housing boom, the Census' constantquality index of new home prices, adjusted for inflation, rose approximately 33 percent. In the bust following the first-quarter 2007 peak, that same measure has fallen by nearly 15 percent.⁵ The sharp swings in house prices raise a question: Are these movements driven by economic fundamentals, or by irrational behavior that can trigger bubbles and busts? One indication of a bubble is that "the level of prices has been bid up beyond what is consistent with underlying fundamentals" (McCarthy and Peach 2005). This observation suggests that a logical way to explore the forces

behind the recent housing price movements is to establish the magnitude and timing of the price shifts that would be warranted by changes in fundamentals alone."

They continue:

" Our model predicts a path for house prices over 1963-2008 that is based on the productivity data and on estimates of the relationship between income, house prices, and demand. When productivity growth accelerates, the amount by which house prices will rise depends on certain basic supply and demand relationships.

The fact that land, a finite resource, is a relatively large component of housing (compared with its "share" in other goods) makes the overall supply of housing relatively unresponsive to demand changes; the supply of houses cannot expand indefinitely to meet increases in demand. In addition, because housing is viewed as a necessity that has no obvious substitute among other kinds of goods, consumers faced with a rise in housing prices will be relatively unwilling to curtail their demand for housing.

Thus, the demand for housing services is relatively inelastic—that is, insensitive to price changes. Indeed, our model incorporates a very low demand elasticity of 0.3, based on the calculations described in the box above. This combination of price-inelastic demand and supply means that productivity swings affecting the demand for housing can result in large changes in house prices."

They do state that there are other factors which they argue are de minimis. Specifically they call out:

"We have suggested that productivity growth influences housing prices through its effects on income. We recognize, however, that income growth can stem from sources other than longterm changes in productivity—most notably, increases in labor force participation or hours of work per household. While these alternative sources of income growth might be expected to affect household demand and expenditure patterns, they may be less likely than productivity growth to influence housing prices.

First, the additional household income generated from increased labor force participation may be partially offset by additional expenses...

Second, the changes in workforce participation that result from shifting population demographics such as the aging of the baby-boomers or the increased presence of women in the labor force are relatively predictable...

Third, because labor force participation cannot grow without bound, its effects on income growth will necessarily be finite. There are only so many people who can join the workforce and only so many work hours in the day."

Their model is a bit different than out form above and it is:

" Housing rents represent the market price that consumers pay for housing services. From the property owner's perspective, rental income net of expenses is analogous to the dividends earned from holding shares of common stock. Because the owner has the option to sell the property and put the proceeds in an interest-bearing security, he must expect a rate of return, adjusted for risk, comparable to the rate on other investments.

If R_t denotes rental income net of taxes and expenses in year t , it should obey the relationship

$$R_t + E\{P_{t+1}\} - P_t = r_t P_t,$$

where P_t is the price of the property at the beginning of year t , r_t is the interest rate available on an alternative asset, and $E\{P_{t+1}\}$ is the expected price as of year $t+1$.

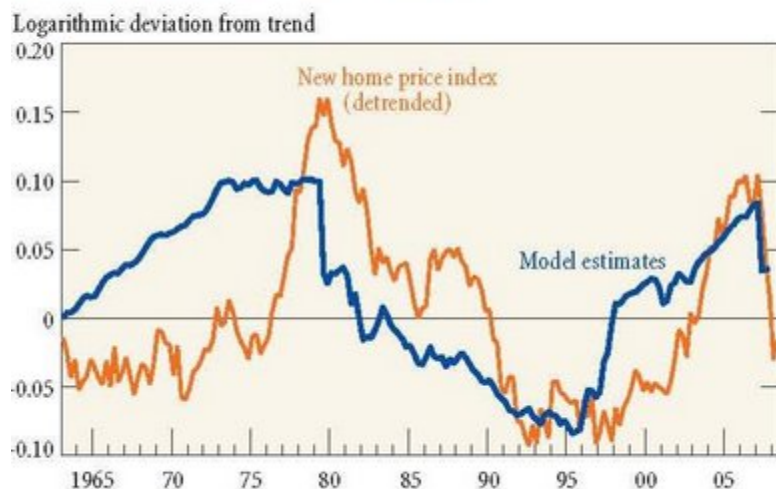
The left side represents the total return (income plus capital gains) expected from owning the property, while the right side is the return on an alternative investment with similar risks. By itself, this relationship has no economic content other than "the law of one price," or what financial economists refer to as "no arbitrage"—namely, that risk-adjusted returns should be equalized.

In particular, while the relationship implies that the rent-price ratio R_t/P_t should be reduced by expected capital gains—it implies that the rent-price ratio is negatively related to expected appreciation rate $E\{(P_{t+1} - P_t)/P_t\}$ —it does not explain which factors drive those expectations. Identifying the factors is one goal of this article."

They then depict the analysis as follows:

Chart 5

New Home Price Index Compared with House Price Series Generated from the Model



Sources: U.S. Bureau of the Census; author's calculations.

There is indeed a good set of correlation between these two. The paper is of interest since it depicts a reasonable model for the housing bubble but it tends to lay the blame on productivity and consumer perceptions. However it fails to explain such effects as:

1. The expansive growth of money via the Government lowering of interest rates. The interest rate presents a long term expectation on the part of the consumer as to the value of the property. The Austrian school and Mises in particular would tend to blame the Government and the soft money more than productivity changes. People see a good deal and thus are willing to defer savings and invest in property. This is an artificial investment because the rates are artificially low.
2. Scarcity of property, land, is also Government generated. Look at California where the Government, state and Federal, absorb massive amounts of land for Government use driving the remaining land prices to unreasonable levels. Thus land in California dominates the housing prices as compared to say the New York area. The same land control applies to the Washington DC area as well. This is a Government controlled effect. It is not included in the model.
3. Lowering of investment by the change in mortgage values means that savings is reduced in effect and the risk levels of investment are raised well above a "real interest" rate. The Government controls a low interest rate and induces "investment" into anticipated cash flows which are unachievable.
4. Cycles of boom and bust are not mitigated against by allowing zero down payments and it has been exacerbated by the elimination of the tax consequences of walking away from a mortgage. In the past if one defaulted on a mortgage and the bank sold the property at a price lower than the

mortgage note the difference was impute taxable income to the one defaulting and the IRS would seek taxes on that amount. For the past two years that cost or risk was eliminated. Massive amounts of imputed taxes have been lost and in addition the moral peril associated with this event has been eliminated.

Notwithstanding the paper is of significant interest since the data shows excellent correlation. There is a great deal to understand here however and this is hardly the last word.

Posted by Terry McGarty at [11:43 AM](#) 

Labels: [Economics](#)

CHINA AND ANTI CORRUPTION RULES

The [People's Daily](#) announce the new rules regarding anti-corruption in business in China. They attempt to eliminate the following:

"According to the regulation on officials' accountability, officials with the following misconduct should be removed from their posts:

- Making a wrong decision that leads to great losses or has serious negative impact;*
- Serious or a spate of accidents or cases occurred in the official's jurisdiction or working unit due to his or her dereliction of duties;*
- Serious or a spate of accidents or cases occurred in the official's scope of duty due to lax management or supervision by government;*
- Power abuse, malfeasance, or ordering or encouraging others to commit illegal administrative activities, which lead to group protest or other serious incidents;*
- Incorrect handling of group protests or accidents, which exacerbates the situation or has serious negative impact;*
- Violating official selection or appointment regulations, which leads to mistakes in appointing officials and have serious negative impact;*
- Other conduct that harms national interests, results in great losses to people's lives, personal or public property, or has serious negative impact."*

One could imagine if the US Senate implemented such rules in American business.

Posted by Terry McGarty at [11:21 AM](#) 

Labels: [China](#)

WHAT RECESSION

In a 1996 paper entitled [The Yield Curve as a Predictor of U.S. Recessions](#) by Estrella and Mishkin from the NY Fed the authors analyzed various recessions and concluded that Recessions occur when the spread between the 10 year and 3 month Treasuries reached certain levels.

The authors state:

"The steepness of the yield curve should be an excellent indicator of a possible future recession for several reasons. Current monetary policy has a significant influence on the yield curve spread and hence on real activity over the next several quarters. A rise in the short rate tends to flatten the yield curve as well as to slow real growth in the near term. This relationship, however, is only one part of the explanation for the yield curve's usefulness as a forecasting tool. Expectations of future inflation and real interest rates contained in the yield curve spread also seem to play an important role in the prediction of economic activity."

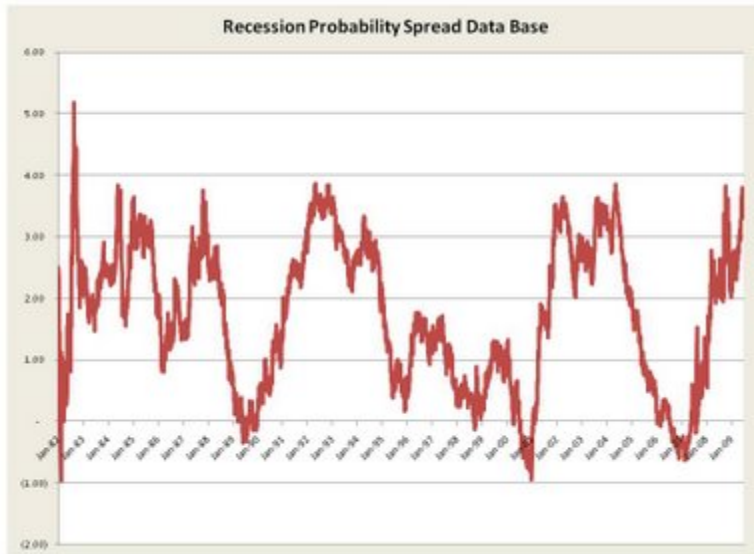
The authors continue:

" To assess how well each indicator variable predicts recessions, we use the so-called probit model, which, in our application, directly relates the probability of being in a recession to a specific explanatory variable such as the yield curve spread.⁴ For example, one of the most successful models in our study estimates the probability of recession four quarters in the future as a function of the current value of the yield curve spread between the ten-year Treasury note and the three-month Treasury bill. The results of the model, based on data from the first quarter of 1960 to the first quarter of 1995, are presented in a table showing the values of the yield curve spread that correspond to estimated probabilities of a recession four quarters in the future."

We show the table below:

Recession Probability (%)	Value of Spread (10 Year - 3 Month in %)
5	1.21
10	0.76
15	0.46
20	0.22
25	0.02
30	-0.17
40	-0.5
50	-0.82
60	-1.13
70	-1.46
80	-1.85
90	-2.4

Now we update the information by first plotting the spread from January 1982 to the present as shown below:



Then we applied the probability curve of the authors to obtain the following:



And we see we have no recession at this time. The yield curve is strongly upward and it shows if one believes the analysis that a recession does not exist!

The authors' conclusions are:


"First, forecasting with the yield curve has the distinct advantage of being quick and simple. With a glance at the ten-year note and three-month bill rates on the computer screen, anyone can compute a probability forecast of recession almost instantaneously by using a table such as ours.

Second, a simple financial indicator such as the yield curve can be used to double-check both econometric and judgmental predictions by flagging a problem that might otherwise have gone unidentified. For example, if forecasts from an econometric model and the yield curve agree, confidence in the model's results can be enhanced. In contrast, if the yield curve indicator gives a different signal, it may be worthwhile to review the assumptions and relationships that led to the prediction.

Third, using the yield curve to forecast within the framework outlined here produces a probability of future recession, a probability that is of interest in its own right."

If the authors are correct we should not have a recession at this time, yet we do. Why? The yield curve is artificially held down by the FED, they have pegged the short term rate via the discount rate. This is driving down the curve and perhaps not allowing for a "natural" flow of funds.

One is reminded of the Mises School view of the Depression, a view which holds the banks as solely responsible. Then there is the Temin retort, the Keynes School answer, requiring more Government spending. This debate continues even in the small corner of debate.

Posted by Terry McGarty at [3:47 AM](#) 

Labels: [Economics](#)

SATURDAY, JULY 11, 2009

FED BALANCE SHEET AND INFLATION

We have just published a White Paper on the [FED Balance Sheet and Inflation](#). It goes into detail on what we wrote a few days ago about the monetary base explosion but M2 limited growth. It is worth a read.

Posted by Terry McGarty at [2:40 PM](#) 

Labels: [Economy](#)

RUSSIA AND THE CHURCH

It is interesting to read in the [Moscow Times](#) the story that the Patriarch of Moscow, the senior church official in Russia, with the backing of Putin, has interjected himself in the Duma's lawmaking process. The paper states:

"Russian Orthodox Patriarch Kirill invited the United Russia deputies to his office to voice his angst over EU-backed plans to introduce sex education in Russian schools.

He left the meeting with a promise from the pro-Kremlin party that he would be allowed to preview all legislation considered in the State Duma.

The extraordinary agreement grants the Russian Orthodox Church a privilege not shared by any other religious community in Russia and not even afforded to the Public Chamber, the civil society advisory body that is supposed to have the right to examine pending legislation and influence its outcome.

It raises questions about separation between church and state, which is enshrined in the Constitution, and promises to raise new concerns about the growing clout of the Russian

Orthodox Church, which has seen a revival since Vladimir Putin rose to power in 2000. Putin, now prime minister after eight years as president, heads United Russia.

Patriarch Kirill invited two senior United Russia deputies to his office near the Christ the Savior Cathedral on Wednesday to express his worries about the Duma's ratification of the European Social Charter on May 20."

This is clearly a strong move on the part of the Patriarch to strengthen the Church in Russia. Most westerners do not recognize that the Church in Russia perceives itself to be the sole surviving direct lineage to Peter in Rome. They see the Western Church as having lost that lineage with their multiplicity of Popes and anti Popes. Thus the Patriarch sees himself as the senior most descendant in that line having even survived during the worst of the Stalin times.

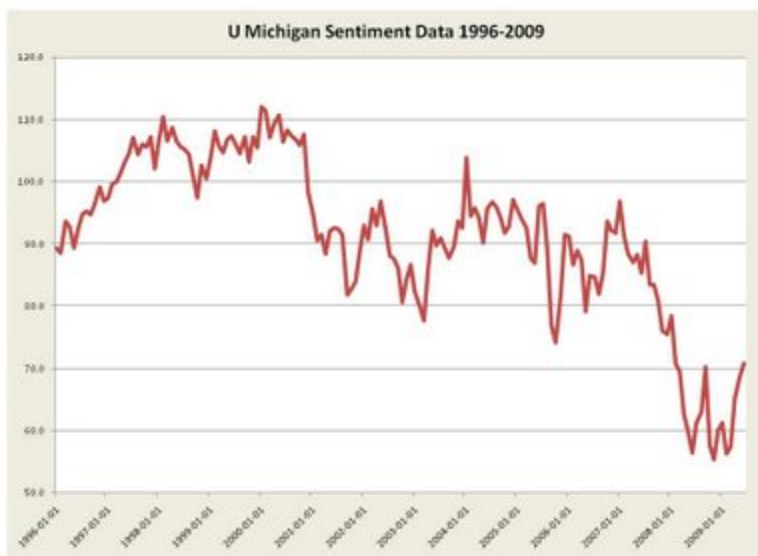
This also means that the Church can become a tool of the Government and the quid pro quo is the Government tending to bend to the wishes of the Church. Thus Russia may strangely become a more religious country than any other in the European world.

Imagine Berlusconi taking direction from Benedict on his love life, hardly anything anyone would consider. But in Russia this is a fabric building element of true Russian heritage.

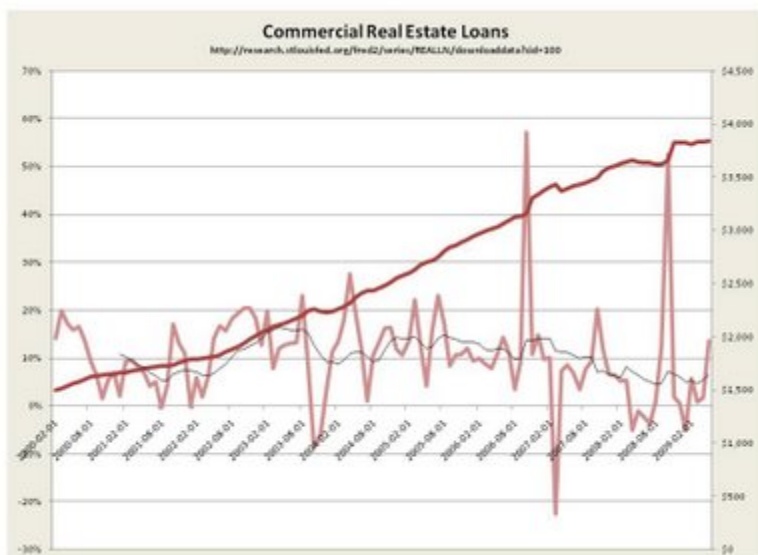
Posted by Terry McGarty at [1:47 PM](#) 

Labels: [Russia](#)

[**ARE THINGS REALLY THAT BAD?**](#)



The above chart is the U Michigan Sentiment Data as just released by the St Louis Fed. Things seem to be coming back as viewed by the consumer. The depth was reached and the return is arriving.



Now the above is the data on commercial real estate loans, an area we have been concerned about. This too seems to be rebounding. As we discussed in a prior post the issue is where is the trillion plus that the FED pumped out to the economy which has not made its way to M2? That is the concern for the long run.

The major concern is that there seems to be a well directed recover thanks to the FED. However the current Administration wants another stimulus package, the first has not even had any effect, we are recovering due to the FED not the current Administration. The result of a second package could be a total economic collapse. I suspect that facts are meaningless.

The second fear is the loss of Bernake and the insertion of Summers. The [Financial Times](#) had "lunch with Larry Summers". He states:

"The president made two things clear to us early on," recalls Summers, who answers my questions in full, idea-packed paragraphs, rocking gently back and forth in his seat as he gets into the flow of an argument. "He would do what he had to to fix the banking system, to get the economy out of the rut in which he was inheriting it. But he had run for president to do long-run, fundamental things, like fixing healthcare, like having real energy policy, like reforming education. And we weren't going to be distracted from those things."

It continues:

"The chief intellectual casualty of the current crisis has been the "efficient markets" school – the theory, associated with such erstwhile laissez faire gurus as Alan Greenspan, that market participants are governed by rational expectations and markets are self-correcting. As an academic economist, Summers has studied the shortcomings of that approach but, working on Wall Street gave him, he says, a more visceral understanding of the "self-referential" character of markets: "Markets are concerned with the ultimate health of economies and the like but

they're equally or more concerned with what the likely judgments of other market participants in the short run are."

This seems to be a clear indication of the intent to create a centrally regulated economy. The way to do that, collapse the economy with Government debt and massive inflation. It then goes on to characterize Summers in a rather clear manner:

"Summers has managed to eat about half of his salad and is now munching on one of the blueberry macadamia nut cookies an assistant brought in midway through our meal. It seems like a good moment to ask him the question that has bedevilled White House-watchers since he was appointed to head the NEC: what exactly is his job?"

"My role is to make sure the president gets access to the best economic thinking he can on everything that touches the economy" he says loyally. "That means making sure that no arguments go unscrutinised ... and it means helping everyone on the president's economic team make the best case for whatever policies they prefer."

The notion of Summers as an intellectual handmaiden, "helping" others refine their arguments, is at odds with his reputation as a supremely self-confident intellectual bulldozer..."

Cookies and a bulldozer...sort of a Sesame Street character...and then the FT asks:

"Summers is not easily seduced but he seems thrilled by the demands of his current job. "It is certainly incredible, as intellectually challenging as anything I've ever done ... What makes it so challenging and exciting, as well as exhausting, is the range of subjects."

Even so, Washington rumour has it that the NEC isn't big enough for Summers and that he regrets not leading the Treasury and yearns to run the Federal Reserve. Does he?

"I am totally engaged by the breadth of issues that I am asked to think about to support the president."

I push one more time: "Even for you, that's enough?"

"That's more than enough."

The thought of this happening to the FED is terrifying.

Posted by Terry McGarty at [4:37 AM](#) 

Labels: [Economy](#)

WEDNESDAY, JULY 8, 2009

[OBSERVATIONS ON EXCESS CAPITAL](#)

We have been tracking M2 and the monetary base MB ratio, also the assets of the FED and we spent a few minutes looking at where the problem is, namely the FED has pumped in money and it is just hung up somewhere. So where. We performed a simple analysis. The math is simple and the results are startling.

Let us start with some math. First for M1 we have:

$$M = D + C$$

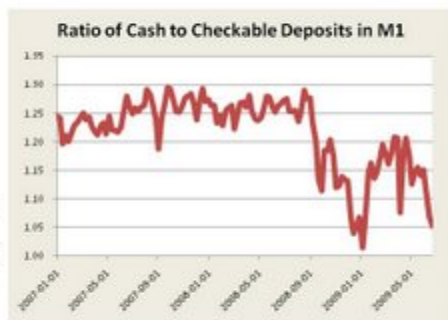
$$M = \text{Money Supply}$$

$$C = \text{Cash}$$

$$D = \text{Demand Deposits}$$

$$M = D + cD = (1 + c)D$$

$$M = M1$$



This is M1 and it is a sum of cash and demand deposits. The cash can be some multiple of the demand deposits as we show and the graph shows some modulation of that over the last 30 months. Now for M2 we have:

$$M2 = C + D + D^* + MI$$

$$= MI + D^* + MI$$

$$D^* = \text{Small Savings and Time Deposits}$$

$$MI = \text{All Other Stuff}$$

This is standards where we list small savings and time deposits and then everything else. Now for the ratio we have been looking at:

$$\frac{M2}{MB} = \frac{C + D + D^* + MI}{MB}$$

$MB = \textit{Monetary Base}$

We can now apply some of the previous ratios to obtain:

$$M2 = \frac{C}{D}D + \frac{D}{D}D + \frac{D^*}{D}D + \frac{MI}{D}D$$
$$= (c + 1 + \frac{D^*}{D} + \frac{MI}{D})D$$

And finally we have for the other ratios:

$$MB = RR + ER + C$$

RR = Required Reserves

ER = Excess Reserves

C = Cash

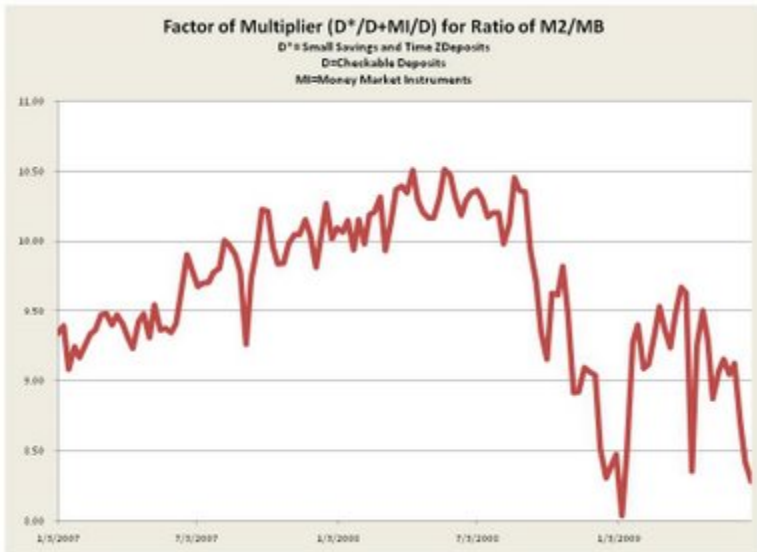
$$MB = \left(\frac{RR}{D} + \frac{ER}{D} + \frac{C}{D} \right) D$$

$$= (r + e + c)D$$

Now when we use the [Fed data](#) we obtain:



Which is the chart we have been following. Namely we see that M2 to the money base has collapsed. The money went out but then disappeared. Where did it go? We first looked at the ratios in the analysis and they are shown below:



This did not account for the dramatic difference. Then we looked at the excess reserve ratio, e , and this is shown below:



And this was quite telling. The excess reserve ratio, until last fall, was close to zero as one would have expected. Then as the FED pumped money into the banks the ratio exploded. The money is being hoarded if one does the analysis this way. Yet it may also be that the required reserves may have no value and the money is covering the reserves. This does not appear in the simple monetary analysis. We will be watching this closer. There is one hopeful sign here which is the excess ratio seems to be falling at a fast rate, a possible sign of the loosening up of the banks.

Our concern still is as it has been for the past nine months that explosive inflation is just behind us and running faster than we think

Posted by Terry McGarty at [8:22 AM](#) 

Labels: [Economics](#), [Economy](#)

[LET THE OLD MEN DIE!](#)

The [NY Times](#) published an article today discussing the current Administration's approach to health care and in particular prostate cancer. It is a most telling article on how the new process of delivering health care will be approached. They discuss prostate cancer, one which we have spoken of many times in the past few months.

The article states:

"It's become popular to pick your own personal litmus test for [health care reform](#)....

My litmus test is different. It's the [prostate cancer](#) test.

The prostate cancer test will determine whether [President Obama](#) and Congress put together a bill that begins to fix the fundamental problem with our medical system: the combination of soaring costs and mediocre results. If they don't, the medical system will remain deeply troubled, no matter what other improvements they make....

So let's talk about prostate cancer. Right now, men with the most common form — slow-growing, early-stage prostate cancer — can choose from at least five different courses of treatment. The simplest is known as watchful waiting, which means doing nothing unless later tests show the [cancer](#) is worsening. More aggressive options include removing the prostate gland or receiving one of several forms of radiation. The latest treatment — proton [radiation therapy](#) — involves a proton accelerator that can be as big as a football field. ...

"No therapy has been shown superior to another," an analysis by the RAND Corporation found. Dr. [Michael Rawlins](#), the chairman of a British medical research institute, told me, "We're not sure how good any of these treatments are." When I asked Dr. [Daniella Perlroth](#) of [Stanford University](#), who has studied the data, what she would recommend to a family member, she paused. Then she said, "Watchful waiting.""

Now if a man suggested watchful waiting for breast cancer there would be hell to pay. First this is the wrong first issue. The first issue is to determine how aggressive the prostate cancer is and that is a cellular and genetic problem. You learn nothing from a Gleason score other than it most likely is not too bad or bad. Thus the works should focus on performing the research on assessing the nature of a specific prostate cancer and to develop procedure to monitor it in a cost effective manner.

Any physician who has dealt with patients with prostate cancer know that there are men who just will never die of it no matter how long they live and there are men who just seem to fall apart and die in months, each from the same starting point. So watchful waiting from a woman physician may be what we are in for in the future. Perhaps it is some Freudian form of revenge...

The same would be the case, as we have argued, for comparative clinical effectiveness studies. In a CCE study we may be measuring the effects of the different forms of cancer sells and NOT the impact of the treatments. Yet we have never determined the underlying forms of cancer cells. Performing a CCE study we see the results of different procedures on patients and we determine

that watchful waiting is best, for example. The fact is that say 80% of the patients this is true and the 20% which die a painful death it was false because they had a different disease.

We now know much of the underlying genetics of breast cancer and we can now stage patients accordingly. We know different treatments work for different subgroups of breast cancer and we treat them accordingly. We must do the same for men as we do for women, not just let them die because some woman says so! Especially if that person is a Government Czar of some sort.

Posted by Terry McGarty at [4:35 AM](#) 

Labels: [Health Care](#)

MONDAY, JULY 6, 2009

BUNNIES

In [China Daily](#) there is an interesting article about the *Bunny Woman* in Oregon. It states:

"An Oregon woman obsessed with bunnies has been ordered back behind bars after police found her in a hotel room with more than a dozen rabbits.

Washington County Circuit Judge Gayle Nachtigal ruled Thursday that 47-year-old "bunny lady" Miriam Sakewitz violated her probation by having the rabbits. The judge sentenced the woman to 90 days in the county jail."

This was a major piece in the newspaper. It would be interesting to see how the Chinese view this? This is another one of these "you can't make this up!" articles. A little humor helps.

Posted by Terry McGarty at [11:13 AM](#) 

Labels: [China](#)

THE NUCLEAR ISSUE AND RUSSIA

I have a somewhat different view of Russia and the nuclear issue than many others. In the late 70s I was a senior technical advisor to the Comprehensive Test Ban Treaty ("CTBT") negotiations between the US, UK and USSR. A tense time and a strange set of negotiations, for it was under the Carter presidency and Brzezinski who controlled the NSC. In my experience and in my opinion Brzezinski was merely doing the bidding of Carter who wanted a treaty at any cost, and that meant that he would give away whatever it was necessary. Fortunately we never completed the treaty.

I spent time with the Russian team and it was clear that the Russians knew what Carter wanted and they played the game of getting the most from the negotiations team. Admiral Tom Davies headed up the ACDA group on this treaty, while Admiral Turner headed the CIA and Admiral Inman the NSA. Turner had managed to almost eliminate human intelligence at the request of Carter and this led to the loss of intel on Iran and we still live with the results and loss of human intel on Russian actions which as corrected under Reagan.

I then spent almost a decade in an out of Moscow where I had a subsidiary of my company which we had headquartered in Prague. The Russian were competent, capable, and in many was inscrutable. You were never presented with problems, just issues or concerns. It took time to learn how to read them. It took time, and the use of Russian was a key part of that process. Thus I see the Russian as one who worked inside as well as an adversary. My view is based on a cold war relationship. The current President does not have that view.

In the trip to Moscow by the current President he seems to be focusing on Medvedev and little on Putin. The [Moscow Press](#) suggests strongly that he have a "walk in the woods" with Putin. The article states:

"U.S. President Barack Obama faces a major test of his leadership with his trip to Moscow to meet with Russian leaders. He has invested considerable political capital in the effort to "reset" relations with Russia, yet Moscow's interests in such a "reset" remain dubious at best. While I have been a strong advocate of the spirit of "pressing the reset button" to improve U.S.-Russian relations, there is a flaw in the logic. The logic of "reset" rests on the assumption there is new leadership in Washington and Moscow ready to reconsider past policies, but the reality is that assumption is only true in Washington.

There should be no illusions about where ultimate decision-making authority in Russia resides today. The "tandem" is a fiction, of course. Obama must operate under the assumption that on any issue of importance to him — from nuclear arms reductions to Afghanistan to Iran — the ultimate arbiter for Russian policy is Putin."

Indeed that is true, as Putin was sponsored by General Ivanov we see Medvedev is both sponsored and focused by Putin. Putin is a shrewd and insightful player in the field of politics. He is never seen smiling in the western press but he does so behind the scenes and frequently the smiles are the result of his handling of the west. The current US President brings Chicago politics but Putin brings the best of the KGB Russian mind.

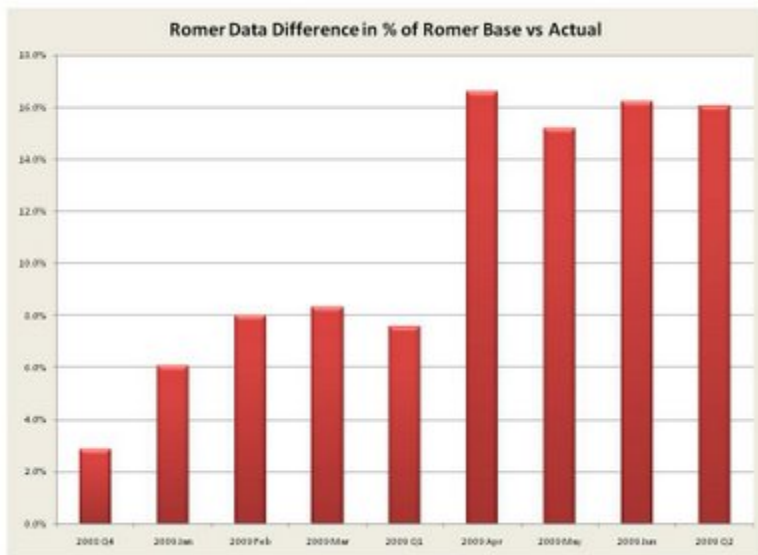
But what of the proposed reduction. Not a bad idea since most of the delivery vehicles are aged and the war heads near being useless. The nuclear warheads lose capability in time, the core material decays. In addition we most likely no longer need mutually assured destruction, but we need tactical and clean capabilities, which means more R&D and testing. Hopefully we do not agree to stop that. A small tactical neutron based system ("TNBS") would be of great use in certain areas. Massive multi-war head systems are there for mutual deterrence only. There may always be a need for the TNBS. The Korea concern represents one of the uses.

Posted by Terry McGarty at [8:46 AM](#) 

Labels: [Russia](#)

[SATURDAY, JULY 4, 2009](#)

[THE ROMER ERROR CHART](#)



Thought it would be of use to continue tracking Ms Romer's data. The above charts the error in % between actual and the Romer projections used to justify the stimulus package. Her data is off by about 16% consistently thru Q2. We anticipate a widening gap in Q3. Despite this the economy is stabilized and may be on the mend. However the Romer data was used to justify two things, the spending on the stimulus PLUS the revenue from taxes from the newly employed. The latter will soon bite us in the rear as it will drive inflation. As some of the current President's supporter are urging the massive spending must stop.....otherwise...over the edge.

Posted by Terry McGarty at [5:06 AM](#)

Labels: [Economy](#)

FRIDAY, JULY 3, 2009

[YOU CANNOT MAKE THIS UP!](#)

California is out of cash. The [New York Fed](#) advises depositors of the new California IOUs to be wary. It states:

"Customers are advised to consult with their banks before depositing a registered warrant and should ask the following:

- *Will the bank accept the registered warrant for deposit? Some banks may have arrangements to advance funds to depositors prior to the warrant's payment date.*
- *When will the funds be made available for withdrawal? These warrants will not be subject to the normal, federal check-hold limits and therefore could be subject to extended holds.*
- *Is there a potential to incur fees? The State of California will likely return unpaid any registered warrants that it receives before the payment date. Therefore, depositors of these warrants may be subject to returned-deposit fees if their banks attempt to collect these warrants before they are payable. In addition, if customers rely on these funds to make other payments, they may be subject to overdraft or bounced-check fees if the warrants are returned."*

It is worth a read of the book about the Roosevelt days in the 30s by Shlaes called the [Forgotten Man](#). It reads onto to what may be happening now. A well done book. In effect California is

printing its own script. There most likely will be a secondary market for discounted script!
Watch the fireworks.

Posted by Terry McGarty at [12:05 PM](#) 

Labels: [Economy](#)

[CHINA PERMITS YUAN TRADING](#)

The China Central Bank has permitted the use of the yuan and its derivatives as a means to trade outside of China as reported in [China Daily](#). Specifically it says:

"China's central bank yesterday released a rule permitting companies in select cities to settle cross-border trades using the yuan, as part of efforts to reduce reliance on the US dollar for international trade.

Banks will be able to offer yuan settlement services from now on, PBOC said in a statement on its website. It said tax authorities were working on the specific regulations for rebates.

The move, it claimed in the statement, would likely reduce companies' exposure to foreign exchange risks, increase liquidity in foreign trade and cut transaction costs.

"Companies in China and neighboring countries are facing relatively huge risks of exchange-rate fluctuations because of big swings in the US dollar, the euro and other major settlement currencies in the wake of the global financial crisis," the central bank said."

The article continues:

"The government in April said it would allow Shanghai and four cities in the southern Guangdong province - Shenzhen, Guangzhou, Zhuhai and Dongguan - to settle international trade in the yuan on a pilot basis. Companies in these cities, and elsewhere, currently have to convert yuan into dollars or other currencies to settle their export-import bills.

The central government approved the use of the yuan to settle cross-border trade with Hong Kong on June 29. The first transactions will start this month, according to Hong Kong Monetary Authority Chief Executive Joseph Yam, who signed a supplementary agreement with central bank Governor Zhou Xiaochuan the same day.'

This is a dramatic move which seems to have been unrecognized in the western press. Currently the **renminbi** is the PRC currency with the yuan being a principle unit. Also before this release all trades were dollar denominated yet the renminbi was used in China, Hong Kong, Taiwan, Russia, North Korea, Burma and Vietnam. Now it will be the basis for a great deal more trade. We see this as a strong step by China to establish the yuan as a base currency and is a direct challenge to the dollar. One would suspect that the China's banks are concerned about the soon to materialize inflationary pressure on the US dollar.

We would suggest watching this development as it matures.

Posted by Terry McGarty at [11:46 AM](#) 

Labels: [China](#)

FRIDAY, JULY 3, 2009

[THE DAYLILIES ARE STARTING](#)



This is one of my hybrids, Mister Brown, named after my high school English teacher. We are now in the midst of the hybridizing season and hope we can keep the deer out! We have close to 500 hybrids and do 2,000+ crosses in seedlings each year. Wish us luck, we lost 70% to deer last year...

Posted by Terry McGarty at [11:01 AM](#) 

Labels: [Commentary](#)

[HAPPY JULY 4TH](#)

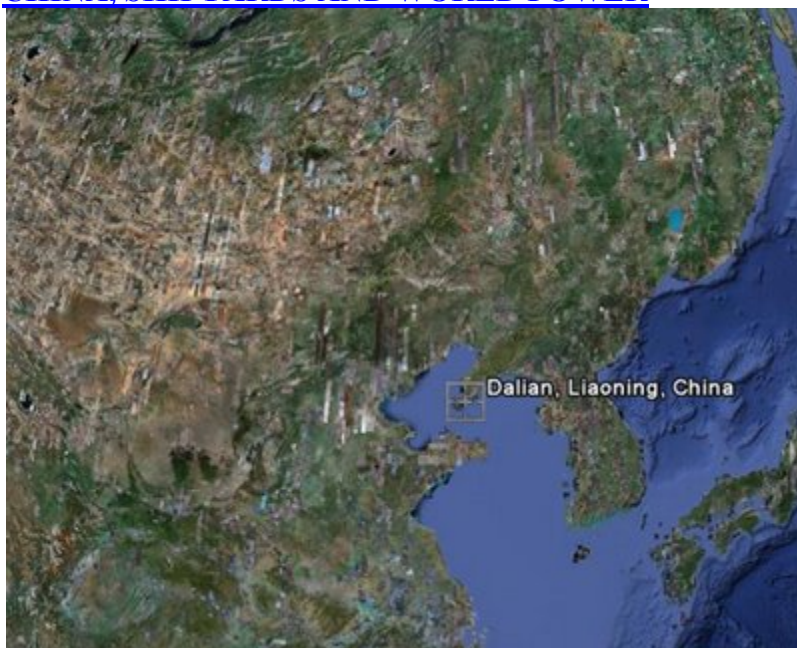


Happy July 4th. This picture was taken when I was at Normandy Beach Cemetery on 13 September 2001, just after 9/11, which I spent in Prague. The hand written notes on the graves from many throughout the world was a solidarity with those who were viciously and wantonly attacked in New York. To our forces in the Military Services go my thanks and prayers. Happy July 4th....keep safe...be well...

Posted by Terry McGarty at [9:15 AM](#) 

Labels: [Commentary](#)

[CHINA, SHIPYARDS AND WORLD POWER](#)



[China Briefing](#) reports:

"The largest shipyard in the world measuring 460 meters long with a width of 135 meters has opened in Dalian, a coastal city located northeast of China.

The shipyard located in Changxing Island has bypassed the Philippine shipyard built by Hanjin Heavy Industries by 1 meter long and 1 meter wide. It was built with investment coming from the STX (Dalian) Shipbuilding Co., a subsidiary of the Korean company, STX Group."

China is now building a significant infrastructure capable of constructing both civilian and military shipping and its Navy is approaching a true blue water capability which in ten years may equal the US. While the US fleet is dropping down to less than 300 ships, with only a third at sea at any one time, the Chinese Navy is expanding greatly.

As we have [written a year ago](#) we see the capabilities of littoral fleets being a major player in any future regional conflicts while at the same time having the infrastructure of backbone fleets to support them.

One must remember that in 1944 at the battle of Leyte Gulf the US had over 3,000 ships, while still supporting the Atlantic and the rest of the Pacific. We are now down to 300 and the Chinese will soon surpass us with much lower logistics concerns.

Posted by Terry McGarty at [8:00 AM](#) 

Labels: [China](#)

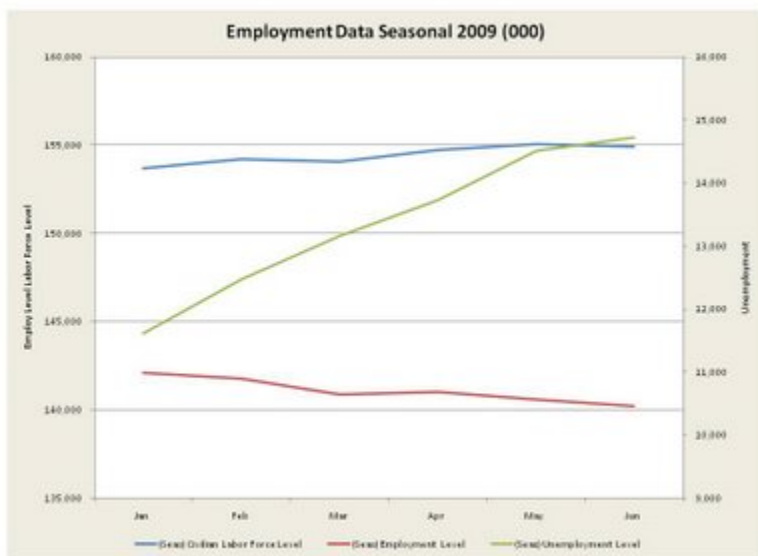
[HALF FULL OR HALF EMPTY](#)

The release of the employment data has rung many bells of warning and I am a bit puzzled. Let us spend a bit more time with the data for I see the glass half filled not half empty. Things are getting better, albeit admittedly not due to the stimulus package. Perhaps this is all a political argument and it would not be the first time.

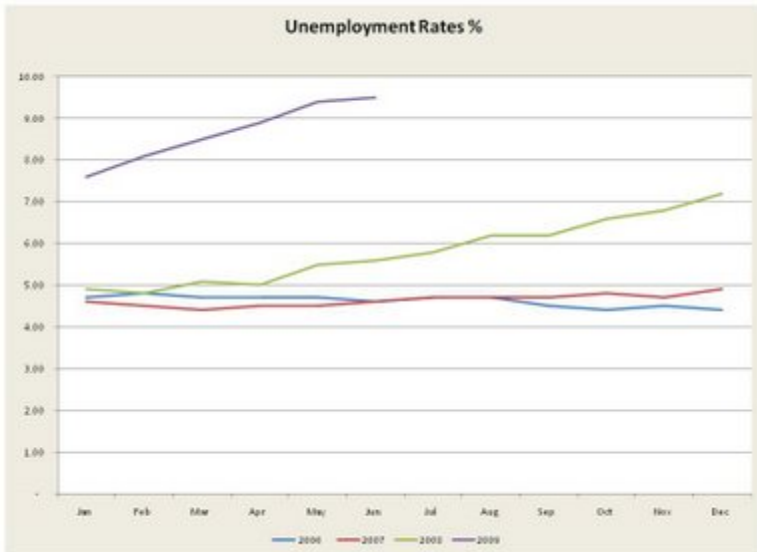
I wish to look at two issue; the unemployment data and then the Fed yield curve spread.

Unemployment:

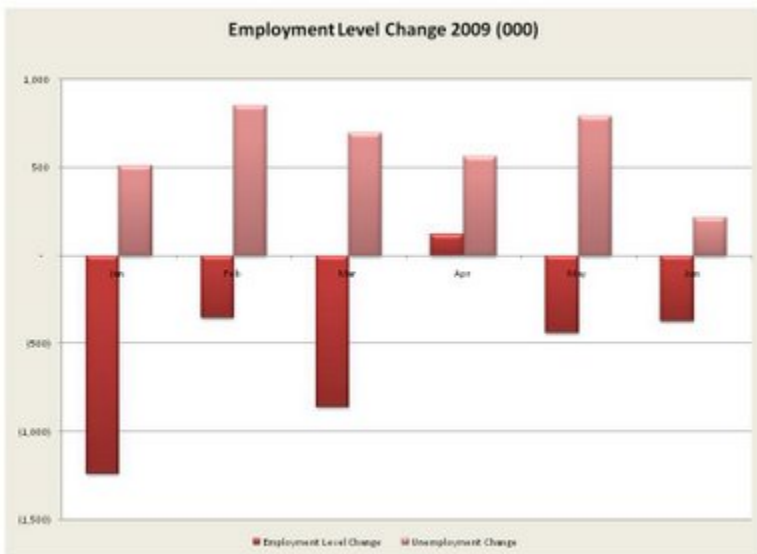
First let us look at the total numbers as shown below. This is the total employable base, always questionable, then those employed and then those declared unemployed.



Now let us look at the unemployment rates over the past three years as shown below.



Finally let us look at the changes by month in employed and unemployed. This is shown below.

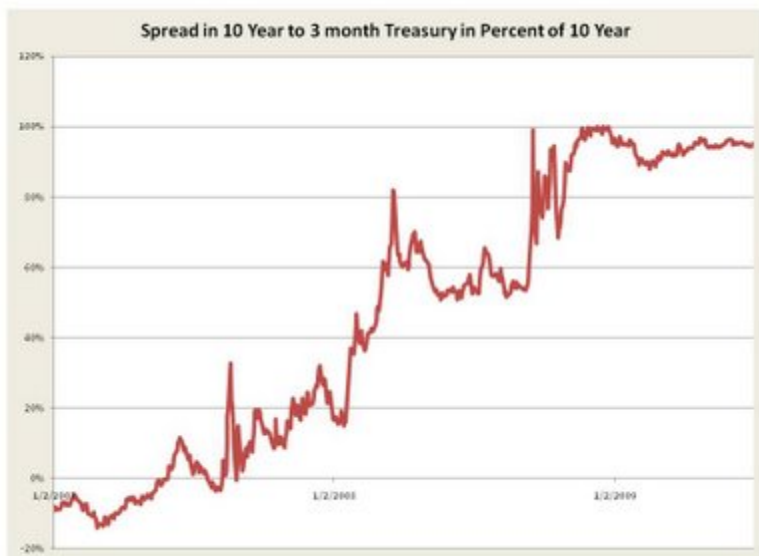


Note from the above that things are really getting better consistently since January. In particular the changes in June are smaller than half the other months. It appears as if there is a leveling off. We argued this yesterday but somehow the Press in its glory fails to do the analysis. One thing I have become aware of is that the Press reports a fact and NEVER analyzes the data, they have no competence to do so. Never met a reporter with a brain, pushy yes, but they never got names of facts straight. Thus why wonder that they cannot analyze data.

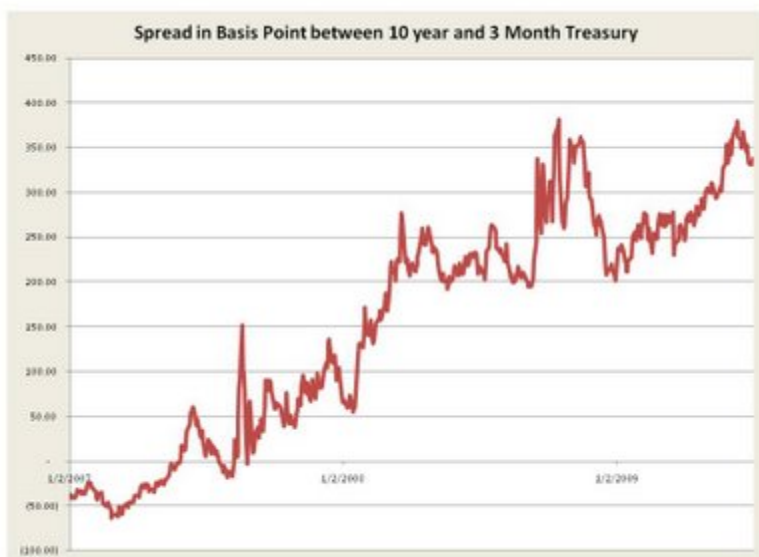
Yield Spreads:

We now look at the yield curve spreads on Treasuries. This has been a concern but it too is leveling off.

The first is the spread in 10 year and 90 day rates. It has flattened and remains so. Thus the pending concern may be reduced. The spread is still there but not growing.



The second is the spread of the former but in bases points. In this view we see things actually improving.



Finally we present the bases point spread for Q2 alone. This is a close up of the spread with the improvement throughout June.



Thus we are led to conclude from the employment data and from the spread data that the economy appears to be slowly coming out of the slump, with not stimulus. The problem is the stimulus may fire up inflation and the moronic talk of an added stimulus would I fear lead to possible hyperinflation, and that is a small but now growing concern. The current Administration wants to control so many things and it has pushed so many programs that their effect has not even been imagined no less have taken root.

Posted by Terry McGarty at [5:31 AM](#) 

Labels: [Economy](#)

THURSDAY, JULY 2, 2009

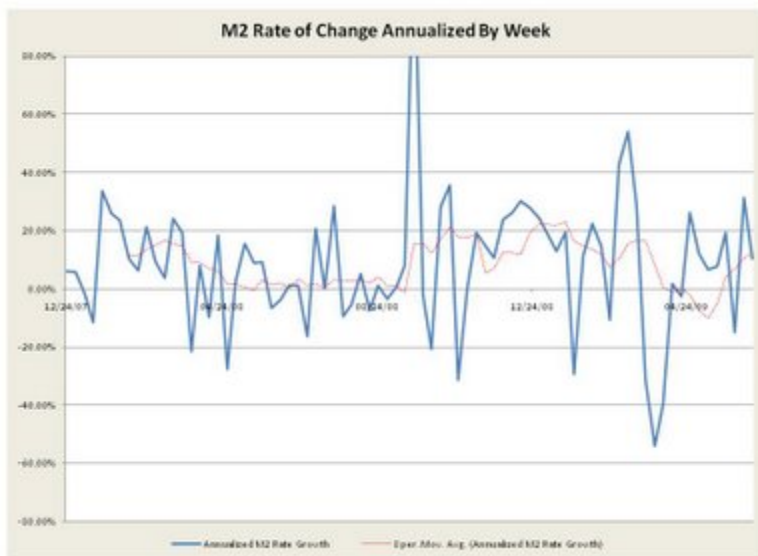
[RECENT DATA ON MONEY](#)

The following charts show M2 and the Feds balance sheet. First for the M2 data.

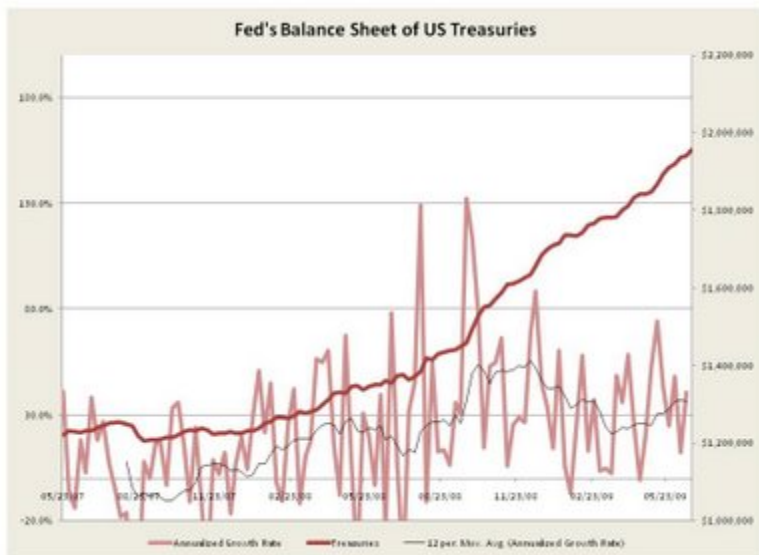
Note that there was a slight dip a few weeks ago and since then it has been rising again. The rate of increase is not as great as before as we shall show but the M2 growth should be a concern as we also see the unemployment rate growth slowing. We suspect this may be a slowing of the recession and a flow of cash back into the economy.



Now for the rate of growth of M2. This is shown below. The rate does show a strong positive annualized growth rate and this of course should be an inflationary concern. The rate of growth has begun to increase again as we noted above. This may be a result of the loosening of credit which we suspect is happening at a modest level.



Now for the Fed's Balance Sheet. We show this below. The Fed's BS continues to grow at a fast rate annualized both on the spot basis and on the 12 week running average. This means that the Fed is still actively stimulating the market as we has anticipated.

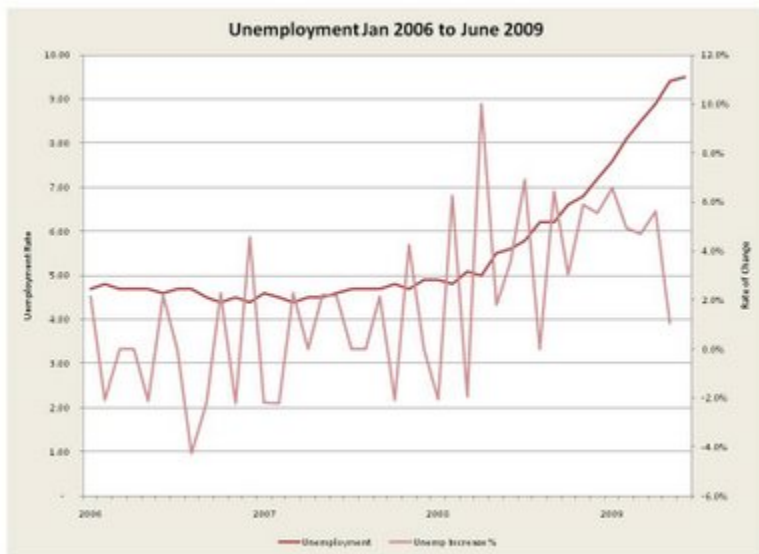


We believe that these three charts will provide a slight warning of inflationary pressure as we enter 2010 but with the current recession we will not see it in 2009. The major concern is that the stimulus money is very slowly trickling in and its impact, frankly if any, will not be seen until Q4 2009. Then in 2010 it may provide a double whammy to inflation with the current actions of the Fed.

Posted by Terry McGarty at [9:39 AM](#)

Labels: [Economy](#)

UNEMPLOYMENT STATS



The [DoL](#) has just issued the most current unemployment stats for June and it is 9.5%. The interesting factor is its annualized rate of change which is now down to 1%. This may be a one month anomaly but if it holds then we may likely see only 10% peak not the anticipated 10.5%. Clearly this Recession is not as bad as many others and clearly not as bad as the current

Administration would like us to believe. We are still concerned as regards to the growth in M2 and the Fed's balance sheet because this may mean the Fed will clamp down on interest rates and repeat the recession of the early 80s.

The other DoL data released is summarized below:

Consumer Price Index	+0.1%
Unemployment Rate	9.5%
Payroll Employment	-467,000(p)
Average Hourly Earnings	+\$0.02(p)
Producer Price Index	+0.2%(p)
Employment Cost Index	+0.3%
Productivity	+1.6%
U.S. Import Price Index	+1.3%
Unemployment Initial (UI) Claims	614,000
UI Claims 4-Week Average	615,250
Federal Minimum Wage	\$6.55

The CPI increase is not bad and it shows a continual trend away from deflation which many had considered and the import price increase is possibly reflective of some long term trends in increased CPI. As with so many of these stats the standard models may have little if any merit in this case.

However my view is positive whereas the [NY Times](#) reports this as a negative since, although the rate of increase of the rate decreased dramatically, the total number increased. I find this rather interesting. If you took my position you would conclude that things are getting better despite the fact that the stimulus was not even taking effect. Whereas if you read the Times you would conclude you need more stimulus. Strange to see the difference but so why am I not surprised! Welcome to macroeconomics, where like Alice we can make a number mean anything we want it to mean, or as I have often said thank God macro-economists do not design bridges! But yikes, they are now into health care.....

Posted by Terry McGarty at [5:54 AM](#) 

Labels: [Economy](#)

WEDNESDAY, JULY 1, 2009

[IOM COMPARATIVE EFFECTIVENESS RESEARCH](#)

The Institute of Medicine has just published a report entitled, [Initial National Priorities for Comparative Effectiveness Research](#), which lists many high to low priority comparative research areas to be investigated. Their proposed objective was stated as:

"CER is the generation and synthesis of evidence that compares the benefits and harms of alternative methods to prevent, diagnose, treat, and monitor a clinical condition or to improve the delivery of care. The purpose of CER is to assist consumers, clinicians, purchasers, and policy makers to make informed decisions that will improve health care at both the individual and population levels."

The purpose is an interesting one. It assists consumers first, then clinicians and then purchasers, one assumes the Government, and then policy makers. The intent is to improve health care whatever they mean by that. One hopes that they did not want to destroy health care. But some much for the staff member who wrote this.

We now look at a few here briefly:

First in their first tier of studies they include;

Compare the effectiveness of treatment strategies for atrial fibrillation including surgery, catheter ablation, and pharmacologic treatment.

There are many arguments which can be had here for in some cases ablation works and in others one may ablate the wrong location. Typically it is a set of customized treatments fine tuned to fit the patient. Here they are most likely trying to reduce the surgery load and its co-morbidity.

Compare the effectiveness of upper endoscopy utilization and frequency for patients with gastroesophageal reflux disease on morbidity, quality of life, and diagnosis of esophageal adenocarcinoma.

This is an interesting study because we know that a Barrett's esophagitis is often a precursor to esophageal cancer. Upper endoscopy is a gold standard to use but there is a concern for overuse. The issue is when and how long to wait. With mild gastric reflux should there be an upper GI scoping, just to be certain, and many times it may be junctional as well. The question they pose is one of cost effectiveness, for scoping everyone would clearly reduce mortality but at what cost? That is what Medicare and the current Administration want to control.

Compare the effectiveness of genetic and biomarker testing and usual care in preventing and treating breast, colorectal, prostate, lung, and ovarian cancer, and possibly other clinical conditions for which promising biomarkers exist.

This we have been arguing for on an ongoing basis. However as we has written we see this as a continually evolving area and one with great changes as well. Thus why CER for this? The results will be unstable at best.

Compare the effectiveness of management strategies for localized prostate cancer (e.g., active surveillance, radical prostatectomy [conventional, robotic, and laparoscopic], radiotherapy [conformal, brachytherapy, proton-beam, and intensity-modulated radiotherapy]) on survival, recurrence, side effects, quality of life, and costs.

This is a really problematic issue. Here we have the catch phrase of quality which we have already had a discussion on. Every time I see another prostate carcinoma I can see multiple options presented. Some patients want to retain sexual capability at all costs, thus ruling out surgery, and others want to reduce the chance of any bowel malfunction thus ruling out seed implants. The problem here is I believe a genetic staging issue to begin with. Not all prostate cancers are the same, there are that 5-10% which are excessively aggressive and we would want

to deal with them accordingly. A robotic approach makes up for a mediocre surgeon but it is also a good marketing tool. This again is a personal decision which the CER approach wants to generalize. I believe that it will be difficult to do.

Finally one of the class 4 CER proposals is:

Compare the effectiveness of different long-term treatments for acne.

This I really like, it brings me back fifty five years! It is good to see our money being well spent. The solution is just grow up in some cases. Indeed there are those few acne cases which are disfiguring, but they still present as a clinical challenge.

The NEJM article by [Iglehart](#) states:

" The ARRA, which is the \$787 billion economic stimulus package that President Barack Obama signed into law on February 17, 2009, included \$1.1 billion for CER. The research priorities developed by the IOM committee — delivered as Congress requested only 19 weeks after Obama signed the measure — must be taken into account by the DHHS as it allocates \$400 million in support of CER projects over the next 2 years."

Thus what happens here is the stimulus is passed and the fuse is running and this long fishing list is prepared and funding distributed. It is likely that much of what is here will be wasted. This is the problem with this type of Government, just spend money, and watch it wasted.

Iglehart continues:

*"The IOM committee placed particular emphasis on **leading questions regarding the clinical effectiveness of care**. Half the 100 recommended primary research areas compare some aspect of the health care delivery system Explaining this emphasis, the report says: "Research topics categorized in this group focus on comparing how or where services are provided, rather than which services are provided. The prominence of health care delivery systems in the portfolio primarily reflects the interest of the public . . . as well as the committee's belief that an early investment in CER should focus on learning how to make services more effective*

Nearly a third of the other primary research priorities address racial and ethnic disparities, and nearly a fifth address patients' functional limitations and disabilities. Other key priority areas are cardiovascular disease, geriatrics, psychiatric disorders, neurologic disorders, and pediatrics."

The focus on many issues was on how care is provided and what makes for better care. In a manner these are process questions rather than true clinical questions.

In another NEJM paper by [Conway and Clancy](#) the authors state:

"The Council's vision is to lay the foundation and build the infrastructure for CER to develop


and prosper so it can inform decisions made by patients and clinicians. The Council specifically identified high-priority research gaps and one-time investments in infrastructure that would accelerate the conduct of CER by multiple researchers. We set three main objectives: to develop a definition, establish prioritization criteria, create a strategic framework, and identify priorities for CER; to foster optimal coordination of CER conducted or supported by federal departments; and to formulate recommendations for investing the \$400 million provided to the Office of the Secretary.

To establish a transparent, collaborative process for making recommendations, the Council sought public input through three public listening sessions and extensive commenting on its public Web site. The Council heard from hundreds of diverse stakeholders and received feedback on draft documents.

We defined CER as the conduct and synthesis of research comparing the benefits and harms of various interventions and strategies for preventing, diagnosing, treating, and monitoring health conditions in real-world settings.

The purpose of this research is to improve health outcomes by developing and disseminating evidence based information to patients, clinicians, and other decision makers about which interventions are most effective for which patients under specific circumstances."

Unfortunately there is a rush here to satisfy the Government mandate and I fear that many well posed questions will be thrown under the trucks of the Government need to spend rather than the true need to think and act accordingly.

Posted by Terry McGarty at [7:40 AM](#) [0 comments](#) 

Labels: [Health Care](#)

TUESDAY, JUNE 30, 2009

QUALITY AND HEALTH CARE

Quality is a difficult word. The current Administration ensures us we will have a quality health care system. The IOM report on Comparative Clinical Research guarantees us quality results. Is is the same word. Well I suggest we recall Alice in Through the Looking Glass:

"Humpty Dumpty took the book, and looked at it carefully. `That seems to be done right -- ' he began.

`You're holding it upside down!' Alice interrupted.

`To be sure I was!' Humpty Dumpty said gaily, as she turned it round for him. `I thought it looked a little queer. As I was saying, that SEEMS to be done right -- though I haven't time to look it over thoroughly just now -- and that shows that there are three hundred and sixty-four days when you might get un-birthday presents -- '

'Certainly,' said Alice. 'And only ONE for birthday presents, you know. There's glory for you!' 'I don't know what you mean by "glory,'" Alice said.

Humpty Dumpty smiled contemptuously. 'Of course you don't -- till I tell you. I meant "there's a nice knock-down argument for you!"'

'But "glory" doesn't mean "a nice knock-down argument,"' Alice objected.

'When I use a word,' Humpty Dumpty said in rather a scornful tone, 'it means just what I choose it to mean -- neither more nor less.'

'The question is,' said Alice, 'whether you CAN make words mean so many different things.'

'The question is,' said Humpty Dumpty, 'which is to be master -- that's all.'

Does a word mean whatever we want it to mean, is quality something we can define and hold true to. Quality is not objective, for what one person considers important another rejects. It is not subjective, for when we collect a group of people we can ask them does A have quality and for an overwhelming majority it does or does not. Perhaps quality is akin to pornography, we know it when we see it.

Quality health care may mean we just are treated like humans, respected and considered. Quality health care is not there when you wait to see a physician and the office help shout out your formal given "Abraham" instead of Abe or Mr. Smith. You may recall that the only time you were called by your formal first name was when your mother was seeking to reprimand you for some infraction. But alas for poor quality medical office help.

Now Pirsig, the author of *Zen and Motorcycle Maintenance*, ZMM, has in his writings looked closely at quality. It is not that I am a fan of the *Metaphysics of Quality*, his fan club if you will, but he clearly laid out issues of quality and its problems.

Pirsig says:

"The definition was: "Quality is a characteristic of thought and statement that is recognized by a nonthinking process. Because definitions are a product of rigid, formal thinking, quality cannot be defined." The fact that this "definition" was actually a refusal to define did not draw comment. The students had no formal training that would have told them his statement was, in a formal sense, completely irrational. If you can't define something you have no formal rational way of knowing that it exists. Neither can you really tell anyone else what it is. There is, in fact, no formal difference between inability to define and stupidity. When I say, "Quality cannot be defined," I'm really saying formally, "I'm stupid about Quality.""

This was his beginning of the non-definition. But an important beginning. For quality health care is not measured in QALYs and the like, it is how a person feels. A difficult task.

Pirsig goes on:

"He singled out aspects of Quality such as unity, vividness, authority, economy, sensitivity, clarity, emphasis, flow, suspense, brilliance, precision, proportion, depth and so on; kept each of these as poorly defined as Quality itself, but demonstrated them by the same class reading techniques. He showed how the aspect of Quality called unity, the hanging-togetherness of a story, could be improved with a technique called an outline. The authority of an argument could be jacked up with a technique called footnotes, which gives authoritative reference."

"There's an entire branch of philosophy concerned with the definition of Quality, known as esthetics. Its question, What is meant by beautiful?...he saw that when Quality is kept undefined by definition, the entire field called esthetics is wiped out—completely disenfranchised—kaput. By refusing to define Quality he had placed it entirely outside the analytic process. If you can't define Quality, there's no way you can subordinate it to any intellectual rule. The estheticians can have nothing more to say. Their whole field, definition of Quality, is gone."

Indeed esthetics, and aesthetics does read onto to what quality is, it is a perception, not a measurable quantity.

Pirsig ends with:

"What moves the Greek warrior to deeds of heroism," Kitto comments, "is not a sense of duty as we understand it...duty towards others: it is rather duty towards himself. He strives after that which we translate 'virtue' but is in Greek areté, 'excellence'—we shall have much to say about areté. It runs through Greek life." ...Quality! Virtue! Dharma! That is what the Sophists were teaching! Not ethical relativism. Not pristine "virtue." But areté. Excellence.


Dharma! Before the Church of Reason. Before substance. Before form. Before mind and matter. Before dialectic itself. Quality had been absolute. Those first teachers of the Western world were teaching Quality, and the medium they had chosen was that of rhetoric. He has been doing it right all along...Plato hadn't tried to destroy areté. He had encapsulated it; made a permanent, fixed Idea out of it; had converted it to a rigid, immobile Immortal Truth. He made areté the Good, the highest form, the highest Idea of all. It was subordinate only to Truth itself, in a synthesis of all that had gone before. ..That was why the Quality that Phædrus had arrived at in the classroom had seemed so close to Plato's Good. Plato's Good was taken from the rhetoricians."

Quality in health care is indeed the arete of Pirsig, yet indefinable, yet we know it when we engage it. The biggest problem in health care will be quality not cost. A dying patient will respect the "quality" of his health care provider based on the respect he obtains in those final moments, not by how long he survives as a result of chemicals and operations. Death with dignity means a quality death. Life with dignity is a quality life.

Aesthetics is how we see the world looking outward. Quality is how we perceive the effects of the world on ourselves. An ethical person is one who deals with others in goodness and fairness.

A quality physician is one who is perceived by the patient as having been dealt with dignity and respect.

I do not sense that anyone in Congress has the slightest idea about what quality care is, cost and political gain are their sole motives. Pity!

Posted by Terry McGarty at [3:20 PM](#) [0 comments](#) 

Labels: [Health Care](#)

[BROADBAND: EXPERTISE OF POLITICAL CONNECTIONS?](#)

The [Massachusetts Technology Cooperative](#) issued an RFP for a consultant to assist the Commonwealth on its development of a broadband implementation. Like so many other states this has a short fuse, stating the schedule as:

1. June 29, 2009 RFP Issued.
2. July 8, 2009 Responses due by 3:00 p.m.
3. July 10, 2009 Contractor Selections.
4. July 15, 2009 Deadline for Execution of Master Agreement

Imagine getting a seasoned and competent group in nine days with July 4th in the middle! I guess you get what you plan for. They are seeking:

"Successful proposals will demonstrate that the Respondents are able to achieve the following high-level objectives:

- *In consultation with the MBI, identify a thorough list of potential industry partners that have relevant assets, capabilities, and interest in developing or expanding broadband infrastructure in western Massachusetts. Examples of potential industry partners include both wired and wireless retail broadband service providers, wholesale broadband service providers (including those associated with electric utilities), and broadband construction firms. Relevant assets include but are not limited to an existing customer base, "middle-mile" broadband infrastructure, wireless spectrum licenses, or access to physical infrastructure such as utility poles or communications towers in western Massachusetts. Capabilities include demonstrated operational experience in broadband construction and/or service provision.*

- *Produce an in-person event (briefing conference) to inform potential industry partners regarding ARRA guidelines (when available) and the MBI's preliminary plans;*

- *Identify those organizations that can successfully operate sustainable business models leveraging public sector investment;*

- *Determine the interests of qualified organizations with respect to structuring the MBI's investments and its partnership arrangements with commercial broadband providers;*

- *Develop specific recommendations for structuring and negotiating partnerships with qualified commercial broadband providers, and incorporate these recommendations into an eventual request for proposals for commercial provider partners;*
- *Develop at least two options for sustainable business models for MBI investments and publicprivate partnerships; and*
- *Produce an interim report with content suitable for incorporation into the MBI's ARRA competitive grant application by the second week of August 2009..."*


They then go on to describe their ideal candidate:

"The successful Respondent must have demonstrated and recent experience in the following:

- *Expertise in broadband infrastructure deployment and associated business models, including open access;*
- *Public-private partnership models and the general rules surrounding public procurements (e.g. disclosure, non-exclusivity);*
- *At least three active or recently completed projects of similar size/scale/scope;*
- *A highly experienced senior staff member or team assigned to this project, who have each completed three or more projects of similar size/scale/scope."*

In our experience, having been the first to obtain USDA RUS financing for New Hampshire, and then having to walk due to the intractable franchise environment, there are few if any capable entities who could do this task as they request. In fact based upon my personal experience there are most likely none. If you were to read our dozens of [feasibility reports](#) you would see how complex this issue is. The interesting result is what the Commonwealth comes up with. This is in my opinion a pre-selected deal, and that is a shame. [Public Knowledge](#), a liberal DC think tank, also wrote concerning of projects with such a short fuse. In the PK case their concern was that the time was short to get bidders who gave the right answer, namely the incumbents. One wonders what the agenda is in Massachusetts.

Why the rush, they have been playing with this for years!

Posted by Terry McGarty at [2:33 PM](#) [0 comments](#) 

Labels: [Broadband](#)

MONDAY, JUNE 29, 2009

[GLOBAL WARMING AND AN ECONOMIST](#)



In the 1960s I did work with Professor [Reginald Newell](#) at MIT. We used data from the X15 and the SR71 to determine the chemical dynamics of the upper atmosphere. I published the [results](#) in 1971. Although my specialty at the time was the "inversion problem", solving such things as what the brain looked like inside by measuring X rays passing through it and where a small nuclear explosion was based upon seismometers placed around the world, I was called upon to assist Newell.

He truly was a brilliant man, a true English gentleman. I enjoyed his research teas on Thursday afternoon, the few times my American work ethic allowed me to "waste precious time" on talk and thought.

He spent years examining the meteorological history of the earth. He understood the complexities of the atmosphere as well as the extreme complexities of the ocean and how the ocean was oftentimes the controlling factor and how little we truly understood. Finally he understood the complex issue of measurements and the many incorrect ones that existed.

In an article concerning a [paper published by Newell](#) in MIT Technology Review it states:

"Since the mid-nineteenth century, merchant-marine captains of all nations have been required to log air and water temperatures every six hours for weather services such as the British Meteorological Office. Crews on each watch have hauled water from the sea in standard buckets, dipped in standard thermometers, recorded the data, and, generally, radioed it back. The result is an incredible storehouse of information about global temperatures since the Industrial Revolution.

Reginald E. Newell, Jane Hsiung, and Wu Zhongxiang of MIT, along with colleagues from the "British Met," as they call it, have collected and analyzed these data. MIT Press intends to publish them in the Global Ocean Surface Temperature Atlas. One of the most striking results suggested by the data is that there appears to have been little or no global warming over the past century. The advantage of ocean readings is that they are not contaminated by urbanization: the

growth of structures and roads even in the small towns where many weather stations are located can raise temperatures, Newell explains. Unfortunately, ocean readings are not entirely reliable either.

One of the chief problems is that prior to World War II, the buckets for collecting water were made of canvas. As it was hauled onto the deck, the water could be cooled by wind and heated by sun. Christopher Folland of the British Meteorological Office and Jane Hsiung attempted to correct for such problems, for example by measuring the cooling of the buckets at different wind speeds. Gauging long-term temperature change required more analysis. First, Newell, Hsiung, and Wu needed to measure the cooling caused when volcanoes inject dust and gases into the atmosphere.

They discovered an intriguing piece of work that measures the atmospheric "turbidity" from the dust over the past century. Beginning in the late 1800s, weather stations have used devices known as Campbell-Stokes sunshine recorders that burn a track in a paper card each day, indicating how long the sun was up. Researchers at the University of Mainz in West Germany collected and analyzed numerous such cards, noting particularly the beginning and end of the burn, which correspond to sunrise and sunset. Whenever atmospheric turbidity rose, the burn started later and ended earlier. The weather station in Sonnblick, Austria, almost unaffected by urban pollution at an elevation of 3 kilometers in the Alps, provides a record of turbidity back to 1887.

Newell, Hsiung, and Wu also assessed the periodic change in tropical temperatures caused by the El Nino-Southern Oscillation, a complex of ocean and air currents. Factoring out the effects of the El Nino-Southern Oscillation and the cooling caused by volcanoes, they found that global temperatures have warmed by only 0.2°C over the past century, which is within the estimated margin of error. In other words, the results leave open the possibility that there has been no warming at all.

*In a paper based on the same data in Geophysical Research Letters, Nicholas E. Newell (Reginald Newell's son) joins the other researchers to examine a third temperature variation: a roughly 22-year cycle of warming and cooling that has occurred since 1856, when the marine data begin. This may be caused by the 22-year solar magnetic cycle, during which the sun's magnetic field changes polarity and then returns to its original state. The magnetic cycle is reflected in changing sunspot patterns. **When the authors subtract from the basic temperature record all cycles of less than 26 years -- the chief one being this 22-year warming-and-cooling pattern -- they find "no appreciable difference" between temperatures in 1856 and 1986.***

Both studies are at odds with some other research. For example, using land data that attempt to factor out effects of urbanization, James Hansen of NASA Goddard Space Flight Center and

Sergej Lebedeff of Sigma Data Services Corp. conclude that the globe has warmed 0.5 degrees C to 0.7 degrees C over the past century.

The conflict is far from resolved. Unfortunately, despite all the models of how global climate may change, there is relatively little funding for research on the actual record."

In my work with Newell, short as it was, we also examined models, models of the atmosphere and models of global circulation. We knew that often the models were themselves inherently unstable. They would go off into cycles and would explode from time to time. These were artifacts of the mathematics of the models as well as demonstrations of the lack of correctness of the models as well. Nature is oftentimes self-correcting and sometimes surprising. It frequently self-corrected but infrequently slipped a cycle with some form of instability.

He had not yet understood the details and was quite a distance from doing so. The conclusion was that we must work on better understanding and not become some type of religious zealot. The latter behaviour will always lead to distortions and lies.

Now from MIT to Princeton.



In a recent article by [Paul Krugman](#) he states:

*"And as I watched the deniers make their arguments, I couldn't help thinking that I was watching a form of treason — **treason against the planet...***

The fact is that the planet is changing faster than even pessimists expected: ice caps are shrinking, arid zones spreading, at a terrifying rate. And according to a number of recent studies, catastrophe — a rise in temperature so large as to be almost unthinkable — can no

longer be considered a mere possibility. It is, instead, the most likely outcome if we continue along our present course.

Thus researchers at M.I.T., who were previously predicting a temperature rise of a little more than 4 degrees by the end of this century, are now predicting a rise of more than 9 degrees.

Why? Global greenhouse gas emissions are rising faster than expected; some mitigating factors, like absorption of carbon dioxide by the oceans, are turning out to be weaker than hoped; and there's growing evidence that climate change is self-reinforcing — that, for example, rising temperatures will cause some arctic tundra to defrost, releasing even more carbon dioxide into the atmosphere.

Temperature increases on the scale predicted by the M.I.T. researchers and others would create huge disruptions in our lives and our economy. As a recent authoritative U.S. government report points out, by the end of this century New Hampshire may well have the climate of North Carolina today, Illinois may have the climate of East Texas, and across the country extreme, deadly heat waves — the kind that traditionally occur only once in a generation — may become annual or biannual events....

Yet the deniers are choosing, willfully, to ignore that threat, placing future generations of Americans in grave danger, simply because it's in their political interest to pretend that there's nothing to worry about. If that's not betrayal, I don't know what is."


Well to the good Mr. Krugman, he should be reminded that the facts are still at play. The oceans dominate the dynamics of the atmosphere and they have yet to be adequately understood if not modelled and the upper atmosphere is a partially solved problem and the past and its temperatures are hardly closed for debate.

It was Newell and men like him who were willing to stand up and deal with facts. It is the Krugmans of the world who pontificate with words that are both harmful and false. Science is not like macroeconomics, it must deal with the facts.

Macroeconomists are what we see now in DC, spinning tales with no rhyme or reason. One need look at the problems at Harvard and its financial mess and look towards its most recent past President, we have moved him from Harvard and its problems to the country and our problems. Thus when a macroeconomist talks one should not only be wary but run for the hills.

Back to Newell, as he reached the end of his life he spoke out but ever so softly because of the pressure of the evils of the political correctness. In many ways the school of global warming is akin to genetics in Stalinist Russia, it disavowed Marxist thought of a dialectical materialist. The same goes for the school of global warming. The truth is that we really do not know, and if we believe the "treason" logic of Krugman we will unfortunately never know. Perhaps when we look back on this history in a few hundred years we will see the mania of the macroeconomists, the Romer and her roaming multipliers and the Krugman and his dialectic.

One final point, using charged words like treason as Krugman does debases it for when it must be used. Men of wisdom and judgement do not use words lightly, perhaps being a left wing media star has gone to his head, or perhaps it is Princeton.

Posted by Terry McGarty at [5:43 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#)

SATURDAY, JUNE 27, 2009

TWO INTERESTING OBSERVATIONS

In thinking of the potential change that could occur in electrical power distribution I am reminded of two tales. The first relates to the birth of the Internet and the second the birth of the electrical industry as we know it today.

Let me start with the Internet tale. [Bob Kahn](#) had related a tale to me concerning the early days of the Internet and I relate it here as best as I can remember, so my apologies to Bob if I am in error in some parts. I had left MIT and was at Comsat where we were providing the first international link in what was the ARPA net in 1975. Just a short while prior to that Kahn tells how he went to AT&T Bell Labs at Murray Hill to seek their help. He needed a modem to work over the telephone network and he thought rather than building his own he would do what was the most logical thing and get Bell Labs to provide assistance.

Bob arrived with perhaps one other person and in classic old AT&T style was met by a conference room filled with Bell Labs people including what was perhaps VPs and the like. Bob explained his intentions and he was then regaled and lectured by the Bell Labs folks that he had no right to do this, it was their network, remember Whittaker at the new ATT and his demands on the current Internet, he is now Chairman of GM, what a choice, and Kahn just sat there and submitted to the arrogance of the "owners" of the network. This lasted an almost interminable time. The answer put to him by ATT Bell Labs was that they would do this for the Government and in the manner and they would retain monopoly control. Kahn said thanks and retired to a place outside of Murray Hill.

From this Bob funded the work for new modems, packet switching, VLSI chip and what we now know as the core elements of our information society. The impetus was the arrogance of Bell Labs. Also their incompetence. For today I drove past the old Bell Labs Holmdel, a dead and decaying corpse of a building, the entries blocked, the grass growing like corn, and the place acres of desertion.

Lesson 1 is that the incumbents in a monopoly position are driven by maintaining their control despite the changing technological environment. Kahn was a gentleman and a genius who left the old and dying Bell System to its own demise and created by his insight and personality and leadership an Internet which is the example of a distributed network with a community of developers in an open environment.

Now to the second tale. In the book, [The Forgotten Man](#) by Shales is the tale of San Insull and the creation of the power industry as we know it today. The key for Insull was scale economy. Shales states that at the beginning every person was envisioned to have their own power plant, and indeed some did. However Insull saw that at the time there could be great scale economies in have a few large plants and a distribution network.

Lesson 2 is that there are times when scale has value, but the corollary is that there are times when the scale disappears. Scale is not an unchallengeable assumption. The Internet is

distributed and has scale only as a result of its connectivity not because of a single ownership. The openness and distributed control enables the elimination of scale.


The conclusion from these two lessons is that first change is unending, remember Parmenides, and the only thing that remains constant is change. At the beginning scale has merit but there is a time when [scale is a detriment](#). Microeconomists have no clue about this issue. They seem stuck in the 19th century. I wrote about this phenomenon in [telecom networks](#) twenty years ago.

Now to apply this to two areas of current interest is worthwhile.

First, electrical power generation. The GEs, IBMs, and others as well as all the incumbents will have the same response as Bell Labs had to Kahn and the ARPA Net proposal. Namely they will not only reject it but they will further institutionalize the past. Second, scale may no longer have merit especially if power can be generated in a distributed manner as we have argued and the intelligent grid can redistribute it effectively. But the question is who will do this? As I have said before, where is the Bob Kahn of today. Kahn did not want the Government to define and control this, he understood that the intelligence was in the universities and start up companies, like Linkabit and others, to do this. It was an entrepreneurial venture with an business and not Government backbone. He and ARPA facilitated this. He did so despite the troglodytes at Bell Labs.

Second is health care. The same logic applies. Except in this case the Government wants to control everything, ultimately through a plan managed by the Government.

What we need is a Government facilitator who knows how to work the system and not have an ego to control the system. This means frankly that Congress and the White House just get out of the way for they can contribute nothing but confusion, and bad deeds.

Posted by Terry McGarty at [4:09 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#)


FRIDAY, JUNE 26, 2009

WAXMAN MARKEY BILL PASSES

The [Waxman Markey](#) Bill passed 219 to 212. Where were the missing 4 votes? As we have been arguing for months in great detail detail this will provide the Congress with an everlasting goody bag to hand out pork far into the future. I sit here writing this after another 3 hour blackout in New Jersey. We get them every 2 to 5 days. It is Jersey Central Power and Light. The lack of competence in the power industry drove me to move my headquarters to Prague, Czech Republic, the power worked there and not here in New Jersey. So what have this brains in Washington done, well we just will move everything to Prague.

The Senate will have their bite of the Apple but alas we will watch energy costs sky rocket and industries move. Higher unemployment and there will never be any chance to catch up with the exploding budget.

There were so many other ways to have achieved this but given my experience with Markey, the Father of the 1996 Telecom Act, facts were never in his strong suite.

Posted by Terry McGarty at [4:53 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#)


[THE ELGIN MARBLES](#)



Notice anything missing? The facade below the top is what is in the British Museum in London. The [Economist](#) argues that the Brits will "loan" them back to the Greeks to put on display in their new museum, or loan just one little piece. How English of them.

Did they loan India back to the Indians, perhaps Pakistan, most of Africa, and yes how about that spat we had here in the US a couple of centuries ago.

The Elgin theft should be returned in toto with an apology. When you take the teeth out of a defeated warrior as they lie wounded upon the ground, you may not expect them to arise, but these are the Greeks my British friends, they have arisen for three thousand years again and again. Salamis saved the very basis of civilization, and for that we owe them a great debt. Thus the Brits should return their ill gotten gains promptly to where they belong. Besides having seen them in the stuffy British museum one does not come away with the glory of Greece. Seeing the Parthenon at night, lit upon the hill, white against the night sky, a sight to behold. The stones must be returned.

Posted by Terry McGarty at [6:51 AM](#) [0 comments](#) 

Labels: [Commentary](#)

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THURSDAY, JUNE 25, 2009

[INSANITY, A REASONABLE DEFINITION](#)

In 1965 in Massachusetts there were 25,000 people hospitalized in mental hospitals and 20,000 at any one time in non mental hospitals, for all sorts of problems from cancer through delivery. By 1975 the mental hospitals dropped to about 5,000 and today it is just above 1,000 for the full time residents. Thanks to Thorazine and the like.

But as any medical student in that period remembers it was less finding out the problem and more bringing the patient to a cost effective controllable state. Drugs helped. But a second thing

one noticed was that the insane had the very specific habit of trying the same thing over and over, despite the omnipresent and consistent past negative outcomes, assuming that this time it would work. Sound familiar, well it is and we call it a Government health care alternative. Why if you decry Medicare and Medicaid would you ever assume that a Government plan, if operated on a "level playing field" to other plans would ever be a true competitor. Yet we know that first the Government will cheat, and prevaricate, and secondly if the plan were truly a level playing field plan it would deteriorate quickly.

Remember my arguments on Medicare. First those who make it to 65 and have on average 12 more years have contributed an amount to the Medicare fund well in excess of the cumulative costs on average that they will incur over the remaining 12 years of their life. The question should be, where did the money go! The Government collected it and spent it! Now they blame the Medicare recipient for their incompetence and in some ways theft of the recipients own funds.

In the [New York Times](#) today is another shot at trying to patch the leaking craft. They say:

"A better public plan would not be a new government-run insurer at all, but rather a government-chartered mechanism that would let employers and individuals buy health coverage from private insurers in a manner that uses the three most essential market forces — choice, competition and incentives — to reduce the price and improve care. Congress is already looking to create federal or state “exchanges” through which individuals could comparison shop for health insurance. Exchanges pool large numbers of people and give them access to various health care plans — so that individuals can enroll in the plan of their choice, and so that risks and administrative costs can be spread widely."

The issue is not an exchange, it is a restructuring of payments, eliminating the company sponsored plans and then having people buy their own from private entities. The states may control rates as is done in auto insurance but it is essential to eliminate the collusive behavior of the insurer and large corporation. That collusion leads to the costs being off loaded to those who are in small companies or self employed. Combine this auto insurance approach with a demand for universal coverage and you get what we have already in many other insurance plans. The perhaps this cooperative may function.

A similar set of remarks is made by [Cutler](#), the Harvard based economist Administration mouth who states:


"...Second, creating insurance “exchanges,” local or national organizations designed to act as clearinghouses for health insurance policies, could foster competition and drive down administrative costs for individual and small group policies. We estimate these reduced costs could bring in additional federal revenues of \$64 billion over the next 10 years..."

The same problem exists in that the large companies will still control the push down costs.

Finally [Roberts](#) at Cafe Hayek speaks of a blog by [Mankiw](#). The issue is why are physician salaries so much higher here in the US as compared to elsewhere. Well guys why not deal with

the facts. In countries like Israel, Italy, Czech Republic there is no undergraduate training and there is no capping of the number of physicians, and there is limited vetting of physicians. In the Czech Republic for example there are probably four to five times the number of physicians as compared to what would be needed. The rich get German specialists at Spas and the rest get a somewhat limited capacity GP. Also all of these countries charge little to no tuition for the education. You are comparing apples to oranges. Getting to Med school is not the same as getting into a teaching program at a state school. Having spent time in these other countries I see the difference. If I were ill in Russia I would take a flight back to Boston and possibly die on the plane than go to a Russian hospital. Have you ever seen Russian dentistry, steel not gold!

What seems to be happening is that the mouths are spouting off with little or no knowledge. If these academics spoke this was as an MIT EECS student about some project they would likely find themselves installing cable boxes in Medford.

Posted by Terry McGarty at [4:18 PM](#) [0 comments](#) 

Labels: [Health Care](#)

WEDNESDAY, JUNE 24, 2009

SMART GRIDS, LOCAL POWER

[Bob Metcalfe](#) wrote an article in the Wall Street Journal extolling the use of small nuclear generators. The principle if one extends it a bit is akin to the use of Japanese mini mills in the 1980s for steel production. Use 100 MW generators but use many of them in many locations. A good idea but well we face the Government again! The NRC is the great "NO!" and if they don't do it just wait for the EPA.

But the use of distributed power generation combined with smart grids makes sense. Consider the following propositions. First regarding the classic energy approach and then the fully distributed approach.

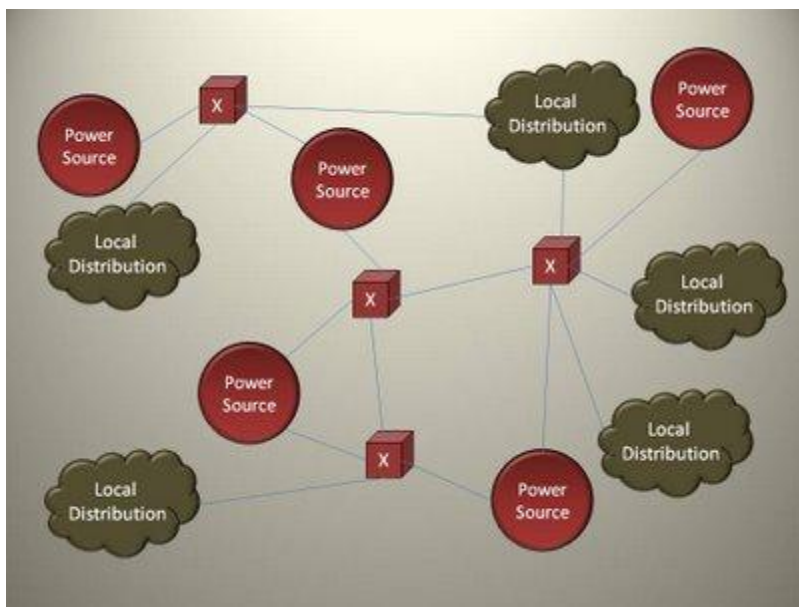
I Classic Energy

In the world of classic energy or power generation the assumption is that there is great scale economy in building a super large plant which has a maximum capacity of say 500 MW. We run the plant up to the max depending on the demand. If the demand exceeds the plant capacity we literally call to others to shift their capacity to us so we can meet the demand. If we cannot get the excess capacity shifted then we start a brown out. If we produce too much electricity it just disappears. Yet we always try to stay ahead of the curve by over building and over producing. There is not smart national grid. Remember you are dealing with power engineers, they stopped making them fifty years ago!

II Smart Grid Big Plants

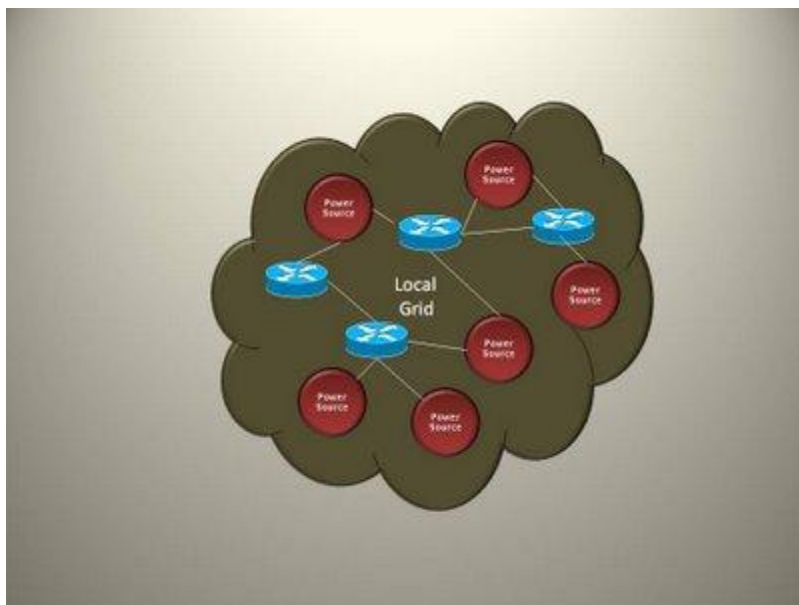
This is the next step. This takes the large power plants and then connects them with a "smart grid" which automatically estimates demand and is continually load balancing. Each plant runs at the most efficient level and the power is distributed where it will be used with the least waste. Waste is still there.

This is shown below as a classic model.



III Local Generation and Smart Grid

Now consider the Metcalfe idea but move it down scale even more. Assume we let everyone have solar roofs, windmills, and maybe even small nuclear generators! I am kidding on the last one, I think. But we can reduce generation to local levels, and we then like in the Internet move the intelligence, in this case the generation, to the edge of the network, in this case the grid. Consider the picture shown below:

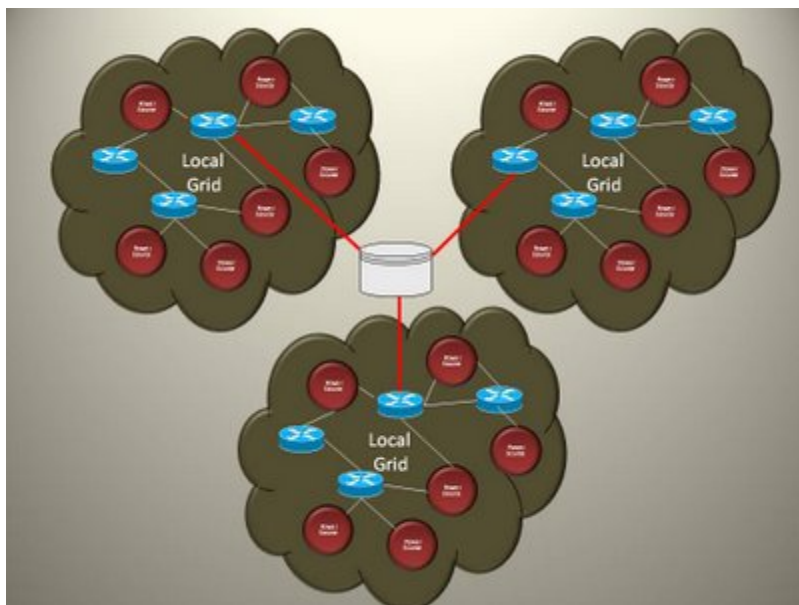


I have used "routers" here metaphorically to show how they could be connected. The local grid has many small generators, moving down scale as much as we want. Take the solar program in northern New Hampshire. A 1,200 sq foot roof can generate enough power, 2 KW, to power

several homes for basic use. Then this may cost \$20,000. But the Feds pay \$6,000, the state \$8,000 and the electrical company \$4,000. It costs the homeowner \$2,000! The excess power goes onto a smart local grid and if there is no power it gets power from the grid. If you had a really smart grid you could dramatically reduce your excess peak requirement. And the solar has no CO2!

IV Local Power, Smart Local Grid, Super Smart National Grid


Now think of the next case where we interconnect these little guys and create a national grid, using wind where there is wind and solar where there is solar. We get what is shown below.



This is the power version of the Internet. Will this work, certainly. But I really doubt that the GEs and IBMs will ever conceive this. This is an Internet metaphor. Remember SNA and IBM, you do if you ever tried to network thirty years ago. SNA no longer exists. And GE, good diesels and washing machines but not a state of the art shop. I remember after my PhD from MIT speaking to someone at GE who suggested I consider going there, for what reason I really never knew, but I was told I would have to be trained on how to design, the GE way, a washing machine. Perhaps of some use if you did that but not what my multiple degrees would stand.

The challenge is to find the creative "team" to do this. We need to find a Bob Kahn of the smart grid. Does he even exist in today's world, could he ever do at ARPA now what Bob did at ARPA then. Would not the powers to be at GE and IBM and the power companies kill whatever chance they would have in the political environment we have in Washington. Perhaps this is what one could do in Finland, or the Czech Republic, two good sized smart countries which could be catalysts for this opportunity. Just a thought, I hope my old friends in Prague are listening, if you did this the world would come knocking!

Thanks to my good friend [Lloyd Nirenberg](#) for insights in this area.

Posted by Terry McGarty at [5:07 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#)

TUESDAY, JUNE 23, 2009

[HEALTH CARE PRIVACY](#)

On the [Google Policy Blog](#) there was a recent post advocating their position regarding privacy of health care records. The Blog states:

"From its inception [Google Health](#) has been about giving patients control over their medical data. For starters, that means we help people access their health information, give them a safe and secure place to store it, and let them share it with others if they wish. Over time our goal is to help consumers play a larger role in their own health care by empowering them with the information they need to make better health care decisions.

As part of this effort, we're endorsing an industry-wide [Declaration of Health Data Rights](#). Unveiled today at [HealthDataRights.org](#), the Declaration aligns with the principles behind Google Health: consumer empowerment, privacy protection, and data portability. We've joined a diverse group of stakeholders -- including doctors, researchers, technology companies, writers, entrepreneurs, health economists, and others -- that have come together to support this effort to promote greater patient access to personal health data.

While most of the rights outlined in the Declaration are already included in the [Health Insurance Portability and Accountability Act \(HIPAA\)](#) and the recent [American Recovery and Reinvestment Act \(ARRA\)](#), there are still practical challenges to acting on these rights. For example, getting access to your medical records today often requires that you fill out a form at your doctor's office, pay a \$35 copying fee, and then wait a month or more to receive your records in the mail. Under the law, this is your data, and we believe you should have it the day you visit your doctor."

First let us examine the [HIPPA requirement](#). It states:

"The Privacy Rule allows covered health care providers to share protected health information for treatment purposes without patient authorization, as long as they use reasonable safeguards when doing so. These treatment communications may occur orally or in writing, by phone, fax, e-mail, or otherwise.

For example:

- *A laboratory may fax, or communicate over the phone, a patient's medical test results to a physician.*
- *A physician may mail or fax a copy of a patient's medical record to a specialist who intends to treat the patient.*
- *A hospital may fax a patient's health care instructions to a nursing home to which the patient is to be transferred.*
- *A doctor may discuss a patient's condition over the phone with an emergency room physician who is providing the patient with emergency care.*
- *A doctor may orally discuss a patient's treatment regimen with a nurse who will be involved in the patient's care.*
- *A physician may consult with another physician by e-mail about a patient's condition.*

- *A hospital may share an organ donor's medical information with another hospital treating the organ recipient.*

The Privacy Rule requires that covered health care providers apply reasonable safeguards when making these communications to protect the information from inappropriate use or disclosure. These safeguards may vary depending on the mode of communication used. For example, when faxing protected health information to a telephone number that is not regularly used, a reasonable safeguard may involve a provider first confirming the fax number with the intended recipient..."

HIPPA was written at the beginning of the Internet era and thus focuses on the use of fax. I no longer have a fax and I find it still pervasive in just one area, medical records. On a physician to physician basis an email may still get you into trouble, you must by law fax. To a patient you must set up a secure password protected system to retrieve records, you cannot email a patient a record outright. This applies for providers only. Google is not a provider just a depository, but a powerful depository.

The aforementioned [Health Rights](#) states:

"We have the right to access all health data about ourselves, so we can make the most effective health decisions using the resources we feel are most appropriate. Having and understanding one's health data is as crucial to lifestyle decision-making as accessing one's bank account. Our goal is to make these concepts an everyday reality.


If we collectively assert our health data rights, we'll impact care, engagement, quality, errors, outcomes, and meaning; we'll move our current unaffordable and dysfunctional health system to one that more effectively serves patients by allowing them to have the information they need to fully participate. We believe that this flow of information will drive more engaged patients, better health decisions, lower costs, and better medicine."

This raises several interesting issues.

First, who owns your patient information? If you volunteer it to Google perhaps they take ownership, especially if it is processed and value is created therefrom.

Second, what guarantees of veracity does one have on patient supplied information. Taking a patient history is one of the first contacts a medical student will have with a patient. All too often it is not what the patient says but how they present themselves which is all revealing. Do they walk well, the color and texture of their skin, and the like, patients sometimes lie, often forget and almost always get things wrong. This is a challenge in any medical history taking. The issue is the time spent talking with the patient for from that comes other issues. Reading a history is nice, and perhaps less error prone but it often fails to reveal the patient and their problem.

However getting information to the patient is essential. Patients often do not listen. They do not hear what the physician is telling them, especially if the news is less than happy news. The issue of obesity, blood sugar and glycemic control, hypertension, and the ears of patient often close. HIPPA was well intentioned but like all Government plans it institutionalised the past, the fax, just at a time when the Internet was exploding, the mid 1990s! That should tell all those who look for Government intervention in Health Care something.

Posted by Terry McGarty at [7:58 AM](#) [0 comments](#) 

Labels: [Health Care](#)

WEDNESDAY, JUNE 17, 2009

HEALTH CARE: ANOTHER LETTER TO SENATORS AND CONGRESSMEN

The following was sent today to several Senators and Congressmen:

June 17, 2009

Dear Senator ,

I am writing your office again to stress several issues which I believe you should consider as the many health care bills seem to be reaching resolution. The following are several points which have arisen as I have spoken with a great many physicians around New Jersey, New York, Massachusetts and New Hampshire. There seems to be a consensus amongst many practicing physicians that they may just become victims of an ever costly and oppressive health care regime run by Washington. I believe that in my conversations there is a great level of demoralization amongst the professionals who feel totally helpless. However this is too serious an issue to be left uncommented upon.

Now let me address several key points:

1 UNIVERSAL COVERAGE IS ESSENTIAL: I have been arguing for this for over twenty five years. There are many who get a free ride and many who suffer due to the lack of coverage which results in a small problem becoming a life threatening problem. This time, as compared to the early 1990s with the poorly presented Clinton Plan, there appears to be unanimous approval of a universal coverage. The problem however will be the coverage of those not eligible, such as illegal aliens and non-covered visitors. The latter is easily handled by insisting that anyone coming into the country have evidence of coverage. The latter is a political problem which can be quite costly and still overburden health care.

2 MEDICARE SUBSCRIBERS HAVE MORE THAN PAID FOR THEIR COVERAGE AND SHOULD NOT BE PENALIZED: Perhaps Congress is totally unaware of the fact that Medicare Subscribers have generally contributed more into the Medicare fund in their working lifetime than they will ever get out! Consider a typical individual who works for 40 years and each year has contributed to the Medicare Fund. When that person retires at 65 that person, if they live another 12 years, would contribute to Medicare almost \$20,000 as an annuity payment from their 40 prior years of Medicare Payments to the Fund. However Medicare disburses only \$12,000 per participant. Clearly there is a gross disparity in how Medicare functions, especially when one considers what one contributes and what one obtains! Statements which allude to Medicare being too generous are fraudulent and frankly are attacks on the aged and defenseless and are below Congress! Medicare has internal problems which need fixing but on a cash in and cash out basis there should be no problem unless there are too many participants who have contributed nothing and thus are burdening those who have.

3 COMPARATIVE CLINICAL EFFECTIVENESS SHOULD BE LEFT IN THE HANDS OF PHYSICIANS AND NOT THE GOVERNMENT: CCE is a normal process of any medical practice. Physicians are always retraining and re-educations. There is a continual input of new procedures, new tests, new methods which any physician must remain familiar with as time progresses. However the concept of CCE as promulgated by the current plans is potentially quite

insidious and life threatening. I have typically used two recent examples. (i) Prostate Cancer, recent studies have argued that measuring PSA above 4.0 did not result in any decrease in morbidity. The conclusion is correct but the test was invalid. We now know that 2.0 for men under 65 are best and that velocity of PSA is essential. Colon Cancer: A recent Canadian study stated that colonoscopies were not effective in the transverse and ascending colon. The reason was that there were done by untrained and inexperienced physicians, general practitioners and the like. Endoscopy is a complex specialty. However if the Government were to use these studies in their CCE demands many men and women would die unnecessarily due to deprived procedures. Yet the physician has the countervailing Tort issue to deal with. CCE with Government control is rationing and exposure to litigation.

4 ELECTRONIC MEDICAL RECORDS IS A SUPERB GOAL BUT WILL BE AN EVOLVING PROCESS: The EMR is something which I started working on at Harvard in the mid 1980s. I have developed, tested, and written on this for years. I believe it is essential but the conundrum is that it is a very complex issue. It should be introduced but incrementally. It must be socialized into practices and it must organically evolve from within the profession. I have argued that it should evolve in a manner akin to the Internet with the classic Internet Engineering Task Force, IETF, albeit assisted by the Government and with ARPA participation but a participatory group of those actually involved in implementing it. One knows that any Government approach is doomed to failure and cost explosions!

5 A GOVERNMENT SPONSORED PLAN IS JUST ANOTHER COSTLY CONTROL MECHANISM, INDIVIDUALS SHOULD BE RESPONSIBLE FOR OBTAINING THEIR OWN PLANS AND THEY SHOULD BE TAXED SO THAT THERE IS A LEVEL PLAYING FIELD, Leave The Plans in the Private Sector: This proposal is just expanding Medicare to all people and will result in an even more inefficient system. Equity and Fairness should be the by words. That means that each person should buy their own plan as is done with life and auto insurance. Companies should be taken out of the mix, that is what seems to be the problem and that state of nature is a result of the rice controls during World War II, another form of Government intervention. Keep the Government out, let the market work and make individuals responsible. Subsidies are fine.

6 TORT REFORM WILL REDUCE PROCEDURES AND CUT COSTS: The current system of liability results in increased costs due to both insurance and in terms of defensive medicine. The costs of insurance speak for themselves; the costs of over diagnosing are frankly much more subtle. It is doing an MRI when a clinical diagnosis is more appropriate, it is the cost of prescribing a wider array of medications when patient responsibility would be more effective. The proposals for capping awards, of providing "safe harbors" for procedures and for allowing the use of administrative boards are all productive. No matter what progress here is a sine qua non. It must be part of any new set of laws.

7 BUNDLED PAYMENT SCHEMES ARE BOTH UNWORKABLE AND INSTITUTIONALIZE A BAD SYSTEM: The President and many of the proposed Bills have included the concept of bundling. In my analysis this is totally inappropriate and will lead to a collapse of the system as we know it. It appears to be the creation of some group of academics

who have little if any knowledge of how health care works. The unintended consequences of a Bundled approach are many:

1. **THE PATIENT AND PROVIDER LOSE A NEXUS: THE RELATIONSHIP BECOMES ONE WITH THE HOSPITAL AND NOT THE PHYSICIAN. IT BREAKS THE FUNDAMENTAL BOND THAT IS THE CORNERSTONE OF HEALTH CARE.** The patient and the physician are an important nexus. The only physicians who have little to no contact with a patient are the pathologist, radiologist, and anesthesiologist. The surgeon has contact as does the other specialists. It goes to the heart of practicing medicine. The hospital has the least. In my experience, hospitals are run by managers who care less about patients and more about their bottom line. They are not professionals as are physicians. The only fear a hospital administrator faces is possible loss of accreditation, which only comes after gross negligence if even then. The hospital is run for the benefit of the management and not the patient. By placing the hospital at the focus as is done in a bundled approach one creates a barrier between patient and physician and further places the worst possible party in a position of control, the hospital administrator.

2. **IT INSTITUTIONALIZES AND MEMORIALIZES THE HOSPITAL AT A TIME WHEN THE ROLE OF THE HOSPITAL MAY BE AT A MASSIVE TURNING POINT WITH GENETIC MEDICINE.** The Bundled approach places the hospital at the center of the model. We have argued that this entity is the most vulnerable to downsizing and change and is also at the heart of the explosion in costs. This is especially true for Medicare patients. Thus we see that placing such an entity at the core creates a tension for continuation of bad practices.

3. **IT CREATES MASSIVE PROBLEMS WITH THE ISSUE OF TRANSFER PRICING OF SERVICES AND CREATES THE INCENTIVE FOR FURTHER PADDING BY HOSPITALS.** Anyone who has ever been in business, in a large multifunction company, has come to grips with the transfer pricing problem. Many business school doctoral theses have been written on the topic and many a corporate war has been fought over the issue. The price one unit charges another for a good or service is difficult to ascertain. This is difficult even when there is a market for the product. For the buying unit may easily say the internal price is too high and that they will go elsewhere. The hospital could do the same. They may say your physician is too costly so you must accept theirs or no surgery, just go home and die!


4. **IT DRIVES GOOD PHYSICIANS OUT OF THE DELIVERY OF MEDICARE SERVICES FURTHER DISENFRANCHISING THOSE ON MEDICARE.** Physicians are opting out of Medicare in droves. This means that with the system as it is already, it is becoming harder for Medicare patients to find physicians which will take them. If one adds the burden of bundling then it becomes worse. In our opinion, as we have stated many times in the past, the rearrangement of deck chairs, namely the many plans on how to cut costs via payment and control mechanisms miss the point. First, demand can be modulated, second, costs can be reduced by multiple means, third, genetic medicine will change the paradigm fundamentally and having the agent which will be changed the most in the middle will just delay this change, and finally, and only as the last step is the payment issue.

8 **PATIENT RESPONSIBILITY AND MOTIVATION:** This is the most critical factor. Take Type 2 Diabetes as a simple example. Its cause is primarily obesity. Its cure, lose the weight. No

cost for the cure! It just goes away. However to get a patient to reduce their weight and exercise is a near impossibility. Only 1% is successful. It is worse than smoking cessation and the extent of Type 2 Diabetes disease now costs 12% of the total health care budget growing to 25% by 2020! This MUST be stopped. Akin to smoking I am a true believer in taxing carbs as we tax tobacco. Motivation by education does not work. Motivation by taxation does. Just look at the deaths in men from lung cancer. As taxes have increased the death rate had gone down 50%! This must be done in the carbohydrate area as well.

I hope that some of these ideas will be part of your consideration of the changes in health care. Having spent my time in Washington I am all too familiar with the process. However this will affect us, our children, our grandchildren and generations to come. It is much too critical to be left in the hands of the lobbyists! As I have said to my people time after time, if all else fails listen to the customer! In this case perhaps listening to the voters may be a novel thought as well.

Very truly yours,

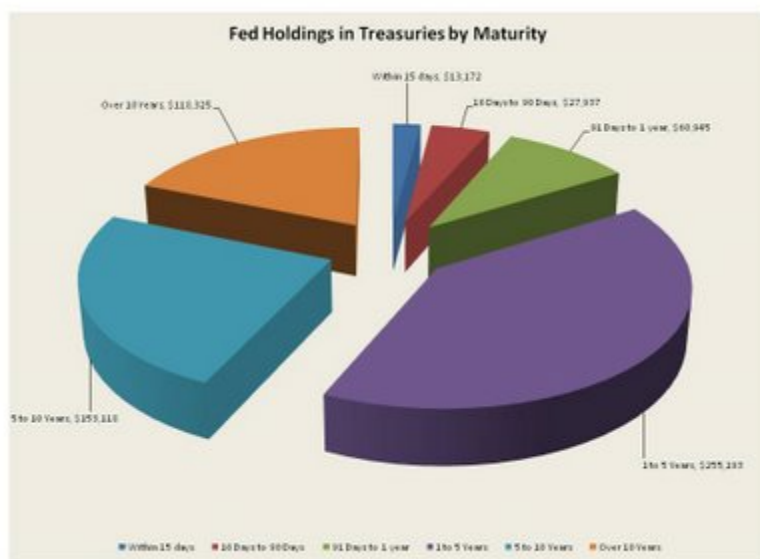
Posted by Terry McGarty at [11:24 AM](#) [0 comments](#) 

Labels: [Health Care](#)

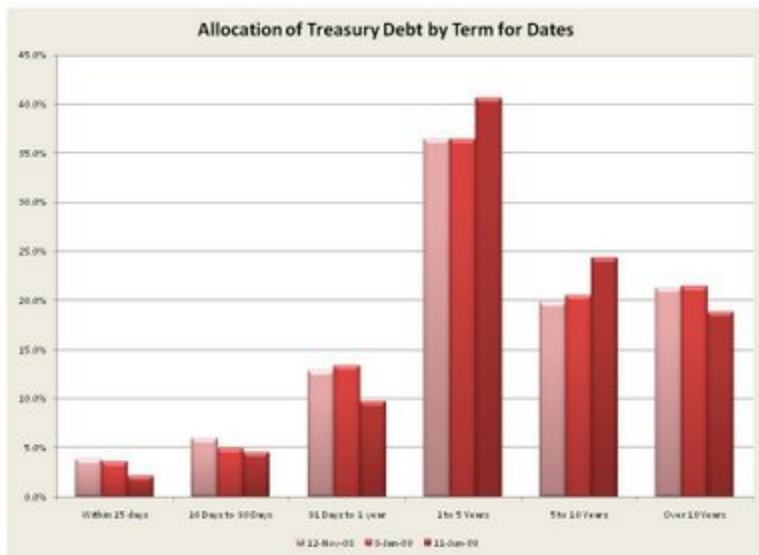
TUESDAY, JUNE 16, 2009

[THE FED'S BALANCE SHEET AND DEBT DELINQUENCY](#)

There are certain metrics which are worth following in view of the anticipated inflation which is expected at the end of this expansion in Government spending. The first is the nature of the FED's assets especially in Treasury maturities. The chart below shows the result for last week. What is surprising is the amount held in long term debt as compared to the mix. We will be looking at the trend in this mix as a percent because the more the FED holds in long term the more we would suspect that they cannot sell the debt to third parties.

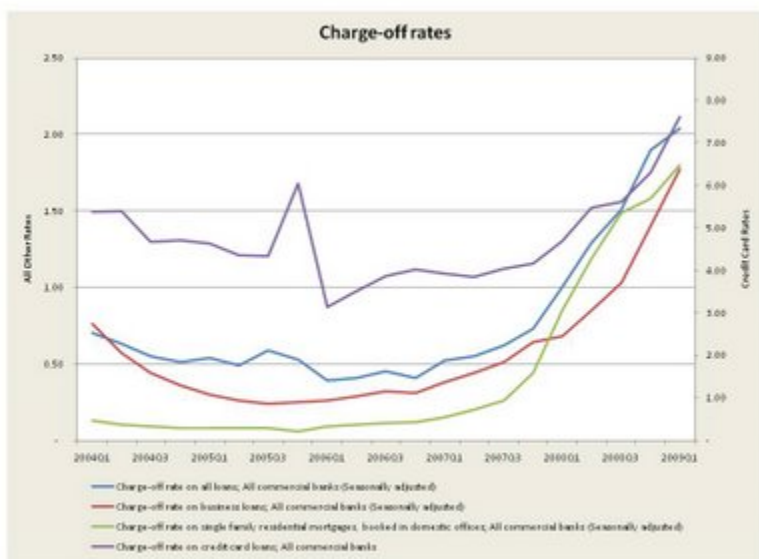


The expansion of the above for three dates is shown below.




We see that there is some percent growth to the shorter term notes.

The second chart shows the explosion in delinquencies of debt as recorded by the FED. The credit card debt delinquency is on a separate axis because it is exploding at a rapid rate. It exceeds any past level and this represents an added risk for the banks as they try to come out of the housing mess. In addition we still see the explosive delinquencies in residential and commercial meaning that there is no time soon that we would expect a resolution. This will thus change the nature of the FED's balance sheet as Treasury debt will become a more risky proposition.



It will be important to watch these figures as well as the Treasury spreads, FED's assets, and the velocity of money and imputed inflation. Looking forward we still anticipate a 10% plus inflation rate depending on what the FED does. The problem is that if Bernake is replaced by Summers we may see wild fluctuations in the FED policy which may likely exacerbate the problem which is still two years down the road.

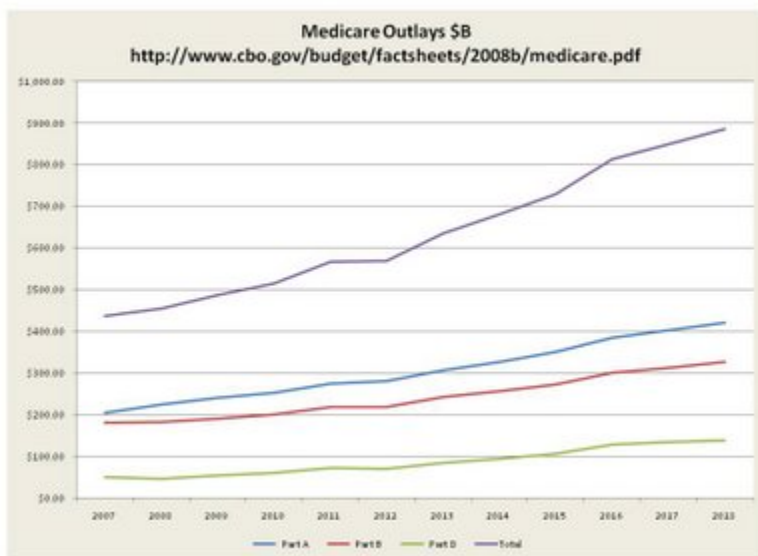
Posted by Terry McGarty at [2:17 PM](#) [0 comments](#) 

Labels: [Economy](#)

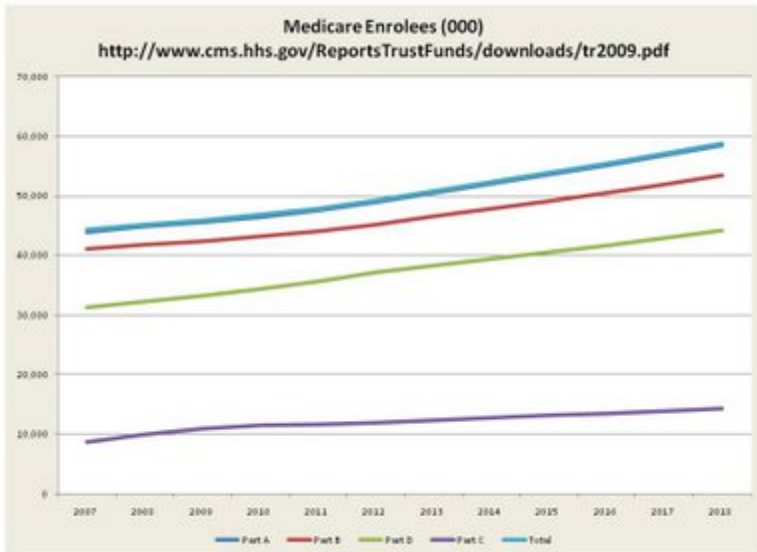
[FURTHER FACTS ON MEDICARE](#)

The following data are three further facts on Medicare. We present the CBO estimated costs, the HHS estimates of participants and the cost participant per year.

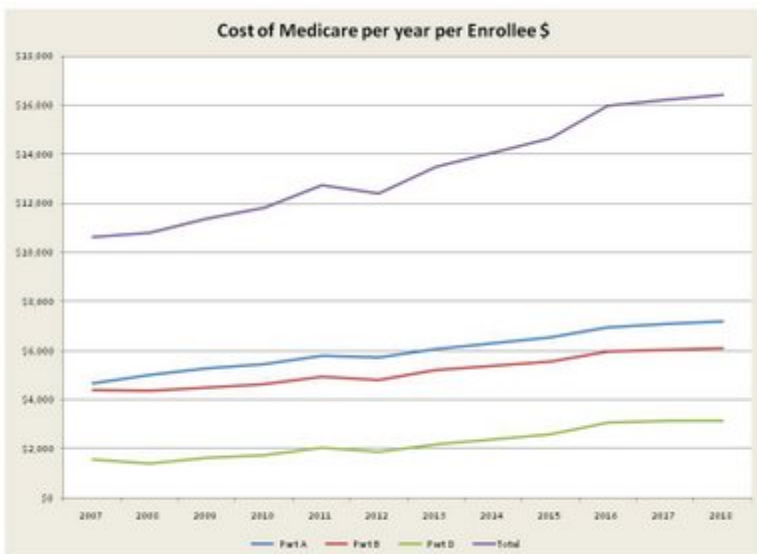
The CBO Cost Estimates are presented below. We show Parts A,B and D as well as the total. The growth in the total is substantial over the period to 2018 dominated by the inflow of the Baby Boomers.




The total participants are presented below. These are the Baby Boomers referred to above. One should remember that the enrollment starts at 65 and that the average life span for a male is about 75 and a female 79. Thus there will be a dominance of females receiving benefits even if many had not contributed as much as the males, although that is shifting as the younger group of working females is included. What that means is as we approach 2018 the females will have contributed equal to the males so the "free rider" status which may have been attributed before is no longer the case. All Medicare participants will have contributed as we have discussed before.



The cost per participant calculated from the above two is presented below. Given our previous analyses and the above comments regarding contributing participants, we see that the expenditures for the period thru 2018 are still less than the contributions from participants!



We thus argue that the Medicare participants will have contributed substantially in excess of their withdrawals by 2018 and that the excess has been spent by the Government rather than being used as specified. In addition we assumed in our earlier calculation a 20 year life for males and females post 65 and we know that it is substantially lower, only 10 for males and 14 for females. This makes the contribution excess even greater. This clear cold fact must become an element in the debate, and not a victim.

Posted by Terry McGarty at [7:02 AM](#) [0 comments](#) 

Labels: [Health Care](#)

[CHINA AND TREASURIES: A CANARY?](#)

[China Daily](#) reports today that the Chinese Government has reduced their purchases of US Treasuries for the first time in a year. The article states:

"For the first time in 11 months China's holdings of US Treasury bonds fell - to \$763.5 billion in April, US government data showed.

The figure, down from March's \$767.9 billion, was the lowest since June 2008.


They do not include US Treasury bond holding in Hong Kong Special Administrative Region, which climbed to \$80.9 billion in April from \$78.9 billion the previous month."

They continue:

"As the largest holder of US Treasury bills, which are crucial to funding Washington's multi-trillion-dollar recovery plans, China had expressed concerns recently over what it called the safety of its dollar-linked assets.

US Treasury Secretary Timothy Geithner traveled to Beijing about two weeks ago to reassure Chinese leaders, saying their money is "very safe" despite the US budget deficit, which he pledged to cut."

This must be watched closely since as we have said just a few days ago the alternative is FED buying on the FED Balance Sheet and the explosion of inflation in the not too distant future.

Posted by Terry McGarty at [3:53 AM](#) [0 comments](#) 

Labels: [China](#)

MONDAY, JUNE 15, 2009

[SPEECH TO THE AMA: AN ANALYSIS](#)

The President of the United States gave a [speech](#) on June 15th 2009 before the AMA in Chicago. This was to be a speech which was an attempt to gain their support as well as provide some substance to the proposals which would be supported by the current Administration. We look at what was said and attempt to come to a better understanding of what he meant and to what direction he is taking the people of this country.

The Speech

He opened his speech as follows:

"So let me begin by saying this: I know that there are millions of Americans who are content with their health care coverage – they like their plan and they value their relationship with their doctor. And that means that no matter how we reform health care, we will keep this promise: If you like your doctor, you will be able to keep your doctor. Period. If you like your health care plan, you will be able to keep your health care plan. Period. No one will take it away. No matter what. My view is that health care reform should be guided by a simple principle: fix what's broken and build on what works..."

This is a strong promise and one that will be broken immediately with Medicare. This statement is there solely to assuage the public and in no way reflects the reality of what follows.

He continues:

"First, we need to upgrade our medical records by switching from a paper to an electronic system of record keeping. And we have already begun to do this with an investment we made as part of our Recovery Act."

Yes, again we all agree with this and this is a time consuming process which will take time just to define what is meant. It is stuck at the front as a technological solution whereas it is a solution which requires integration into the fabric of the very practice of medicine. It will happen, slowly and inevitably, but again slowly.

Again he continues:

"The second step that we can all agree on is to invest more in preventive care so that we can avoid illness and disease in the first place. That starts with each of us taking more responsibility for our health and the health of our children. It means quitting smoking, going in for that mammogram or colon cancer screening. It means going for a run or hitting the gym, and raising our children to step away from the video games and spend more time playing outside....It also means cutting down on all the junk food that is fueling an epidemic of obesity, putting far too many Americans, young and old, at greater risk of costly, chronic conditions..."

Prevention is the key, and we have shown that by dealing with Type 2 Diabetes, smoking related illnesses and a few major cancers, prostate, breast and colon, we can cut over 30% from the costs of health care. However the way to accomplish this is a carrot and stick approach, taxing and educating.

He then uses the Dartmouth studies; again we have discussed them in detail before, and lay out two proposals:

*"One Dartmouth study showed that you're no less likely to die from a heart attack and other ailments in a higher spending area than in a lower spending one. There are two main reasons for this. ...The first is a system of incentives where the more tests and services are provided, the more money we pay....**We need to bundle payments so you aren't paid for every single treatment you offer a patient with a chronic condition like diabetes, but instead are paid for how you treat the overall disease.** We need to create incentives for physicians to team up – because we know that when that happens, it results in a healthier patient. We need to give doctors bonuses for good health outcomes – so that we are not promoting just more treatment, but better care...."*

Here he is taking a strong stand on bundling. We have shown how this will have a massive negative impact on health care. It places the hospitals in charge and reduces the physicians to mere clerks in a massive Government controlled health system. Why the AMA let this pass is incomprehensible. Bundling is a step to complete Government control via a concentration of power through a concentration of payment.

He uses the example of Diabetes. To any physician who has ever treated a Type 2 Diabetes patient you know that 90% of your battle is with the patient. They are too heavy and get too little exercise. They want to live their old lifestyle and just want more drugs to do so. So the

metformin leads to insulin and leads to nephropathy. So what role does the patient play. The physician is being penalized. Frankly he could not have chosen a better case to use as an example of why bundling makes no sense.

He continues with his second statement:

"The second structural reform we need to make is to improve the quality of medical information making its way to doctors and patients. We have the best medical schools, the most sophisticated labs, and the most advanced training of any nation on the globe. Yet we are not doing a very good job harnessing our collective knowledge and experience on behalf of better medicine. Less than one percent of our health care spending goes to examining what treatments are most effective. And even when that information finds its way into journals, it can take up to 17 years to find its way to an exam room or operating table."

This second statement is the CCE issue. The comment that it takes 17 years to enter practice is frankly an insult. Physicians are always being trained and retrained, a mandate of almost all State Medical Boards, requiring dozens of CME hours per year per physician and tested and retested. With the advent of the Internet we find patients confronting physicians with information before it is even approved by the FDA.

Thus this 17 year comment is frankly out of place. Yet what this means is the under his plan the Government will organize the information and tell physicians the best practices. In no other profession is this done, not even the law. This means again as I have stated that we can expect the Government to create the future volumes of Harrison's and Brunwald! We should just reintroduce witch doctors now!

He continues on the Medicare improvement track with three recommendations:

"So, we need to do a few things to provide affordable health insurance to every single American. ..The first thing we need to do is protect what's working in our health care system....Second, we need to use Medicare reimbursements to reduce preventable hospital readmissions...Third, we need to introduce generic biologic drugs into the marketplace...."

These are not too controversial but the issue is who decides what is working now, we have to understand why readmission occur, many times we have truly sick patients, and generics work in 90% of the cases but in those few in which they do not it may be because they do not exist.

Tort Reform

In the talk he also stated as regards to Tort Reform the following:

"Now, I recognize that it will be hard to make some of these changes if doctors feel like they are constantly looking over their shoulder for fear of lawsuits. Some doctors may feel the need to order more tests and treatments to avoid being legally vulnerable. That's a real issue. And while I'm not advocating caps on malpractice awards which I believe can be unfair to people who've been wrongfully harmed, I do think we need to explore a range of ideas about how to put patient

safety first, let doctors focus on practicing medicine, and encourage broader use of evidence-based guidelines. That's how we can scale back the excessive defensive medicine reinforcing our current system of more treatment rather than better care."

The above is recognition of the problem but provides no pathway to its resolution. Admittedly many physicians perform tests over and over and even tests that in a less litigious environment would not be performed just to make certain that they have "belts and suspenders" regarding a diagnosis. One must understand that almost 90% of the diagnoses are based on the clinical presentation by the patient.

But to be certain that the educated analysis of the physician is not called into question at a later time there are multiple tests and even multiple referrals made. This clearly adds to the costs. The answer is not to reduce the payment but to reduce the law suits and the liability in a fair and equitable manner. The speech did not address this issue. It is a key issue.

In a recent NEJM paper by [Mello and Brennan](#) this same week, the authors provide an excellent overview of the Tort options. They state:

"There are at least three reasons why government champions of health care reform might consider bundling medical liability reform in the same package. First, one piece of conventional wisdom that is shared by those on both sides of the political aisle is that "defensive medicine" spurred by concern about malpractice liability is a substantial driver of the escalation of health care costs....Second, health care reformers understand that they will have to garner physician support for an omnibus bill that will no doubt create a more stringent financial environment for health care providers...Third, bundling tort and health care reform may help to attract support from congressional Republicans for a health care reform package."

The authors then go onto to discuss approaches which may gain acceptance.

They state:

"Two potential approaches are.... The first approach calls for state experimentation with innovative programs adopted by liability insurers, sometimes called disclosure- and-offer programs, in which health care providers disclose unanticipated outcomes of care to patients and make prompt offers of compensation in appropriate cases. Patients do not waive their right to sue by accepting the offer, but reportedly, few go on to file lawsuits... The second approach is to shift the adjudication of medical malpractice claims to a new kind of tribunal — either an administrative panel that would award damages on the basis of judgments by neutral experts about the avoidability of the injury or specialized judicial courts presided over by judges with medical expertise. ..."

Clearly as the authors state the tort problem has a ready ability to be resolved. It is stuck however due to the influence of the Tort Attorneys who have always had a strong and costly influence in Washington. If we want a resolution in health care we demand a resolution in Tort Reform!

Coase

It is worth a brief review of what Coase has said regarding this issue. I have found Coase is one of my favorite economists, one of very few. He avoids the plethora of useless equations and deals with simple examples and logic. Coase is in many ways the Aristotle of economics.

Coase's famous observation is stated in the [Library of Economics and Liberty](#) is:

"Firms are like centrally planned economies, he wrote, but unlike the latter they are formed because of people's voluntary choices. But why do people make these choices? The answer, wrote Coase, is "marketing costs." ... But because markets are costly to use, the most efficient production process often takes place in a firm. His explanation of why firms exist is now the accepted one and has given rise to a whole literature on the issue."

The article continues:

"Economists before Coase of virtually all political persuasions had accepted British economist Arthur Pigou's idea that if, say, a cattle rancher's cows destroy his neighboring farmer's crops, the government should stop the rancher from letting his cattle roam free or should at least tax him for doing so. Otherwise, believed economists, the cattle would continue to destroy crops because the rancher would have no incentive to stop them..."

As I have argued before the Pigou school is one of central Government control via taxation. A favorite approach by Mankiw and the Harvard economists. If you don't like it tax it. In contrast Coase recognizes the efficiency of the market, if left to its own merits and that is saying something for a man who was an ardent Socialist when he began his analysis.


The article concludes:

"This insight was stunning. It meant that the case for government intervention was weaker than economists had thought..."

Now on point as regards to health care Coase talks of the lighthouse and how they functioned without Government control. Specifically:

"Coase also upset the apple cart in the realm of public goods. Economists often give the lighthouse as an example of a public good that only government can provide. They choose this example not based on any information they have about lighthouses, but rather on their a priori view that lighthouses could not be privately owned and operated at a profit. Coase showed, with a detailed look at history, that lighthouses in nineteenth-century Britain were privately provided and that ships were charged for their use when they came into port. "

Thus health care, using the lighthouse metaphor, and in a Coasian sense, should follow a similar path, and such a path is in many ways divergent from that as presented by the current President.

Posted by Terry McGarty at [4:35 PM](#) [0 comments](#) 

Labels: [Health Care](#)

ANOTHER MEDICARE ASSAULT

So why am I not surprised. In an op ed in the Times on Saturday, [Tyler Cowen](#) writes a piece entitled "Something's Got to Give in Medicare Spending". This title states his conclusion based on what at best can be said are a confused set of facts. Cowen is a faculty member in economics at George Mason University, one of the Virginia state schools in Arlington, VA.

First, as we have stated and we have shown on multiple and repeated occasions, [Medicare](#) is a program that supports those who have contributed in excess of what they ever hope to get returned and many more who have contributed nothing.

Now Cowen states:

"It's not the profits of the drug companies or the overhead of the insurance companies that make American health care so expensive, but the financial incentives for doctors and medical institutions to recommend more procedures, whether or not they are effective. So far, the American people have been unwilling to say no."

Frankly that may be part correct but it is not the provider alone who it fault. Providers perform tests to avoid legal problems. As has been noted, a 70 year old with back pain may have metastasized prostate cancer, breast cancer, multiple myeloma, and a plethora of other problems. This the tests to determine what the problem is. The patient may not sue but oftentimes the family will. Thus to reduce the risk procedures are performed. How are you to control that. Multiple myeloma can be diagnosed by a series of blood tests seeking specific markers, PSA may help with prostate cancers but the CCE may not permit that if the patient if over say 70!

Cowen then continues:

"Drawing upon the ideas of the Harvard economist David Cutler, the Obama administration talks of empowering an independent board of experts to judge the comparative effectiveness of health care expenditures; the goal is to limit or withdraw Medicare support for ineffective ones. This idea is long overdue, and the critics who contend that it amounts to "rationing" or "the government telling you which medical treatments you can have" are missing the point. The motivating idea is the old conservative chestnut that not every private-sector expenditure deserves a government subsidy."

Cutler is a health care mini-czar to the current President. Yes he was at Harvard but he has moved on, thus one should be honest at least with that biased disclosure. CCE has its problems as articulated herein many times. It as proposed is a Government and not a professional assessment group and as such it lags trends, delimits options and in the end will ration. Only those not on Medicare such as all Government employees will be free of the rationing. Is there no wonder that there are no objections from Congress, they are not affected. Cowen is missing the point and paying no attention to facts. Just look at how long a new drug takes to get through the FDA. Now compound that many fold and we have CCE procedure approvals. If the Government has its way the unapproved Medicare CCE procedures may be banned totally. Why don't we just burn the medical books, JAMA and NEJM to start!

Cowen then goes on to use the Dartmouth study:

"Scholars have been applying comparative-effectiveness research to Medicare for years, and the verdict is not altogether pretty. It turns out that some regions spend more on Medicare than others — sometimes two or three times as much, as documented by the Dartmouth Atlas Project. Yet the higher-spending regions often fail to produce superior health care results."

The problem here is in the details. Take a colonoscopy for example. If one does a colonoscopy in Florida the overhead costs are low and the patients may be somewhat homogeneous. Then take one done at Columbia Presbyterian in New York at 168th Street. In New York there are say 200 performed per day in a clinic setting which is akin to some industrial type surgery wards I have seen in Russia. People side by side and English not the main language. The staff performs one per 40 minutes and it is a true assembly line. But the costs are higher despite the attempts to be more productive than any other location. Why? Good question. Dartmouth damns New York without asking why. Truth is found by answering the whys and not just mouthing the whats. One should remember that Dartmouth is in Hanover and it does not in any way present the real world. Columbia Presbyterian and other New York Hospitals are a cross section of humanity. Thus the Dartmouth group should really find the whys before they justify themselves on the whats!

Cowen then goes on:

"Suggested ways to lower costs include an emphasis on preventive care, the use of electronic medical records and increased competition among insurers. But even if these are likely to improve the quality of care, they are speculative and uncertain as cost-saving measures. Keep in mind that while computers were remarkably powerful inventions, it took decades before they showed up in the statistics as having improved productivity in the workplace."

Frankly I have no idea where he is going here. It is a bit of on the one hand and then on the other. Yes we all agree the the EMR will help, assuming it exists, it works, and it is used. We have addressed that issue in detail before.

Cowen continues:

"One idea embodied in a bill sponsored by Senator Ron Wyden, Democrat of Oregon, and Senator Robert F. Bennett, Republican of Utah, is to finance new health care programs by taxing health insurance benefits. This makes sense in principle: why should insurance benefits be favored over salary by our tax system? But employer-supplied insurance is a mainstay of the current health care system, and there is no adequate replacement immediately in sight....It sounds harsh to suggest that the Obama administration cut areas of Medicare spending, but, too often, increased expenditures and coverage are confused with good health care outcomes. The reality is that our daily environment, our social status and our behavior — including diet and exercise — have more to do with good health than does health care more narrowly defined....The demand for universal coverage sounds like a moral imperative to “take care of everybody,” but in reality it would make only a marginal difference when it comes to the overall health of the American population. The sober reality is that universal coverage is another way to spend money, which may or may not be a good idea."


There are many ideas here with little justification. Let me address them in a more logical order:

1. Universal Coverage: Like auto insurance there are externalities. We have to take care of a sick person whether they have insurance or not. Opting out means moving the cost to everyone who is in. The issue is coverage for what? Catastrophic, accident, chronic, acute. That is the debate.

2. Taxing Benefits: This is a question if and only if we assume that employer benefits remain rather than having a system where every person is insured in a manner akin to auto insurance. I recognize that such an approach is antithetical to the way we think but perhaps new thinking is necessary. Multiple providers, and individuals. Perhaps also the patient should pay the physician or provider and the patient should then get reimbursed by the insurer. Again like auto insurance in many cases. The nexus between the patient and the provider in terms of the payment is a critical connection to let both understand costs.

3. Medicare has some problems but they are too often Government based problems. The Medicare reimbursement system if used in global financial trading systems would collapse the world economy in just a few days. It is incompetently organized and operated. No business would have a billing and payment system like this. I remember my days developing and managing the cellular billing system twenty years ago. They were complex and if we had a problem we were soon aware of it and it was fixed. What takes Medicare so long, well it is the Government!

4. Back to Universal: If Universal is to work then all must be in the system, and if one looks at Medicare then that means Unions and Government workers and all politicians. They must have a dog in the hunt!

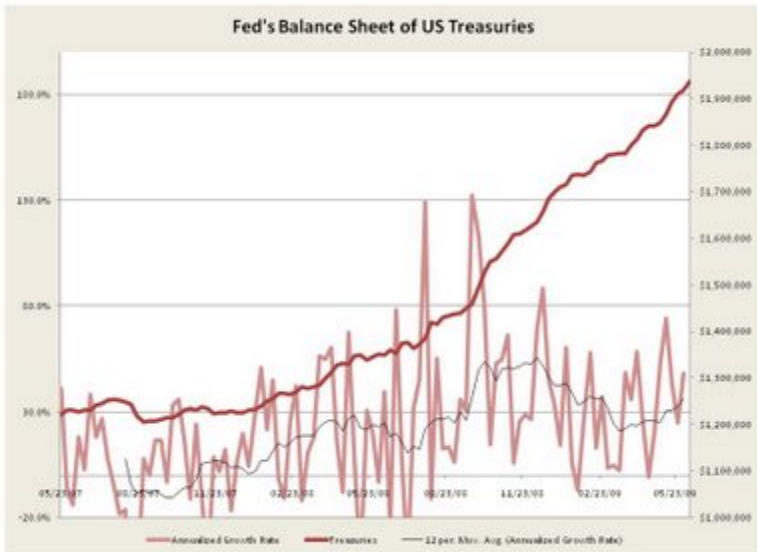
Posted by Terry McGarty at [9:22 AM](#) [0 comments](#) 

Labels: [Health Care](#)

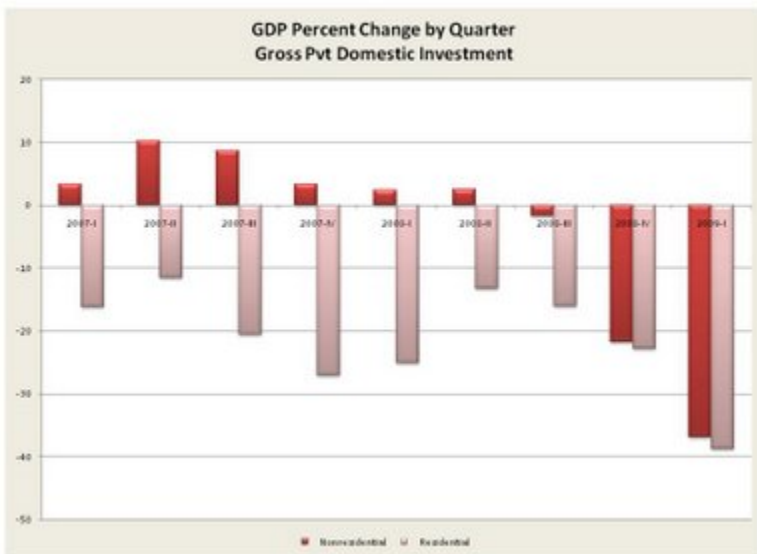
THE ECONOMY, NOW AND IN THE FUTURE

It is worth another look at two factors in the economy; the growth of Treasury Holdings by the FED and the GDP numbers in some detail.

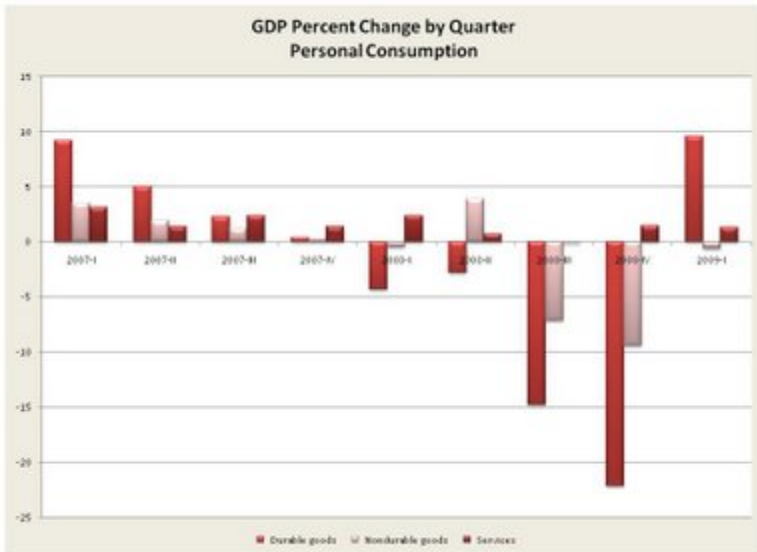
First the growth of Treasury holdings by the FED. Simply if the Treasury wants money and there may be no buyer for its notes then the FED will buy it with "printed" money. This is the stuff which ends up creating inflation if it gets loose out in the economy. So let's see what we have. The Figure below depicts this as of last week. Note the tremendous growth and more importantly look at the rate of growth on a 12 week running average, it is in excess of 30% per annum on a going forward basis. This is the main concern and if others decide not to buy Treasuries then things just get worse. Also remember that the money has not been let loose quite yet. The worry and concern should be watching that continuing rate of growth.



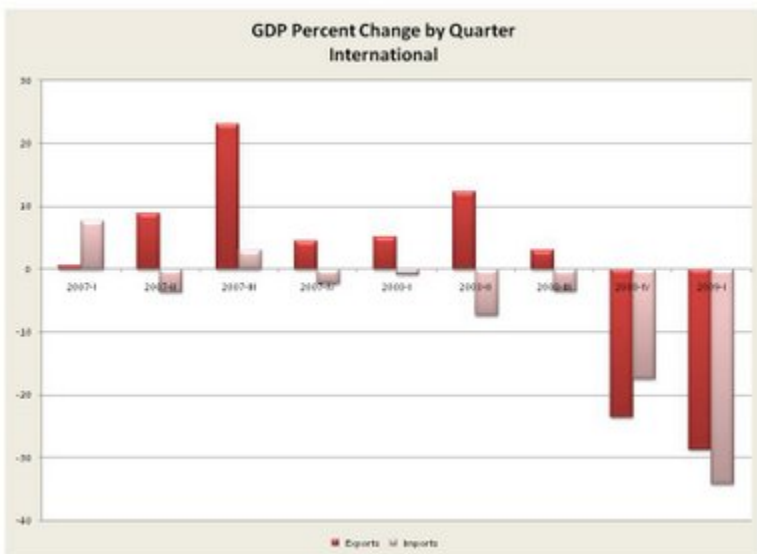
Now let us look at the GDP changes. This is the throttle on the economy to date. First GDP of Domestic Investment. This is what we all are worried about. The engine for continued growth is dying off. The big concern is that in Q1 2009 it is still falling off the cliff. There is no money going into creation of new enterprises and the fear is that with the stimulus package pumping money into Government expenditures this will not grow and in addition it will be starved for a long while.



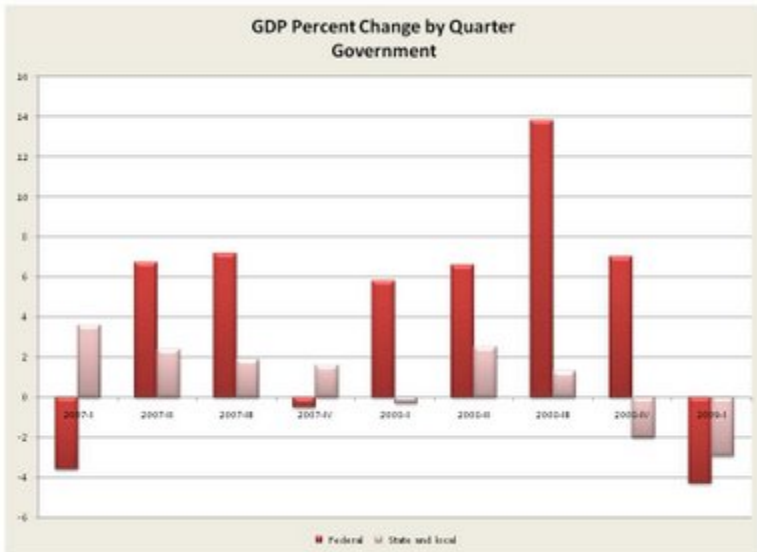
Second GDP of Personal Consumption. This is a worry. People are spending, and Q1 2009 showed a growth, perhaps a comfort zone but that spending may result in strong inflationary trends.



Then GDP of International Trade. Both imports and exports are down and decreasing in that direction. The linkages in international trade will cause further decline throughout the year.



Finally GDP of Government Expenditures. As expected if you can print money then things will not be that bad. Yes there was a decline but not as great as we had expected. In fact we should be aware of what is happening in Q2 2009 with the stimulus kicking in. In a weekend ride to New Hampshire I saw dozens of signs touting stimulus money going for highways. Useful but not long term stimulating for growth. They were for bridges which frankly were being done anyway!

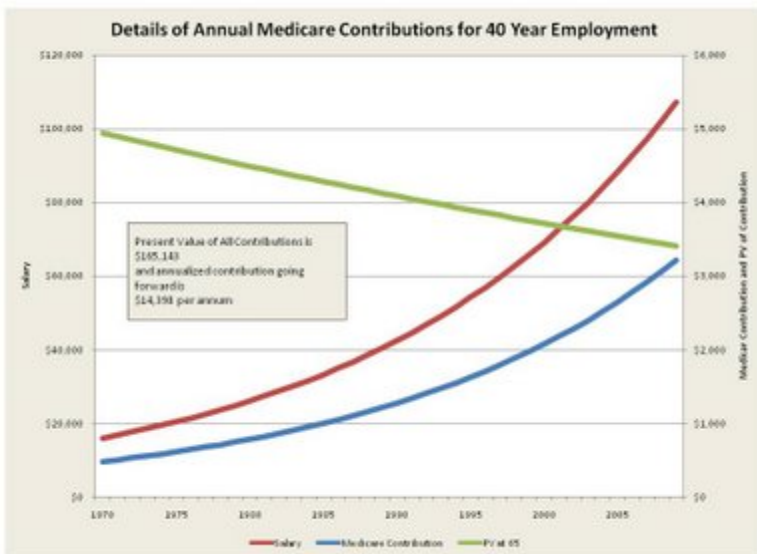


Posted by Terry McGarty at [8:35 AM](#) [0 comments](#)

Labels: [Economy](#)

SUNDAY, JUNE 14, 2009

MORE DETAILS ON MEDICARE FACTS



This is a rather powerful chart. It belies all the "facts" that those who maliciously attack Medicare present. Let us look at a person who works for 40 years. The typical American. This person goes to college and then starts work in 1970 at \$16,000 per year and gets annual raises at 5% per annum. This is NOT some corporate executive and NOT some uneducated worker. It is in many ways the typical American. The engineer, the school teacher, the salesperson, the person on the GM factory line, the police officer and the like. They contribute 3% of their gross to Medicare. We assume it is saved and invested at say 6% per annum by the Government, a real bad assumption.


Then at 65 we add all of the savings up and we get a total of \$165,143 in a lump sum amount. Now we assume that this person lives another 20 years and we ask what is the payout per assume that this person gets. It is \$14,398, well in excess of their personal cost of an insurance plan even at the rate of today's private plans. Furthermore it is substantially less than any Medicare benefits.

Thus what is the problem with medicare. This simple back-of-the-envelope calculation, which can be performed by any high school student seems to be missed by the economic brains in the current Administration. Any VC, any entrepreneur, any banker, could do this calculation. Also the Medicare recipient pays an additional amount into the fund on an annual basis and the Medicare payments typically cover at most 60% of the actual costs, thus leaving a substantial amount to be paid by the Medicare recipient.

The conclusions of this simple calculation are as follows:

1. The Medicare recipients who work a lifetime get much less than what they contribute.
2. The money is wasted by the Government, not by the Medicare recipient.
3. Those who run Medicare are doing what they are doing to establish a national single payer plan, which if Medicare is an example will end up costing people more for less and yield poorer health care.
4. Medicare has also become a dumping ground for many who have not reached 65 and have not contributed. It is an SSI dumping and loading ground.

One must ask why those who represent the elderly such as AARP would even allow such a plan to continue. It is outright highway robbery of the elderly. Does one suspect that the good Senator Kennedy gets his healthcare from Medicare, doubtful. It is essential to run the numbers and see the results.

Posted by Terry McGarty at [2:26 PM](#) [0 comments](#) 

Labels: [Health Care](#)

SATURDAY, JUNE 13, 2009

ATTACKS ON MEDICARE, THE LEFT WANTS TO PLACE THE BURDEN ON THE OLD

The New America Foundation, a left wing think tank in Washington, has just issued a white paper entitled [Realigning US Health Care Incentives](#). It is an attack on Medicare plain and simple. It also is a concerted effort by the managers of large Hospitals to drive the independent physicians out of business and to get them aligned with the hospitals. It is a move using those covered by Medicare to drive a wedge between their health care providers and their needs as patients. The speech today by the current President re-intensifies this attack.

The report starts by stating:

"Health reform must make quality health care and health insurance affordable and accessible to all. In order to achieve the goal of quality, affordable coverage for all, we support: (i) Health

insurance exchanges or new marketplaces to help consumers compare and choose the health plan that is right for them (ii) Reforms that end insurance discrimination based on age, sex, and health status, including: guaranteed issue, community rating, and a ban on pre-existing condition exclusions, (iii) Subsidies financed through broadly shared responsibility to ensure coverage is affordable, (iv) A requirement that individuals obtain coverage, once such coverage is accessible and affordable..."

This appears as a broad statement suggesting that they intend to look at health care in general. However they soon target Medicare. Remember that in our previous analysis we have demonstrated that those receiving Medicare have more than paid for their care. They have contributed to the system for forty years and the contribution exceeds any draw that they will make upon the system. At no point do the authors ever take recognition of this fact. Why should they, they want to remove coverage from the elderly and just allow them to go their way despite having contributed to their care well in excess of any other group.

They start their attack by saying:

"Over the next 10 years, we can reduce system-wide cost growth by far more than many think, enough to save \$500 to \$600 billion in the Medicare program alone. This level of cost growth reduction can be achieved while simultaneously improving the quality and patient-centeredness of care. Over time, this money could help fund coverage expansions, improvements to Medicare and Medicaid benefits and payment rates, and deficit reduction. We describe reforms that will make these savings possible in the remainder of this paper."

Where is the focus on the obese 30 year olds who will cost many times more with their Type 2 Diabetes and resulting mobidities? Not a word of that. They continue:

*"Improving health care quality is consistent with reducing health care costs, which is essential to fund coverage expansion and make Medicare and Medicaid more sustainable for generations to come. To reach these goals, we must develop, pursue, and implement strategies to achieve greater value for the American health care dollar. **We will not control health care costs until we create clear incentives for providers – the people who deliver care – to focus on quality and efficiency. Likewise, patients must be encouraged to make healthier choices through changes to their incentives.** This will require exemplary and even courageous provider leadership and significant cultural change."*

What does this mean? Simply they want quality. Frankly we have no idea what quality is. There is the Demming quality which applies to manufacturing, a term which means that we want to lower costs on production by reducing errors. However quality in health care is akin to pornography in law, you know it when you see it. The patient knows quality care by the way the patient is treated, not by whether they live or die. Death can be a quality experience if the human dignity is preserved.

If as this paper and the current Administration propose the dignity is removed and the costs are reduced. One may never again achieve even death with dignity and thus we would argue that quality is lacking. One view of quality is the Pirsig view, with its warts and all, where quality is a

contradistinction to quantity, it is the opposite of the Demming model and akin to the legal world view we proposed. Value is another term for quality in the discussion as well and we have equally rejected the value metric as proposed by Porter.

They then look at the comparative clinical effectiveness model. They state:

"We can identify overuse, underuse, and misuse and implement best practice processes....Comparative effectiveness research, best practice information, and decision support tools will enhance the doctor-patient relationship."

We have argued that the CCE proposed here and elsewhere has the potential of being both a means to ration health care and also to push down costs on the providers in an attempt to eliminate the sole or small group provider.

They then address specific proposals:

"Fee-for-service payment is unsustainable. Medicare will lead a concerted effort to end fee-for-service payments for individual services within five to seven years. Further, Medicare will cooperate and collaborate with private payers to transition the entire delivery system away from fee-for-service payment and toward outcome-driven bundled payments that encourage provider accountability through full and partial risk contracts within 10 years..."

This means that the patient will lose any and all flexibility in selection providers. Thus if one has ovarian cancer or breast cancer and is covered by Medicare then they will tell you who to see and where even if say the best procedures are at Memorial Sloan Kettering rather than your local hospital. You the patient will be shelved and just allowed to die!

They then continue:

"Providers will be held accountable to reasonable cost and quality standards at a specified date...More efficient, value-based incentives will lead to higher-quality, lower-cost care."

The authors use quality and value dozens of times without ever addressing the definition. Is it the Pirsig definition, goodness, or the Demming definition, low failure rate. The patient knows.

They then start with the bundling argument:

"Develop and transition toward bundled payment models. Medicare should begin a concerted and focused effort to develop and implement payment bundles to enable a widespread transition from fee-for-service payment....Eventually, all clinicians will have strong incentives to move toward more integrated models of care that allow them to accept full responsibility and reward for high-quality patient care and patient outcomes...1. Comprehensive services with shared risk....2. Complete chronic care....3. Ambulatory chronic care....4. Acute episode."

These four bundles are discussed. As we have argued before the bundling puts the hospital and the Government in charge It institutionalizes an old paradigm for delivery ensuring lower care

quality, here I mean a Pirsigian goodness term, and higher costs. We have argued this in detail with financial models demonstrating the results.


They end with Medicare changes they feel are required:

"Reform Medicare Advantage payments to drive quality and innovation...Improve the quality and patient-centeredness of end-of-life care through advanced planning and palliative care...."

They seem to have difficulty with getting away from the use of quality, without ever defining it. The focus on end of life care is really warehousing the old and dying. Hopefully those on or soon to be on Medicare, and who have paid for what they are due, will understand this fact.

Why the attack on Medicare. Because the Government controls it. What does this mean for non-Medicare patients, well simply if the current Administration gets its way with a Government plan, and then a single payer plan, namely the Government, then Medicare is just the training ground for doing this to everyone! It is the old adage; **first they came for the old, and I said they are old anyhow, then they came for the young and I said well no matter they are just young kinds anyhow, and then they came for me, and I had no say at all!**

Why is this important, because entities like the New America Foundation are feeders to the White House, they create "policies" and give them a patina of acceptance. What happens when they come for their parents, then their children...but they are them!

Posted by Terry McGarty at [5:01 PM](#) [0 comments](#) 

Labels: [Health Care](#)

[MEDICARE AND THE WHITE HOUSE](#)

Just after completing the entry preceding this one I read the [speech by the current President](#) on how he would fund his Healthcare plan. Specifically he states:

"Since making this proposal, the Administration has worked with Congress on other ways to offset fully the cost of health care reform through additional savings and revenues. To that end, the Administration is detailing today savings proposals that will contribute another \$313 billion over 10 years to paying for health care reform, bringing the total scoreable offsets put forward by the Administration to nearly \$950 billion over 10 years. Together, this would extend the solvency of Medicare's Hospital Insurance Trust Fund by seven years to about 2024, and reduce beneficiary premiums for physician and outpatient services by about \$43 billion over the next 10 years."

He specifically will use Medicare in the following manner to reduce expenditures by taking more money from Medicare. Specifically he proposes:

"1. Incorporate productivity adjustments into Medicare payment updates. Productivity in the U.S. economy has been improving over time. However, most Medicare payments have not been systematically adjusted to reflect these system-wide improvements. We should permanently adjust most annual Medicare payment updates by half of the economy-wide productivity factor estimated by the Bureau of Labor Statistics. This adjustment will encourage greater efficiency in health care provision, while more accurately aligning Medicare payments with provider costs...."


2 Pay better prices for Medicare Part D drugs. *In its meeting with the President and subsequent communication, the pharmaceutical industry has committed itself to helping to control the rate of growth in health care spending. There are a variety of ways to achieve this goal. For example, **drug reimbursement could be reduced for beneficiaries dually eligible for Medicare and Medicaid.** The Administration is working with the Congress to develop the most appropriate policy to achieve these savings.....*

3. Reducing Medicare overpayments to private insurers. *The establishment of a competitive system where **payments are based upon an average of plans' bids submitted to Medicare** would save taxpayers close to \$177 billion over 10 years, as well as reduce Part B premiums....*

4. Improving Medicare and Medicaid payment accuracy. *By strengthening program integrity efforts, the Centers for Medicare and Medicaid Services (CMS) will address vulnerabilities that have led to billions of dollars in **overpayments** and fraud each year. ...*

5. Expanding the Hospital Quality Improvement Program: *By linking a portion of Medicare payments for **acute in-patient hospital services to hospitals' performance on specific quality measures**, quality of care for beneficiaries will improve, and Medicare will save approximately \$12 billion over 10 years...."*

I have demonstrated that Medicare more than pays for itself for those who have worked during their lifetime and then seek Medicare after 65. There are those obtaining Medicare who have contributed nothing. Frankly they should be covered by a separate plan. The assumption of the current President is that Medicare is a gift from the taxpayers to those retired. It frankly is not, it has been bought and paid for several times over! Thus the intent is to again burden Medicare and the Medicare recipients with this cost reduction. Perhaps they should just let them all just pass on, as I suggested earlier. After all the gang in the White House will be exempt due to age for another twenty years.

Posted by Terry McGarty at [1:50 PM](#) [0 comments](#) 

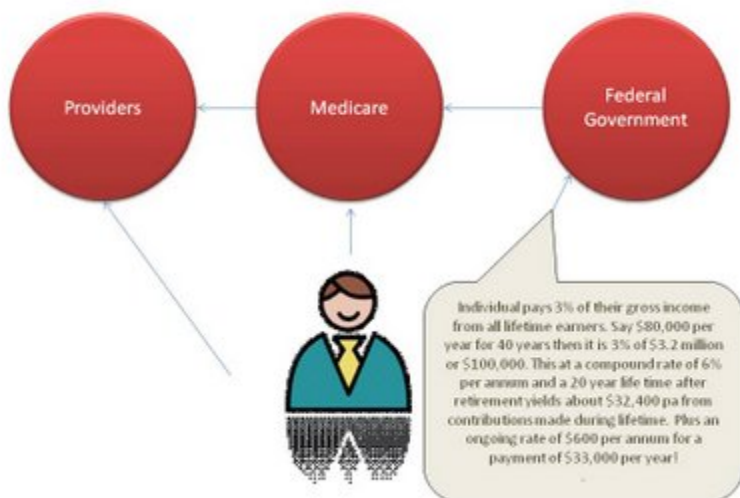
Labels: [Health Care](#)

SOME OPTIONS FOR HEALTH CARE PAYMENTS

There has been a great deal of talk about schemes for health care payments. We look briefly at some herein.

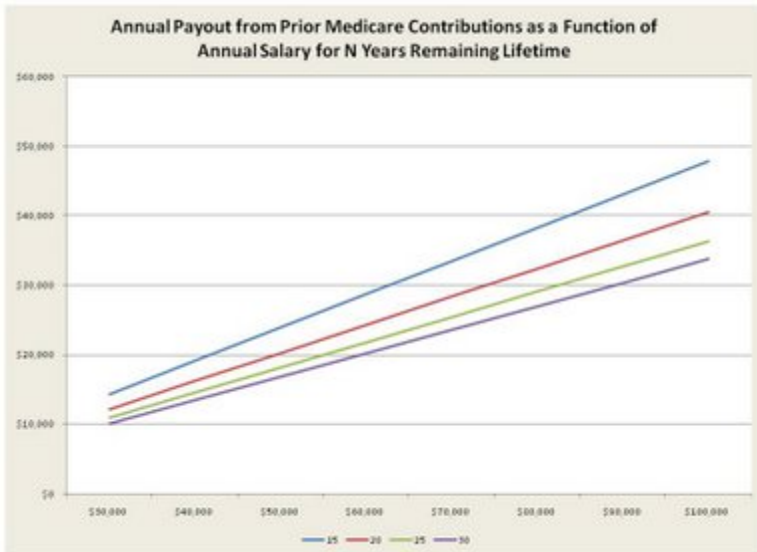
Medicare

Medicare is generally, but not always, for those over 65. It functions as shown below.



Namely a person spends their entire working life, say 40 years, contributing 3% of their gross pay, with NO cap as is the case for Social Security, and then at 65 they have the option of enrolling in Medicare. They pay about \$50 per month per person. But what of the amount they contributed for those 40 years? Well, let us calculate what that may have been. We make some simple assumptions. We assume that they made \$80,000 a year for 40 years and that the money gained a simple 6% per annum interest. Thus when they retire at 65 they have accumulated \$370,000 which they now deduct a fixed amount for say their remaining 20 years of life. This equals to a payout of \$32,400 from what they contributed and added to their current payment it is \$33,000 per year! It costs about \$8,000 per year to care for them. So what is the problem, First of course is that most people did not make \$80,000, but we will account for that shortly. Second, the real problem is the Government already spent the money! Medicare really has no problem, Government does, it spends beyond what it has collected. If Medicare were say an independent fund non attachable by the Government then it would be self supporting.

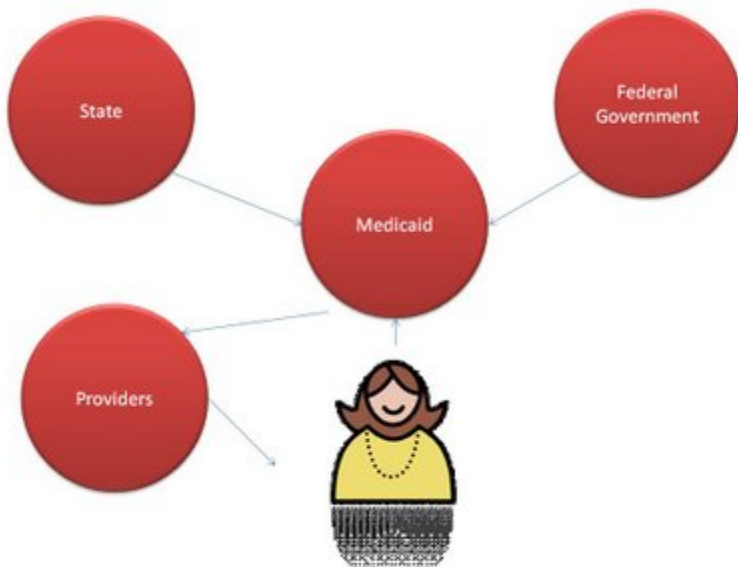
Now let us look at the sensitivity to this number. We show this in the following Figure.



Note that the number scales simply. That is we can calculate what the amount would be at say \$30,000 per year, which would be \$12,200 for a 20 year life span plus the \$600 per month. This is still well above the cost! You would have to go even lower to get below cost but the average salary per working person is well above that number. Why has no one ever calculate this number? Because it demonstrates that the Government is the problem NOT the way the system works!

Medicaid

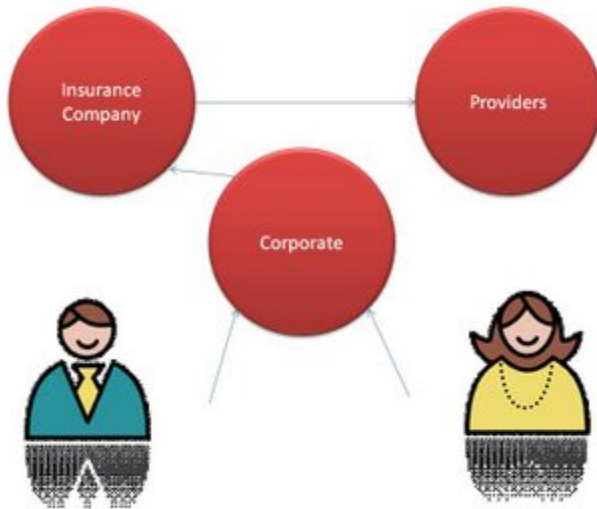
The next system is Medicaid. This is a problem because unlike Medicare there is no contribution. We show this in the following Figure.



This does cost money and this is something which gets supported by those of us who already contributed to Medicare! So don't punish us workers.

Corporate

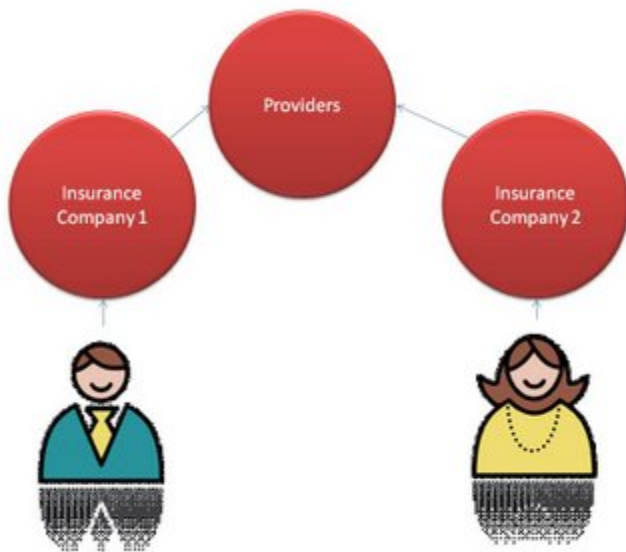
The next is the Corporate Plans. Remember that this is an artifact from when the Government regulated salaries. It was a way to give workers something when the Government denied pay raises. It is akin to the Wage Czar we have today. We show this below.



The problem with the Corporate model is that for the 40-50% of those insured covered under this the Corporations have leverage and they drive down costs below what it costs to deliver. Thus the insurers will make it up on the individual insured persons and put pressure on the providers as well.

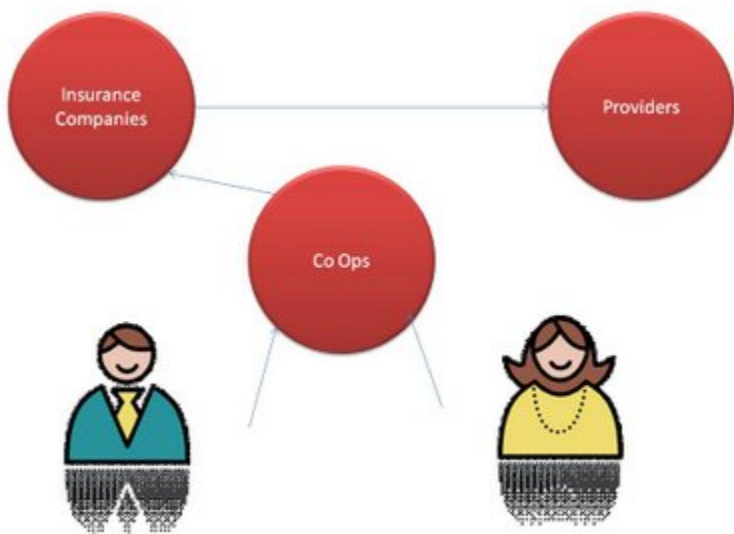
Individuals

This group really gets the burden. The insurers delimit it to low risk persons and then charge exorbitant rates.



Co Op

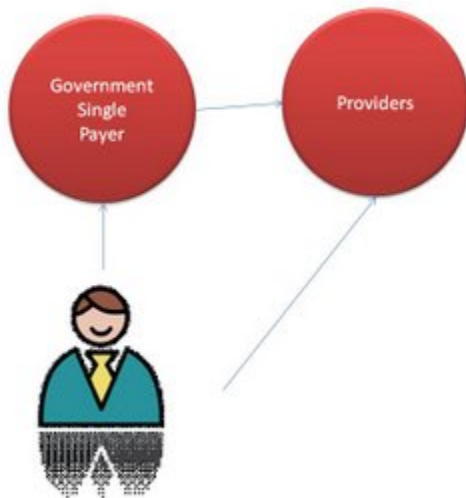
The above individual model could be improved via the co-op plan which Republican have presented. This avoids a single payer Government plan as well as allowing for buying cooperatives which have some leverage with insurers. The problem is it adds another layer and the costs will reflect that.



Single Payer Government

The Democrats want a single payer plan with the Government being that payer. In many ways it is reminiscent to Medicaid with all of its problems. It does allow for a single buying pool which is a benefit but it also allows and would encourage delimiting service to reduce costs. It also begs the question of price setting and who pays whom in the process. The Government then takes

away any market power that either the patient or the provider may have had, little if any now, and with this plan it would be zero.

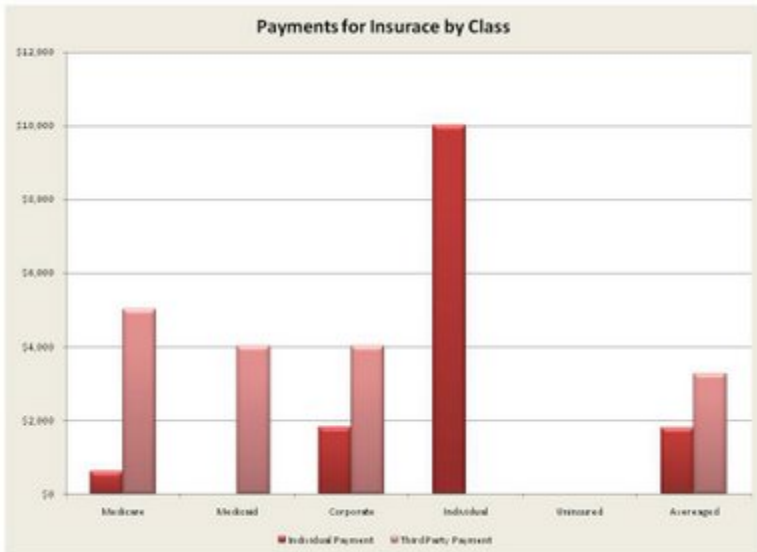


Cost Comparisons

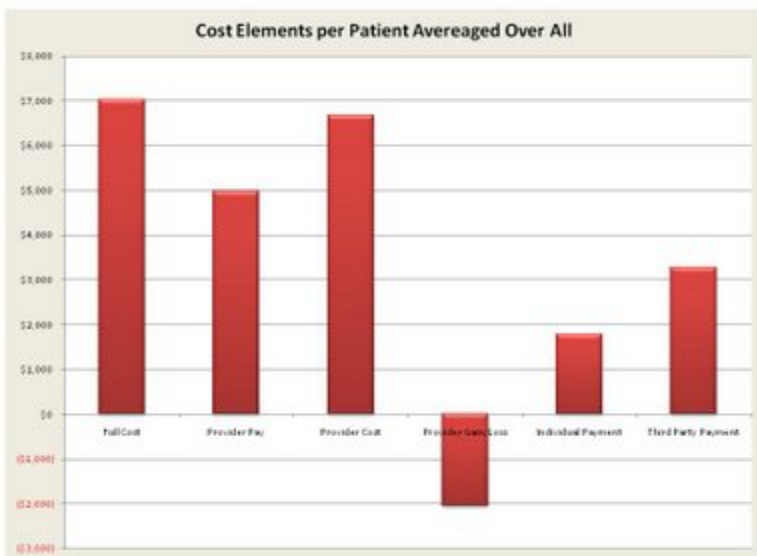
We now do some cost comparisons on these plans. First we show below a comparison table for all plans with assumptions which reflect the general numbers as are currently observed. Not what is contributed, what the costs are and that providers are almost uniformly getting a loss.


	Medicare	Medicaid	Corporate	Individual	Uninsured	Averaged
Percent Covered	15%	8%	55%	7%	15%	
Full Cost	\$8,000	\$7,500	\$6,500	\$6,500	\$8,000	\$7,030
Provider Pay	\$5,500	\$7,000	\$5,800	\$5,800	\$0	\$4,981
Provider Cost	\$7,500	\$4,000	\$6,500	\$6,500	\$8,000	\$6,675
Provider Gain/Loss	(\$2,500)	(\$500)	(\$700)	(\$700)	(\$8,000)	(\$2,049)
Individual Payment	\$600	\$0	\$1,800	\$10,000	\$0	\$1,780
Third Party Payment	\$5,000	\$4,000	\$4,000	\$0	\$0	\$3,270

We show below the costs by class.



Below we show the costs across all classes. These numbers show we believe that Medicare really is the most healthy based on those who contributed and that Medicaid is the worst. Perhaps a co-op system is better than a single payer for the obvious stated reasons. The Medicare is different in that people already paid and are still paying. One must remember that even Medicare places a substantial personal burden on the individual.



Posted by Terry McGarty at [1:03 PM](#) [0 comments](#) 

Labels: [Health Care](#)

THURSDAY, JUNE 11, 2009

[ARE WE IN FOR THIS? CHOCOLATE BUNNY WARS](#)

In the [Wall Street Journal](#) there was an article about the Chocolate Bunny Court. The story states:

"Lindt got a European trademark in 2001 on its marquee Easter treat, a gold-foil-wrapped chocolate bunny, squatting stolidly on its haunches, ears alert, a jingly little bell affixed to its neck with a bow-tied red ribbon. The bunny has been a big nuisance since. Lindt has hunted knockoff rabbits in Britain, Austria, Germany and Poland. To shore up its franchise, it has sought -- unsuccessfully -- an additional trademark for the "naked" bunny shape without foil. For good measure, it tried to trademark a chocolate reindeer that looks an awful lot like a bunny."


And now the EC Courts are litigating infringements on the chocolate bunny. Perhaps we can jump ahead of them and have the Administration appoint a Chocolate Bunny Czar, we will need control over chocolate bunnies, the intellectual property issues, antitrust issues, economy stimulation, and even health care, they all deal with derivative, yes I said derivative, issue from the chocolate bunny, so why not include financial sector concerns as well!

For those of you who are readers of my squirrel chronicles, you know that as a result of the leaking of this tale, my fine fat furry friends have demanded that they seek equal time, that they are discriminated against, perhaps the US could retaliate with a chocolate squirrel!

As the article continues:

"It may be surprising to learn that, in this age of automated vehicle assembly and supersonic flight, crafting a hollow, mass-produced chocolate bunny is no mean feat. There are considerations of structural integrity, and the performance capabilities of high-speed foil-wrapping devices. (Indeed, Hauswirth says its engineers have discovered a method to create a chocolate bunny that is 25% lighter than competitors' -- being made with that much less chocolate -- but retaining comparable rigidity and strength.)"

High speed, why that also is what broadband is, why this chocolate bunny issue carries tremendous potential for being dealt with by the brains in Washington, even those perhaps in Cambridge!

Posted by Terry McGarty at [2:23 PM](#) [0 comments](#) 

Labels: [Commentary](#)

WEDNESDAY, JUNE 10, 2009

[A REBIRTH OF ANTITRUST LAW?](#)

There is a concern that the new Deputy Attorney General for Antitrust, Christine Varney, will reapply her power in a broad manner over the antitrust arena. The last time we saw that was in the Microsoft case and before that were AT&T and IBM. In the early to mid 1990s we attempted to deal with the Antitrust Division regarding the separation between local and long distance telephone service to no avail. We wrote a [detailed paper looking at Antitrust laws](#) as applied to telecom and it received a small bit of attention but during Clinton and Bush there was no interest in an antitrust litigation. However there are many other opportunities to restart the process and we suggest one possibly area based solely upon our opinion.

One should first remember that antitrust law is established to protect competition and not the competitors. Frequently the law in its application may actually harm one or more competitors. It

hopefully opens up competition. Unfortunately this was not the case I the time of the previous two Presidents and especially not as regards to telecom.

We begin by looking at tying arrangements and we quote from the *Supreme Court in Eastman Kodak Company v. Image Technical Services, Inc. et al.* (June 8, 1992):

“A tying arrangement is “an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.” *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 5-6 (1958). Such an arrangement violates 1 of the Sherman Act if the seller has “appreciable economic power” in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market. *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495, 503 (1969).”

A tying arrangement exists only when a producer of a desired product sells it only to those who also buy a second product from it (see Areeda & Kaplow, *Antitrust Law*, p. 704.).

Consider the case of Cablevision which is a cable TV provider in New York, New Jersey and Connecticut. They have been eliminating their analog channels in favor of digital ones. In the past year they have reduced approximately more than 50% of their offered channels unless the subscriber pays for a digital converter box at the rate of about \$7 per month per box. The basic non-premium channels are \$53 per month plus the \$7 per box per month. For a 3 TV set family this is an additional \$21 dollars, or almost a 50% increase in revenue.

All that is required to obtain the new digital format is digital conversion as is done in the new digital TV sets. That is a \$30-40 box at wholesale, at worst case, and with the rates charged by Cablevision that is a five month payback. Yet they charge the amount on a continuing basis; say for ten years or more, obtaining an almost in my opinion an extortionary return.

In New Jersey there is no remedy since cable is effectively unregulated, there being no local cable boards and the state political appointees are in charge and they are generally are aligned with the carriers and rarely if ever side with a customer.

The Cablevision companies sell two things, video content and a digital conversion box. The latter, the cable converter box, is a separable product offering and the forced tying arrangement of having the customer get the box along with the content we will argue in our opinion is a per se violation of the Antitrust laws.

The Supreme Court has ruled in *Jefferson Parish Hospital v. Hyde* that when “forcing” occurs with a company that has “market power” that such is unlawful.

The elements of an illegal tying arrangement have been articulated by the Supreme Court in *Jefferson Parish Hospital v. Hyde*. Specifically the elements for a successful claim are (See Ross, *Principles of Antitrust Law*, p. 289):

i. the tie must affect more than a de minimis amount of interstate traffic;

- ii. where the tying arrangement is not express, buyers must in fact have been coerced into buying the tied product as a condition of buying the tying product;
- iii. the two products must be separate;
- iv. the defendant must have economic power in the tying market;
- v. There must not be any valid business justification for the tied sale.

We shall now go through each of these elements in turn for the sample case of Cablevision and its cable operations. Specifically we look at their demand that a customer must lease a digital cable box from them at what could be considered an extortionary rate for an indeterminate period of time. Unlike the cable ready TV sets the Cablevision approach is to use a proprietary box to convert digital to analog and charge \$7 per month for every month of service. The box cannot be integrated into a TV set nor can the subscriber purchase one from a third party.

1. Interstate Traffic

The issue of interstate traffic is a foregone conclusion in the case of cable. Cablevision has a headend on Long Island and it crosses state lines.

2. Coercion

The cable contracts explicitly require the purchase of the tied elements. As we shall argue, these are clearly two separate products and in fact there should be no reason that the cable company should in any way refuse to connect to the competitive third party digital converters. The refusal is a barrier to entry. It is argued in our opinion that that refusal is a per se violation.

3. Separate Products

In Kodak the Court ruled that products or services are separate when there is sufficient consumer demand to justify firms providing one item without the other. Let us consider the products being offered. For the Cable Provider they are:

1. Content: This is the provision of video content as is currently provided.
2. Digital Converter: These are the digital to analog converter boxes.

4. Economic Power of Incumbent


It is beyond a doubt that the incumbent has economic power. It has monopoly franchise power throughout the region, with Verizon FIOS being still a weak second competitor.

5. Business Justifications

There are no viable business justifications for the bundling of such services. Any customer may have an off the air antenna with an off the shelf digital converter and a cable service. Why not

just have a common third party provided such converter as is already available in all new Television sets.

We then argue that perhaps the Justice Department may want to look at this fertile and significant area.

Posted by Terry McGarty at [12:39 PM](#) [0 comments](#) 

Labels: [Broadband](#)

[THE QUANTS RETURN?](#)

In a recent [Newsweek article](#) there was a reassessment of the quants and their position in the world of financial markets. I quote a bit from this article and I also comment on what is still wrong.

The article begins:

"Paul Wilmott is a 49-year-old Oxford-trained mathematician and arguably the most influential quant today, the brightest star in their insular, nerdy universe. The Financial Times calls him a "cult derivatives lecturer." Nassim Taleb, the mathematician and author of the bestseller The Black Swan, calls him the smartest quant in the world. "He's the only one who truly understands what's going on ... the only quant who uses his own head and has any sense of ethics," says Taleb. Wilmott stands atop a veritable quant empire. His wonk-made-simple textbooks sell for hundreds of dollars. A subscription to his bimonthly magazine, Wilmott, costs \$695 a year. His Web site, Wilmott.com, is the nerve center of the quant community, with 65,000 registered users and a chat forum that buzzes over such topics as geodesic stochastic manifolds and swaption vol arbitrage."

It appears as if Wilmott has reassembled a collection of followers whose intent is to rejuvenate the quant world. This world has been around for a while and as I have written, I have been on its periphery as an observer and some time participant. However as one who has implemented many analyses using similar techniques but from an engineering or medical perspective I have always been aware of the hidden flaws which result from the fact that we never really know everything. In addition systems have the perverse characteristic of creating for want of a better term antibodies or new rejection of reaction mechanisms which we did not model or even understand from the outset. It is often these characters who in the end dominate the analysis and the results.

The article continues with an interesting review of the history:

"The watershed came in the mid-1970s when MIT-trained economist Robert Merton along with Myron Scholes, a University of Chicago economist, and Fischer Black of Harvard developed the Black-Scholes equation for pricing options, which eventually garnered a Nobel Prize. Over the past 20 years, quantitative methods gradually spread into commercial and investment banks, fueling a huge demand for math savants. Since the mid-1990s, dozens of master's-degree programs in financial engineering have sprouted up at top universities. (The highest-rated ones are at Carnegie Mellon, Columbia, Stanford and Princeton.) Along with physics Ph.D. programs, these are the primary breeding grounds for the many thousands of quants who have found their way to Wall Street. It's these programs that Wilmott has taken direct aim at with his CQF. "I'm building a new army of quants," he says. His ranks currently stand at 1,273..."

The interesting fact in the above is that these are mathematicians and physicists and for the most part no truly seasoned engineers. My first book, *Stochastic Systems and State Estimation* (Wiley, 1973) was the first book to address many of these issues. However I started the Preface by saying "The world is filled with uncertainty..." and by that I meant that even modeling uncertainty as I had done now almost 40 years ago, namely establishing all the models the quants now use, I already by that time was a seasoned engineer, having seen the limitations of the models. Outliers were all too common and in true science and engineering we all too often gain insight from the outliers, they teach us about what is wrong with our models and in turn we design for outliers. The quants having for the most part no real world experience both ignored the possibility of outliers as well as designed around them, a deadly approach.

Let me continue with the article and deal with one of those model problems:

"He's just scribbled a handful of equations on a whiteboard, including one called the Heath-Jarrow-Morton model. Developed in the late 1980s, the formula looks horribly complicated to the layman. But to a mathematician it's elegant, simple—and dangerous. Behind its simplicity lie hidden mistakes, unobservable variables like volatility and correlation that can provide a false sense of security. "With models, you want to see where things go wrong," says Wilmott. "You want to see the dirt. But HJM is actually just a big rug for [mistakes] to be swept under." For the next half hour, Wilmott deconstructs the thing, cautioning students on over reliance. "In the end, we should all like models that wear their faults on their sleeves," he tells the class..."

Let me show simply why the HJM model is clearly an exercise in futility. Simply stated the HJM model says:

$P(t, t+\delta)$ = price of a bond at time t given a value at $t+\delta$

Further let us assume an interest rate which is some random process given by:

$r(t, t+\delta)$ = interest rate for a continuously compounding bond available at time $t+\delta$ as seen from time t .

Thus we have for every time increment:

$P(t, t+\delta)$ = Bond at t seen from $t+\delta$

is

$P(t, t+\delta) = P(t+\delta, t+\delta) - \delta r(t, t+\delta) P(t+\delta, t+\delta)$

or as we let δ get small

$\frac{\partial P(t, T)}{\partial T} = -r(t, T) P(t, T)$

where

$T > t$

The negative in the above results from the bond being determined backwards not forwards. But they then model the rate as a Gaussian process with some mean growth and driven by a Wiener process. Namely:

$$dr(t,T) = m(t,T)dt + \sigma(t,T)dw(t)$$

where

w(t) is a zero mean unit variance Wiener process.

However this model of interest rate changes is the equivalent of the phrase "if elephants had wings they could fly....but they don't..." It neglects many gross and dominant effects such as:

1. **Catastrophic changes or collapses.** This is the outlier formulation.
2. **Collusion and conspiracy.** This is the ganging together of players who want to control the market.
3. **Nonlinear effects and stability problems.** The model is too simple and too stable by itself. In the real world there are nonlinearities and feedback effects which result in oscillations and instabilities. They are lacking from here and frankly not even understood well enough to be modeled.
4. **Really Bad Noise.** The "noise" process is benign on the one hand and malignant on the other. The Wiener process is an artifact of mathematics. It allowed Wiener to do certain things but it also leads to white noise and unstable noise spectra.
5. **Group Think:** This is the herd process which we all know and which is rarely if ever modeled. The Wiener process and the resulting martingales are independent increment processes, nice for analysis but not really reflective of reality. The herd problem is one which is either herding by following or herding by intent. The latter is collusion with few overt colluders.


The article states:

"To Wilmott, Gaussian is an example of how dangerously abstract quant finance has become." "We need to get back to testing models rather than revering them," he says. "That's hard work, but this idea that there are these great principles governing finance and that correlations can just be plucked out of the air is totally false." Wilmott spends a lot of time with another former student trying to tackle the biggest problem facing quant finance right now: how to price all those CDOs sitting on the balance sheets of banks, the toxic assets we hear so much about. "We don't have the tools yet to truly price them," Wilmott says. "People thought we did, but they were nowhere near robust enough."

The reality is that it is not the Gaussian alone that drives the problems it is the total disconnects from the real world. These processes work in the small, and they work better as the group which uses them agrees on their usefulness, like Black-Scholes, but there is always the breakout process where some new player comes along with another hot idea which perturbs the stability of the club and the system as a whole collapses. In many ways it is akin to the Arthur Conan Doyle tale

of the League of the Red Headed Men, a collaboration of a group for a purpose independent of its stated intent.

Collusion and collaboration can lead to local stability but that very process has its seeds of destruction in its very DNA, the need to get the advantage with a new set of models. It is not just the models it is the very nature of the people playing these games. It is not some dark bird of doom, it is human nature.

Posted by Terry McGarty at [7:53 AM](#) [0 comments](#) 


Labels: [Commentary](#), [Economics](#)

TUESDAY, JUNE 9, 2009

GOVERNMENT CHOOSES NEW GM HEAD

The [NY Times reports](#) on Ed Whitacre as the new head of GM as the Chairman. This is the same man who told listeners that the telephone lines were "his" and that the Internet traffic would in effect have to obey "his rules" and "pay him". A rather humble as well as astute response.

Whitacre has a career of running a monopoly, SBC and then AT&T. He is a strong willed old line Bell Head. Competition was never his forte. Thus having taken over as the head of a failing industry in a now highly competitive environment and dealing with politicians every minute of the day may be a challenge to say the least. Perhaps he was the only one on the corner when the bus went by.

Posted by Terry McGarty at [11:06 AM](#) [0 comments](#) 

Labels: [Commentary](#)

THE HEALTHCARE PLAN THAT WILL NOT BE

Having read the draft of the [Kennedy Plan](#), and having read the reports of the work in progress Baucus Plan, and having heard the intensity of the undefined Obama Plan, I thought it would be worth describing the Plan That Would Not Be. Perhaps its relegation to the scrap heap of history may be worth a quick read and in turn a memorialization in writing. We have argued elsewhere what we believe makes for a good plan but in this brief not we will take it one step further.

Having raised capital for my companies over the year as a dream merchant, namely selling ideas with some semblance of substance, I will attempt to do the same here. One of the selling techniques is to use comparables. You must bring some example of reality to the table when selling an idea for two purposes.

First, to allow the investor to have something to hang the new idea on, they can use the paradigm of a known to infuse the new with the comfort of what they understand.

Second, comparables have embodied in them some workable, hopefully, financial model and metrics. One can, using comparables, see how something works, where risks are, and understand how to extend it. Otherwise you are "shingling the roof in the fog...", and you may soon run out of roof.

So the comparable we use is auto, property and life insurance. In auto insurance we as a society insist that everyone have insurance. Why, simply if you as a driver have an accident there is an externality effect which is you may not just damage your property but also others. There is also the concept of fault and no fault. There are just accidents; neither party may be at fault. This may

be the case of "black ice", suddenly appearing and causing multiple vehicle accidents. There also is fault, namely if one goes too fast or through a red light. Then you are at fault and as such your rates may go up. Thus I argue why not consider health care as we do auto insurance and see how such a system would work.


Universal Coverage: As it is with auto insurance it is necessary to have universal coverage. The reason is that there are the externalities resulting from one who is not covered and in turn has an accident. It may affect others and cost them. Thus universal is necessary.

Individually Purchased non Tax Deductable: Each person is responsible for selecting and purchasing their own insurance. In addition it is not a tax deductible item. It becomes an individual choice and an individual responsibility. This removes the pooling effect of the company purchased insurance. Thus a large pool would have a monopsony on purchase and their rates may be exceedingly low at the cost of rates for purchasers who have no purchasing power. This almost anti-trust effect of purchasing power also has externalities which disadvantage others. If we want a level playing field in health care, especially as to costs, then we must consider the important effects of buying pools.

Multiple Vendors, No Government Vendor: As we have in auto insurance the consumer has multiple options and they are competitive. Perhaps there may be the equivalent of a State Insurance Commission to regulate certain parts yet for the most part it is the free market which sets rates.

Minimum Catastrophic Coverage Requirement, Multiple Options: Catastrophic coverage is a requirement. It is akin to the minimal liability coverage in auto insurance. The difference here is that there must be some form of true complete catastrophic coverage. Namely it must cover for everyone the extreme cases which today can bankrupt those unfortunate enough to be struck by such events. However, there always will be limits. The end of life issue will always come up. Thus a vegetative coma problem is one we would always see, do we demand coverage for the life of the patient and who decides what that life is? Must there be a living will and a directive for all those with coverage? There are cultural issues which would make true catastrophic coverage vary considerably and in some cases irrationally. In addition there would be as many options as a consumer would be willing to purchase, various deductibles and coverage options.

Competitive and Comparable Rates: By having an open market and setting rates at the state by state level we would open to achieve competition. We see that for the most part people are satisfied that their auto insurance functions in a reasonable manner. The only time it does not is when state legislatures interfere with market functions.

Posted by Terry McGarty at [4:59 AM](#) [0 comments](#) 

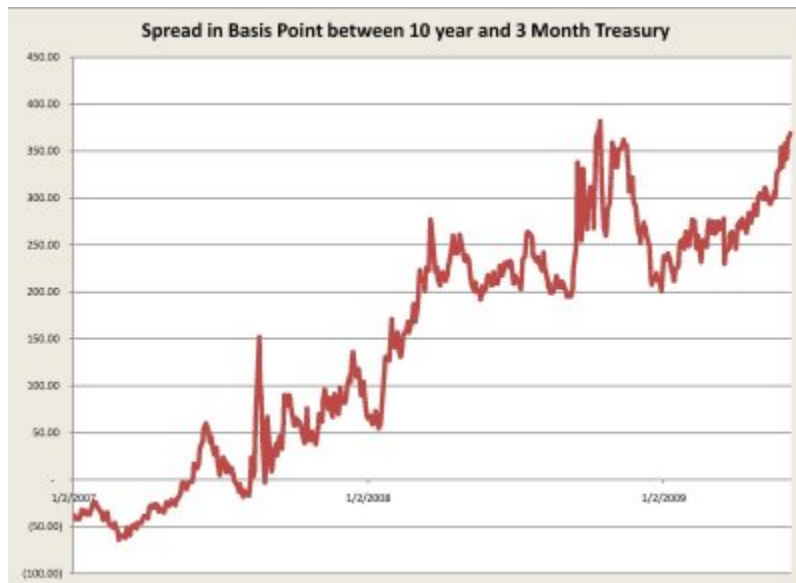
Labels: [Health Care](#)

MONDAY, JUNE 8, 2009

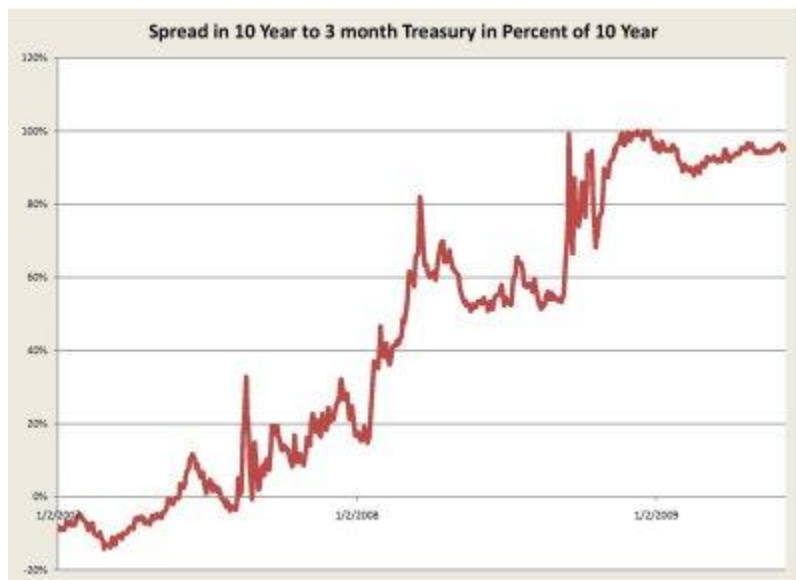
[TREASURY 3 MONTH AND 10 YEAR SPREADS](#)


The following depicts the spread in Treasuries for the 3 month and 10 year securities. We first plot the spread in basis points and then as a percent of the 10 year.

The one below is the spread in basis points. Note that the spread is increasing at a rapid rate in the past few weeks. This is a reasonable estimator of pending inflationary pressure on the tail. There have been spikes before but we see what appears to be a growing trend. Thus may portend the growth in the long term rates despite the attempts by the FED to keep the short term rates down. The yield curve has a significant upward slope at this time and we anticipate it increasing.



The following is spread in percent. This normalization may have some use in future analysis.



Posted by Terry McGarty at [5:15 PM](#) [0 comments](#) 

Labels: [Economy](#)

FRIDAY, JUNE 5, 2009

[ANOTHER ACADEMIC COMMENTS ON HEALTH CARE](#)

Michael Porter has written an article in [NEJM](#) presenting his views on health care reform., calling it "Towards a Value Based System". As we have argued elsewhere the use of the vague

term "value", never defined by Porter, may sound good but he owes the reader at some point a definition. It is lacking.

It is worth a brief analysis since he is the oft proclaimed guru of strategic thinking from the renowned Harvard Business School, the place which brought our economy the minds that got us where we are now.

He begins by saying:

"True reform will require both moving toward universal insurance coverage and restructuring the care delivery system."

The issue of universal coverage is a critical point as we have been arguing for over twenty years. Allowing individuals to opt out is really allowing individuals a free ride. We no longer permit that in auto insurance, at least in most states so why do so in health insurance. So, point well taken. He then poses the following:

"How can we achieve universal coverage in a way that will support, rather than impede, a fundamental reorientation of the delivery system around value for patients?"

Porter first lays out what he believes the six principles of an ideal health care system should be:

"First, we must change the nature of health insurance competition. Insurers, whether private or public, should prosper only if they improve their subscribers' health."

This is a wonderful goal but first one must ask how this is measured and second what is the responsibility of the patient, consumer. If you cannot stop someone from smoking, from obesity, just look at some in the White House, failure to address a condition before it becomes deadly, and the failure to maintain hypertension to a reasonable level, then what can a physician do. No matter how Porter tries he fails to define this and fails to incorporate the patient as a truly controlling agent.

"Second, we must keep employers in the insurance system."

On this I really believe his is far from seeing a new way. The employers create pools which may be low cost to them and the result is that it shifts the costs to those who are in smaller pools or individuals. My argument has been the auto insurance market. If I purchased my plan through say Verizon as compare through my own way, then the Verizon plan would be cheaper than mine and in fact the costs the insurer would be burdened within the Verizon contract would shift to me as a sole purchaser! Does Porter not understand the economics of the process? Only if everyone bought their own insurances, sans pooling, would there be a level playing field. The whole employer based system was an artifact to get around a Government wage cap in the 1940s, it was a system born of Government control and now Porter glorifies it a sine qua non. How pathetic!

"Third, we need to address the unfair burden on people who have no access to employer-based coverage, who therefore face higher premiums and greater difficulty securing coverage..."

Yes, indeed, that is just what was argued above. Why do they face higher premiums, because these poor people are subsidizing the large pools and those without? The risk pools are the same, the same statistics. Pooling people does not change risk if universal coverage is required.

"Fourth, to make individual insurance affordable, we need large statewide or multistate insurance pools, like the Massachusetts Health Insurance Connector, to spread risk and enable contracting for coverage and premiums equivalent to or better than those of the largest employer-based plans."

The Federal pools or State pools are required only if we were to keep the employer subsidized pools!

"Fifth, income-based subsidies will be needed to help lower-income people buy insurance."

Obviously! But what of those who are here illegally. What does universal mean and who is really NOT covered? Is it the 20 million illegal aliens of the 40 million uninsured? How is this problem solved?

"(Sixth) ..., once a value-based insurance market has been established, everyone must be required to purchase health insurance so that younger and healthier people cannot opt out."

Well universal is universal...so why repeat it.

Porter then describes what must be changed about the current system. He starts with a preface:

"The current delivery system is not organized around value for patients, which is why incremental reforms have not lived up to expectations...In order to achieve a value based delivery system, we need to follow a series of mutually reinforcing steps."

The problem with the Porter pitch is that he nowhere ever defines "value". It is like quality and all the other HBS catch phrases. We all want quality, we all want value, but they are all too often in the eye of the beholder. Porter then lays out his six points for improving health care. They are as follows:

"First, measurement and dissemination of health outcomes should become mandatory for every provider and every medical condition."

We agree. Today we measure diagnosis and procedure. The problem is how we define an outcome for a chronic disease. It would be great to have an outcome. In most cases it is that things just do not get worse. Take Hashimoto's thyroiditis. What is the outcome, management? When is the outcome measured? The list goes on.

"Second, we need to radically reexamine how to organize the delivery of prevention, wellness, screening, and routine health maintenance services."

I agree and that is why we have to do two things. Introduce the classic public health system as was common here in the US before health insurance became so prevalent and institute taxes to control demand by taxing bad behavior, such as tobacco and carbs.

"Third, we need to reorganize care delivery around medical conditions."

I really do not know what world he is speaking of. If I see a primary physician I do so for my annual needs or possibly a chronic condition. If I have the gene for melanoma then I should see a qualified dermatologist. My primary physician no matter how qualified will not be able to deal with this one. I see an ophthalmologist for my glaucoma, and gynecologists about whatever problems a woman may have. I do not expect my primary physician to deal with ovarian cysts! Nor do I expect my primary physician to read the MRI on a hip replacement! The system is organized in this manner today and it generally works smoothly!

"Fourth, we need a reimbursement system that aligns everyone's interests around improving value for patients."

Here Porter supports Bundled Payments. We have argued extensively against this concept. It removes patient choice, it institutionalizes the archaic hospital centric system and disenfranchises the entry of new and innovative genetic medical applications and it sustains the dramatic and inefficient overheads that hospital brings to the table. On this point Porter appears to be totally clueless. Perhaps he should consider at least talking to real physicians instead of the ivy tower types who develop policy.

"Fifth, we must expect and require providers to compete for patients, based on value at the medical- condition level, both within and across state borders."

Again I have no idea what value means but this happens today with informed patients. Yes indeed some patients select a physician from the yellow pages, some by referral and a very few seek out the best for their specific problem.


"Sixth, electronic medical records will enable value improvement, but only if they support integrated care and outcome measurement."

We have discussed this at length. Yes electronic medical records will change things, slowly. If it were possible I would say they should occur instantly. However they will time manufacturing systems which took twenty five years.

"Finally, consumers must become much more involved in their health and health care. Unless patients comply with care and take responsibility for their health, even the best doctor or team will fail."

I agree and I have argued this from the demand perspective. The problem is that as a physician you can tell your patient time and time again to stop smoking cigarettes or take off those seventy pounds but only one in a hundred will comply. Consumers, aka patients, are often in denial as to

their health and tend to deal with the problem if and only if it becomes a crisis. Type 2 Diabetes becomes a concern when the foot is removed. The typical patient after twenty years on metformin, sulfonylureas and then insulin and years of cajoling by the physician then wonders why they are having a failing kidney, or the smoker why they have small cell carcinoma and the like. Getting patients to take responsibility is difficult unless motivated by some exogenous acts such as a tax.

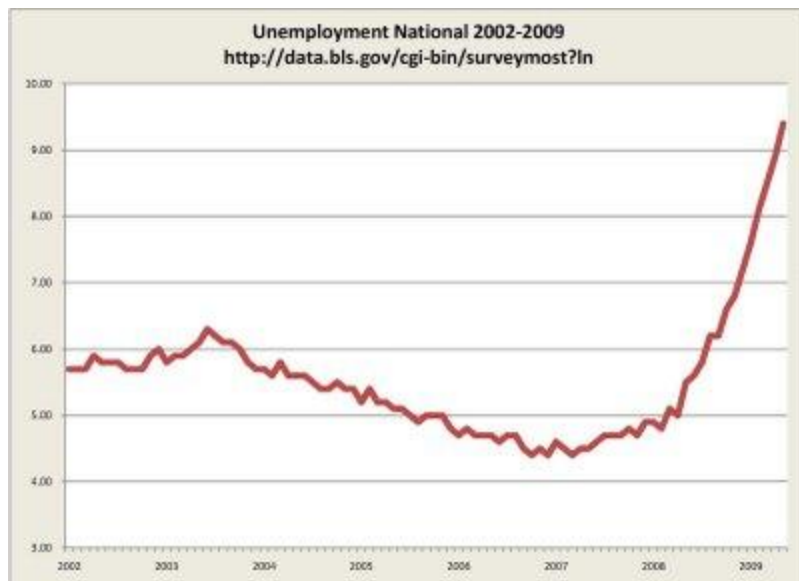
Posted by Terry McGarty at [7:08 AM](#) [0 comments](#) 

Labels: [Health Care](#)

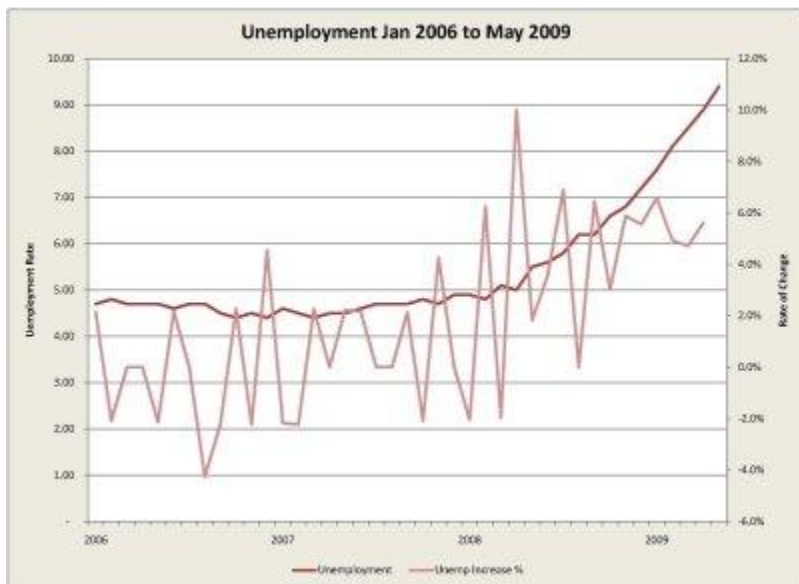
FRIDAY, JUNE 5, 2009

UNEMPLOYMENT RATES


Unemployment is now at 9.4%. The following charts indicates its considerable growth. One must go back to the Christine Romer projections just 4 months ago, of which we wrote an short article to see that the current Administration assumed it would never get this high.



We are still anticipating a 10.5% peak. On the other hand it is not as high as the current Administration would have had us believe with their rhetoric. There is a concern that its rate of increase has increased and that may mean we can see this again until the end of the year as we had anticipated. The fall out from the auto fiasco is still in progress and that may very well add quite a few hundreds of thousands in the next month alone.



The economic stimulus package may very well have the opposite effect as well as the confusion that the pending health care plan may have. The major concern is that we have people like Romer who is not even close in their numbers and it is this planning which will get us into real time trouble.

Posted by Terry McGarty at [5:53 AM](#) [0 comments](#) 

Labels: [Economy](#)


THURSDAY, JUNE 4, 2009

TREASURIES STILL BEAT THE MARKET



About seven months ago we did a simple analysis which asked; if you invested \$1,000 a month for the prior twenty years in either 30 year Treasuries or a bundle of the DOW, where would you be today if you decided to retire. We then calculated the ratio of the accumulated bundle in Treasuries to the accumulated bundle in the DOW and plotted the ratio as a function of the retirement date. It shows that until recently you were better off investing in the market, at least

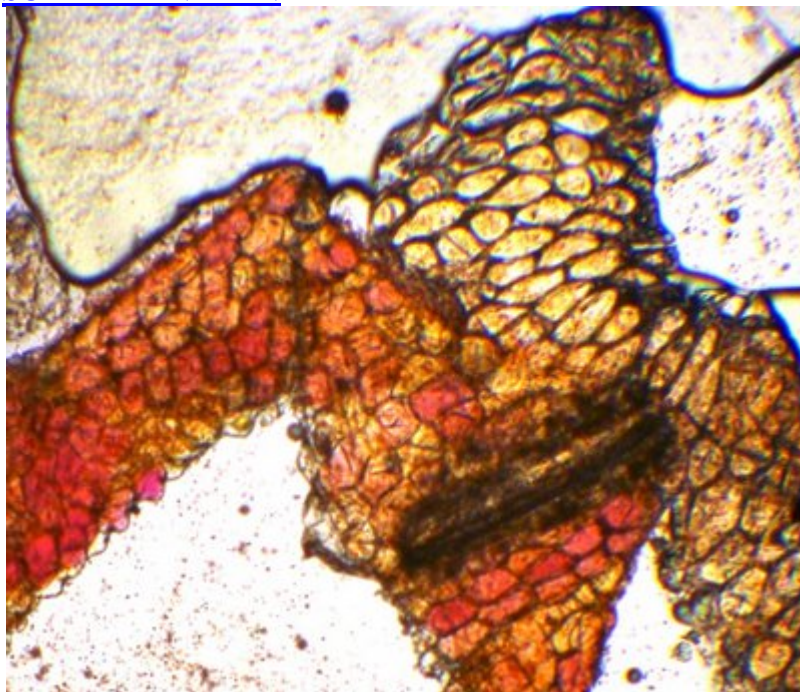
until all hell broke loose. Now you better stay in Treasuries or the like. Interesting analysis for those who sell the market for the long term.

Posted by Terry McGarty at [3:49 AM](#) [0 comments](#) 


Labels: [Economy](#)

WEDNESDAY, JUNE 3, 2009

SUMMER INTERN



I am looking for a summer intern, high school or college, with interest in experimental work on the analysis of flower color. The effort would entail the preparation of slides of sections of flowers and the analysis of the pigment coloration to determine the relative concentrations of anthocyanins. The project would result in a short paper recording the details of the work. No lab or field experience would be necessary just an interest in discovering the genes and pathways which control color and patterning. See [Telmarc Gardens](#). Modest stipend available. This would be a learning experience and we are quite flexible.

Posted by Terry McGarty at [8:18 AM](#) [0 comments](#) 

Labels: [Commentary](#)

VERIZON AND CLOUD COMPUTING

[Verizon has announced](#) its entry into what has been called cloud computing. Simply it is outsourcing the data center. As Total Telecom reports:

"Verizon, however, enters a crowded field. International Business Machines Corp. and Hewlett-Packard Co. - often partners with the telco - offer traditional data center and computing services. Cisco Systems Inc. recently unveiled a virtualized data center for businesses. The increased competition has each company securing their grip on their customers. AT&T Inc., meanwhile, has a cloud storage service, and plans to offer its own computing service as well."


[Verizon](#) provides great detail on what it is attempting to do. Specifically Verizon states:

"Verizon Business introduced on Wednesday (June 3) the industry's most comprehensive on-demand, "cloud-based" Computing as a Service (CaaS) solution designed to meet the stringent security and performance requirements of enterprise customers.

Verizon CaaS is helping businesses and government agencies take advantage of cloud (IP-based) computing to more efficiently and securely manage IT resources - server, network and storage - to meet day-to-day business demands. The service - which leverages Verizon's world-class global IP infrastructure and data centers - enables mid-market and larger companies to use a Web-based portal to employ computing resources in the quantities and duration dictated by their business needs. As a result, businesses pay for the resources used and avoid having to build out for peak capacity requirements by buying new equipment and adding staff."

The problem is that Verizon has an excellent telecom network but has consistently failed when it goes across the boundary into data. One need look no farther than the Genuity fiasco, the old BB&N acquisition that was managed by Verizon execs who had not the faintest idea as to what they were doing. Thus in my opinion based on having been inside Verizon in one of its earlier incarnations and also having tried to deal with Genuity and the ilk I would have serious concerns as to any such outsourcing, yet Verizon in my opinion far exceeds any cable company in this field who themselves may see this as an opportunity.

In the late 1990s in the dot com boom there was an explosive growth of data centers, which have morphed into cloud centers. No material difference but since the past is prelude there was an over expansion then by marginal players and there will clearly be an over expansion again. This in my opinion is not a wise move for Verizon, focus on fiber and wireless and stay out of where you have no proven excellence.

Posted by Terry McGarty at [6:01 AM](#) [0 comments](#) 

Labels: [Telecom](#)

TUESDAY, JUNE 2, 2009

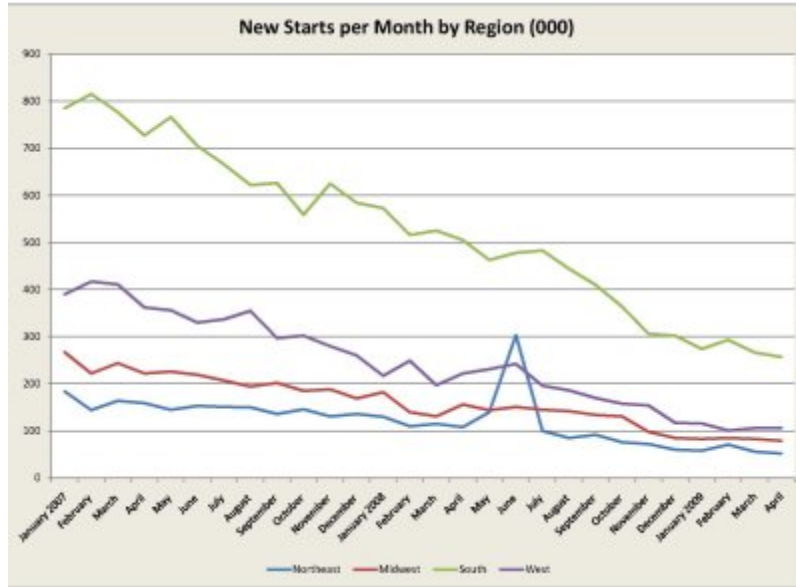
[HOUSING DATA Q1 AND APRIL 2009](#)

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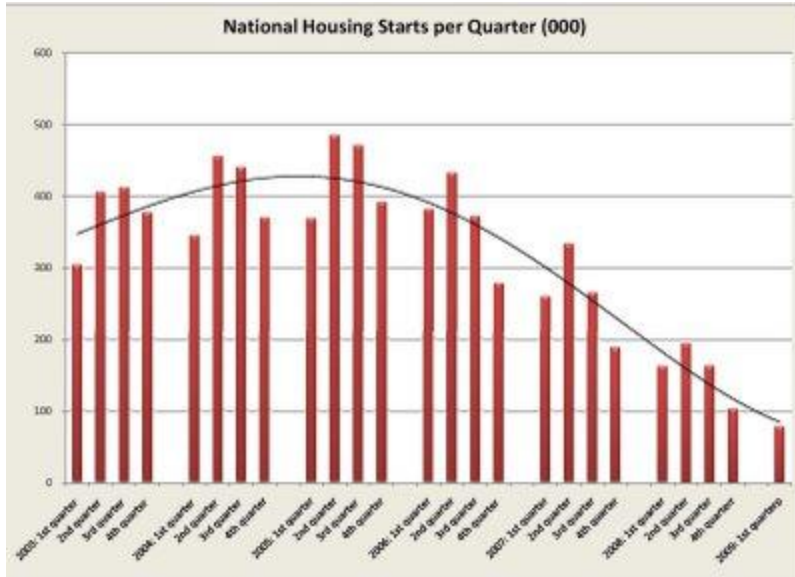
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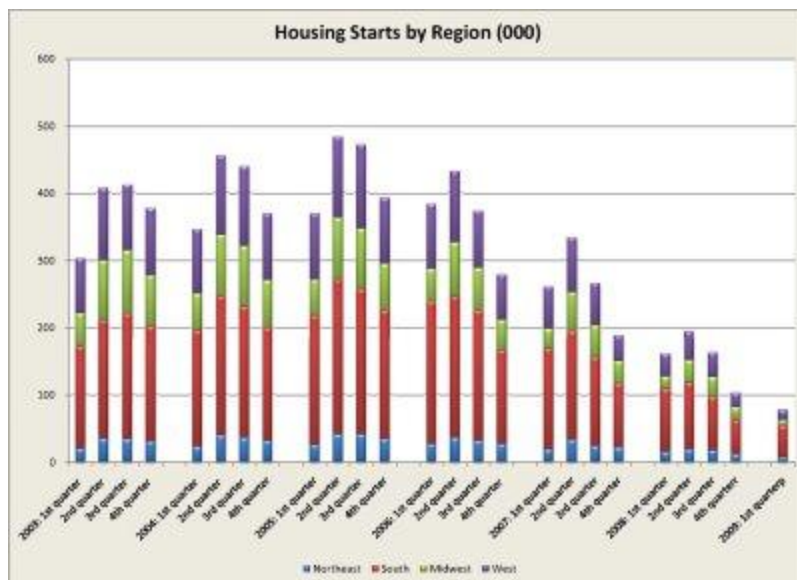
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Now we look at the total data from a quarterly basis. The curve fit does show a peaking and then the collapse. This gives a bit of a different view than the monthly data and perhaps this is an artifact of that small period of growth in the northeast.



Finally we look at the quarterly data from a regional basis but presented differently. There is some seasonal variability as well and if that holds perhaps one may see either a leveling or increase in Q3 of this year. Again the inventory is the drag.



Posted by Terry McGarty at [5:29 PM](#) [0 comments](#)

Labels: [Economy](#)

[THE CMS DECISION ON COLONOGRAPHY](#)

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"Regardless of whether we are confronting an economic crisis, a policy of insisting on data relevant to the Medicare population is commendable and has a broader application. We suggest that in future coverage decisions, other subgroup data should also be considered. Our above-mentioned study revealed that 75% of participants in cardiovascular clinical trials are male, whereas men make up only 42% of the Medicare population. Outcome reporting according to sex occurred in only 18% of trials. Given the sex differences in the safety and effectiveness of medical interventions and the fact that most Medicare beneficiaries are women, it is crucial to have data on risks and benefits in women. Furthermore, only 5% of studies reported data on race, and only 1% stratified results according to race. In its decision on CT colonography, the CMS noted in particular the lack of data in black patients, who have an increased rate of death from colon cancer."

Thus they are effectively saying that unless a clinical study is performed where race and gender are included in the analysis then whatever the results may be for the class considered in the study the procedure will be rejected for inclusion. Thus if a study is performed on say white females and ovarian cancer and a procedure shown to be beneficial for that group, the procedure will not be on the CCE approved list unless the study were also done for any other ethnic group as may be required. This means that the ethnic group on whom the procedure was beneficial will be disenfranchised due to the limits of the study. Perhaps Thalessemia studies must include Scandinavians as well?

They continue:

"Another important fact distinguishes the CMS's latest decision: screening for colorectal cancer is one of very few procedures for which the CMS is specifically authorized to consider costs."


(The Social Security Act grants such authority for colorectal-cancer screening tests, prostate-cancer screening tests, and certain other preventive services.) In our view, given the economic realities facing Medicare, health care reform must include explicit authority for the CMS to consider costs in all its coverage decisions in order to assess the true value of a given procedure."

This seems to imply that costs will become a dominant factor in CCE as well. There is a great deal of reading between the lines here. Perhaps this means that for prostate cancer one would expect watchful waiting required for all!

Finally the authors state:

"We applaud this landmark decision, and we hope that the agency remains firm in its evidence-based approach and extends its application as health care reform proceeds."

One of the authors is director of the Division of Medical and Surgical Services at the CMS and another is medical officer at the Agency for Healthcare Research and Quality. Thus the compliments are rather self serving. They are the agency and it would have been nice to have such a lauding article from non-affiliated parties. It will be interesting to see how much politics will play in medical decision making. Colonoscopy is a well accepted procedure. But denial of the benefit may be determined on economic or purely political bases in the future.

Posted by Terry McGarty at [2:07 PM](#) [0 comments](#) 

Labels: [Health Care](#)

[**WORDS MEAN SOMETHING**](#)

Madison, in a letter to Jefferson, in 1780 wrote:

"Where ever the real power in Government lies there is a danger in oppression. In our Governments the real power lies in the majority of the Community, and the invasion of private rights is chiefly to be apprehended, not from acts of the Government contrary to the sense of its constituents, but from acts which the Government is the mere instrument of the major number of constituents."


Madison then went on:

"...only a minority can be interested in preserving the right of property..."

The Magna Carta was a contract, a written document, and it was the true basis of English and then American law. Words meant something and the memorialization of words mean much more. The English Baron's at Runnymede wanted the document, because they now had something of sustainable value. The Constitution was created as a direct successor to that document signed by King John. It was written knowing full well that a Legislature was all too movable by its constituents and the times and that the immutable document of a Constitution and in turn the Antifederalists demand for a Bill of Rights, gives us that same contract of permanence.

In the past few months we have seen disregard for contracts, documents, and property. Madison would needless to say be concerned. For in many ways it was the usurpation of property rights that led the Colonials and especially the founding fathers to do what they did to create this country.

Thus, as we look at the dissolution of General Motors, we see its parts going, on the one hand, to the Russians in Europe, and now to the Chinese in the areas of military transports. The rights of the bond holders, those contracts and written documents, are thus made ephemeral adjuncts to a political process. The question is how far are we going from those men whose brilliance and strength created this country?

Posted by Terry McGarty at [11:53 AM](#) [0 comments](#) 

Labels: [Commentary](#)

TUESDAY, JUNE 2, 2009

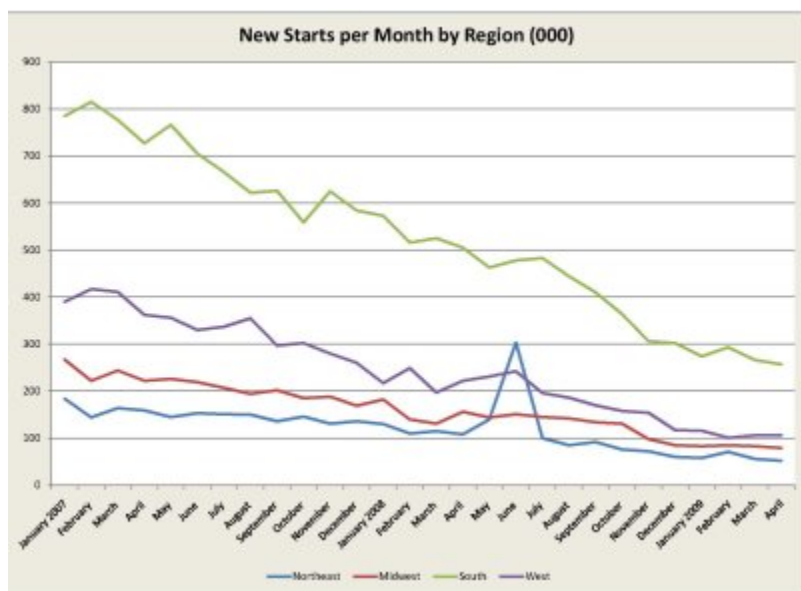
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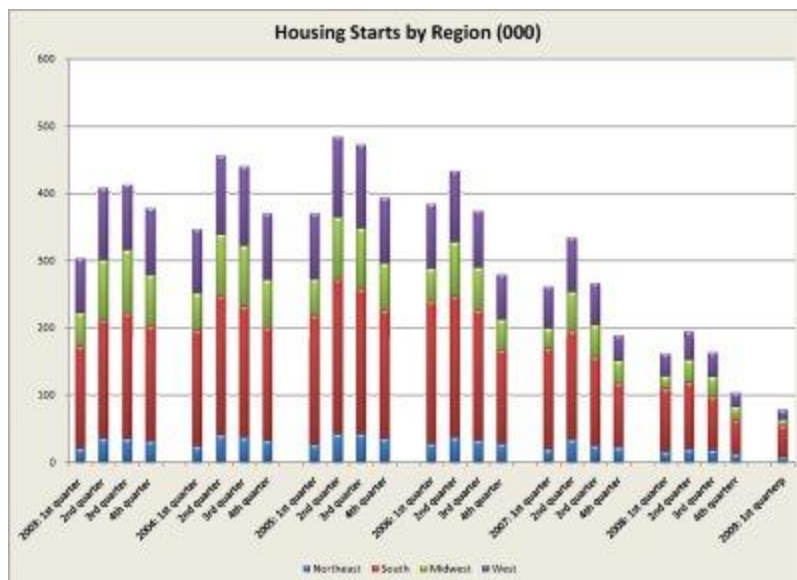
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Posted by Terry McGarty at [11:53 AM](#) [0 comments](#) 

Labels: [Commentary](#)

UESDAY, JUNE 2, 2009

HEALTH CARE PROPOSALS

The following are some principles which should apply to any health care proposal which comes out of Washington. They are the result of a detailed analysis of the current situation and the evolution anticipated in health care over the next twenty years.

Universal Coverage: The Plan should demand Universal Coverage. This balances the risk pool seen by any and all insurers. This does raise the issue that any non-citizen or resident alien must have their own coverage and such coverage must be demonstrated at the time of entry into the US. This is a common practice in most countries. It can be a part of the Visa process or it can be by Agreement for cross compensation and insuring for non-Visa aliens. This does raise the issue of illegal aliens and their coverage.

Individual Coverage: The coverage should be for the individual, including a family, and not via group plans.

Non-Tax Advantage: All payments must be done with after tax dollars and any and all plans should be structured as such.

Catastrophic Coverage: Each Plan must have a minimal level of coverage for catastrophic events such as accidents, acute illnesses and long term chronic illness. Thus normal procedures such as office visits, physicals, consultations may be covered but at a higher plan level and at an additional cost. The minimal plan level then would cover a statistically know base of accidental injuries, acute ailments, including cancers, and long term chronic illnesses such as Parkinson's, CML, Alzheimer's, MD, MS, and the like.

Choice: The subscriber should have choice in providers including physicians and hospitals as well as other providers.

Patient Data Access to Personal Records: The Patient should have access to their records, and if possible the records should be patient centric and should follow the patient from provider to provider. This would be secured by privacy rights.

Provider Quality Metrics and Access by Patients: Provider metrics should be developed and monitored and accessible to Patients. This would include a list of generally agreed to quality metrics so that patients will have informed accesses to providers.

Patient Payments: All Plans should have some form of Patient payment so that for common procedures the Patient shares in the payment.

No Pre Existing Conditions, Universal Acceptance: The insurers must accept all potential subscribers independent of any pre-existing condition. Variations in rate may be "life style" dependent for certain types of services which are the result of that lifestyle.

Common Rates and Rate Schedules: Rates should be the same for all subscribers. The Rate Schedules or the variance in rates by the extent of plan coverage should be the same for all insurers.

Rate Sensitivity to Patient Lifestyle: Patients can have an additional charge to their rates in the event that they have a life style controllable condition which they could change but refuse to do so. Thus, for example, there may be an increasing premium for BMI in excess of 25.0 such that any subscriber whose BMI is 1.0 above 25.0 is charged an additional 10% increase and it increases continually as BMI increases. A second point would be a similar taxing on patients who smoke cigarettes. Other lifestyle metrics can be developed.

Payment Mechanism: Physicians and other Providers must have a simplified payment method using a smart card method or the like where payment if made subject to ex post facto review. Namely all bills must be paid within seventy two hours of submission. However fines for inappropriate billing could be applied to incent inappropriate billing.

Government Participation: The Government would be limited to Medicare and Medicaid as is currently the case. All insurers would be private insurers.

Tort Reform: There would be established a Review Board to assess prior to any litigation the reasonableness of any claim and the Board would have the power to arbitrate any claims made. This would reduce the costs of the Tort burdens.


Inappropriate Use of Facilities: In the event that a medical facility or provider is inappropriately used, such as the use of an Emergency Room for a non-accidental or non-acute problem, an excess fee may be applied and payable by the Patient. An excess insurance coverage may be purchased to cover such events but these events are not covered in the basic plan.

Payment for the Indigent: For those Patients whose income levels are below a certain defined line, the Government may pay for their basic catastrophic coverage as well as a basic "Well Plan" coverage which would pay for basic visits to approved facilities.

Institute a Public Health System: Local Clinics can be established for access by those with Basic Well Plan coverage for common medical services such as physicals, common non-life threatening illnesses and for chronic care such as for Type 2 Diabetes management.

Establish Tuition Reimbursement for Public Health Service: Any physician or other individual health care provider who works in the Public Health Care System would have their Medical School or similar tuition reimbursed at a year for year level.

Eliminate the VA: The VA should be eliminated the existing system should be used to provide for universal service. Payment of Veteran's health care costs should be made by the Government at a reasonable level.

Posted by Terry McGarty at [10:57 AM](#) [0 comments](#) 

Labels: [Health Care](#)

[CEA ISSUES HEALTH CARE REPORT](#)

The CEA has just issued a [report on health care](#), yes another report with the same data just put on different pdf files. The CEA report starts with saying:

"The inefficiencies behind the empirical estimates have been widely reported. Among the most frequently cited are:

- *We spend a substantial amount on high cost, low-value treatments.*
- *Patients obtain too little of certain types of care that are effective and of high value.*
- *Patients frequently do not receive care in the most cost-effective setting.*
- *There is extensive variation in the quality of care provided to patients.*
- *There are many preventable medical errors that lead to worse outcomes and higher costs.*
- *Our system is complex and we have high administrative costs."*

The report goes on to detail the above in some manner:

"Provider incentives. *Most provider payment systems are fee-for-service, which creates financial incentives for doctors and hospitals to focus on the volume of services that they deliver rather than the quality, cost, or efficiency of care delivery. In general, payment systems do not reward higher quality and value. In some cases, they reward poor quality of care by paying for the costs associated with additional medical care necessary to fix errors that could have been prevented."*

This assumes that the providers are continually making mistakes. It further assumes that the providers are deliberately making errors to benefit themselves. In reality the provider has been pushed to the wall in by processing as many patients as possible to meet the limited reimbursements that they receive and then having to see the patient again. This statement denies patient fault. First patients do not always tell their physician everything and often tell the physician the wrong thing. Second patients do not comply with good health habits. Morbidly obese patients will undoubtedly come down with Type 2 Diabetes and a plethora of other ailments and they in almost all cases will just want more medication and more care rather than taking responsibility for their health. One need look no further that the CEA itself for examples of this unacceptable behavior! One should not throw stones in a glass house!

"Limited financial incentives for consumers. *While health insurance provides valuable financial protection against high costs associated with medical treatment, current benefit designs often blunt consumer sensitivity with respect to prices, quality, and choice of care setting. There is well documented evidence that individuals respond to lower cost-sharing by using more care,*

as well as more expensive care, when they do not face the full price of their decisions at the point of utilization.."

I agree, the patient must have some "skin in the game". Medicare patients do, they often spend more for their health care than does Medicare itself. Remember that Medicare does not provide for full reimbursement, thus a Medicare patient on a fixed income is often a judicious user of health care. In contrast a UAW retiree who has a UAW pension and health care plan with 100% coverage now guaranteed by the US Government could give a damn! We just created a monster in that group thanks to the Government. We can reduce some of this by taxing medical benefits, and by treating medical insurance as we do auto insurance, I will leave that for another day however.

"Pricing of medical treatment. *There are relatively few forces in health care markets that lead to price reductions in the way that we observe price reductions in other sectors of the economy when new technologies are introduced and diffused. Many administered pricing systems, such as those used by Medicare and some private plans, are slow to adjust for productivity improvement or decreasing marginal costs of production that come as new medical procedures are routinized and providers acquire experience. One example of this is CT scan technology, whereby a procedure on an older 8- or 16-slice machine may be reimbursed at a similar rate as one on a newer 32- or 64-slice model..."*

Unfortunately the pricing is determined by the Government and not the provider. The provider must follow the rules as dictated by the Government and in turn the third party insurers. As to CAT scans, the problem is not the equipment it is the overhead costs and the radiologist costs. The cost allocation of the CAT scan capital plant is de minimus compared to the other costs. I did this analysis over twenty years ago, and nothing much has changed. It applies to all imaging studies. Thus the CEA report here is just plain wrong but the principle is correct.

"Fragmentation. *Within the United States, patients receive care from a variety of independent and often competing organizations. Poor information flows across provider organizations and misaligned incentives can lead to higher utilization and costs, as well as poorer health outcomes. There is some evidence that vertically integrated provider systems (such as Kaiser Permanente, Geisinger, and Mayo Health System) can better manage costs and coordinate high-value treatment plans with patients, resulting in higher quality of care. Fragmentation of the system also leads to higher administrative costs. Because there is a lack of standardization around billing systems, forms, and benefit designs, additional personnel are needed in hospitals and physicians offices to handle administrative functions for different payers..."*

Yes, the overhead has exploded and yes health care in the world of the private practitioner has exploded with overhead. Forty years ago I could have started a simple Internal Medicine practice with a nurse and office manager. Now I would need six people! The billing alone is a nightmare. There is a continuing battle between the insurers and the practice with denial and delay which is just another form of denial! But wait, are hospitals any more efficient, I think not. In fact when you add the union costs and overhead they become more expensive. The solution, fix the billing system, it is easy and we have provided options in our many reports.

"Lack of information for providers. *Medical care has become increasingly specialized and complicated, and patients do not always receive care that fully complies with current clinical guidelines. Often, it is exceedingly difficult for providers to keep up with the best available evidence regarding the clinical risks and potential health benefits of alternative treatments. In the United States, there are few coordinated efforts to objectively quantify the benefits of new devices, drugs, and procedures for diagnosing and treating diseases relative to their predecessors..."*

Now this one is a real grabber! This is the CCE argument. Now that Mr US Government is running GM we can trust that Dr US Government will rewrite Harrison's and place it on the White House web site so that the best practices are handed down to all via an electronic medical record system. And we think the nut case in North Korea has a complex! Physicians are human and mistakes are made. But that is why health care is segmented. A goo Internist knows when they should pass on a neurological problem, and a gynecologists knows when to hand it over to an oncologist. Physicians do communicate and they do continue to educate themselves. The CME requirements and the re certification are only small steps in that direction.

"Lack of comprehensive performance measurement and feedback. *Performance measurement provides a way for physicians to determine how well or poorly they are doing with respect to delivering recommended care, using resources, and patient outcomes. There is some evidence that when physicians receive data on their clinical performance, they change behavior in ways that can improve outcomes."*

Yes indeed feedback is important. Interestingly enough there is some of that with physician reviews by patients. However a good statistical process evaluating a physician's performance would be useful if it results in both improvement of performance and in improvement of quality of service.


"Lack of information for consumers. *During the past several years, there have been important investments by government and private organizations to develop better information resources for consumers. However, large gaps still exist with respect to the availability of information on the effectiveness of alternative treatment options, preventive care recommendations, physician quality, and transaction prices for specific medical services. Without this, consumers are not able to make informed decisions when they select providers and treatments—choices that may affect their out-of-pocket costs, the quality of care they receive, and their health outcomes. For example, when a patient lacks information on the number of times a provider has performed a particular procedure, he or she may choose to go to a low-volume hospital for a complex procedure..."*

This is a bit of a difficult problem. Take the patient with prostate cancer. He may decide that he needs a prostatectomy and decided that the best surgeon is at Hopkins. Can he then demand that provider and at what cost. Again on the issue of prostatectomy versus watchful waiting we have argued based upon clinical data that there is truly no way to effectively assess that risks since this is a gene expression issue. The patient may have a very aggressive cancer and we may not perform the gene expression test to ascertain that fact.

The CEA then goes on and performs a back of the envelope calculation and then states:

1. Improved Efficiency Raises Standards of Living
2. Slower Cost Growth Would Prevent Disastrous Budgetary Consequences and Raise National Saving
3. Slower Cost Growth Would Lower Unemployment in the Short and Medium Runs

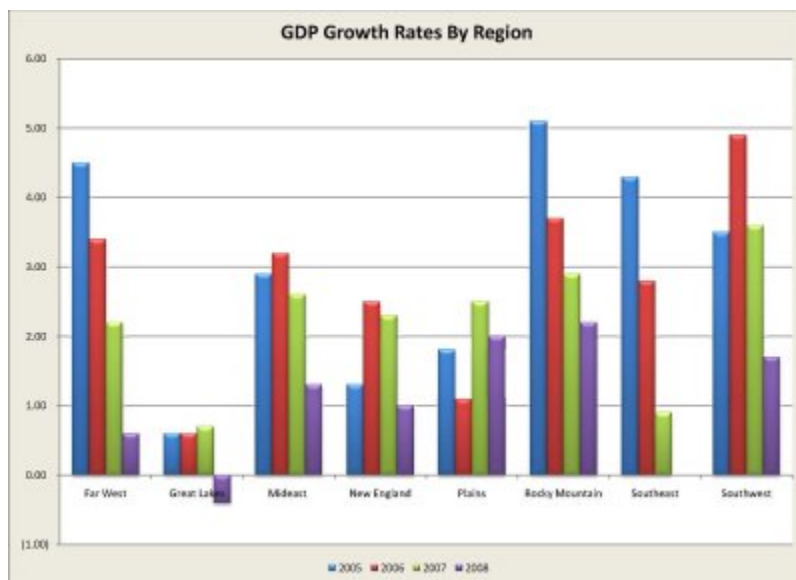
The level of analysis to reach these conclusions is rudimentary at best. They are self serving most likely and they will be harmful at worst.

Posted by Terry McGarty at [7:52 AM](#) [0 comments](#) 

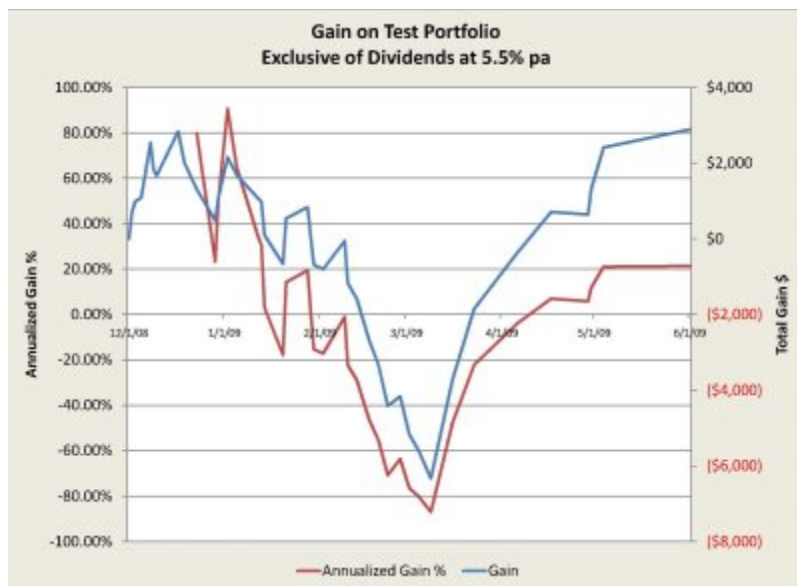
Labels: [Health Care](#)

[SOME NEW DATA](#)

The [BEA](#) has just published its stats on GDP by state for 2008. We show it below. It is worth studying this by region for it is clear that the Great Lakes region is really just going nowhere. The saving of GM by the current Administration is a balance sheet transaction, namely taking GM's balance sheet and moving it to the US Government balance sheet. For the most part this will not save anything and just make things worse. Creative Destruction is a viable alternative and Schumpeter did have some insight here.



Our portfolio is shown below. It demonstrates a flattening of the market reflective of the reduction of uncertainty of a few months ago but not reflective of any true confidence.



Posted by Terry McGarty at [7:09 AM](#) [0 comments](#)

Labels: [Baseline Portfolio](#), [Economy](#)

SATURDAY, MAY 30, 2009

[NOW THE RUSSIANS ARE BUYING GM PARTS](#)

[Deutsche Welle](#) states that a Russian Bank is financing the purchase of Opel. Specifically:

"With Magna pledging to keep all four German Opel factories open, it appears that Merkel has found the positive solution she was looking for - although some may find it almost as complex as the problem it tries to solve. The agreement includes a 1.5-billion-euro (\$2.1-billion) bridge loan from the German government aimed at preventing Opel itself from going bust before Magna can make its financing available.

Magna's bid, meanwhile, is to be bankrolled by Russia's state-owned Russian Sberbank, which will consequently gain a 35-percent stake in Opel. And Berlin will provide 4.5 billion euros in loan guarantees for Magna and Sberbank. All of this is meant to help Opel gain autonomy from its beleaguered parent company GM."

As [Sberbank](#) states:

"Sberbank today is the largest credit institution in Russia and CIS, accounting for about a quarter of the aggregate Russian banking assets and a third of banking capital. According to The Banker magazine, as of July 1, 2008, Sberbank was ranked 33rd in the world in terms of Tier 1 capital.

Established in 1841, Sberbank has grown into a universal commercial bank with diversified business. Sberbank is the biggest taker of deposits in the country and the key lender to the national economy. As of 1 February 2009, Sberbank accounted for more than 50% of retail deposits and had a 30% share in Russian loan market"

The [Moscow Times](#) has reported that Sberbank, with close cooperation with Putin, has been aggressively buying up assets in Russia and elsewhere, and recently:


"Russia's biggest shipyard on the Pacific coast, the Amur Shipbuilding Plant, has been renationalized for a symbolic sum and will receive hundreds of millions of dollars in state aid, Prime Minister Vladimir Putin said Monday.

The Komsomolsk-on-Amur-based plant, which builds nuclear submarines but found itself on the verge of bankruptcy, will be transferred to the United Shipbuilding Corporation, or USC, the government-controlled holding in which the state is consolidating the country's shipbuilding industry, Putin said.

The plant, which employs 15,000 people, has accumulated a debt of 36 billion rubles (\$1.1 billion), including 13.6 billion rubles (\$420 million) to state-owned Sberbank, Putin said during a visit to the plant, according to a transcript of his meeting with the plant's workers posted on the government's web site.

"The day before yesterday, Sberbank and a group of private shareholders signed an agreement to sell a 59 percent stake to Sberbank," Putin said, adding that Sberbank would sell the stake to USC, which is 100 percent owned by the state."

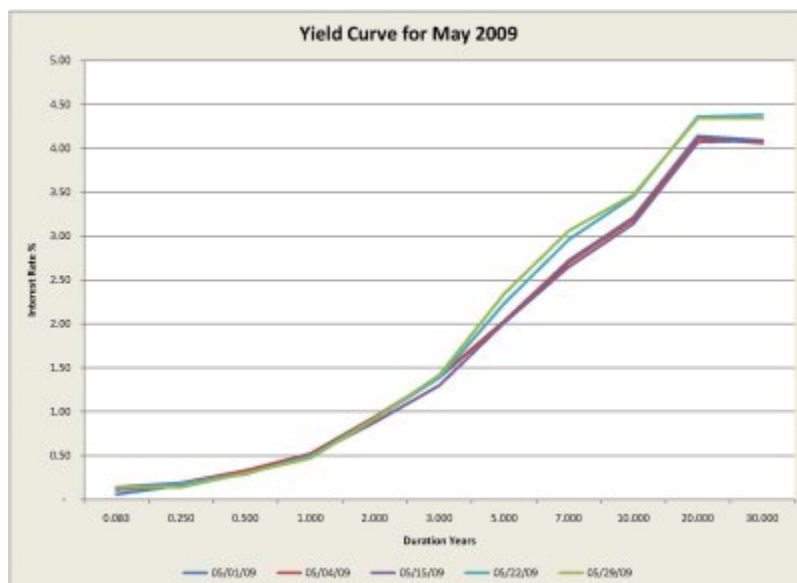
It should be interesting to see what conflicts will arise out of this deal. The German and Russian interests are conflicted from the outset.

Posted by Terry McGarty at [5:41 PM](#) [0 comments](#) 

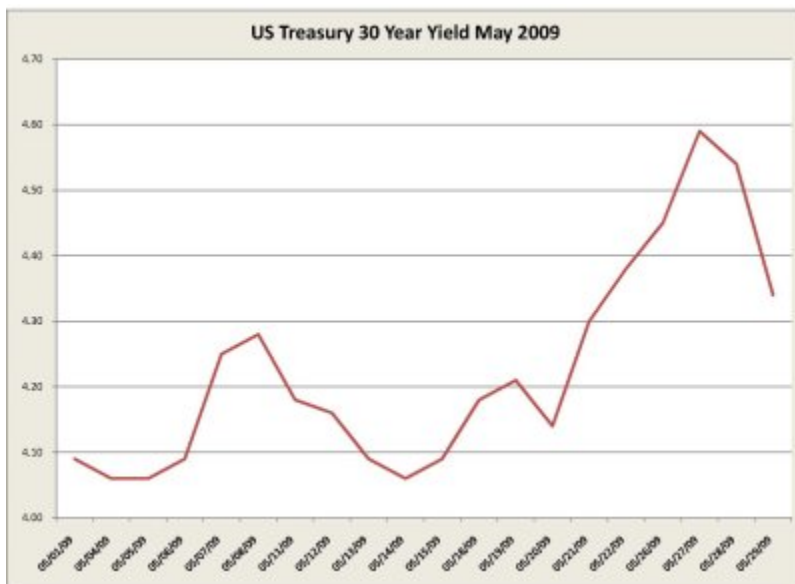
Labels: [Russia](#)

[YIELD CURVE FOR MAY](#)

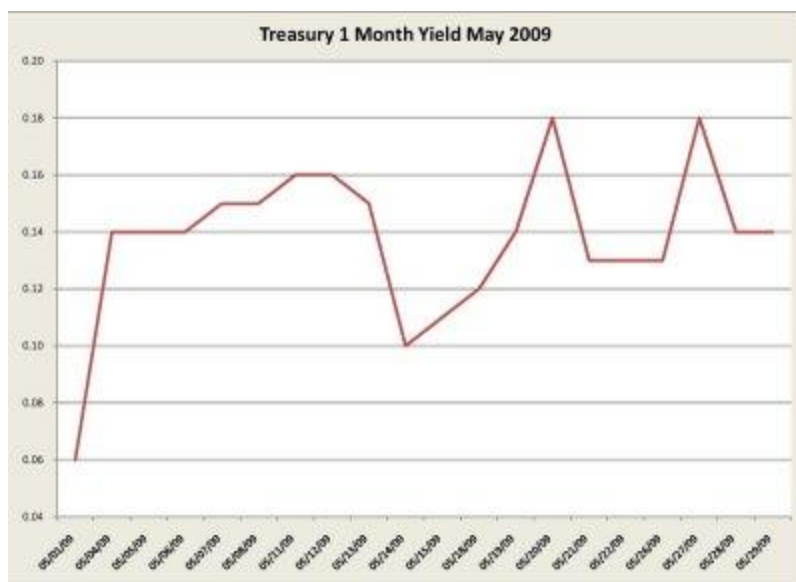
The following are the yield curve data on Treasuries for May. Note that there is some growth in the tail but at these rates they may very well still reflection deflationary trends as of yet. Movement in the 30 year rates should be watched on a month to month basis.




The following is the 30 year rate per day. We can see the movement upward and then the drop on the last day of the month. The curve may be showing volatility and not a trend yet.



The following is the variation in the 30 day rates. This is most likely just volatility.



Posted by Terry McGarty at [5:12 PM](#) [0 comments](#) 

Labels: [Economy](#)

[COULD LOUIS BRANDEIS MAKE THE SUPREME COURT TODAY?](#)

In 1890 Louis Brandeis and his law partner Sam Warren wrote an article for the Harvard Law Review entitled [The Right to Privacy](#). In view of the appointment process to the Supreme Court today perhaps looking at this article in the context of Brandeis as a Justice would help. Remember it was 1890, almost 120 years ago, and quite a different world.

The article was written because Brandeis felt his and his family's privacy was violated by the Boston Press who invaded his daughter's wedding. There frankly is no right to privacy in the Constitution in a clear and unambiguous manner. Also when Brandeis got to the bench he actually overturned any plea for rights to privacy. Thus this one paper brings to the fore many of the interesting issues we see again today. I have no opinion regarding the current state of affairs but I am a frequent reader of Brandeis and especially of this paper.

The paper starts out saying:

"That the individual shall have full protection in person and in property is a principle as old as the common law; but it has been found necessary from time to time to define anew the exact nature and extent of such protection. Political, social, and economic changes entail the recognition of new rights, and the common law, in its eternal youth, grows to meet the demands of society."

Thus to Brandeis the law evolves and is not static. Is this all law, is it the Constitution, or just common law, or is it a reflection of the ongoing legislative process as we know it? He continues:

"It is our purpose to consider whether the existing law affords a principle which can properly be invoked to protect the privacy of the individual; and, if it does, what the nature and extent of such protection is."

He at least presents the case that he will examine whether the law deals with privacy at all. He continues:

"The common law secures to each individual the right of determining, ordinarily, to what extent his thoughts, sentiments, and emotions shall be communicated to others."

Now he uses precedents, starting with English Law, which given this was an argument from common law principles is most likely acceptable. He states:

*"Thus, in **Abernethy v. Hutchinson, 3 L. J. Ch. 209 (1825)**, where the plaintiff, a distinguished surgeon, sought to restrain the publication in the *Lancet* of unpublished lectures which he had delivered at St. Bartholomew's Hospital in London...In **Prince Albert v. Strange, 1 McN. & G. 25 (1849)**, Lord Cottenham, on appeal, while recognizing a right of property in the etchings which of itself would justify the issuance of the injunction, stated, after discussing the evidence, that he was bound to assume that the possession of the etchingsIn **Tuck v. Priestler, 19 Q. B. D. 639 (1887)**, the plaintiffs were owners of a picture, and employed the defendant to make a certain number of copies."*

Now what rights is he discussing. He states:

"We must therefore conclude that the rights, so protected, whatever their exact nature, are not rights arising from contract or from special trust, but are rights as against the world; and, as above stated, the principle which has been applied to protect these rights is in reality not the principle of private property, unless that word be used in an extended and unusual sense."

He states that these rights are rights as against the world, and this in itself is a broad and new statements. He in effect creates common law rights as extensions of English Court extensions.

The to all those who object to the use of foreign law, possibly excluding English Common Law, he states:

"The right to privacy, limited as such right must necessarily be, has already found expression in the law of France."

He interjects the use of French Law, circa 1890 as a basis for his argument. In today's world this would fly in the face of many legal scholars and jurists. He ends with:

"The common law has always recognized a man's house as his castle, impregnable, often even to its own officers engaged in the execution of its commands. Shall the courts thus close the front entrance to constituted authority, and open wide the back door to idle or prurient curiosity?"


Here it is clear he uses Common Law and not Constitutional Law. When he ascended to the Bench at the Supreme Court he in many ways on this issue of privacy, time and again, found it lacking in the Constitution. Yet he found the fundamental right to exist, and perhaps the Common Law Right could arguable be covered under the Constitution's extension to such rights as being those un-enumerated rights. Remember the 9th Article of the Bill of Rights says:

"Article [IX.] The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people."

Thus the Brandeis argument could be that if one could justify privacy via Common Law, and Common Law is what the 9th Article is referring to then there is a Constitutional right via this nexus. This was not the argument in Roe v Wade and its predecessors such as Griswold. Nor did Brandeis argue this when faced with similar issues.

However we see Brandeis: (i) allowed for interpretation, (ii) permitted the current milieu as a means to judge, (iii) allowed for use of foreign precedents as a basis for US precedent, and (iv) used his personal relationship to the legal matter to drive his judicial judgment. In today's world that may very well be a disqualification from sitting on the highest bench.

In 2002 I wrote a paper on [Privacy in the Internet Environment](#) and I argued even for anonymity. I believe that Brandeis was not only correct in the context of Common Law but in Constitutional law, penumbra notwithstanding.

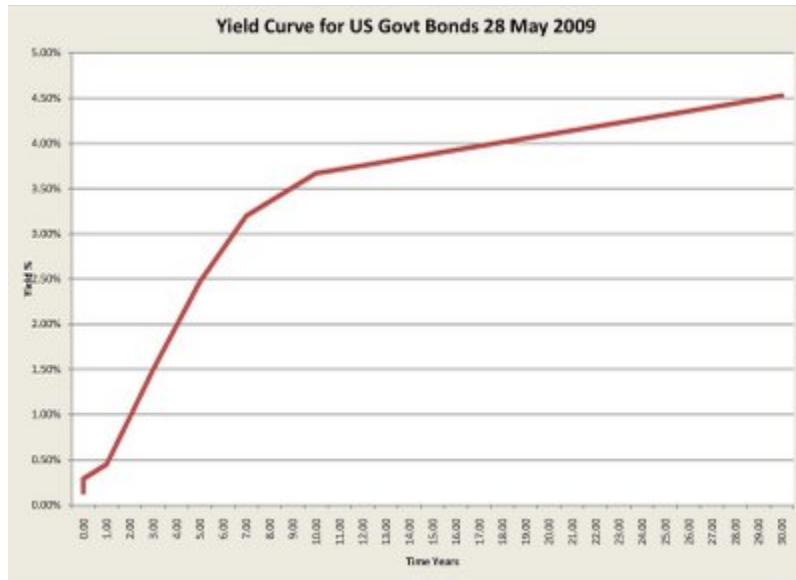
Posted by Terry McGarty at [6:05 AM](#) [0 comments](#) 

Labels: [Commentary](#)

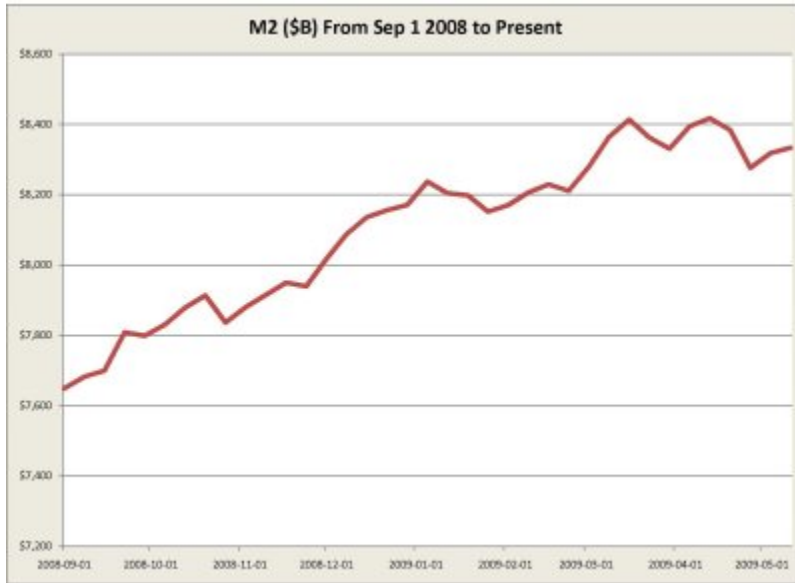
FRIDAY, MAY 29, 2009

[YIELD CURVE AND M2](#)

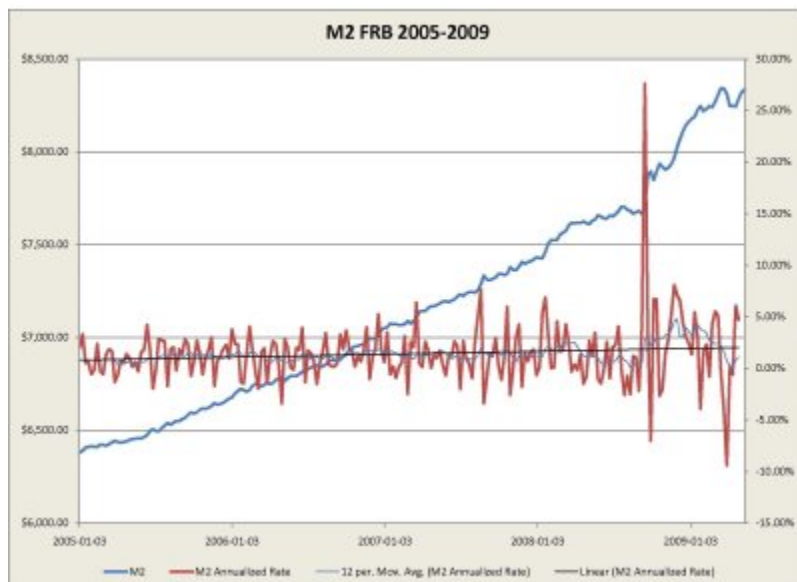
This is the yield curve as of yesterday. It is slowly increasing on the 30 year Treasury while the short term Treasuries are still quite low. The concern would be that the lack of interest in Treasuries in the long term will continue to drive this up. We will continue to watch this closely.



This is the M2 data since last September. It is still increasing but not as fast as we would anticipate given the growth of the Balance Sheet assets of the Fed. We are still concerned that the ratio of M2 to Fed Assets is still too low showing the hoarding of cash or just the absorption of cash for bad assets. The lack of Fed transparency makes this quite difficult to ascertain and thus presents a massive risk to long term investments.



Remember that the graph below demonstrates the overall M2 growth as to last week. It shows the exponential growth over the past few years but we see a leveling off due mostly we estimate to the increasing unemployment.



Posted by Terry McGarty at [7:00 AM](#) [0 comments](#)

Labels: [Economy](#)

FRIDAY, MAY 29, 2009

[ANOTHER SQUIRREL - MAJOR NATHANIEL](#)

I just posted the latest Squirrel Chronicle, one [Major Nathaniel Squirrel](#) who was the head of a band of scouts for George Washington. Nathaniel meets Washington in early 1777 and follows him on all his battles during the Revolution. Nathaniel befriends Billy Lee who was Washington's servant, slave, and when he attends Washington's inauguration tells Billy Lee that one of his descendants may some day become President as well....Billy Lee laughed at the time...it also tells of Jean Pierre, a red French squirrel, who works with Nathaniel, is a friend of Lafayette, and describes his Americanization.

Posted by Terry McGarty at [6:15 AM](#) [0 comments](#)

Labels: [Squirrels](#)

[LISTENING TO PHYSICIANS](#)

On May 27, 2009 I gave [a talk](#) to a group of physicians in Bayonne, New Jersey. Bayonne is an interesting place since it is a microcosm of many of the issues that health care will face going forward. It was an old manufacturing town, clean and neat but showing its place in history. The presentation was based upon what I have been writing and speaking about for the past six months but it was highly interactive and the group gave me their ideas as to what is important. I thought it would be most useful to memorialize them.

Their suggestions are as follows:

1. **Increase taxes on cigarettes**, and in turn on carbs to the point where they truly suppress the consumption and change disease patterns.
2. **Allow Medicare to negotiate on drugs**. They all seem to feel that the previous Administration's plan was the wrong way to go.


3. **Tort Reform** was an issue which came up again and again. They clearly all practiced defensive medicine. They also were concerned that if a Comparative Clinical Effectiveness plan were started and they were required to follow its dictates that they needed some protection in a revised tort reform package. What if they were reimbursed only for the approved CCE procedures and tests and they patient died and they were sued for not taking extreme actions that generally were not accepted. This was a real issue.

4. **Dismantle the VA system** and allow patients to be treated in the existing system. Oh yes and many of these physicians served in the military. The VA seems to have a vary bad reputation.

5. **The end of life issue is a real problem.** It is cultural and legal in nature. Many physicians take extreme measures with patients for fear of being sued by relatives after the patients demise. Uncle Lou has terminal colon cancer and he died three days early, then you get sued for not saving his life! This is more common than thought. Thus the physician spends drastically more money than necessary. They recommend a revision of the Tort system in general. The cultural end of life issue is also a major factor. Many groups want Uncle Lou to last for as long as possible no matter how painful it may be. That becomes an educational issue.

6. **The Immigration Problem!** Wow, I really did not think this was as big as it was. It is not just the illegal immigrant laborers, it is also people with cancers, flying to New York-Newark, getting off the plane on a tourist visa and then going to a hospital with everything from pancreatic cancer, lung cancer, congestive heart failure and the like. If you cannot get care in your country then get a cheap ticket to the US and get it free! Try this in Russia and you will die quickly in Siberia!

Thus these six issue are interesting and should be included in the debate.

Posted by Terry McGarty at [5:47 AM 0 comments](#) 

Labels: [Health Care](#)

THURSDAY, MAY 28, 2009

[AOL AND TIME WARNER](#)

In the Fall of 1996 I taught a Telecommunications Economics and Policy course at Columbia University Business School where I was a visiting Professor. What I did was to take a company in each of the business sectors, prepare a business plan for the company and address the policy risks and economic opportunities and risks.

For the ISP world at the time I took AOL as the example. I went through the detailed analysis, namely a simple back of the envelope calculation, to show that the company had no sustainable competitive advantage, it was a Potemkin Village of a business. The class generally disagreed, and most went into investment banking. I ran my businesses and the students went and created the mess we are in now. I was right, albeit a few years too early.

Now we see that [Time Warner](#) is finally disgorging the distraction which they could never monetize. As the Financial Times states:


"The deal, which valued Time Warner at \$ n, was followed by a series of huge write-downs, including a \$ n charge as quickly as 2002, as it became clear that the synergies it promised were illusory.

Steve Case, the former AOL chief executive and one of the architects of the deal, used the Twitter messaging service on Thursday to say he was glad the separation was happening.

Thomas Edison's quote that vision without execution is hallucination "pretty much sums up AOL/TW" he said, saying a "failure of leadership (myself included)" scuppered the early hopes for the combination.

The bitterness left behind was summed up by one irate shareholder at Time Warner's annual meeting on Thursday, who said that January 11, 2001, the day the AOL Time Warner deal completed, "is a date I believe will live in corporate and economic infamy."

However I argued this thirteen years ago. It was obvious to anyone who had an envelope, a pencil and a wit of wisdom. They had nothing, just an access front end for a dial up network. By the time Time Warner made the purchase there already was DSL infusion and soon cable modems. The key question was and still is what value did they bring to the table, customers were fungible, there was no barrier to exit and in fact it could be facilitated. The arrangement was consistently weak and the internecine warfare between the parent and AOL was endless. This should be an example to everyone because it was so obvious before the fact!

Posted by Terry McGarty at [12:08 PM](#) [0 comments](#) 

Labels: [Commentary](#)

TUESDAY, MAY 26, 2009

[FACEBOOK AND THE RUSSIANS](#)

Facebook gets \$200 million from the Russians, says [Bloomberg](#). Specifically Bloomberg states:

"Facebook Inc., the world's largest social-networking service, received an investment from Russia's [Digital Sky Technologies](#) that values the company at \$10 billion, more than [Starbucks Inc.](#) or [Safeway Inc.](#).... Digital Sky will buy \$200 million in preferred stock, gaining a 1.96 percent stake in the company, Palo Alto, California-based Facebook said today in a statement"


Let me tell a story about my Russian subsidiary and investors. You see I started one of my companies in Russia with "you know who". Frankly they were great people, managed the political scene, made money, worked well with others, and generally made things work well. I knew when things were going astray because when they said "nyet problemi" it meant all hell has broken loose, they were great for understatement.

We wanted to build a fiber to Moscow and one of the routes was through Belarus. One of my bankers, a Brit, was with me at a meeting in which one of our "senior partners" was present, a "retired" Government "security type". When the banker expressed concern about the political stability and resulting safety of the fiber through Belarus the individual in question slammed his fist down and said in no uncertain terms that he would insure "our" network with tanks. Remember Georgia, perhaps Ukraine. When the banker and I left he asked how he would write this up for his due diligence, I deferred comment.

Now to Facebook. It is a fantastic personality profiling device. If one wants to seek out possible compromisable people what better place to do so other than on Facebook, just analyze their

inner-most verbiage. It is an intelligence goldmine. Thus why would the US allow such an investment in what may very well be a strategic asset or a potential strategic threat.

Facebook as currently used provides the innermost examination and analysis of any human willing to expose themselves to the world. It also develops linkages. Any smart analyst can take that information and process it to develop profiles of accessible "groups" which many be manipulated for whatever reason. Thus any entity "owning" a considerable share, even in their own minds alone, can possibly exert such influence. You would not even have to recruit any future terrorist, you just have to check your data base, and perhaps inject "moles" to nudge the group. The thought is terrifying!

Posted by Terry McGarty at [2:39 PM](#) [0 comments](#) 

Labels: [Commentary](#), [Russia](#)

SUNDAY, MAY 24, 2009

CHINA AND CAP AND TRADE

As we have been discussing the HR 2454 Cap and Trade Bill, the Markey-Waxman piece de resistance, we read in [China Daily](#) the following:

"China's coal output rose 6.8 percent year on year to 827 million tons in the first four months of 2009, an industry association official said in Beijing Friday.

The global economic slowdown has taken a toll on the coal industry, Jiang Zhimin, deputy director of the China Coal Industry Association, said at the 5th China Energy Strategy Summit in Beijing.

"Weak demand has resulted in a clear trend for overcapacity," he said.

The industry faces challenges of eliminating outdated production facilities and the building of more modern and large coal mine groups, Jiang said at the two-day event, which ends Saturday.


Around 70 percent of the 80,000 coal mine producers in China are small. They each have an annual production of 300,000 tons, Jiang announced at the two-day event which ends Saturday.

China has 24 coal mine groups which each have an annual output of more than 10 million tons.

In 2008, those groups produced a total of 840 million tons, he said.

The Chinese government has been encouraging mergers and acquisitions to build more large mining groups for efficiency and work safety."

The question one might ask is if the US destroys its coal industry and China continues to grow as they have stated above, what is to become of the US.

Posted by Terry McGarty at [5:06 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#), [China](#)

POSNER AND THE CARB TAX

I read [Richard Posner's](#) blog today regarding the calorie or carb tax. He states:

"I am skeptical, because the author ignores the possibility of substituting untaxed sugar-sweetened foods or beverages. People who crave sugar will find no dearth of substitutes for sugar-sweetened sodas. Moreover, most consumers of these sodas are not and never will be obese. They may well be overweight, but all that that means is that they are heavier than the "ideal" weight calculated by physicians....

There are many obese Americans, in the sense of ones who are grossly overweight (with some being morbidly obese), and we should consider whether society should be concerned with obesity if not with mere overweight. Obesity impairs health, and, in most segments of the population it

diminishes social and professional success as well, and so it can be regarded as self-destructive behavior. Some of it is involuntary....

As to whether by increasing obesity the sale of sugar-flavored sodas imposes costs on other people besides the buyers, the evidence is mixed. Obese people have more health problems than the non-obese and hence higher annual medical costs; they also lose more time at work because of illness. Their poorer health increases the medical costs of other people in their insurance pools and reduces the productivity of their employers, assuming realistically that employers cannot selectively reduce the wages or health benefits of their obese employees. Cutting the other way, obese people have a reduced life expectancy, and the shorter a person's life, the less an above-average annual cost of medical care translates into an above-average total (lifetime) cost. But assuming nevertheless that the net social costs of obesity are positive, this would be a ground for arguing for taxing obesity, but such a tax would be unacceptable as well as cruel. ..."

Unfortunately, as much as I admire Judge Posner, he should at least deal with facts, and when he opines on something, he should first at least try to deal with facts. We have shown in various writings about [Type 2 Diabetes](#) that:

1. It costs over \$275 B today of our total \$2.5T health care costs. That is 12% of the total costs.
2. It will grow to 25% by 2020.
3. Type 2 Diabetes in 95% of the cases is due solely to obesity. Keep the BMI at 22.5 or lower and you keep the HbA1c at 5.0 or lower and no Diabetes! That means keep the weight down.
4. Diabetes is a carbohydrate disorder. It is not a fat or protein disorder. Thus we want low carbs, and our old friend Pigou had this tax idea, tax things we do not want people to do, like smoking, and it works! Just look a lung cancer in males. It is down 50% from twenty years ago! High taxes on cigarettes. So tax carbs, not just soda. Education may help, but how many physicians have "educated" their patients to lower BMI, less than 0.1%!


Thus if the good Judge had the slightest chance to examine the facts he would see that taxing is not only a good plan it is the only one we know works!

Robert Solow of MIT wrote a critique of the most recent Posner book in the [New York Review of Books](#). Solow is a Nobel Prize winner and I have come to know and respect him personally. He states:

"Judge Posner evidently writes the way other men breathe. I have to say that the prose in this book often reads as if it were written, or maybe dictated, in a great hurry. There is some unnecessary repetition, and many paragraphs spend more time than they should on digressions that seem to have occurred to the author in mid-thought. If not exactly chiseled, the prose is nevertheless lively, readable, and plainspoken. The haste may have been justified by the pace of the events he aims to describe and explain. Posner has an extraordinarily sharp mind, and what I take to be a lawyerly skill in argument. But I also have to say that, in some respects, his grasp of economic ideas is precarious. In his book on public intellectuals, Posner blames the decline of

the species on the universities and their encouragement of specialization. I may be acting out that conflict. Remember that even hairsplitting is not so bad if what is inside the hair turns out to be important."

As Posner's economics grasp may be precarious to Solow, his grasp of medicine is almost totally lacking to me!

Posted by Terry McGarty at [3:56 PM](#) [0 comments](#) 

Labels: [Health Care](#)


REINTRODUCE THE POOR HOUSE!

When I was young, my grandmother, who was a head of the Socialist Party in New York, and ran for US Senate in 1916, a rather strong move for a woman at the time, had me read Dickens in toto as a young child. I confess that I hate Dickens, really hate Dickens. Dickens showed the evil in the Poor Houses in England and the evils in the English class society. But when I read the self sorrow on the [New York Times Economics reporter](#) in the paper last week and then his appearance with his second wife on PBS last Friday I thought that it may be wise to reintroduce the Poor House.

You see what the Poor House does is take those who get credit and then cannot repay it and place them in the Poor House, where they are housed and fed and they work for the state until such time as their family repays their debts. No bailout, just work and the creditors get their money back. Simple plan, we the good payers of our debts are charged nothing and the dead beats get to work off their debt with the help of their family. The family learns a valuable lesson, gets shamed, and society has established a good teaching exercise for everyone else. We also get to employ lots of Poor House help thus adding to the employment base.

Now this reporter, for the New York Times, is supposed to report on economics. It is like a avowed atheist being the reporter for the Vatican, but alas it is the New York Times, all the news that is fit to print and such. This may explain why they report the way they do on all other such items of interest. It is like having a CFO of your company having declared personal bankruptcy! I had one of those once, he never told us, just as we were trying to go public. I was a board member and the shock sent us all slightly swinging! Integrity says you cannot not do that. You can say you can swim if you cant's as long as you never go near the water! If you are on a ship and your life and others depend upon that representation then you have a problem, of ethics, to say the least. People have a reliance on your representations. Thus the erstwhile economics reporter, and perhaps many others at the old grey lady may want to recheck their bona fides!

But seriously, the Poor House is a great idea! One could imagine Bernie Madoff going there after prison!

Posted by Terry McGarty at [3:36 PM](#) [0 comments](#) 

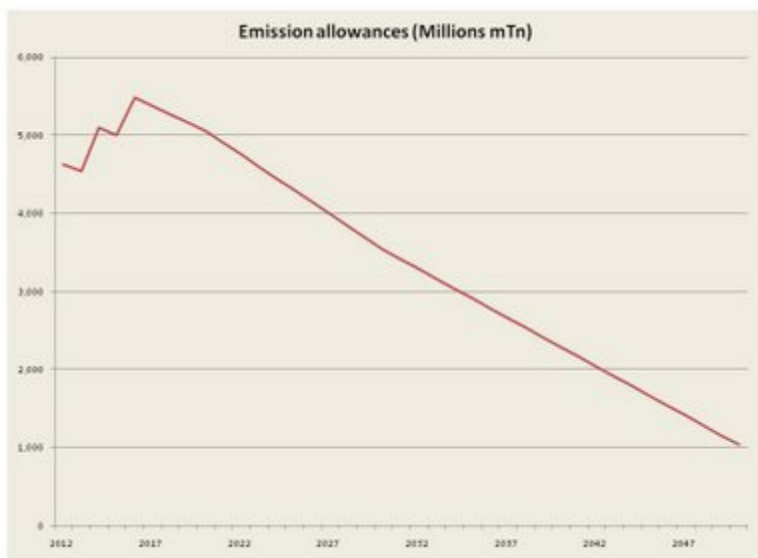
Labels: [Commentary](#)

TUESDAY, MAY 19, 2009

HR 2454, THE BILL FROM HELL!

[HR 2454](#) is what was the Cap and Trade Bill. Except now it is not cap and trade, it is allowances and offsets. We will try and give a simple explanation on how this works. We will try, since it is some 932 pages long and it is one of the most convoluted bills ever written. But I believe what it says is really scary.

First it established a decreasing cap on emissions. This is shown below. It takes 2005 as a base year and then starting in 2010 it gets to 17% of 2005 by 2050. The chart shows a slight increase as the program kicks in and then drops linearly.



Then it also throws into the total mix all other emissions and not just energy. The weights on these are in the following Table. This Table is a real concern since it shows that we will have possibly a significant amount taken from the cap from sources which may be hidden all over the industrial landscape from cement manufacturing to cattle and dairy farmers. Just look at

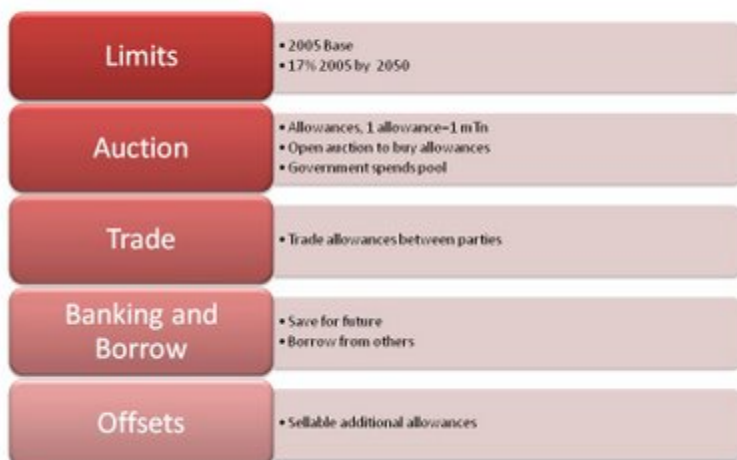
methane, which is weight 25 times that of CO₂. Cows generate massive amounts of methane as do garbage dumps. Will they fall within the cap! The Bill seems to state that clearly.

Other Emissions

Greenhouse gas (1 metric ton)	Carbon dioxide equivalent(metric tons)
Carbon dioxide	1
Methane	25
Nitrous oxide	298
HFC-23	14,800
HFC-125	3,500
HFC-134a	1,430
HFC-143a	4,470
HFC-152a	124
HFC-227ea	3,220
HFC-236fa	9,810
HFC-4310mee	1,640
CF ₄	7,390
C ₂ F ₆	12,200
C ₄ F ₁₀	8,860
C ₆ F ₁₄	9,300
SF ₆	22,800
NF ₃	17,200

The process works as we show in the following Table. Let us describe each step.

Processes



1. First there are the Limits. The limits are set for each year and each generator of CO₂ or other emissions must get an allowance for their CO₂ or equivalent production. An allowance is equal to 1 mTn of CO₂. If one generate 2000 mTn then one needs 2000 allowances.

2. Then there are allowances which are set out to the original generators and to other entities or beneficiaries. We will explain this in detail shortly. An allowance equals 1 mTn CO₂.

3. Then allowances are auctioned off, some are outright given, but the majority are auctioned, with the Government being the holder of these allowances which the Government then chooses how to distribute them to its selected recipients in a set of pools which we shall define shortly. The auction process is described in the Bill in one place as a highest bid auction. In other places it is something else. In this model we have 40% of the cap being "given" to the existing suppliers and they must then bid for the remaining 60%. The bidding is done by some auction process run by the Government with the Government then allocating the proceeds in some manner to the beneficiaries as defined in the bill. As we have stated before based upon evidence from FCC auctions, this process may have a great number of problems.

4. One can trade these allowances. It is not clear what trading really means since an allowance is an allowance. The allowances are fungible.

6. Or one can bank them for a latter time,

7. Or one can borrow them from others to be returned at a latter time and some form of interest charged.

8. There are offsets of between 2B mTn and 3.5 mTn which the Government in some manner will allocate if there are problems. This seems to mean if the industry just cannot meet the obligations the Government can use the offsets in some manner, also be auctioned off but now the Government is the beneficiary.

9. The Government controls all of this process. The Government sets the limits, allocates the allowances, controls the offsets, collects the funds via the auctions and then determines who the beneficiaries are. The Government does of this via a new and expansive organization with a new and powerful czar.

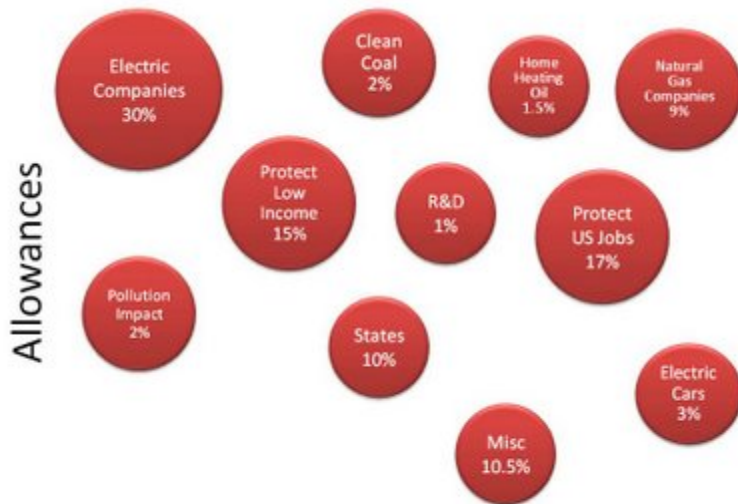
Now the pools of allowances are shown below. They each have a percentage of the total for the year in which they are allocated. The primary energy companies, electric, gas and heating oil get about 40% of them and they then need to buy more from the pool which is controlled by the Government which in turn redistributes the money to the beneficiaries of the specific pool from which they were bought.

Note in this collection of allowances that the beneficiary of an allowance pool is as specified. Thus the electric utilities have 30%. However there are state beneficiaries, electric car beneficiaries, R&D beneficiaries, low income beneficiaries. The list goes on. This is a true collection of pork redistribution because it is the Government who decides who these beneficiaries are.

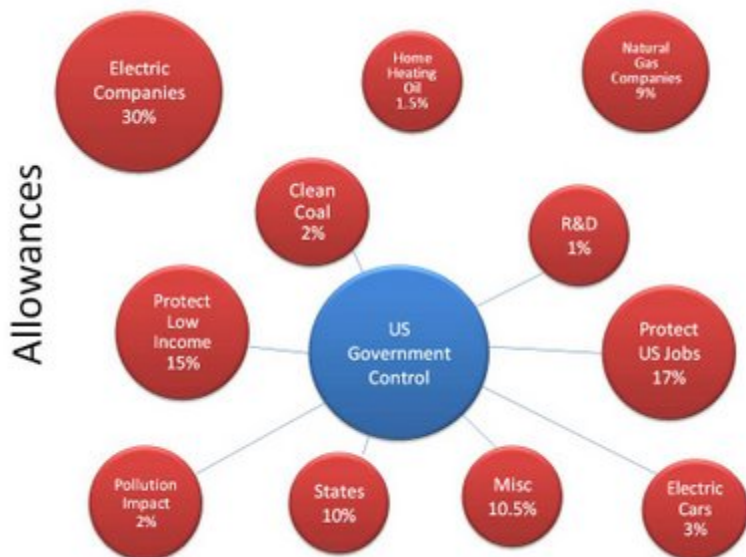
For example there is also an added tax for electricity to do the following:

*"Section 114, Carbon Capture and Sequestration Demonstration and Early Deployment Program: Establishes a program for the demonstration and early deployment of carbon capture and sequestration technologies. Authorizes fossil-based electricity distribution utilities to hold a referendum on the establishment of a **Carbon Storage Research Corporation**. If approved by entities representing two-thirds of the nation's fossil fuel-based delivered electricity, the Corporation would be established and would be authorized to collect assessments from retail customers of fossil-based electricity. The Corporation would be operated **as a division of the Electric Power Research Institute** and would assess fees totaling approximately **\$1 billion annually**, to be used by the Corporation to fund the large-scale demonstration of CCS technologies in order to accelerate the commercial availability of the technologies."*


That means \$1 Billion per year ad infinitum for EPRI to "study" carbon issues! You cannot make this up. EPRI is the same group which brought you the blackouts and the grid we have today! Why choose EPRI? One wonders who is being "paid off" by this selection. This is not a free market process, it is not entrepreneurial, in fact it is about as far from the way things should be done as one would ever think! Remember that the electrical power industry has been the intellectual backwater of electrical engineering for over fifty years!



The details of the pool allocation and beneficiaries are shown in the Figure below. This is a very key Figure in interpreting the Waxman-Markey plan. Remember it was Markey who brought us the 1996 Telecom Act. Now look at the telecom market! The beneficiaries are Government handouts to who they want to influence. Take the electric car. DoE has been spending billions on electric cars since the 1970s! Do we have anything? No. It is DoE! You cannot make this stuff up!




It is necessary to reduce this proposal to simple pictures. The words in the Bill are incomprehensible to mere mortals. Having gone through hundreds of these before I have a somewhat better glimpse but there are thousands of little traps in the Bill played there by hundreds of lobbyists. The conflicts will eventually play out in our courts and the result will be dramatic destruction of our economy!

Posted by Terry McGarty at [5:52 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#)
[POOH, POOH, PIGOU](#)

The announcement today by Obama regarding the change in mileage standards for autos in my opinion makes sense. After all I drive a Honda so I have already taken the first step. The Republicans in general seem to support a "market approach" of taxing gasoline and then giving it back in a tax payback in the withholding taxes. The problem with the Republican proposal is minion. They are:

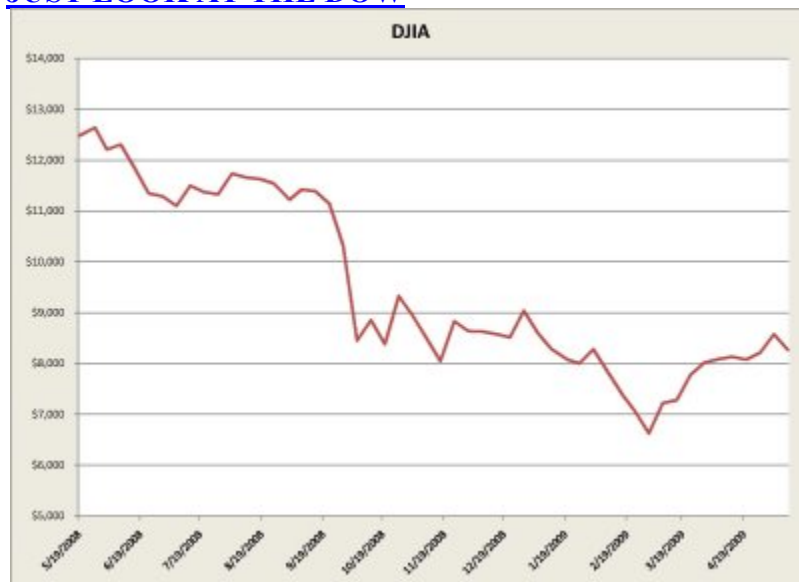
1. Once the Government gets your money you can be certain you will never get it back. There is thus a fundamental flaw in the principle they espouse.
2. What of those not paying taxes such as the poor and the retired. They will get no rebate and in fact they will be taxed disproportionately.
3. There is a class of drivers with substantial discretionary spending who will buy their Hummers and Escalades and drive the gasoline up and out their exhaust. This group, and it is not a small group, will just dominate gas usage. They could care less and besides they will be getting their money back if we believe the Republican acolytes. Small chance.
4. People will buy what is available. Thus if one gets to buy only 35 mpg and greater vehicles then the system works. Clearly Honda, Toyota and the other imports are already on the way there so they care less. However the Detroit trio are the ones with the problems. They need the big muscle cars because their labor costs are so high. They cannot bear the small autos. How this will work is unknown but since Obama runs two of the three there is no longer any complaints.
5. A tax is always regressive. A tax just adds the the burden of taking money from the economy and from entrepreneurs who can create wealth and value. The current administration has taken the position of wealth transfer and perhaps wealth and value destruction by absorbing funds from the economy and adding to the overall deficit and debt burden. However in this case if we can stay away from a tax and only sell what makes sense then this is the better solution.

Posted by Terry McGarty at [4:10 PM](#) [0 comments](#) 

Labels: [Economy](#)


MONDAY, MAY 18, 2009

[JUST LOOK AT THE DOW](#)



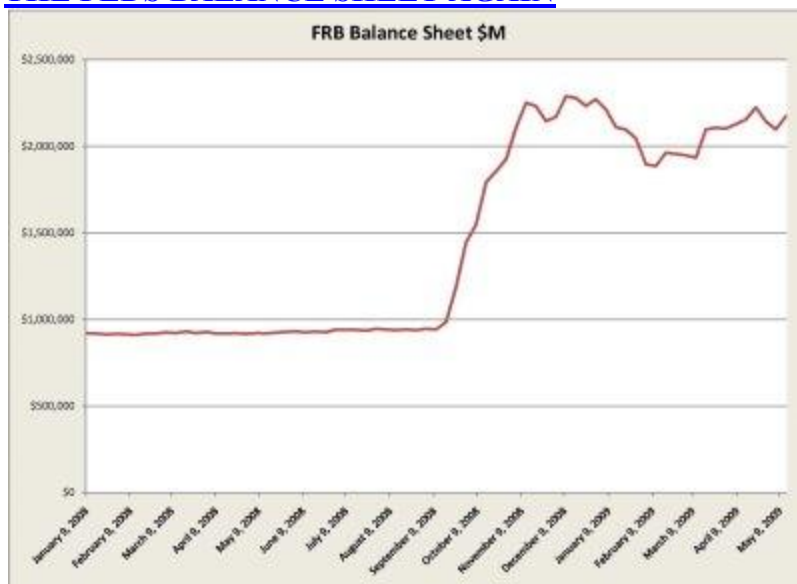
The DJIA from a year ago to now is shown in the above Figure. As much as we may be pleased by the significant rise in the Dow we must look at it a year ago, after Bear Stearns had already dies and when Lehman was nearing its end and when the mortgage problems were well know and before the current Administration.

Things have not really gotten that much better in the short term. In fact we are basically where we have been since the collapse. Things are not only not better but they are not getting better. Yet they are not getting worse which may be a small advantage. It is strange to see many people viewing the market as improving. One must look backward and see little if any progress.

Posted by Terry McGarty at [4:21 PM](#) [0 comments](#) 

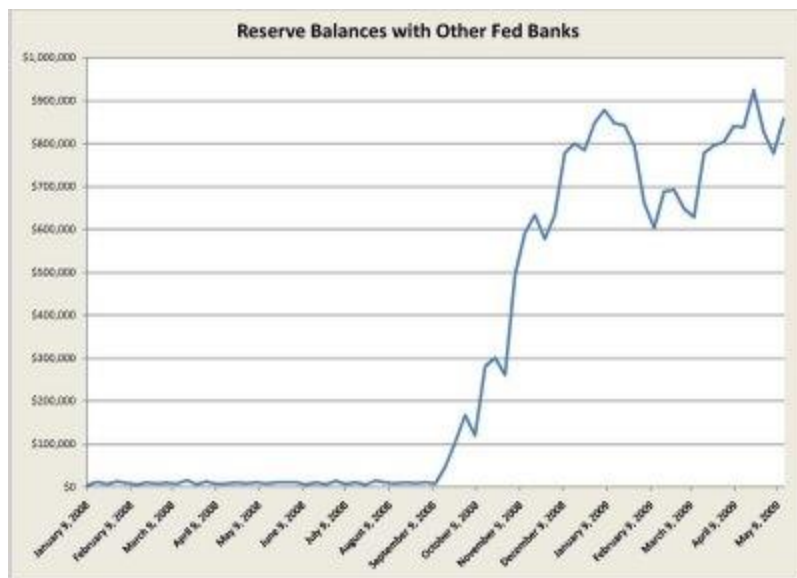
Labels: [Economy](#)


[THE FEDS BALANCE SHEET AGAIN](#)



The figure above is the assets on the Fed's balance sheet. We have discussed this before and we see it beginning to rise again. This as we have argued given the ratio of M2 to assets is dramatically lower than as before bodes poorly for controlled inflation.

However if we look at the second element which is the reserve balances to other Fed banks as shown as follows we see where the growth has occurred. The Fed is buying treasuries at an ever escalating rate as well.



Posted by Terry McGarty at [4:07 PM](#) [0 comments](#) 

Labels: [Economy](#)

[AN OBSERVATION ABOUT ECONOMISTS](#)

I read a [press release from MIT](#) today discussing how the failing economy is providing economists with a wealth of new topics for theses and class discussion. The article states:

"Economists recognize how painful and wrenching the experiences of an economic downturn like the one we are currently experiencing can be for households and firms, but they also find that times like this create a lot of new research questions," says James M. Poterba, the Mitsui Professor of Economics and president of the National Bureau of Economic Research."


The article also states:

"This is intellectually fascinating for many of us," says Ricardo Caballero, head of the Department of Economics and the Ford International Professor of Economics, describing the market shocks and subsequent policy moves of the past six months. "My financial wealth has declined, but my human wealth has increased."

The recession may be prompting more people to seek graduate degrees in economics or MBAs. Applications to Sloan last fall rose 28 percent from the previous year, while the Department of Economics saw a more than 10 percent increase in graduate applications last fall and expects applications to jump again this year."

Could you imagine if all the bridges started to fall or all the computers started to crash and the EECS or CE professors taking glee in the fact that there would be new theses available. The truth of the matter is that they have no clue from the outset! Economics is not at the stage that it is anywhere near a science or engineering discipline, there are no true verifiable facts, and at best we can see students trying to discern what happened with tools and techniques which failed to predict what was to happen in the first place and when applied have also failed to have any deterministic effect.

I guess they just have no shame! But I also guess that there will just be many more produced. It is like investigative journalists...after Watergate everyone wanted to be one.

Posted by Terry McGarty at [2:26 PM](#) [0 comments](#) 

Labels: [Economics](#)

SUNDAY, MAY 17, 2009

[ELECTRONIC MEDICAL RECORDS AND ITS POLITICS](#)

[Russell Roberts](#) in Cafe Hayek wrote today regarding a Washington Post article on how the EMR was politically and interest driven. Roberts states:

"...the Washington Post deserves to be read in its entirety. It explores how implementing electronic records became part of the stimulus bill. Not because it's a great idea but because the people who would profit from it lobbied like crazy. It may be a great idea. Suffice it to say that the evidence is highly biased."

[The Post](#) states:

"A Washington Post review found that the trade group, the Healthcare Information and Management Systems Society, had worked closely with technology vendors, researchers and other allies in a sophisticated, decade-long campaign to shape public opinion and win over Washington's political machinery.

With financial backing from the industry, they started advocacy groups, generated research to show the potential for massive savings and met routinely with lawmakers and other government officials. Their proposals made little headway in Congress, in part because of the complexity of the issues and questions about whether the technology and federal subsidies would work as billed.

As the downturn worsened last year, advocates helped persuade Obama's advisers to dust off electronic records legislation that had stalled in Congress -- legislation that the advocates had a hand in writing, the Post review found.

Their sudden success shows how the economic crisis created a remarkable opening for a political and financial windfall: the enactment of a sweeping new policy with no bureaucratic delays and virtually no public debate about an initiative aimed at transforming a sector that accounts for more than a sixth of the American economy"

The post continues:

"Middleton said he provided many of those details.

"I sent them a LOT of stuff, many papers and most of the reports. I probably spoke or communicated with David Blumenthal, David Cutler (the health economist on the team), or Dora Hughes about every other week during the heat of the campaign," Middleton said in an e-mail. In an e-mail, Blumenthal wrote:

"It would be flatout wrong to say Blackford Middleton was a key campaign adviser or had an official role on the campaign. He was one of many people the campaign reached out to, and I personally had minimal contact with him.""

It should be noted that David Blumenthal is the brother of the Attorney General of the State of Connecticut, not that such a relationship would in any way be used to anyone's advantage.

Finally the Post states:

"Under the stimulus package, Medicaid and Medicare providers will receive incentive payments to offset the cost of electronic health record systems they buy. No one knows for sure how widely the technology will be adopted, and no one knows for sure whether those systems will yield the expected savings, specialists said.

Another open question relates to the development of technical standards that define what equipment qualifies for stimulus payments. Some critics contend those standards could choke off innovation and funnel profit to certain vendors, without necessarily improving care.

To qualify for federal funding, the technology must enable "meaningful use" by doctors and others, according to the legislation -- a standard that policymakers, researchers, vendors and others are struggling to define now.


Joseph Antos, a health-care policy specialist who has examined the legislation, said the risks of the technology plan are high because of the haste with which it is being implemented and the special interests seeking to profit from it.

"This is the real way things get done," said Antos, of the American Enterprise Institute, a Washington think tank. "The stimulus bill looked like a bonanza to an awful lot of people."

Let us again make a few observations:

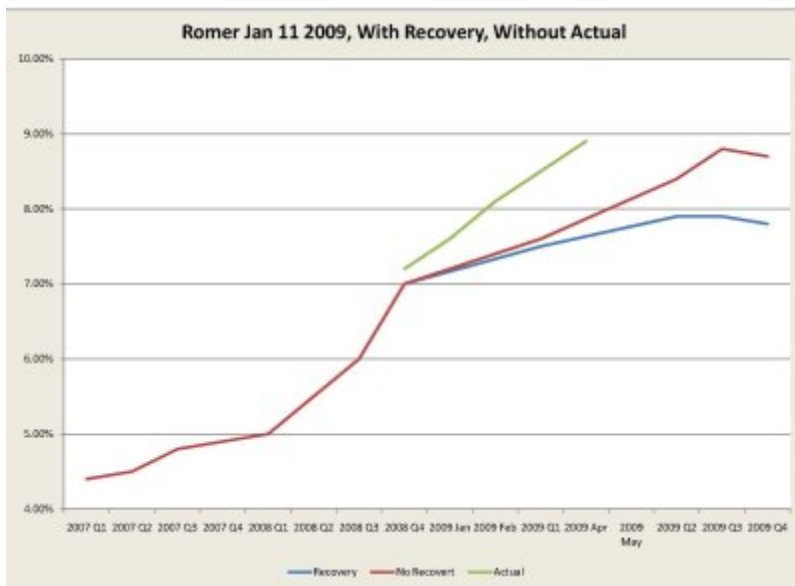
1. The EMR is a complex concept, and it must include searchable and secure complex multimedia file elements. I wrote about and developed some of the preliminary systems in the late 1980s and have returned to it frequently. There is no simple web based interface because entry of data is from a plethora of sources, including the physician.
2. The Government plan unfortunately is based upon the input of a few. This is a classic Government project. One need look no further than the FAA and see that we are fundamentally using an air traffic control system designed in the 1950s! Imagine what a Government system will do to the EMR. Again I have argued that an IETF model used in the Internet is the way to go. If all else fails listen to the customer. As much as I greatly respect my former Harvard colleagues, the engineer side of me is always concerned about the details.
3. The goal is laudable and ultimately the system is needed. However the stress to incorporate a system like this as a "stimulus" forced via strong lobbying will lead to a disaster and loss of money and worse generating lack of future acceptance of such a system. I argue that in the short term it will actually add to the costs of a physician's practice, which of course will result in a reduction of a physician's compensation and the driving of truly competent physician's into a practice not accepting of any insurance, especially Medicare. There will be a new set of "medical services" plans for those with money and not using Medicare and especially not using the new proposed Government plan.

Again one must always be aware of the unintended consequences. Washington does strange things to people's egos. As Wall Street generated Masters of the Universe, Washington creates gods! It becomes the Olympus on the Potomac.

Posted by Terry McGarty at [2:33 PM](#) [0 comments](#) 

Labels: [Health Care](#)

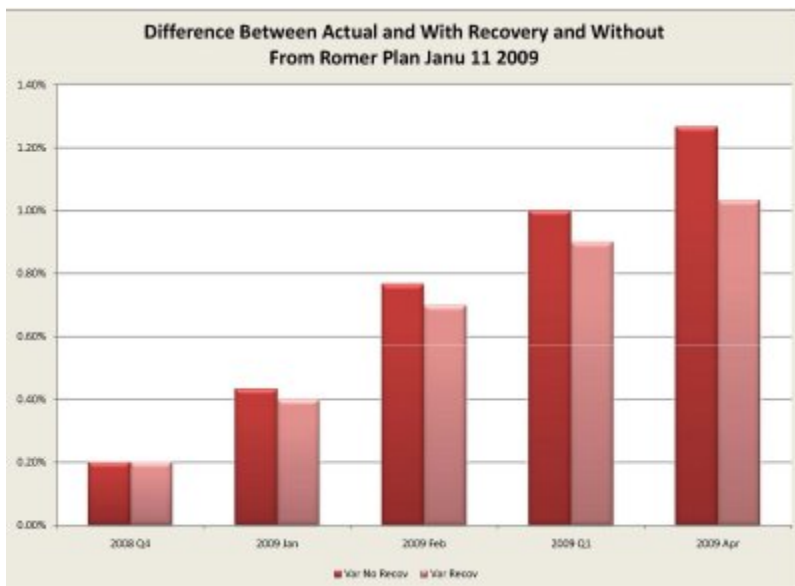
[**THE UNEMPLOYMENT CHART**](#)




The above chart is the plotting of Christine Romer's projections of unemployment with and without the stimulus plus the real data.

I am reminded of when I ran my own companies, every Monday morning I had directors call me to see how we did last week. One from London was akin to a hemorrhoid in his call from London which was on my phone blinking away along with a half dozen emails. If I failed to meet or exceed the targets then I was justifiably called on the carpet to explain. By the way some of this occurred during the telecom meltdown when we frankly did not know how bad the storm really was.

However it is clear that Romer was way off base! If she were head of sales she would have been sacked by April 15th. You just cannot be that far off. However this is economics, macroeconomics where two things coexist; unfounded opinion and no basis in any facts which are reproducible.



The second chart shows how far they are off in actual percent differences by month. We will follow this data as we progress along this so-called recovery plan.

Posted by Terry McGarty at [10:18 AM](#) [1 comments](#) 

Labels: [Economics](#)

WEDNESDAY, MAY 13, 2009

[VERIZON: A GREAT MOVE OR THE GREATER FOOL THEORY IS ALIVE AND WELL](#)

In 2002 we published a paper called the [Imminent Collapse of Telecom](#), after a request from White House Staff. It was looking at several factors; the loss of copper access lines to cable telephony using VOIP, the growth of wireless and the impact of broadband. We were right, and usual we were a few years early and two financial collapses early.

Then in September 2007 we wrote a report on how Verizon [would finance their FIOS](#) properties and this was through a sale of central offices. A month ago we remarked how Verizon was lucky to sell of the New England properties.

Today we see Verizon has found a bigger fool to buy the remainder of its junk, namely old un-upgradeable copper! Namely the [sale to Fronteir](#). The release states:

"The operations Frontier will acquire include all of Verizon's local wireline operating territories in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin. In addition, the transaction will include a small number of Verizon's exchanges in California, including those bordering Arizona, Nevada and Oregon."


It continues:

"As of the end of the first quarter, Verizon had approximately 35.2 million wireline access lines in 25 states and the District of Columbia. This includes Verizon's wireline operations in jurisdictions that will not be part of the transaction: Connecticut, Delaware, District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Texas and Virginia, plus most of California."

This in my opinion is a real greater fool action and an absolutely brilliant move by Seidenberg the absolute genius in deploying a strategy which we proposed seven years ago! It is like that scene from Patton where he wins his battle against Rommel's troops and says "you SOB I read your book..." Did Ivan read my book?

Now what problems remain? Vodaphone and its 45% interest. Analysts have been commenting on Verizon's dividend problem because they now have to pay from dividends out of wireless. Again, and I love to do this, the analysts are just plain idiots! My opinion. Look at what just happened. The declining junk was pushed aside and made someone else's problem and the remaining markets are FIOS triple or even quadruple play markets. So what does Verizon do, it buys Vodaphone in what may be a hostile bid.

Hedge fund guys, watch the dust! At least that is my guess, it is not in any way a recommendation, you take your own risks!

Posted by Terry McGarty at [6:36 PM](#) [0 comments](#) 

Labels: [Broadband](#)

[GOVERNMENT CONTROL OF SALARY: GOOD OR BAD?](#)

There is a significant amount of coverage of the proposed control of salaries and overall compensation in the financial service industry by the Government. The reports from the [Wall Street Journal](#) to the [New York Times](#) stress the intent to match compensation and responsibility.

The Journal states:

"Administration and regulatory officials are looking at various options, including using the Federal Reserve's supervisory powers, the power of the Securities and Exchange Commission and moral suasion. Officials are also looking at what could be done legislatively. Among ideas being discussed are Fed rules that would curb banks' ability to pay employees in a way that would threaten the "safety and soundness" of the bank -- such as paying loan officers for the volume of business they do, not the quality. The administration is also discussing issuing "best practices" to guide firms in structuring pay."

The Times remarks:

"Among the ideas under consideration are incorporating compensation as a "safety and soundness" concern on official bank examinations as well as expanding the existing regulatory powers of the Securities and Exchange Commission and Federal Reserve to obtain more information regarding compensation. The policymakers are also expected to publish formal guidelines regarding Wall Street pay."

Let me take a brief look at how compensation works in other industries.

Insurance Sales: The classic plan is that for the old insurance salesperson. They go out and sign up some person for a life insurance plan, say whole life. This is a very lucrative policy for the company but the salesperson gets paid over time if and only if the person who purchased the policy still keeps it and pays their premium. If the customer drops the policy then the salesperson gets nothing.

Telecommunications Services: This is an area in which I have considerable experience having run these businesses for years. The sales person gets a percent of the gross revenue per year for say five years. The customer must stay with the company and there is a motivation for the salesperson to both get a good customer and to keep the customer. The sales person may get 2% per year of the gross revenue for five years. If the customer goes away then the revenue goes away.


Now let us look at investment banking. Let us look at say an IPO. The bank prepares the S1 filing and gets a payment at closing of the public offering but takes no responsibility as to

whether the company and the offering make an economic sense. They may very well be selling junk. The perpetrators of this sale upon the public get their money and move on. If compensation in the financial world matched that of the rest of the world then the bankers would be compensated over a period of time if and only if the company were successful.

Now move to mortgage brokers. Why is their compensation not like an insurance sales person? Because the mortgage is fungible, it can be sliced and diced. The sales person gets their money and runs. Making compensation run contemporaneously with the product sold would improve the situation especially since that is what works in most of the rest of the world.

The issue is what role does the Government play in this process. It appears that the current Administration wants to use its heavy hand and added to that is the Congress especially under Congressman Frank, want to use legislation to "punish" Wall Street. Beware the un-intended consequences.

There are many fine examples, models, precedents for a balanced commission and remuneration. They should be followed and fiscal policy should be used, not the heavy hand.

Posted by Terry McGarty at [4:45 AM](#) [0 comments](#) 

Labels: [Commentary](#)

TUESDAY, MAY 12, 2009

[AN INTERESTING DEVELOPMENT: VIRTUAL COLONOSCOPY](#)

The [U.S. Centers for Medicare and Medicaid Services](#) toady announced that [Medicare would not pay for virtual colonoscopy](#). Specifically they state:

"The evidence is inadequate to conclude that CT colonography is an appropriate colorectal cancer screening test under §1861(pp)(1) of the Social Security Act. CT colonography for colorectal cancer screening remains noncovered," the May 12 memo states.

The decision comes as a blow to advocates of CTC, who held out hope that the agency would reverse its proposed February 11 decision to [deny reimbursement for screening CTC](#) based on the body of evidence presented to it since the analysis of CTC as a screening tool began last year."

The opposition states:

"Dr. James Thrall, chair of the American College of Radiology Board of Chancellors, was even more emphatic.

"Make no mistake: If it stands, this CMS decision not to pay for CT colonography will cost lives. More than 140,000 Americans are diagnosed with colorectal cancer each year. Nearly 50,000 of them die due to late detection. How can CMS ignore the fact that people are dying because they do not want to have the tests that are currently covered?" Thrall said in a statement to the American College of Radiology.

"For CMS to turn its back to a technology that can attract more patents to be screened and save countless lives is deeply concerning," he continued. "CMS should reverse this determination immediately or Congress should step in and vote to mandate coverage of CTC.""


I knew Dr Thrall from Mass General many years ago and he is a highly respected radiologist. This may seem like an inside baseball issue but it does raise many questions as we see Health Care go through many changes.

The [New England Journal of Medicine](#) has reported five years ago:

"CT virtual colonoscopy with the use of a three-dimensional approach is an accurate screening method for the detection of colorectal neoplasia in asymptomatic average risk adults and compares favorably with optical colonoscopy in terms of the detection of clinically relevant lesions."

However there is a battle between other specialties and radiologists as to who will "own" the patient. This argument in many ways is centered around that issue. Does this cause the patient any increased risk. Unlikely since the standard procedure with an endoscopist leads to the ability to immediately remove lesions. In addition a competent endoscopist can detect sessile lesions with greater accuracy and it is those lesions that often are missed and also are the most lethal.

Thus is this a decision to control medicine or to improve care. I believe the evidence is the latter. Fear not from the Government, at least on this one.

Posted by Terry McGarty at [2:44 PM](#) [0 comments](#) 

Labels: [Health Care](#)

[THE NEW YORK FED HAS A SIMILAR CONCERN](#)

The New York Fed published a paper today on [Precautionary Reserves and the Interbank Market](#) which looks at the problem of banks hoarding the Federal funds provided them over the past few months. In the paper they state:

"Our interest lies in studying the precautionary behavior of banks facing liquidity shocks and credit constraints, and how this affects the interbank market equilibrium. To achieve this, we develop a model with payment liquidity shocks, credit constraints and limited interbank market participation. Banks rationally hold large precautionary balances intra-day and overnight, which may be described as hoarding, and which leads to volatility in the interbank market rate. We show that extreme outcomes that occur during a crisis may be in part explained by our general model of interbank market frictions. The model also gives broad theoretical results about the effects of such interbank lending frictions during non-crisis times."

As we have shown in our previous entry the ratio of M2 to Federal Balance Sheet assets is usually 45:1 but the new ones due to hoarding are 15:1. This is bad news for many reasons. First the funds are now going out to the market for financing. Second, and this is more serious, when the banks loosen up, the M2 will explode and given the simple relationship between M2 and inflation we would anticipate a rate of inflation well in excess of 12-15% per annum, well above the 2-3% we see now. Thus the Fed's attempt to stave off deflation will result in a strong potential for massive inflation.


Although this paper is quite analytical, it does show that there is concern.

The worst part, however, is the gross perceived incompetence of the Fed's oversight as exemplified in the presentation of their Inspector General to Congress. Chairman Bernanke has a duty to provide transparency on this issue which seems to be lacking.

Further what I see is that the many economists seem to be missing this simple causal relationship between monetary policy and the attempts to drive liquidity in the system.

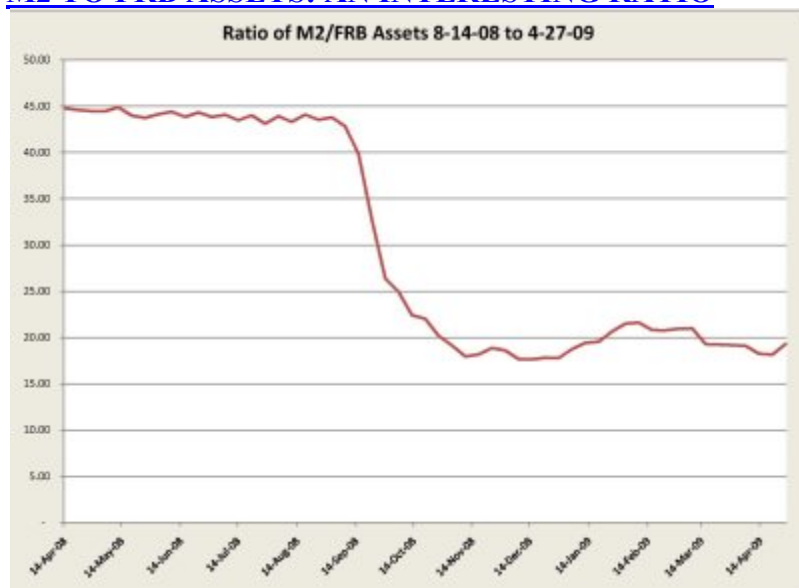
The question is; why are the banks hoarding. In my opinion it seems to be simple, fear of the current Administration taking over a bank which it in its sole opinion is not doing well, at least as they define it in the "stress test" analysis. The unintended consequence of the "stress tests" is the spreading of fear about the banks own balance sheets and the resulting hoarding of cash and in turn the resultant explosive impact of impending inflation!

The data is now clear and unfortunately no one is looking forward!


Posted by Terry McGarty at [12:32 PM](#) [0 comments](#) 

Labels: [Economy](#)

[M2 TO FRB ASSETS: AN INTERESTING RATIO](#)



This chart shows the ratio of M2 to FRB assets. The observations here are quite interesting. The Fed has pumped money into the banks and the money has not come out the other side. The normal ratio, historically speaking, is a 45:1 ratio. We are now seeing an almost 15:1 ratio. This means that banks are hoarding the money put in, as evidenced by the lack of small business credit, and secondly when the money does ever start to flow that there will be the potential for massive inflation. The more we look at this ratio the more we believe that it is a useful metric to anticipate a functioning banking system and the risk of massive inflation. Despite the current Administration's rhetoric regarding what they are doing for small businesses it seems clear that there really is little if anything being accomplished. The flow of the stimulus money from the Federal Government to the states, without any sense of accountability, will result in a great number of tales of waste, fraud, and outright theft.

Posted by Terry McGarty at [9:44 AM](#) [0 comments](#) 

Labels: [Economy](#)

[THE \\$9.7 TRILLION COMMITMENT](#)

[Bloomberg in February](#) posted a story which stated:

"Feb. 9 (Bloomberg) -- The stimulus package the U.S. Congress is completing would raise the government's commitment to solving the financial crisis to \$9.7 trillion, enough to pay off more than 90 percent of the nation's home mortgages.


The Federal Reserve, Treasury Department and Federal Deposit Insurance Corporation have lent or spent almost \$3 trillion over the past two years and pledged up to \$5.7 trillion more. The Senate is to vote this week on an economic-stimulus measure of at least \$780 billion. It would need to be reconciled with an \$819 billion plan the House approved last month"

Bloomberg went on to state that they were litigating under FOIA to obtain the details:

"Fed Sue: Bloomberg requested details of Fed lending under the Freedom of Information Act and filed a federal lawsuit against the central bank Nov. 7 seeking to force disclosure of borrower banks and their collateral. Arguments in the suit may be heard as soon as this month, according to the court docket. Bloomberg asked the Treasury in an FOIA request Jan. 28 for a detailed list of the securities it planned to guarantee for Citigroup and Bank of America. Bloomberg hasn't received a response to the request..The Bloomberg lawsuit is Bloomberg LP v. Board of Governors of the Federal Reserve System, 08-CV-9595, U.S. District Court, Southern District of New York (Manhattan)."

The in a Congressional hearing [Representative Alan Grayson](#) questioned the Inspector General of the FED, depicted in detail on [YouTube](#), which demonstrated the near absolute incoherence of Federal employees, especially political appointees. We have shown the FED balance sheet a few days ago and how it has grown almost \$2 trillion since then end of last year. The question is where are the commitments on the balance sheet, and the answer is they are "off balance sheet" but they are just as firm as if they were on balance sheet.

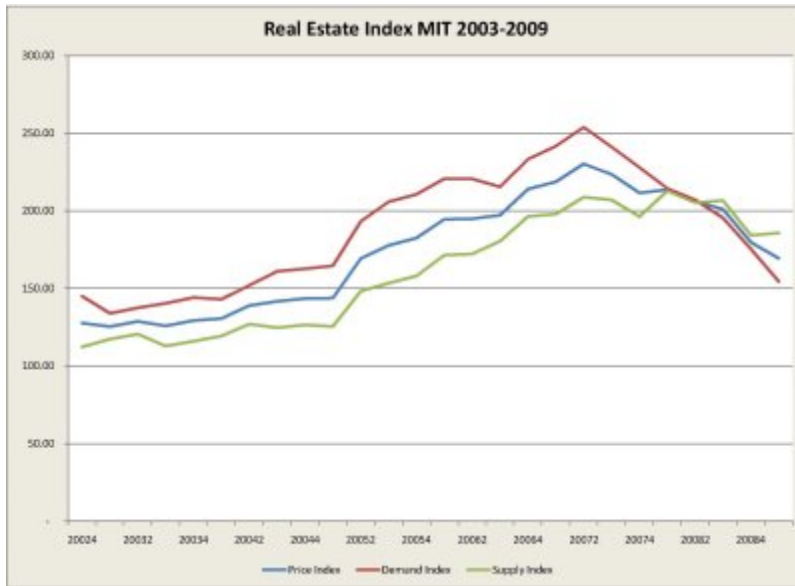
This clearly raises major concerns regarding inflation, yet M2 is still low.

Posted by Terry McGarty at [8:15 AM 0 comments](#) 

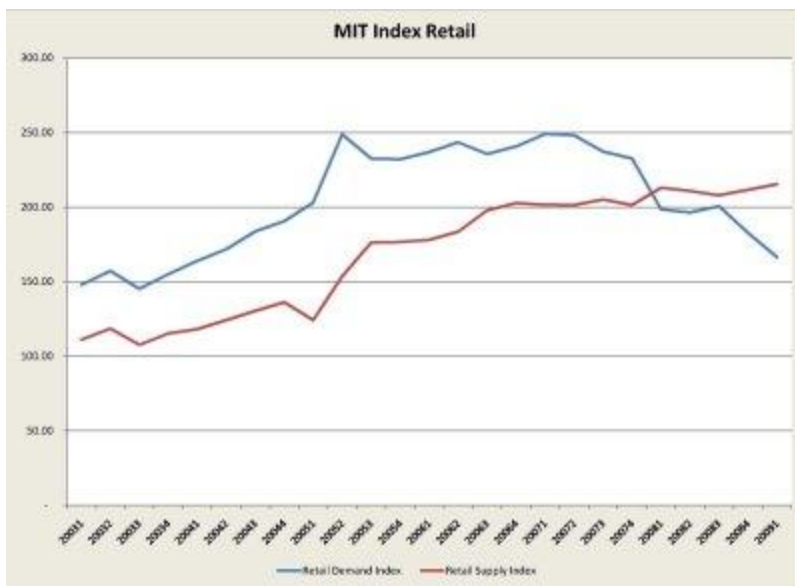
Labels: [Economy](#)

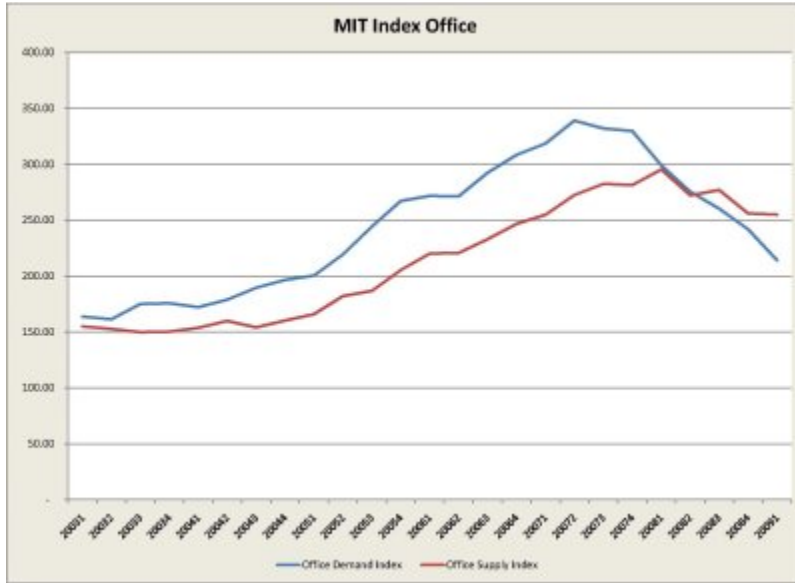
[REAL ESTATE METRICS](#)


The [MIT Center for Real Estate](#) has some interesting demand and supply information on real estate. We present a summary here but it covers a broader scope of properties. The chart below is somewhat telling. Note that until the collapse the Demand exceeded the supply. Since the collapse the opposite is the case.



The following are the details for the retail, office and industrial markets.





Posted by Terry McGarty at [7:40 AM](#) [0 comments](#) 

Labels: [Economy](#)

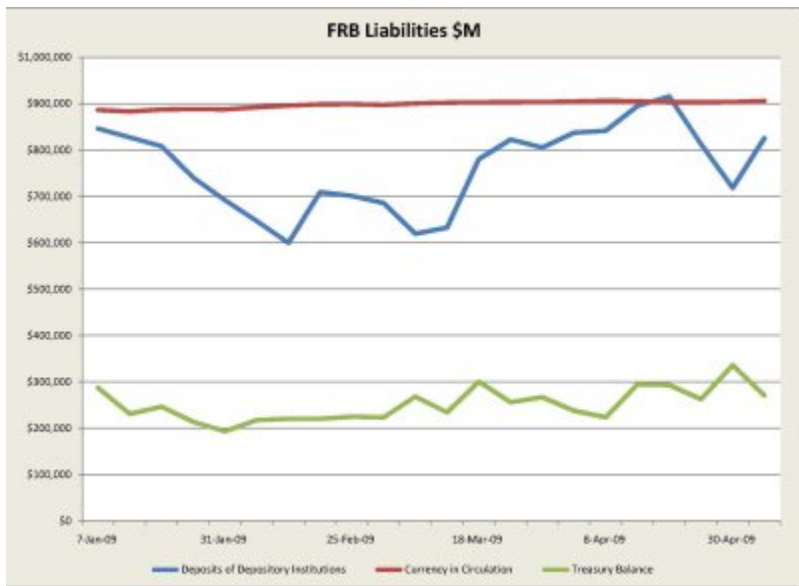
MONDAY, MAY 11, 2009

FRB BALANCE SHEET

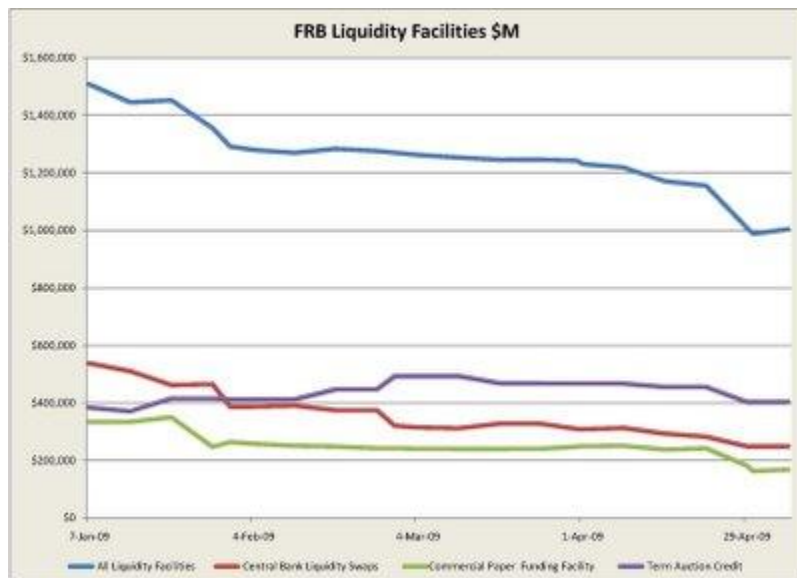
The FRB has published its weekly [balance sheet data](#). We summarize some of it here. The figure below depicts all of the assets of the Fed from early 2007 until the present. Note that the jump up to \$2.5 trillion was the Fed "printing" money and raising its assets by \$1.5 trillion in just a few months. This is a classic example of central bank intermediation.




The following depicts the Fed's liabilities since January 2009.



The Fed liquidity facilities are shown from January 2009 thru the present below.



There seems to be a stabilizing of the Fed's balance sheet and this along with the other metrics we have been tracking such as unemployment changes, M2, and the "portfolio" lend one to believe that perhaps the worst is over. Yet we are still concerned about both commercial real estate and the massive amounts of high yield debt.

Posted by Terry McGarty at [8:43 AM](#) [0 comments](#) 

Labels: [Economy](#)

[ANTITRUST LAW: WILL IT RETURN?](#)

[Mankiw](#) again writes a column critical of the Department of Justice new Antitrust Chief Christine Varney (see [NY Times](#)). Let me first begin by stating that Varney was once a Board member in one of my companies and I think quite highly of her. She is a truly competent attorney and experienced in the ways of Washington. Second let me state that I have written extensively on [antitrust law as applied to telecommunications](#) and as such have both a legal perspective and hands on experience in its use and misuse. Mankiw is an economist and I need say no more.


Let me address two simple examples. Both relate to tying agreements and antitrust remedies.

Access and Interconnection Fees: This is the old question of, if there are local telephone providers and long distance providers, then the customer should be able to choose their

combination and the incumbent should not receive a benefit from an access fee just because they were an incumbent. The local wireline companies receive an access payment from the wireless carriers because the externality presented by the wireline is supposed to be a benefit. Well there are now more wireless phones than wireline and thus should the benefit switch, likely not to. This was based upon the old Baumol Willig theorem, a classic example is sloppy economics. The failure of the Antitrust Division to do anything about this after the 1996 Telecom Act led in my opinion to the collapse of the Telecom market in 2000-2001.

Digital Cable Converters: Companies like Cablevision and others have decided that they will take economic advantage of their customers in two ways. First they have been raising their rates between 6-10% per annum for the past several years. It costs now almost \$55 per month for a modest basic cable package and about \$50 per month for broadband. The former contains a couple of dozen channels of no import, it excludes all CSPAN for example, and is not digital. They charge an additional \$10 per month per television set for a digital converter. The converter costs wholesale about \$25-30 in bulk! That means there is at most a 3 month payback and then in my opinion an almost extortionary payment to Cablevision. They keep removing channels from basic forcing the subscriber who has no alternative to pay for this box. It is in my opinion a tying agreement. They should specify the box allow TVs to be digital cable ready for their system or allow third party manufacturers to sell the product. This is a great antitrust case. Mankiw would disagree.

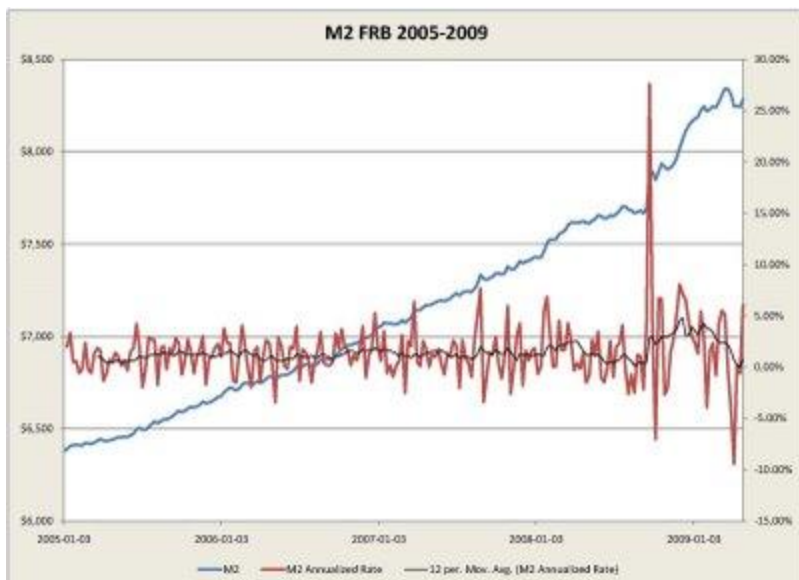
Now to Microsoft. The bundling of Windows and Internet Explorer is a tying arrangement and moreover the nexus between the browser and the operating system was the portal through which all Internet cyber terrorists enter. Firefox has a firewall, the Microsoft product has monthly updates. I believe that Mankiw's rant is without merit and that the Antitrust Division under Varney has a chance again to allow equity across markets.

Posted by Terry McGarty at [7:17 AM](#) [0 comments](#) 

Labels: [Economics](#)

SATURDAY, MAY 9, 2009

[M2 DATA](#)



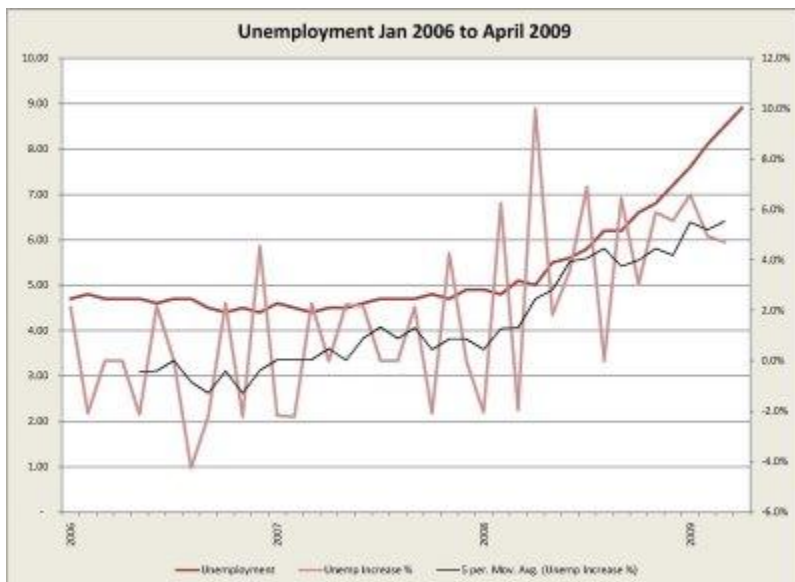
The [St Louis Fed](#) issued the current M2 data. We have plotted it above. The overall growth from the start of 2005 to the current is from \$6.3 trillion to \$8.3 trillion, or \$2 trillion over the 52 month period. It appears to be leveling off. We will also be looking at the FED's balance sheet because that is where most of the potential inflation source may rest.

Posted by Terry McGarty at [7:49 AM](#) [0 comments](#)

Labels: [Economy](#)


FRIDAY, MAY 8, 2009

UNEMPLOYMENT DATA



The chart above provides an update of the unemployment statistics as of April 2009. The data is from January 2006 thru April 2009. We plot the total unemployment rate which has reached 8.9% and continues to increase at a rate of 4.7% per month which is lower rate of increase than

the prior four months. However the monthly change has shown significant variability and we have also plotted the 5 month running average change. It may most likely continue thru the end of this year. If we see even a 4% monthly increase then we could see it peaking at still the 10.0-10.5% maximum rate. Thus there is still substantial risk in seeing this high rate, yet still under the early 1980 inflation from the residual of the Carter administration financial disaster.

Posted by Terry McGarty at [10:41 AM](#) [0 comments](#) 

Labels: [Economy](#)

THURSDAY, MAY 7, 2009

THE MINEFIELD OF COMPARATIVE CLINICAL EFFECTIVENESS

The [New York Times](#) provided an article on CCE today. The article states:

"The administration plans to spend \$1.1 billion over the next few years on studies like the one conducted by Dr. Deyo, to compare the effectiveness of competing treatments for common conditions like back pain, heart disease and [prostate cancer](#). The studies will be publicly released, to help doctors and patients decide which treatment options they want to pursue."

As we have stated before in three examples the results that often go to an administrator such as the one in the Times article provide the correct answers to often the wrong question. For example, as we have already shown:

- 1. Colon Cancer:** A Canadian study allegedly showed that colonoscopies are not effective for screening the ascending and transverse colon for neoplasia. The fact of the study is that the Canadian physicians who performed the examinations were not proficient and not experienced enough to make a determination and that the colonoscopies were performed too infrequently. That was not the way the press reported it. If the Government administrators use this paper as a basis for clinical effectiveness then many people will die unnecessarily.
- 2. Ovarian Cancer:** As we have also shown, there are papers which say that annual screening for ovarian cancer does not alter mortality. True, the cancer grows rapidly. But quarterly screening does reduce it by 80%! The question should have been posed; how frequently should a person be screened to reduce mortality by say 80%. That question was not asked. It was asked and answered in a Government study, however. Namely one can truly reduce ovarian cancer mortality by 80% with screening every three months. The problem is that the cost is monumental for every life saved. That and that alone is the issue. Also there is the increase in the false alarm rate and surgeries which are not necessary.
- 3. Prostate Cancer:** This was the recent NEJM flap. They asked the question; did measuring PSA with a 4.0 threshold and acting thereupon significantly reduce mortality. The true question that should have been asked was; what level of PSA significantly reduce mortality. The question posed and answered was the wrong question. It may have been the right one when the study started almost fifteen years ago but seven years ago we knew that a PSA for men under 65 was reset to 2.0. One must be careful not to jump to the conclusions of the New York Times which stated that categorically PSA testing of any kind was without merit. Well, it was the New York Times, not known for their determination of the facts as they are but only as they see them. But if

the information bastion of the current Administration can categorically deny the efficacy of the PSA then what would one ever expect out of a Government official!

The problem with CCE in these three examples is that Government bureaucrats, not known for their brilliance, will take studies that benefit the reduction in benefits and costs, and use them as a basis of CCE mandates. This will result in no reduction in mortality and morbidity. It will in fact be counter-productive,

As [Garber and Tunis](#) state in this weeks NEJM:

"The deepest concern about CER is that it will be misused, which is why some legislators seek to prohibit information on comparative effectiveness from influencing coverage policy and payment decisions. But surely these decisions will not be improved by discouraging the use of the most relevant and valid information about what works and in whom. CER is not a panacea, but it is a key to individualized care and innovation, not a threat. An initiative to advance our knowledge about the effectiveness of clinical strategies can hasten the day when personalized medicine transforms health care."

In another commentary in NEJM [Avron](#) states:

"As the stimulus bill was being debated in January and February, the opposition to CER found its voice in commentators who claimed that these studies will inevitably lead to government domination of the doctor-patient relationship, "cookbook medicine," and rationing. Certainly, important issues do arise in trying to translate CER findings into specific decisions regarding patient care and reimbursement, but much of the attack relied on overt mis-characterizations of the legislation's content. Scott Gottlieb, a deputy FDA commissioner in the last administration, stated that the Congressional Budget Office had determined that CER "won't actually save much money" — a contention he based on an article that said precisely the opposite. "The risk," he said, "is that the conclusions will be flawed and still used to restrict coverage decisions, especially by Medicare."


Avron states just the opposite from my prior examples. Avron appears to be saying that the Government administrators are competent and unbiased enough to make life saving decisions. For those of us who have spent a few years in Washington, we know all too well that Washington is the last place you would want such a decision to be made. Why not have the professional societies do this. In many ways it is akin to medical licensing. Why not have the professionals that are performing the studies and treating the patients make the recommendations, and change them as needed. Imagine if HHS wrote Harrison's! They would find a low cost beltway bandit to write the document. Would we accept it? What if we were forced to!

Finally the NEJM correspondence by [Naik and Petersen](#) state:

"Surprisingly little attention has been paid to what we believe is the most critical question facing CER: Will its results significantly improve the quality and safety of the health care received by the average patient? Policymakers and research funders, such as the National Institutes of

Health, often assume that the final steps in the translation of clinical research — the decision to act on new medical evidence and its implementation implementation of its findings into practice requires substantial investment and planning that will involve health care providers, patients, and other local stakeholders."

CCE is an important process, in fact it is critical. However it is a professional communal communications process or performing studies, critically assessing the studies, disseminating the results and then reassessing. It is iterative. Many times the wrong question is studied and answered. Then we focus on the answer and forget about what question was asked. We are arguing that CCE must move forward but the current Administration's centralized plan and its ensuing use of it as a rationing tool is at best problematic and at worst it flies in the face of the Hippocratic oath.

Posted by Terry McGarty at [6:19 AM](#) [0 comments](#) 

Labels: [Health Care](#)

[REMEMBER THE ATARI 800](#)

In the early 1980s when personal computers were just coming out, many colleges took the step in demanding that their incoming students buy a personal computer. They were Coleco Adam, an Atari 800, some Radio Shack models and very few Apples. The IBM PC was just too expensive at the time. Thus on top of a tuition at that time of \$12,000 per year the student or their parents had to cough up another \$1,500! For those of us who remember the word processor was really just a text editor and spread sheets had yet to be invented.

In the [Financial Times](#), owned by Pearson, which owns massive amounts of academic publishing, and is the main driver in the escalating costs of text books, it says today:

"Textbook publishers [Pearson](#), owner of the Financial Times, Cengage Learning and Wiley are also to offer some books on Kindle. Five universities, including Princeton, have agreed to test the feasibility of the Kindle DX replacing textbooks."

The [Christian Science Monitor](#) also reports more broadly:

"Now, imagine for a moment that you're the parent of a college student. You've already shelled out \$600 for a laptop and maybe an extra \$200 for an iPhone. Are you really going to hand over another \$489 for a Kindle?"

That's the problem Kindle faces. But it has to be said that Bezos is approaching it intelligently. Remember, people make the same "it's too expensive" comments about pretty much every Apple product. The company went gangbusters into the education market and got a generation hooked on Macs and iPods. The rest is, well, the story of Steve Jobs' bank account.

Along with Case Western, five other universities — Pace, Princeton, Reed, Arizona State, and the University of Virginia — have signed a deal with Amazon and the Kindle DX.


The Wall Street Journal reported Tuesday that some students "will be given large-screen Kindles with textbooks for chemistry, computer science, and a freshman seminar already installed, said Lev Gonick, the school's chief information officer." The school will then compare the experiences of these Kindle students with those using traditional textbooks."

This sounds like the early 80s again. Today students spend thousands on text books. Little children walk around with back packs filled with weight picture books and they are setting themselves up for back problems later in life. Pearson in my professional opinion is the major

offender of putting more pictures in books and then charging massive amounts. Why does one need a single picture in a calculus book, yet they look like travel guide. History book are loaded with picture commentary and they exceed comic books.

But back to Kindle. Moving all of a students books to a Kindle creates a problem. How do we know that this is the right platform. Second. reading and studying involves many, many books, just look at a library or my office, they are tagged, in piles, and that is still with GB of pdf files of papers and other reference materials. Learning is multimedia like, and Kindle is a single threaded platform that delimits and does not expand. It may get rid of weighty back packs but it creates a linear way of thinking. Linearity have never led to insight, it is the nonlinear thinker who manages to connect the dots.

Thus Princeton may just be Atari 800 redux!

Posted by Terry McGarty at [6:04 AM](#) [0 comments](#) 

Labels: [Commentary](#)

TUESDAY, MAY 5, 2009

[THE GENOME SCAN DEBATE](#)

[Science Magazine](#) has published a brief but well written article on the debate about the use of genetic analysis in assessing the susceptibility to certain diseases. It states:

"In the most provocative of four NEJM articles, David B. Goldstein, director of the Center for Human Genome Variation at Duke University in Durham, North Carolina, says the first 100 or so genomewide association studies (GWAS), which use gene chips to find associations between common gene variants and diseases, have identified important variants that appear to influence disease risk, but the impact of most of those variants is relatively low. He told Science that, once such association studies "have been run on the first few thousand patients for a given disease, there is only marginal return in pushing the sample sizes up further." Instead, he wants to shift more research to full sequencing of patients' genomes to find "rarer variants of larger effect" linked to disease."

The article continues:


"Although it has become the focus of much public attention, predicting personal risk is not the point of GWAS, argues Joel N. Hirschhorn, a genomics researcher at the Broad Institute and Harvard University Medical School who wrote an NEJM commentary that offered a positive assessment of GWAS results. "The goal is not individual risk analysis but rather discovering the biological pathways underlying diseases," he says."

As we have discussed before genetic techniques can serve in four areas; screening, staging, treatment, and prevention. The focus of this discussion is screening. I have had concerns about the overall view of this effort in that we already know that having a single aberrant gene is at best a mild predisposition. Take colon cancer for example. Since the work of Bert Vogelstein at Hopkins we know that colon cancer, and now many other cancers, result after multiple sequences of genetic hits on certain cells. There may be a body wide genetic predisposition but it is the ensuing hits on the genes as the cells reproduce that result in the problem. It is the pathway issue which are of concern. Thus having a specific gene may give you a 5% increase in risk. The

reality is what happens to that 5% risk over time, does it change the cell into a cancer precursor? Cancer is a progressive genetic disease that allows for unbridled cell growth. The progress to cancer is a result of the cell shutting down its growth control mechanism.

The second issue is that of say Type 2 Diabetes. If one discovers a gene for Type 2 Diabetes then the question is is this a gene which allows for unstable weight growth, that per se causes diabetes, that works in some pathway manner to cycle up to diabetes. What is the overall process of type 2 Diabetes? One must look at this as a complex system not just as a single genetic hit.

Is this a problem for genetic testing? Hardly, this appears to be just another academic spat on the way to eventually seeing this holistically as a complex system.

Posted by Terry McGarty at [7:41 AM](#) [0 comments](#) 

Labels: [Health Care](#)

TUESDAY, MAY 5, 2009

[MORE DUMB IDEAS: PIGOU CLUB](#)


Alan Viard of AEI has [proposed](#) the following:

"Any carbon control policy adopted in the United States should take the form of a carbon tax or a cap-and-trade system with full auction of permits from the outset of the program. A large part of the resulting tax revenue or auction proceeds should be used to reduce marginal payroll or income tax rates or to reduce the deficit. Such a policy would reduce disincentives to work and save while also compensating the public for the burden of higher energy prices. In contrast, free allocation of permits to firms is equivalent to making unproductive transfer payments to high-income stockholders. Don't give away the cap-and-trade permits!"

We have discussed this several times. The assumption is you add a tax equal to from one to five times your current energy usage costs onto energy and then you pay it back via some tax rebates. Let me reiterate to the rather short sighted Mr Viard and the Harvard Economics faculty so enamoured with this the following:

1. The Government have never ever given money back.
2. Retirees on fixed incomes have little if any taxes and little if any income. They stay at home and just pray they can heat their homes in the winter. What do you suggest with them. Let them die! Ah the logic of economists! Are you guys out of your minds!
3. The intent of cap and trade was to use economic incentives to move to different forms of energy. A noble goal. Yet my good friends there is no way to get that energy to the people. That is there is no grid. The environmentalists will delay it forever. Thus this will be just an additional tax, period. It is not an economic incentive to seek an alternative. There is no alternative!
4. Oh I forgot. You can burn wood, paper, furniture, and what a mass of CO2 that will create!

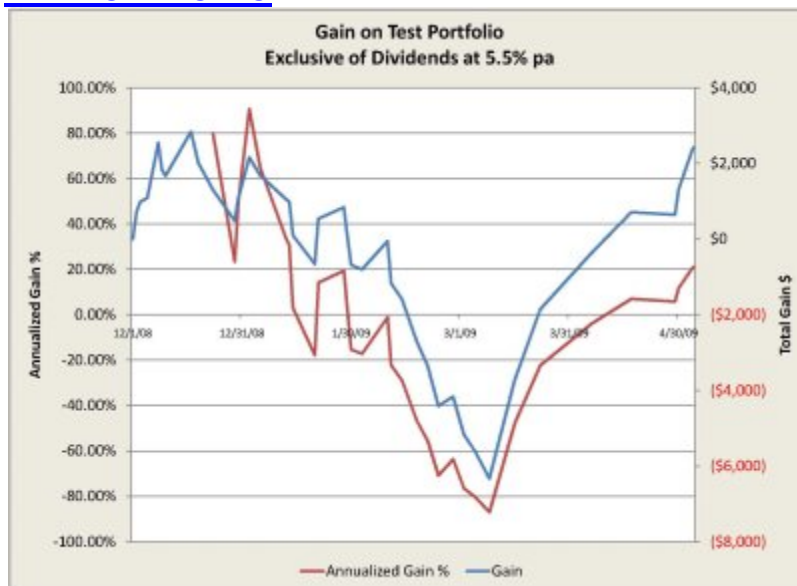
I am amazed each time I read these characters ideas that they are half baked and they never go through to evaluate the consequences. God save us from economists!

Posted by Terry McGarty at [7:30 AM](#) 0 comments 


Labels: [Cap and Trade](#)

MONDAY, MAY 4, 2009

[THE PORTFOLIO](#)



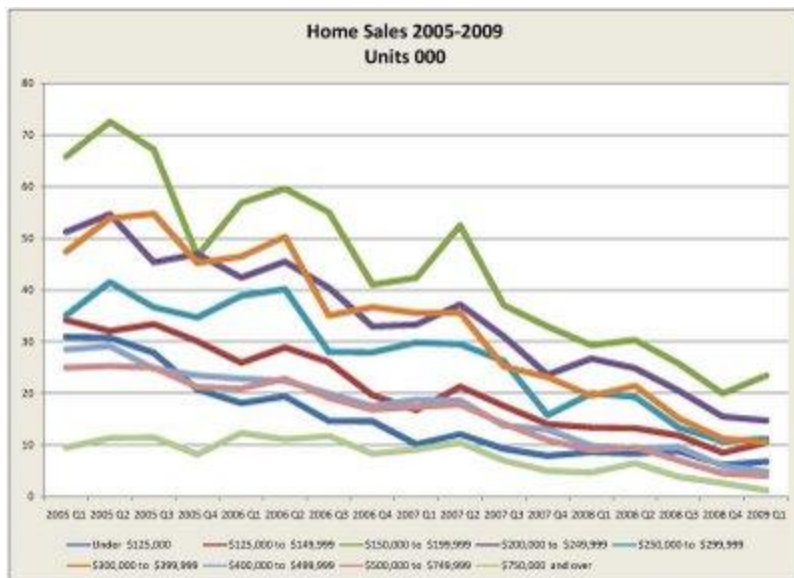
I am amazed as to how this portfolio is growing. However one must always be careful. But we are now looking at an annualized gain of 20%+ and this may be a good sign that the uncertainty is slowly going. Despite the tax issue proposed today the growth is spectacular compared to where it was just after the change in Administrations.

Posted by Terry McGarty at [2:26 PM](#) 0 comments 

Labels: [Baseline Portfolio](#)

SUNDAY, MAY 3, 2009

[SOME HOUSING DATA](#)



The above is the data for total house sales segmented by house price range from the Census Bureau for the units sold in 000s thru Q1 2009. There seems to be a slight levelling off. The peak was in 2005 so this is somewhat deceptive in the presentation.

The following Figure is the same as above but in percent change from Quarter to Quarter. The changes seem to be flattening out for the Q1 2009 numbers.



We suspect that this data may present a good sign of levelling off.

Posted by Terry McGarty at [11:44 AM](#) [0 comments](#)

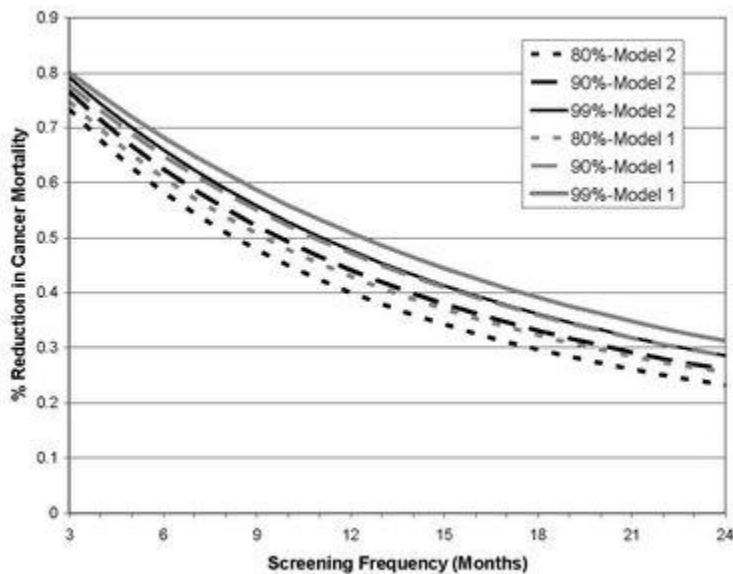
Labels: [Economy](#)

[OVARIAN CANCER AND HEALTH POLICY](#)

This is a brief note on how questions, in general, are posed. In a way it is an experiment in a Fleck like world where the facts are not objectively given but collectively created (See Ludwik Fleck, [Genesis and Development of Scientific Fact](#), Univ Chicago Press, 1979) . As Fleck wrote his various analyses in the area of medicine, specifically with syphilis, I take this opportunity to look at cancer and screening and its implications on developing a Health Care plan.

First we present a chart on the increase in survival based on frequency of testing for ovarian cancer. This report is entitled "[Genomic Tests for Ovarian Cancer Detection and Management](#)" and was prepared for the *Agency for Healthcare Research and Quality* of HHS. It shows that an 80% reduction in mortality can be achieved if one screens every three months for ovarian cancer. Thus it is known what could be done. We will work through this approach again later.

Figure 12. Effect of screening frequency on reduction in cancer mortality at different levels of test s



Let us look at another view of this same problem. Let us start with a recent article in the journal *Obstetrics & Gynecology*: April 2009 - Volume 113 - Issue 4 - pp 775-782. The article is entitled: Results from four rounds of ovarian cancer screening in a randomized trial. The abstract states:

"OBJECTIVE: To test whether annual screening with transvaginal ultrasonography and CA 125 reduces ovarian cancer mortality.

METHODS: Data from the first four annual screens, denoted T0-T3, are reported. A CA 125 value at or above 35 units/mL or an abnormality on transvaginal ultrasonography was considered a positive screen. Diagnostic follow-up of positive screens was performed at the discretion of participants' physicians. Diagnostic procedures and cancers were tracked and verified through medical records.

RESULTS: Among 34,261 screening arm women without prior oophorectomy, compliance with screening ranged from 83.1% (T0) to 77.6% (T3). Screen positivity rates declined slightly with transvaginal ultrasonography, from 4.6 at T0 to 2.9-3.4 at T1-T3; CA 125 positivity rates (range 1.4-1.8%) showed no time trend. Eighty-nine invasive ovarian or peritoneal cancers were diagnosed; 60 were screen detected. The positive predictive value (PPV) and cancer yield per 10,000 women screened on the combination of tests were similar across screening rounds (range 1.0-1.3% for PPV and 4.7-6.2 for yield); however, the biopsy (surgery) rate among screen positives decreased from 34% at T0 to 15-20% at T1-T3. The overall ratio of surgeries to screen-detected cancers was 19.5:1. Seventy-two percent of screen-detected cases were late stage (III/IV).

CONCLUSION: Through four screening rounds, the ratio of surgeries to screen-detected cancers was high, and most cases were late stage. However, the effect of screening on mortality is as yet unknown."

This is a bit obtuse for the non-professional but it displays the standard approach to the study of many disease and the efficacy of procedures used to screen for their presence and the results of actions taken thereto. The question that the researchers went out to answer was the one which says did yearly screening for ovarian cancer have any benefit. We believe in a Fleckian manner that this question and the answer could be generalized by politicians and their ilk into one which is, is screening for ovarian cancer effective. They are two different questions. We have already shown above that they are effective.

Now let us look at the data from a different perspective. Namely, in contrast to the above study let us look at the underlying "physics" of the process and look at the facts and data as say an engineer would do. Here we go with the logic:

1. We know that the incidence of ovarian cancer is 14.4% in women 45-54, 21.4% in women 55-64, 25.3% in women 65-74, and 16.3% in women 75-84. (See Berek, Gynecology, 2008). Thus there are many women who will come down with this disease, a deadly disease if caught late.
2. The five year survival for ovarian cancer is 86% at Stage I, 70% at stage II, 34% at stage III and 19% at stage IV. (Schorge et al Gynecology 2008 p732). Thus if one can detect the cancer at Stage I it is possible under current means to have 86% or better survival. Stage I means growth limited to one or both ovaries with possible growth on the surface.
3. The ovary limitation means a tumor size of 2 to 4 cm diameter at most. That is the size of an ovary and it is also the size at which one can detect the lesion on ultrasound with some specificity. Using the CA125 at a level below 35 one may get better detection but higher false

alarm rates. The problem with higher false alarm rates is that it requires surgery, and although it may be performed laparoscopically at first, it may or may not require full laparotomy. The latter is the case if a malignancy is detected at surgery.

4. Cancer is a disease that starts with one aberrant cell. The cell multiplies and attempts to double, each division, although that is not the case in reality for a variety of known and yet to be known reasons. However, 20 doublings can occur in less than one day, that is a total of 106 cells, not detectable. In 50 days we get to 40 doublings, or 1012 cells. By 125 days we get to 70 doublings, a bulky mass. (Weinberg, Cancer, p 365, 2008). However for many reasons due to the individual's immune system the doubling may take longer because there may be multiple genetic steps involved.

5. Cancer masses can be detected at 108 cells by imaging and at 109 cells by palpation. At 1012 cells the patient is on the road to death from the disease. (Weinberg, Cancer, p 363, 2008).

6. Thus if one performed the tests as described in the article every 120 days, then one may have a substantially improved chance of detecting the cancer at Stage I and achieving an 86% cure rate.

7. The current death rate from ovarian cancer is 8.6 per thousand females. This is a total of 280,000 women per year based upon CDC data.

8. If screening at 120 day intervals can reduce this to 42,000 deaths or equivalently save 238,000 women, at a cost of say \$250 per screening or \$1,000 per woman per year, over 45 years of age. The census states we have then we have a cost of 64.5 million women over 45. Thus it will cost \$64.5 billion. Or, the cost per woman saved would be \$271,000 per life saved per year.

First note that our simple analysis yields the same result as the HHS study we started with.

The question is it this worth it? What is a woman's life worth? Do we stop at say 65 or 75, do we continue to 85.


The other issue is that the authors of the article assumed annual testing. Based upon the logic above we see it means at least quarterly testing due to the tumor growth rate. By the way this applies to all tumors. Perhaps a study should address the question; "How frequently should testing be performed to obtain a material reduction in mortality from that disease". Clearly annual testing will at best get say one sixth of the cases; say 18% if everyone is tested.

This analysis has raised two issues:

1. When considering revising health care, what screening should be done and at what cost. Can, for example, a patient, person, pay for their own screening costs, at a price *pari passu* to the lowest cost paid, if they feel that they want more testing. Or will the Government as do the insurance companies today, have the lowest price forcing individual payers to subsidize the group payers, and in this case the Government. If the Government agrees to do annual testing and to be reliable it demands at least quarterly testing, then can a patient have the right to play on a level playing field or will the individual be taxed to seek better care on top of the costs?

2. When medical research is performed, there is a strong Fleck influence of a "thought collective" approach. The Fleck view of facts plays a significant role as well. The questions that should be posed are, "What level of screening result in what level of reduction in mortality?" Instead the way these are done is to take say an annual screening and determine if it is useful. The problem with this Fleckian "thought collective" approach is that it will then become part of the comparative clinical effectiveness schema as proposed by the Administration. Namely, the clinical result says that the screening is not useful. Wrong! The experiment shows that that specific type of screening is not useful.

Thus there are the above two issues of a much broader scope which can be drawn from this article, obscure as it may initially seem.

Posted by Terry McGarty at [9:10 AM](#) [0 comments](#) 


Labels: [Health Care](#)

SATURDAY, MAY 2, 2009

[READERS FROM LAST TWO MONTHS](#)



Thought I would post a map of the readers from the last two months. I hope some of you obtained some interesting and at times controversial thoughts. I appreciate the interest and hope you all continue to return and read the observations. Many thanks.

Posted by Terry McGarty at [11:41 AM](#) [0 comments](#) 

[LOCKE, PROPERTY AND OBAMA](#)

To those of us who hold dear the premises of our democracy, one of the foremost thinkers who created what we hold dear is John Locke. In particular is Locke's theory of property. It was Locke who created the bifurcation of the King's, read as Government's property, and the individual's property. Establishing individual property apart from the King, Government, and holding it as something which was core to a democracy, was a formidable change in the way of thinking, it was a formidable break from the middle ages and the ideas of regency, and it was the basis for our Revolution and Constitution. Apparently Obama has either forgotten that, yes he went to Columbia and Harvard, or has rejected that. The tyrannical actions against Weinberg, Paralla et al in the Chrysler case this week is an example. The threatening of Weinberg-Parella by the Administration to comply or they would make their lives hell was nothing short of fascist!

Let me quote from Locke(John Locke, *Two Treatises of Government, The Second Treatise*, 1690):

"Sec. 27. Though the Earth, and all inferior Creatures be common to all Men, yet every Man has a Property in his own Person. This no Body had any Right to but himself. The Labour of his Body, and the Work of his Hands, we may say, are properly his. Whatsoever then he removes out of the State that Nature hath provided, and left it in, he hath mixed his Labour with, and joyned to it something that is his own, and thereby makes it his Property. It being by him removed from the common state Nature placed it in, it hath by this labour something annexed to it, that excludes the common right of other Men. For this Labour being the unquestionable Property of the Labourer, no Man but he can have a right to what that is once joyned to, at least where there is enough, and as good left in common for others."


Here he defines property as the result of the labor of a man. The money invested by the investors of Weinberg-Parella was the result of their labor, it was their property. The laws of bankruptcy apply as a remedy to a breach of contract, namely the debts to Weinberg-Parella were senior to all others and they had pre-emptive rights. The Administration demanded they give those rights up for no value, the Administration demanded that they convey to the Government their property, the fruits of their labor. For what purpose, to enrich the Union. In turn to enrich the people in the current Administration at a latter time.

Locke continues:

"Sec. 45. Thus Labour, in the Beginning, gave a Right of Property, where-ever any one was pleased to employ it, upon what was common, which remained, a long while, the far greater part, and is yet more than Mankind makes use of. Men, at first, for the most part, contented themselves with what un-assisted Nature offered to their Necessities: and though afterwards, in some parts of the World, (where the Increase of People and Stock, with the Use of Money) had made Land scarce, and so of some Value, the several Communities settled the Bounds of their distinct Territories, and by Laws within themselves, regulated the Properties of the private Men of their Society, and so, by Compact and Agreement, settled the Property which Labour and Industry began; and the Leagues that have been made between several States and Kingdoms, either expressly or tacitly disowning all Claim and Right to the Land in the others [sic.] Possession,

have, by common Consent, given up their Pretences to their natural common Right, which originally they had to those Countries, and so have, by positive agreement, settled a Property amongst themselves, in distinct Parts and parcels of the Earth: yet there are still great Tracts of Ground to be found, which (the Inhabitants thereof not having joyned with the rest of Mankind, in the consent of the Use of their common Money) lie waste, and are more than the People, who dwell on it, do, or can make use of, and so still lie in common. Tho' this can scarce happen amongst that part of Mankind, that have consented to the use of Money."

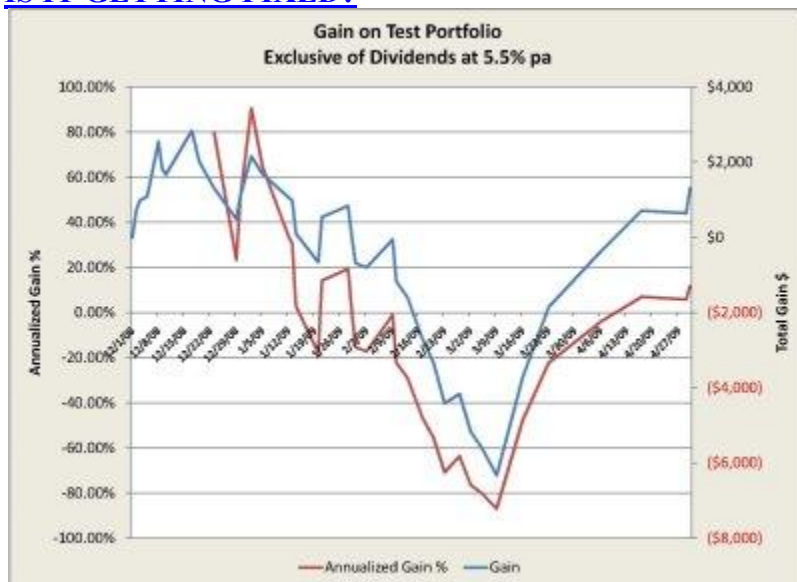
So far the Administration has breached contracts and overridden corporate law. Now, the threats and intimidation of the property holders turns four centuries of the development of democracy on its head. This is not a Rawlsian world where the least of us must have what each and every person has. This is a world which allows, supports, encourages the entrepreneur. The threats from the Administration present a true chilling effect on the future of this country!

Posted by Terry McGarty at [8:20 AM](#) [0 comments](#) 


Labels: [Economy](#)

THURSDAY, APRIL 30, 2009

[IS IT GETTING FIXED?](#)



The portfolio we created in December has turned around tremendously. The annual rate of growth since the time of purchase is now 4.8% and add to that a dividend yield of 5.5% and we have a return of 10.3%! Now if you break it you fix it, and if you fix it you can claim its yours. The question of a DOW 5000 may still linger but the turn is truly amazing. The DOW would not reflect this because of the weighting or lack thereof of the financial stocks. This portfolio is all core. We will continue to watch but so far so good!

Posted by Terry McGarty at [3:20 PM](#) [0 comments](#) 

Labels: [Baseline Portfolio](#)

THURSDAY, APRIL 30, 2009

[VIEWS ON THE COSTS OF HEALTH CARE](#)

There were two articles today which reflect on the ultimate cost containment in Health Care. The first is by [Boudreaux](#) who is a conservative professor of economics at George Mason. The second was in the [NY Times](#) discussion Obama and his grandmother. Boudreaux states the old adage that if several people have dinner and all agree to equally split the cost then this is an inducement for one or more to order the highest priced item on the menu. There are several flaws in that argument but let that stand. The second is the problem of Obama and his grandmother. he was dying of terminal cancer at 86 and she broke her hip. She had the hip repaired and died two weeks later, from either the cancer or broken hip. The issue was should Medicare pay for hip surgery for someone who is going to die anyhow?

These two stories are quite different but reflect in essence the same problem.

First, why do people go to physicians and hospitals:

1 Primarily in youth due to accidents and in old age due to chronic ailments. Broken bones and congestive heart failure. Chronic illness in the aged is frequently life style related; smoking, drinking, over weight, and failure to have preventing care. Some of the chronic old age problems are genetic, but less than half.


2. Many older people do not go to seek medical care until it is a more sever problem. They generally avoid care because they fear the worse. The avoid care during that period when it can be mediated and the impact reduced. It is a deadly cycle. You see that 65 year old widow in the emergency room at 3 AM Sunday with an impacted colon ready to burst because for the last month she feared she had cancer and was afraid to see the doctor. Now, in addition to the neoplasia she has septic shock! How does one stop that, she had Medicare, yet she was terrified. She did not select Boudreaux's fillet Mignon, she was terrified. Economists have no experience of the emergency room and the fears of the elderly.

3. The Obama problem is a simple one, human dignity. If his grandmother needed surgery then he had a moral duty to see that she received care. We as a society have a moral duty to see that such a person is cared for. Yet, at what level for society? If society decides it is palliative, then a

person of substantial means like Obama has an overriding duty, honor thy parents, to see that she is taken care of. The end point is a moral imperative, respect and care. The way to that end point may be open for debate. Who has responsibility, those with the means such as Obama, or society in general. Who gets the fillet Mignon and who gets the chicken?

4. Stuff happens. There is a percent, albeit much smaller than the percent of chronic illnesses, of people who have catastrophic illnesses. These are the brain tumors, the ALS patients, the MS patients, the ones who have gotten various leukemias, melanomas, and the like. Here society also has a moral imperative to assist those people so that their families and the person themselves are not financially destroyed as well as physically. The 39 year old mother with a glioma and three children, with a husband working two jobs is what I am focusing on. This requires the rally round approach, there are few people like this, more than there should be, and yet we as a society have a moral duty to assist them as best we can.

This Boudreaux points to a small group of people who choose the Beef Wellington. There are just not that many. Patients do not choose one surgery over another. A patient with a disorder seeks to be cured or at least regain some quality of life for as long as possible. I have no idea what the Boudreaux argument is based upon. The Obama story is more complicated. Clearly the end point is without doubt, but who pays for that end point is a question. Should multi-millionaires get Medicare at the same cost as say a retired telephone company lineman? That is the way it is today. Most likely that will not be the way it will always be.

Posted by Terry McGarty at [9:22 AM](#) [0 comments](#) 


Labels: [Health Care](#)
[DOL STATISTICS](#)

Latest Numbers

Consumer Price Index	-0.1%	Mar 2009
Unemployment Rate	8.5%	Mar 2009
Payroll Employment	-663,000(p)	Mar 2009
Average Hourly Earnings	+\$0.03(p)	Mar 2009
Producer Price Index	-1.2%(p)	Mar 2009
Employment Cost Index	+0.3%	1st Qtr 2009
Productivity	-0.4%	4th Qtr 2008
U.S. Import Price Index	+0.5%	Mar 2009
Unemployment Initial (UI) Claims	631,000	April 25, 2009
UI Claims 4-Week Average	637,250	April 25, 2009
Federal Minimum Wage	\$6.55	Current

(p) preliminary; (c) corrected

The DOL has just issued the most recent [labor statistics](#). The unemployment rate is now at 8.5% which is lower than we had anticipated. It appears as if the bottom may be approaching sooner than expected. However the PPI is down 1.2% and that is an increase in that number from a month ago. The CPI is lower by a small amount. Perhaps the bottom can be controlled. However we are still concerned about the problems in commercial real estate and high yield debt conversions.

Posted by Terry McGarty at [6:01 AM](#) [0 comments](#) 

Labels: [Economy](#)

WEDNESDAY, APRIL 29, 2009

[INCREASED FUNDING OF R&D](#)

Greg Mankiw posted a reference to an old paper by [Goolsbee](#) which states:

"Conventional wisdom holds that the social rate of return to R&D significantly exceeds the private rate of return and, therefore, R&D should be subsidized. In the U.S., the government has directly funded a large fraction of total R&D spending. This paper shows that there is a serious problem with such government efforts to increase inventive activity. The majority of R&D spending is actually just salary payments for R&D workers. Their labor supply, however, is quite inelastic so when the government funds R&D, a significant fraction of the increased spending goes directly into higher wages. Using CPS data on wages of scientific personnel, this paper shows that government R&D spending raises wages significantly, particularly for scientists related to defense such as physicists and aeronautical engineers. Because of the higher wages, conventional estimates of the effectiveness of R&D policy may be 30 to 50% too high. The results also imply that by altering the wages of scientists and engineers even for firms not receiving federal support, government funding directly crowds out private inventive activity. "

This was written a decade ago. Since then many changes have occurred. Where is the money spent. Hardly in Defense R&D. That is so for two reasons. First a decreasing DOD budget. Second, there are fewer and fewer people who can get clearances. This is a reflection of the fact that fewer and fewer students with US citizenship and backgrounds amenable to security clearances are going into engineering. The good students went into finance, even with engineering degrees.

The students are going into various types of biotech, in the broadest sense. Yet that profession is one which is mired in a Medieval structure of first requiring a PhD, then working as a post-doc,

then working the way up through the bench and support work, and hopefully as a principal scientist able to obtain ones own funding. Unlike the old DOD world where engineers could get funding to create something, and in the 1950s and 1960s that was DOD funding, the same is not for biotech, there is a drastic cultural difference. This means that there is a tremendous time lag between the investing of money and the result.


In the 1950s and 1960s the Government spent money educating scientists and engineers and once the graduate degree was obtained the individual could go out and practice, even to the extent of starting their own company, obtaining DOD contracts, such as from ARPA, and then also developing commercial applications. Much of this pump priming in that period led to the foundation of the venture investments in the 1980s and 1990s. There is a long time lag even when the archaic institutional structures were not in place.

However, even if the lag were there, it would be strategically useful for the Government to fund the flow of doctoral students, especially those who are US citizens. The problem today is that the funding is for the most part at the doctoral level for non US citizens who then struggle to stay but in the long run get sent back to their country of origin. This is a double loss for the US. First we lose the talent and second we create a competitor elsewhere! Doubly dumb but that was what Congress and the Unions wanted.

There is another concern about government funding. That is what I have called the Apollo Effect. Namely by creating the funding for education and then creating Government projects, the educated students were taken from the work force and sent to work in Government projects. This meant that their productivity in creating new economic value was dramatically reduced. As a member of the Apollo Effect group, almost a generation of creative engineers were sent off to design space missions to the moon while the Japanese were developing a strong technology base to compete with the US in the 1980s. The only thing that saved the problem from continuing was the Nixon financial collapse.

Thus some conclusions:

1. There are significant time lags for R&D investment.
2. The Government is the worst venture investor in the world and further Government projects soak up truly creative and value producing efforts.
3. Students must be motivated to obtain graduate degrees in science and engineering. However, it also must be recognized that there are just a few people who have the competence and drive to perform. Thus there should be a balance of funding growth of US citizen students and at the same time maintaining the superb quality of those students. India and China have created systems with quality. The Indian Institute of Technology is a world class institution where the best of the best go. The US must maintain its selection criteria.
4. The growth areas are engineering, science and especially the biotech areas broadly speaking. The Government should spend with minimal strings attached. The Government should not pick winners, just good horses.

Posted by Terry McGarty at [12:32 PM](#) [0 comments](#) 

Labels: [Economy](#)

TURN AROUNDS, GM AND THE 800 POUND GORILLA

About twenty five years ago I started my entrepreneurial career by doing turn arounds. I did six in three years. It was a learning experience which was considerably different than doing a start up. You came in at a totally different stage. By the time you entered as the turn around CEO all of the remaining management and Board members knew that there was a real problem and that time was of the essence. Thus you did not have any illusion that if you only tried strategy X a bit longer it would work.

The turn around strategy consists of the following steps:

1. Fire half the people. It really makes no difference what half. Once I had a sub of a major US company and to meet the appropriate legal guidelines I fired everyone whose Social Security number ended in an even number. That way I was not being fired. It really makes no difference who you let go. Trust me. You get to keep both good and bad people and the agony of doing anything else is not worth it.
2. Restructure your liabilities real fast! One must remember that Chapter 7 Bankruptcy can be filed by 3 or more creditors against you. Thus you must be willing and ready to do it to yourself. It is going to war and you may have a good chance of getting killed. The creditors will bark and scream and you must let them know in no uncertain terms what you intend to do. I did a company in Texas once where we had \$200,000 in cash, and owed \$2.5 million to creditors. I asked them to a Friday meeting, in the Texas heat. They arrived in their gun toting pickup trucks and sat in front of me. I had been there at most two weeks at that point. I bought a case of bourbon and told them they had two options. Agree to a restructuring of equity for debt or I had my lawyer on the courthouse steps prepared for a Chapter 7! If they agreed I would break open the bourbon. I hate bourbon. I walked out into the blazing Texas sun and waited the ten minutes I had given them. When I came in one big rough Texan, I think he provided components, stood up and spoke for the group. He said: "For a g...m Yankee you have b...s, open the bourbon!" I solved the liquidity problem.
3. Speak to the customers, try raising prices. On one of my deals I had a major customer in Houston. I had to go there on an awful hot July day and meet with them. They were in the trash business. I met them for lunch with my COO, I had just fired the sales head at the airport, and after three martinis, I get him to stay and we then went to Gilley's that night! I really hate Martinis and Gilley's later burned down.
4. Find a buyer real quick! Having restructured the company, cleaned up the balance sheet and kept the customers, at least for a while, the final step is to get a buyer. As the turn around person everyone at this point hates your guts, so you must find a new management team, and the best way to do that is a new owner.


Now to GM. The following is the Balance Sheet for GM as of the end of last year and pro forma for June 30, 2009. I have made some assumptions and calculations.

	Actual December 31, 2008	Pro Forma June 30, 2009	Comments
Assets			
Current Assets			
Cash And Cash Equivalents	\$14,053,000	\$5,000,000	Assumed cash depleted to deal with restructuring
Short Term Investments	\$13,000	\$10,000	
Net Receivables	\$7,711,000	\$5,000,000	Write off receivables and restructure
Inventory	\$16,405,000	\$12,000,000	Write off inventory from closed product lines
Other Current Assets	\$3,142,000	\$3,000,000	
Total Current Assets	\$41,324,000	\$25,010,000	Significant reduction in current assets
Long Term Investments	\$2,860,000	\$2,860,000	
Property Plant and Equipment	\$41,877,000	\$36,000,000	Write down of assets due to closures and downsizing and sales
Goodwill	\$0	\$0	
Intangible Assets	\$265,000	\$265,000	
Accumulated Amortization	\$0	\$0	
Other Assets	\$4,623,000	\$4,630,000	
Deferred Long Term Asset Charges	\$98,000	\$98,000	
Total Assets	\$91,047,000	\$68,863,000	The total assets are dramatically reduced
Liabilities			
Current Liabilities			
Accounts Payable	\$24,827,000	\$24,827,000	
Short/Current Long Term Debt	\$18,472,000	\$18,472,000	
Other Current Liabilities	\$30,835,000	\$30,835,000	
Total Current Liabilities	\$73,934,000	\$73,934,000	
Long Term Debt	\$31,803,000	\$0	Conversion of debt to equity
Other Liabilities	\$69,027,000	\$59,000,000	Restructuring some union contracts
Deferred Long Term Liability Charges	\$1,823,000	\$1,823,000	
Minority Interest	\$814,000	\$814,000	
Negative Goodwill	\$0	\$0	
Total Liabilities	\$177,201,000	\$135,571,000	Modest reduction in Liabilities
Stockholders' Equity			
Misc Stocks Options Warrants	\$0	\$0	
Redeemable Preferred Stock	\$0	\$0	
Preferred Stock	\$0	\$0	
Common Stock	\$1,017,000	\$62,620,000	Assumes 30 B Government conversion
Retained Earnings	(\$70,610,000)	(\$100,000,000)	
Total Stockholder Equity	(\$68,154,000)	(\$37,380,000)	

A simple analysis of the GM issue appears to me to be a case where all four rules have been violated. Also when I look at a restructured balance sheet I cannot in any way ever see how,

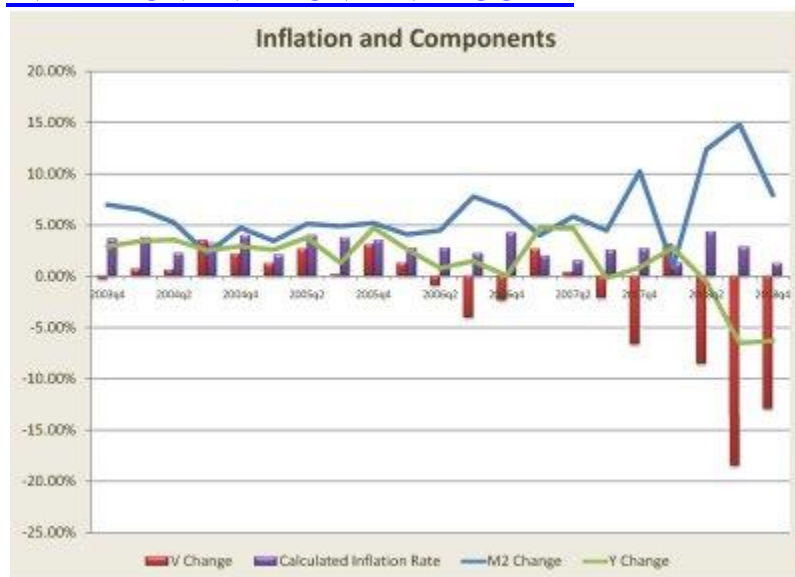
given the union commitments, that they can ever survive! Just look at this balance sheet. You cannot have the \$60 billion in commitments and survive. The numbers do not add up. The US Government may pump more money in but that does not solve the problem, it is just taking the money from the taxpayer, now and for generations to come, and paying off the union. The 800 pound gorilla will not solve the problem. It will just make the imputed labor costs per vehicle grow exponentially, and if one wants lower costs "greener" autos then the percent of the sales price for this overhead will make any such vehicle unprofitable.

Well, it will all be played out in a few days! This is what happens when politics trumps economics, I mean real economics not the academic kind!

Posted by Terry McGarty at [9:24 AM](#) [0 comments](#) 


Labels: [Economy](#)

[INFLATION AND MONEY VELOCITY](#)



We have used the data from the release earlier today from the BEA to calculate the imputed inflation rate. It went from 2.8% down to 1.5% for the first quarter. Despite the fact that M2

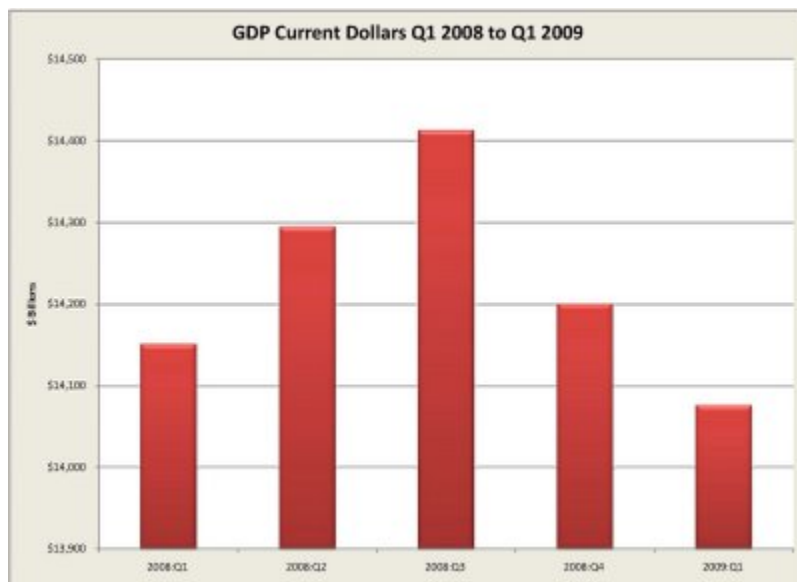
continues to grow the consumer is not spending and V , the money velocity is kept low as evidence by the continued decrease in GDP.

Posted by Terry McGarty at [8:11 AM](#) [0 comments](#) 

Labels: [Economy](#)

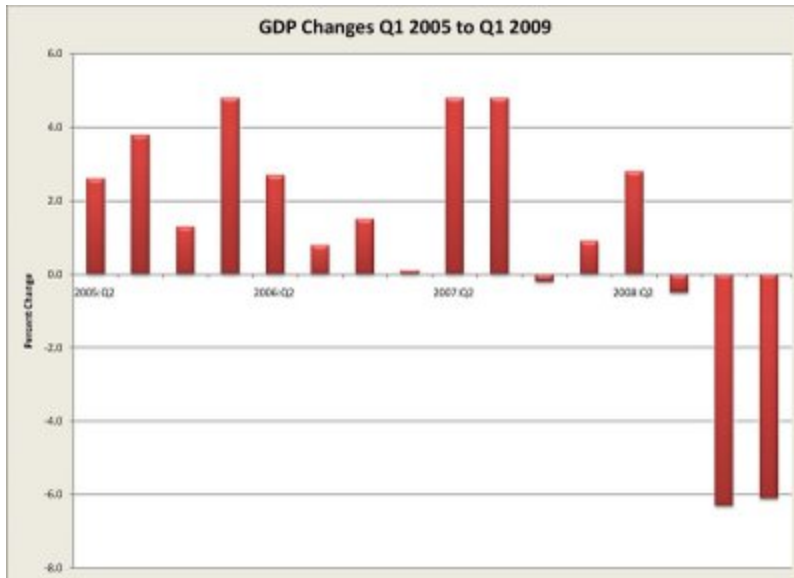
[GDP OVERVIEW](#)

The [Bureau of Economic Analysis](#) has just released the GDP numbers. They are presented in a summary manner here.



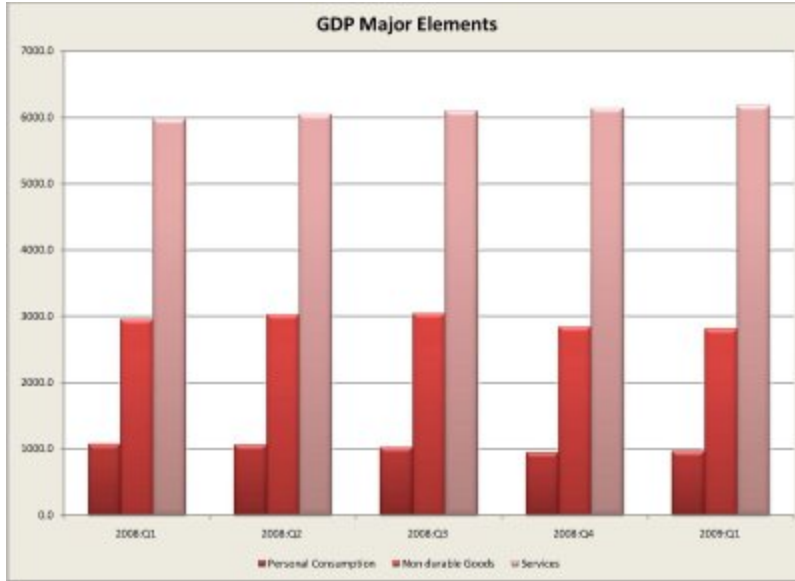
Note the continued drop. The recession is sustaining itself. We will present the velocity of money calculations shortly as well. This will be the concern for the potential of inflation which we are still concerned about.

The percent change is shown in the following:

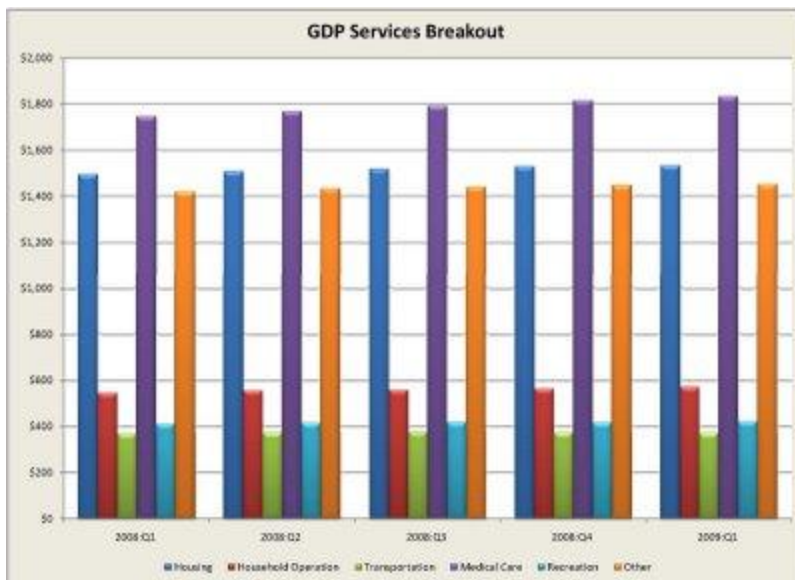


Surprisingly the percent change did not increase. That may be a hopeful sign.

The three major elements are shown below.



The details of all elements of the GDP Services are presented here:



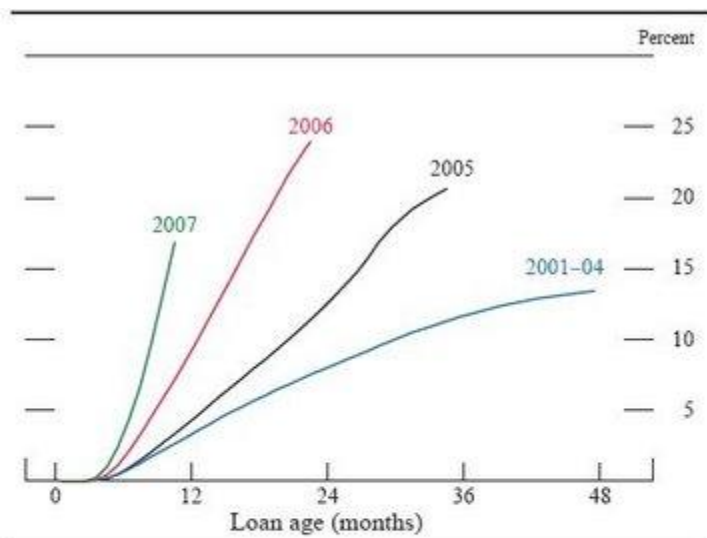
Posted by Terry McGarty at [6:20 AM](#) 0 comments

Labels: [Economy](#)

TUESDAY, APRIL 28, 2009

[AN INTERESTING CURVE ON HOUSING DEFAULTS](#)


The following curve is in a [Brookings](#) report by Swagel detailing the financial collapse.



NOTE: Figure is based on monthly data through March 2008. Each curve represents the fraction of loans originated in the indicated year that had defaulted by the indicated loan age; for example, roughly 8 percent of all loans originated sometime in the years 2001 to 2004 had defaulted by the time they were 24 months old. The last 9 points of the curves for 2005 through 2007 are based on incomplete data. A 2/28 loan is a 30-year loan with a fixed rate for the first 2 years and an adjustable rate for the remaining 28 years.

SOURCE: Staff calculations based on data from First American LoanPerformance.

The interesting fact is that the "old" loans were defaulting at 12-14% per annum up through 2004. Then as the prices expanded and as the Alt a and sub-prime mortgages explodes simultaneously we see the default rates also explode. The question is what did you expect. Many of these were obvious at the time of issuance. The report is interesting and worth the read. However I suspect it will take time to sort out all of the details.

Posted by Terry McGarty at [11:28 AM](#) [0 comments](#) 

Labels: [Economy](#)

MONDAY, APRIL 27, 2009

[THE UNIVERSITY AND THE NEW YORK TIMES](#)

In an article today in the [New York Times](#) by a Professor of Religion at Columbia University makes several proposals as to how to change the graduate education in America. It proposes a six step program.

Before continuing let me make a short disclosure. In 1960 when I applied to Columbia, I thought that staying in New York would be worth while, I was denied admission because I went to a Catholic High School. Donald Barr the Associate Dean sent me a nice four page letter telling me that a school like Columbia was for open minds and not Catholics. I still have the letter! I read it every time I think of Columbia and their sense of superiority. MIT fortunately did not bar Catholics, Jews or even non-believers, Hindus, or Muslims. Columbia felt that it was so advanced in its thinking that only a select group not tainted by some black arts religion could prosper.

Thus a religion professor at Columbia is in itself an oxymoron. How could a school which abhors religion have a professor of religion. Oh well, the facts are always a bit cumbersome. Thus perhaps the author of the op-ed may have a problem which is not academically related but of a local origin.

Now to his points.

"1. Restructure the curriculum, beginning with graduate programs and proceeding as quickly as possible to undergraduate programs. The division-of-labor model of separate departments is obsolete and must be replaced with a curriculum structured like a web or complex adaptive network. Responsible teaching and scholarship must become cross-disciplinary and cross-cultural."

This is classic pan-culturalism. When Harvard educated physicians I hope that they still teach them the art and science of medicine. Understanding the patient is also important, but the key point is becoming an expert in your field. At MIT we still inculcate as much as we can in the time allotted. It is getting a drink from a fire hose. There are inter disciplinary departments but each student and faculty member brings their own expertise. Academics who have remained in the academy are perforce of the system narrow specialists. Rarely do they think broadly because of the fear that they may not get tenure. That is a problem of the system, but it is a way the system works to create some consistency in academics.

"2. Abolish permanent departments, even for undergraduate education, and create problem-focused programs. These constantly evolving programs would have sunset clauses, and every seven years each one should be evaluated and either abolished, continued or significantly changed. It is possible to imagine a broad range of topics around which such zones of inquiry could be organized: Mind, Body, Law, Information, Networks, Language, Space, Time, Media, Money, Life and Water."

Wow, this is a good one! I can see this in say nephrology, water! How about a gastroenterologist as in networks. In the sciences, engineering, medicine, law, and even business, there are core bodies of knowledge and their related practice which must be acquired. You learn the basics, you learn to apply, and you learn to expand. The proposed new age curriculum is bizarre. There exists laboratories, centers, and the like which are supra departments, and departments are all too often administrative homes, but they department is often not a stranglehold on learning in a growing and active field. MIT has the Broad Institute, the Whitehead Institute, the Research Lab of Electronics and on and on. They come and go as new knowledge requires new linkages. It works my good professor. Yet why would one ever suspect it would work at Columbia! Remember my letter! Religion does not fit there except as perhaps a basis for history.

"3. Increase collaboration among institutions. All institutions do not need to do all things and technology makes it possible for schools to form partnerships to share students and faculty. Institutions will be able to expand while contracting. Let one college have a strong department in French, for example, and the other a strong department in German; through teleconferencing and the Internet both subjects can be taught at both places with half the staff..."

Distance education is starting to explode. MIT has had a distance program between Cambridge and Singapore for over ten years. It now uses Internet II and advanced video. It is for a Master's Degree program. Many other institutions are doing the same such as NYU. There may be some

merit here for some core undergrad courses but on the same hand there should be a massive restructuring of costs.

"4. Transform the traditional dissertation. In the arts and humanities, where looming cutbacks will be most devastating, there is no longer a market for books modeled on the medieval dissertation, with more footnotes than text."

The MIT Media Lab has been doing this for decades. Not that it is readily transformable to other fields. Various theses in the sciences and engineering performe of what they do have multimedia content. I remember twenty years ago when I taught the first course in [multimedia communications](#) at MIT I spent a great deal of time educating the students on just what the concept meant. Yet in mathematics the dissertation may be all of 20 pages and if one looks at say Einstein's dissertation is is about that length. In my day the target was 200-250 single spaced pages. The thesis was a part of the process. It taught you how to collect and present your ideas.

As I did the thesis I also was finishing my first book, which lasted a lot longer than the thesis. My book was targeted at a market, it was written to get a job, the thesis was written to get a PhD. As Einstein did his thesis as a prelude to his real thinking, and he did it while in Bern not Zurich, and he did it independently, perhaps that is something we could see again. All too often having doctoral students is a means to an end for faculty who just want free help.

"5. Expand the range of professional options for graduate students. Most graduate students will never hold the kind of job for which they are being trained. It is, therefore, necessary to help them prepare for work in fields other than higher education. The exposure to new approaches and different cultures and the consideration of real-life issues will prepare students for jobs at businesses and nonprofit organizations."


The graduate does not have to teach. We expect most physicians to practice medicine or at least do research. We expect PhD engineers to go into industry, develop new ideas, create new companies. We expect lawyers to practice law. Business School grads, albeit more of a sophisticate trade school education, go back to business. However if you study fine art, English literature, religion, perhaps you took the wrong major. There once was a time that high school students looked at the Sunday NY Times classifieds for jobs and chose their major on that basis. Physicists, Chemists, Biologists, are all needed in today's world. A PhD in the footnotes of Duns Scotus, or the analysis of the scholastic arguments of Aquinas, albeit an interesting exercise, do not get one a job. On the other hand, those studies are always of value to mankind, it is always good to have say 50 scholars around in that area at any one time. But educating a continual flow of them is useless, except for keeping the already dysfunctional faculty employed.

"6. Impose mandatory retirement and abolish tenure. Initially intended to protect academic freedom, tenure has resulted in institutions with little turnover and professors impervious to change. After all, once tenure has been granted, there is no leverage to encourage a professor to continue to develop professionally or to require him or her to assume responsibilities like administration and student advising."

On this issue I agree but with a reservation. Tenure is process. It is a process whereby the non tenured faculty member must publish and get acceptance by their peers. It has become a quite complex issue. I remember forty years ago that almost all the professional papers in engineering were written by one person. You knew who did what. Now every paper looks like a NEJM article with ten to twenty authors and you have no idea who has done what. In addition forty years ago the paper was written and your credibility was determined by who cited it. You had to go out and promote yourself. If you did so then the cites came in if the paper was useful and this added to the pile.

The process of obtaining tenure is critical. There must be some way of vetting, there must be some rules that we all accept. Then there must be a reward at the end. The Academy is the most political organization in the world. The old adage, "Why did you leave Cambridge to go to Washington?...To get away from the politics." is spot on. Thus there are continuing intrigues because of collections of bright minds and tremendous egos. There may be no way to avoid that. Perhaps tenure is there as a way to buffer that. Perhaps tenure has a purpose despite its downsides. Or perhaps it is the cause of these problems. One does not know.

The bottom line is that the US professional graduate schools are the best in the world. they are competitive, flexible, and productive. The problem is that the overhead has exploded. There are too many Deans, Associate Deans, Executive Deans, Associate Executive Deans, and the like. I am still amazed when I walk down the corridors at MIT which once held class rooms and I find more Deans. It is like a fungal invasion in Florida! Secondly, Federal Program mandates had massively added to the burden ensuring all the appropriate government mandates are met. Cutting the overhead from the undergraduate program is more essential than fixing religion at Columbia.

Posted by Terry McGarty at [6:33 AM 0 comments](#) 


Labels: [Commentary](#)

SUNDAY, APRIL 26, 2009

[HERR PROFESSOR DOCTOR GUSTAVE M SQUIRREL AND HIS FRIEND ALBERT](#)

We have just posted the latest in the [Squirrel Chronicles](#). This one is about a squirrel, one [Gustave](#), who studied under Max Planck and returns to Bern in 1903 to see his ailing mother. He befriends a young patent clerk, one Albert Einstein and the tale describes how three of the great papers were written from the perspective of a well educated squirrel.

This presents the development of the photoelectric effect, Brownian motion and relativity from a slightly different perspective.

Posted by Terry McGarty at [4:47 PM 0 comments](#) 

Labels: [Squirrels](#)


[IF ALL ELSE FAILS, LISTEN TO THE CUSTOMER!](#)

Just a brief not before the structured bankruptcy of GM. I have had a few Cadillacs over the years, some good some not so good. I have one with 300,000 miles and another with 225,000. They both get 27 mpg on the highway, just shy of my Honda. Last November I went to the local dealer and inquired about a new car. I left my phone number, name and whatever else, and asked him to call me.

Did I ever get a call. No, dealers do NOT call customers, dealers never lower themselves to reach out to a customer, that is a sign of weakness, they lose the negotiating edge. It may be in Lesson 1 in dealer school.

I was amazed that the dealers en masse still assume the world has not changed. If you went into a dealer you could start negotiating and still walk away feeling and knowing you have been had. I do not feel that way with my Dell. The price is there on line. I can compare to HP and a stack of others including the religious change to an Apple and make a decision. Can you do that with a car. No!

Perhaps one of the fundamental flaws is not the quality or mileage issue, perhaps it is the sales and distribution channel. It has been for decades an arrogant customer come to me approach and never would they ever think going to the customer. When was the last time Cadillac sent a thank you not, an email with a deal, never. Does the company need a change, yes, and that includes the dealers who must learn that they rely on the customer. Perhaps that is one reason why things are in such a mess!

Posted by Terry McGarty at [7:30 AM](#) [0 comments](#) 

Labels: [Commentary](#)

MONDAY, APRIL 20, 2009


[MORE THOUGHTS ON PIGOU](#)

Yesterday I posted a remark about the Mankiw Pigou Club and [Congressman Inglis](#) proposal. Let me go back and review.

1. The objective is to reduce carbon emissions.
2. The approach is to tax them. But the tax is placed at the point of generation not at the point of consumption.
3. The generators of electricity, for example, pay the tax, then pass it down to the consumer. This is about \$3,000 per HH per year.
4. Inglis then posits that the Government will give the money back so that the consumer is unhurt. Here I would depart from reality if anyone would in their wildest dreams believe this, but give the man his due, after all he is a Republican from South Carolina.
5. Now how does this change anything? The consumer is revenue neutral. If this thing ever works. The consumer brings no demands on the producer.
6. The produce increases revenue, and keeps the profit margin fixed and thus has no motivation to change. After all they are all monopolies! Somehow these economic geniuses have seemed to let that fact fall through the cracks. There is no alternative.
7. Thus there is no incentive to change.

8. If the carbon tax was not made revenue neutral then there still would be de minimis change since again the producers are monopolists and the consumer has no alternative. The current Administration knows this and is relying upon this revenue to pay for all their plans.

9. Every system conceived has a natural response mechanism. Any adverse effect will cause some anti-body reaction as well as developing secondary pathways to avoid the adverse effects. Thus this Pigou proposal is just that, a pig proposal!

Posted by Terry McGarty at [5:16 AM](#) [0 comments](#) 

Labels: [Cap and Trade](#)

SUNDAY, APRIL 19, 2009

ORPHAN'S OF VERIZON

We had used Fairpoint as an example of what happens when Verizon found some group to buy off their junk. Two are front and center. First is Idearc which took the yellow pages and declared Chapter 11 March 31st of this year. The second we have been following is Fairpoint which is struggling to say the least. The following is the financial stats for both. They show the debt problem we have been arguing is one of the next collapses to occur.

Fairpoint

	Q4 (Dec '08)	Annual (2008)	Annual (2007)
Income Statement			
Total Revenue	\$319	\$1,275	\$1,197
Gross Profit	\$165	\$698	\$642
Operating Income	(\$20)	\$58	\$120
Net Income	(\$76)	(\$69)	\$33
Balance Sheet			
Total Current Assets	\$351	\$351	\$251
Total Assets	\$3,334	\$3,334	\$1,938
Total Current Liabilities	\$368	\$368	\$225
Total Liabilities	\$3,311	\$3,311	\$819
Total Equity	\$24	\$24	\$1,119
Cash Flow			
Net Income/Starting Line	(\$69)	(\$69)	\$33
Cash from Operating Activities	\$58	\$58	\$265
Cash from Investing Activities	(\$283)	(\$283)	(\$137)
Cash from Financing Activities	\$296	\$296	(\$12,729)

Idearc

	Q4 (Dec '08)	Annual (2008)	Annual (2007)
Income Statement			
Total Revenue	\$709	\$2,973	\$3,189
Gross Profit	\$562	\$2,362	\$2,557
Operating Income	\$29	\$926	\$1,343
Net Income	(\$77)	\$183	\$429
Balance Sheet			
Total Current Assets	\$1,300	\$1,300	\$793
Total Assets	\$1,815	\$1,815	\$1,667
Total Current Liabilities	\$9,933	\$9,933	\$568
Total Liabilities	\$10,306	\$10,306	\$10,267
Total Equity	(\$5,491)	(\$8,491)	(\$8,600)
Cash Flow			
Net Income/Starting Line	\$183	\$183	\$429
Cash from Operating Activities	\$363	\$363	\$369
Cash from Investing Activities	(\$50)	(\$50)	(\$246)
Cash from Financing Activities	\$149	\$149	(\$247)
Net Change in Cash	\$462	\$462	(\$124)

Note that we cannot overemphasize the impact these ongoing bankruptcies will have. Verizon got rid of the junk but someone bought it. They also got rid of [Hawaii Telephone](#) which also had its problems, an orphan of the Carlyle Group. They filed for bankruptcy in December 2008. More than likely Fairpoint will also suffer the same fate. The question is why did the regulators ever allow this to happen. Four states, almost 10% of the states in the US were allowed to have their telephone systems sold to owners in a manner which clearly was not viable. This was known before the sale in New England but the regulatory agencies just disregarded all facts. Generally they lack the competence to understand the issues.


At the other extreme is the wasteland which has become the playing field for the VCs. We know that all too well. [The Financial Times](#) states:

"Entrepreneurs fighting for more government support for start-up companies will find plenty of ammunition in the latest venture capital investment figures. VC investment in the US fell by half in the first quarter, according to Dow Jones VentureSource – to its lowest level in 11 years.

Investment in the UK is also down sharply. Series B rounds, injections of \$10m-\$20m into more established companies, have been particularly hard hit as financiers struggle to raise new funds from institutional investors. Start-ups risk withering on the vine.

Governments are under pressure to help bridge the funding gap. The UK is mulling a government-backed fund of funds that would give cash to existing VC groups. There is a 50-50 chance some kind of start-up support scheme will be included in the chancellor's Budget this week. Entrepreneurs in the US have proposed similar schemes"

Now the orphans of Verizon are bad enough but if we get the Government involved in VC that will be the death of the entrepreneur in the United States. The VC business is ruthless, brutal, and Darwinian. People hate VCs unless you are one. I have played both sides of the street. My investors were unbearable at times, but it was their money, and mine. My investments were a real mixed bag, despite the due diligence. The VC world requires smart people who take risks at the edge and can make decisions quickly to maximize returns and minimize losses. This is not what the Government could ever do. Thus beware, avoid Government help at all costs. Imagine having the IRS, worse Homeland Security, on your Board!

Posted by Terry McGarty at [4:18 PM](#) [0 comments](#) 

Labels: [Commentary](#)

[PIGOU CLUB: ANOTHER SET OF ECONOMISTS MISS THE MARK](#)

I am an admirer of [Greg Mankiw](#) and his blog as you may see below. But I cannot for the life of me see what drives this irrational tendency to support this Pigou club. Let me explain.

The Pigou Club alleges to be believers in the Pigouvian Tax. This is a tax on things we do not want people to do. This means that using the economists terms there are negative externalities. Let me give a few examples.

1. Smoking Causes Lung Cancer. Thus was tax cigarettes at an astronomical rate to get people not to smoke. Today that may be \$7.00-\$10.00 per pack! But people have an alternative. They can give up smoking even if it is a trying experience. They are not deprived of anything by not smoking.
2. Carbs make you fat and fat leads to Type 2 Diabetes.: Thus we would tax carbs. The \$0.05 tax per 12 oz can of soda is an example. We could tax all empty carbs, we could tax high fructose corn syrup, if that made sense, and people would not have a major life change. In fact they may get a little nervous from a lack of a sugar rush but that is all.

Now consider a Mankiw type charge.

3. Driving causes congestion. Apparently Mankiw dislikes traffic. Then again he is in Cambridge and I am in New York, most of the time, so he wants to tax people at say \$1.00 per gallon in addition to what is there to get them to stop driving. There is a negative effect. People need to drive, they do so to go to work. There are real people who do not work at Harvard who have to drive say to Lynn, or Lowell, or some other place where they cannot get public transportation. There is thus a burden on these people because unlike the sugar or tobacco case they have money taken from them and given to the Government and they then lower their standard of living. This is true Professor Mankiw, I see this in West Virginia, Kentucky, and many other states. Perhaps not in Massachusetts.
4. Carbon Dioxide is Bad and Cap and Trade Reduces it: Well let's go along with the CO2 issue for a moment. Yet as a commercial horticulturalist I could do with warmer weather, I lost a good percent of my seedlings to an overly cold winter, but I digress. Facts are so annoying. Mankiw supports the plan proposed by [Congressman Ingliss](#). Simply Ingliss proposes the same Cap and Trade as does the Administration but he says that the Government should give the money back to the taxpayer. Has he gone out of his mind. Has the Government ever given anything back. Just look at Social Security, we pay and they take. Then they complain they cannot meet their obligations. At least the current Administration is not a dreamer. They just want to tax and take away for what they believe is in their best interests.


Consider a simple Cap and Trade calculation.

1. In electrical power today there are 2.4 BmTn of CO2 emitted from electrical power generation.
2. Ingliss proposes a \$10 to \$100 tax per mTn. This is a tax of \$24 B to \$240 B.

3. There are 300M people and 80M HH in the US
4. This is a tax of \$300 to \$3,000 per HH per year.
5. There are current 35M people over 65 collecting Social Security with about 1.5 people per HH. This means that there are 24 M HH of those over 65. They collect \$12,000 per person per year.

Thus we will tax the old at a rate of 25% of their gross income! What a great idea Congressman and you too Professor. This will soon take care of the Medicare problem, they will all just freeze to death. I have not included auto taxes on top of this.

Thus the Pigou Club has a strange idea. If there is some bad unintended consequence, a negative externality to be correct in the jargon of the economist, then we tax the user no matter if the result is another unintended consequence to them, such as their death! Only economists can create such a logic!

Posted by Terry McGarty at [10:55 AM 0 comments](#) 

Labels: [Economy](#)

[INTELLIGENT DESIGN: THE ECONOMY BY OBAMA](#)

In today's NY Times [an article by Richard Stevenson](#) states:


"In a series of comments in recent weeks, Mr. Obama has begun to sketch a vision of where he would like to drive the economy once this crisis is past. His goals include diminishing the consumerism that has long been the main source of growth in the United States, and encouraging more savings and investment. He would redistribute wealth toward the middle class and make the rest of the world less dependent on the American market for its prosperity. And he would seek a consensus recognizing that an activist government is an acceptable and necessary partner for a stable, market-based economy."

This is the most concise and well stated way of defining the Obama economic policy. It is quintessential Galbraith! The Affluent Society and the New Industrial State. Let us look at the goals again:

1. Reduce Consumerism: This is accomplished by the raising of taxes and the imposition of considerable Government controls.
2. Increase Savings: Good thing we will not have any inflation. That's a joke. Why save if your money will become worthless.
3. Redistribute Wealth. The world is NOT composed of just greedy bankers. Some people actually create things. Why not just tax the heck out of the Hollywood types and athletes. They contribute nothing to society. At least a banker delivers money to entrepreneurs who create the value which makes a society function.

4. Create a more Activist Government: That means that the people who work for the Government know more than all those who take the risks to create new value in an economy. Regulation is needed in many areas but the taking of regulation to the point of managing an economy has been proven to be unworkable. Even in countries where the best and brightest go into Government it does not work. In the US the opposite is true. Why would a bright and creative engineer go into Government instead of starting their own company.

This one paragraph is a brilliant statement of what will go wrong. Intelligent Design assumes intelligence, and an intelligence which is based upon a modicum of knowledge of the economy. None of these designers have ever generated dollar one in salaries for people by creating jobs. Why trust them with our future?

Posted by Terry McGarty at [10:43 AM](#) [0 comments](#) 

Labels: [Economy](#)

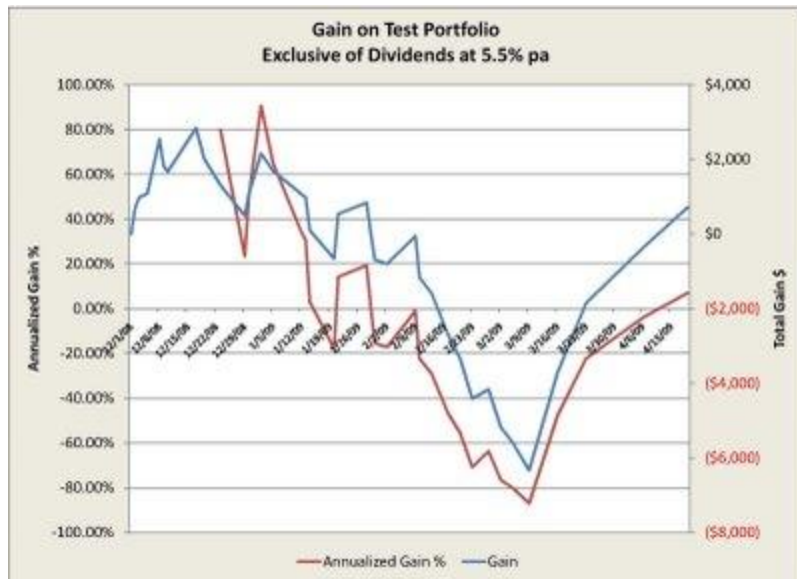
FRIDAY, APRIL 17, 2009

[TWO INTERESTING CHARTS: THE FED MAY BE WORKING](#)




First look at M2. As of a week ago it is still coming down. In view of the fact that we do not have the GDP numbers we cannot judge the imputed inflation rate but that should be available soon. This seems to indicate that the Feds actions are working and there is a drop in the potential for inflation.

Now look at the following. This is our target portfolio. It is the first time during the current Administration that we are positive. The swing seems to be consistently on the positive side.



We are still concerned about commercial real estate and the problems of high yield bonds for the less than stable companies we have analyzed previously.

However, the set of indicators seems to say that we may be getting out of the mess thanks to the Fed.

Posted by Terry McGarty at [6:28 PM](#) [0 comments](#) 

Labels: [Economy](#)

[READING BETWEEN THE GENES: THE NY TIMES AGAIN](#)

There were several articles in this weeks NEJM regarding the attempts to determine the genes that cause various diseases. Since I have been writing about the use of genetic techniques to reduce health care costs and change health care delivery, I thought that a brief note on this issue was worth the while. For the five documents, the 3 NEJM commentaries, the [NEJM paper](#) and the [NY Times](#) article show what I believe is an example of people talking past each other.

I have been arguing that genetic use for disease susceptibility or screening, staging, treatment and then prevention was to be a major part of health care change in the next two decades. The Times states "Genes Show Limited Value in Predicting Disease". However the process that the Times is reporting on is the wide band assessment of genes and their propensity to predict a future disease state. Simply the results state that there are oftentimes dozens of genes, SNPs to be precise, which each may have a relative risk of 1.05 towards having the disease at some future time. The many SNPs may add in terms of increasing risk but how exactly they do it is yet known. Thus if say there were 20 genes which gave a propensity to a certain disease and the greatest relative risk was 1.05 and the others reduced that relative risk down to say 1.005, then if one had all 20 the cumulative relative risk is unknown, but greater than 1.05. Following this?

Well what does it mean? It means that many companies like [23 and Me](#) may be selling somewhat useless and in some cases somewhat concerning tests since the results are hardly predictive. The Times kind of says that, but not really. However there are real genetic testing companies like [Correlagen](#).

Correlagen tests for genes which are known to present a clear and present danger from a set of genetically based disorders and for which disorders one can take remedial action. This is meaningful. This is also totally ignored in the papers which appear to address the broad spectrum of all possible cases.


Secondly, it says that we yet fully understand the process. We understand many cancers much better. The now classic Bert Vogelstein model of colon cancer shows how multiple hits on cells in the colon result in cancer. We can use that information in a clinical staging analysis. We cannot screen with that since there is nothing there until the hit occurs. We cannot predict who will get hit by an auto before they are hit.

The multiple SNP model in the paper by [Goldstein](#) is of concern however. It addresses the Type 2 Diabetes issue. Again as we have argued from evidence that more than 95% of Type 2 Diabetes is caused by obesity and that when the weight is reduce to below a 22.5 BMI the blood sugar returns to normal and the HbA1c also returns to the 4.5 to 5.5 range. Namely evidence of Type 2 Diabetes goes away. Thus is there a set of genes that correlate with Type 2, and are these genes ones which are more related to eating than to the disease. The studies performed thus far are ambiguous at best.

Thus the Goldstein assertion is questionable. His assertion regarding height may be of merit but we at this point know little of height yet we do know that as childhood and maternal nutrition are improved height increases generation to generation. Is there a similar correlation between nutrition and genes and not between genes and height directly. These are the problems that the geneticists face and oftentimes failed to include.

The paper by [Hirschorn](#) is of interest since it does present the issue of pathways. Namely as we have shown in other species, it is the complex interaction of genes, activator and repressor genes, and their control of secondary metabolic pathways that results in many of the effects which we see. No single gene is the sine qua non. It is the network of genes and the secondary pathways that causes what we often see as a disease.

Thus in many ways the Times sensationalizes the story while missing the point. The point is that the problem is more complex than what the researchers had originally set out to resolve. Well that is the nature of research. The answers are most likely hidden in the complex genetic networks that are currently under analysis. Single genes are not the answer. Complex networks are. By stating as the Times does that Genes Show Limited Value is outright wrong. What is shown is that what has been done to date needs to be expanded not abandoned. This is the second time in a month that the Times having reported on the health care area has grossly mis-stated the implications. One wonders how one can rely upon such reporting for assessing other issues.

Posted by Terry McGarty at [10:10 AM](#) [0 comments](#) 

Labels: [Health Care](#)

TUESDAY, APRIL 14, 2009

RAWLS AND HEALTH CARE

Fifteen years ago I wrote a paper on universal service in telephony. I compared the Rawlsian system with the Utilitarian school and the Benthamites. In the paper I was commenting on the Baumol-Willig theorem, a tautological proposition crafted by a few economists at the beckon call of AT&T to justify the incumbents control over the network. I stated:

" The Baumol Willig theorem states that we want to maximize the welfare of the populace while keeping the profits of the monopolies high. This is a classical example of an ad hoc propiter hoc theorem. Clearly the result is that we tax the people and subsidize the monopoly.

The other issue is how do we measure welfare.

If we are a Rawlsian then we measure welfare as the welfare of the least of us and not the average welfare. Rawls states that if we maximize average welfare then we disadvantage the least of us and this is not just.

Thus as a Rawlsian we demand Universal Service. We must insist that all people have access to all service elements, whether it makes economic senses or not, we do so via wealth transfer. Hopefully, this political theory should now not seem too foreign. Rawlsians favor the implementation of access fees and the implementation of Universal Service. Indeed, the true

Rawlsian would impute Universal Service to even computer terminals as has been stated by Vice President Gore.

In contrast is the classic liberal, now called libertarian view. It is more a combination of minimal government involvement and maximizing utility to the consumer. This is the philosophy of the utilitarian. Here we assume that government has a de minimis role and that the market follows of its own accord and that the market, in an Adam Smith fashion, will clear any inefficiencies of distribution and pricing mechanisms.

It assumes that each business should stand on its own stead and that utility is maximized on average. The result from the libertarian school, as opposed to the contractarians or Rawlsians, is the elimination of access fees and the elimination of universal Service."

I then went and described the Rawlsian approach, one which I thought would never raise its head again. I stated:

"Rawls has proposed a theory of justice that is a statement of what many proponents of antitrust theory ion the mid-fifties and sixties promulgated. The essence of Rawls' theory has three elements;

Original Proposition: There exists a means and method for a society to establish a Contract amongst and between themselves. This Contract thus created in this society of the just is one that maximizes the return on every transaction to the least of the individuals in the society. This approach to contractarianism is one related to individuals in a non-bargaining environment establishing between and amongst themselves a "contract" to govern their society.

There are two elements contained herein.

The first is the essence of a contract, and in fact a form of social contract between the members of society and amongst them as a whole.

The second element is that of a view towards man as a constrained and unconstrained view of human nature.

The unconstrained view states that man, individually and in concert, has the capabilities of feeling other people's needs as more important than his own, and therefore we all act impartially, even when the individuals own interest are at stake.

The constrained view is to make the best of the possibilities which exist within the constraint.

For example, the constrained view of universal service is one which would state that if it costs a certain amount to provide the service, an there is a portion of the society not able to purchase the service, then there is no overriding need to provide it if such a provision is uneconomical and places a significant burden on the other member of society.

The unconstrained view, as a form of socialism, states that if there is the least of us in want for whatever the telecommunications revolution has in store, then they should have access to it at whatever cost. One can see that the current trend in Universal Service is such an unconstrained view, especially as viewed by the current Vice President in his actions over the past four years.

Rawls approach to this contract is one wherein the individuals in the society collect themselves as individuals, and agree to a plan for the operations of that society.

First Principle of Justice: each person shall have equal rights and access to the greatest set of equal fundamental personal liberties.

Second Principle of Justice: social and economic inequalities are to be arranged so that they both, (i) provide the greatest benefit to the least advantaged., and (ii) attached to positions available to each individual under conditions of fair equality of opportunity."

Thus to my surprise I read in this weeks JAMA an article entitled, [The Ethical Foundation of American Medicine, In Search of Social Justice](#). In their view the Rawlsian approach is key to the way in which health care should be provided. They state:

"Rawls' theory of justice, often referred to as social justice, has gained prominence since the 1970s as a dominant theory of justice. This theory has 2 major principles. The first, that "people should have maximal liberty compatible with the same degree of liberty for everyone," defines limits of individual liberty by focusing on the liberty of others. The second, that "deliberate inequalities [a]re unjust unless they work to the advantage of the least well off," focuses on social consequence and responsibility for actions.

Considering the body of research and news reports that describe inequalities in US health care access and quality,¹⁰ and the fact that these inequalities do not work to the advantage of the least fortunate, it is clear that the US health system does not meet these criteria for being just. It seems that the structure of incentives in the current health system stimulates behavior that marginalizes considerations of social justice, leaving it seldom emphasized, relative to the other 3 core principles of medical ethics."

Unlike other theories of society, the Rawlsians argue that there exists a social contract with all so that all should receive what the least receive and no more. Thus if I have the financial resources to seek medical care for the prevention of colon cancer by annual colonoscopies and the law permits payment only for five year colonoscopies, the Rawlsian would either deny me my annual choice or make it annual for all, and then have all people pay the added costs. The Rawlsians establish "rights" extra those Constitutionally and legally established and then take the position that if the least of a society do not have them fully then none shall have them. It states that those who have been successful should not in any way use that wealth to disenfranchise those who do not.

The Rawlsian school also removes burdens from people. If you happen to be one of the 30% who are morbidly obese in the US and most likely suffering from Type 2 Diabetes, so be it, it is not

your fault, despite the fact that you consume well in excess of 2000 cal per day, you must be dealt with as a faultless and blameless victim. Those who struggle to maintain health must therefore pay for the victims who out of total abject neglect do not.

The article in JAMA continues:


*"For example, **physicians attempt to maximize income while caring for the needs of their individual patients**, but this means that some physicians choose to accept fewer, if any, Medicare and Medicaid recipients, as well as self-pay patients. Some physicians argue that to keep their practice financially viable, they have to see fewer patients for whom they are inadequately reimbursed.*

Yet for each of the physicians who decide they can no longer care for these patients, the responsibility of care falls to another clinician. This increases the burden on those other clinicians and exacerbates the income disparities among them. In circular fashion, this increases the focus on revenue and reimbursement, rather than on social justice.

*A second factor that may contribute to the imbalance of medical ethics in practice involves the **cost of education and level of student debt....***

*A third important factor is the US culture of "individualism." While general western philosophy has shaped US culture, the unique history of the **United States has created a special emphasis on individualism, entrepreneurial capitalism, and personal responsibility**. Specifically regarding health care, many other western nations have some form of universal coverage supported by their government and treat health care as a public good. In the **United States, health care only intermittently has been treated as a public good** and an intense debate regarding the promotion of government health programs vs the philosophy of individual responsibility and allowing market forces to work is ongoing."*

The authors recognize the unique character of the United States and then as classic Rawlsians they reject it in a backhanded manner. The US has not only created the special emphasis on individualism, entrepreneurial capitalism, and personal responsibility but has built its culture, society and success on those pillars. They are at the core of our society and they are what make us what we are, they are the success of the United States. The authors as true Rawlsians, are vehemently opposed to those core principles. That should be a terrifying thought.

Posted by Terry McGarty at [7:28 AM 0 comments](#) 

Labels: [Health Care](#)

MONDAY, APRIL 13, 2009

YALE DISCOVERS THE SUGAR TAX


In a [NEJM paper](#) this week, the authors from Yale present a proposal for taxing sugar in sweetened sodas. We have proposed a much broader tax on carbs since it is the candies and sugared snacks which add to the load. One must remember that 3500 calories (Kcal) equal one pound. A typical adult burns at most 2000 per day so that if one consumes three 180 cal cans of 12 oz of soda, that is 540 cal per day or if this is in excess of the 2000, which it is, this is 56 pounds of weight gain per year! Which by the way is seen in many obese adults and even children.

The old law of mass, namely input less output equals net accumulation applies. Thus taxing the consumption of all carbs is much better than just sodas.

Yet the authors have a wonderful quote from Adam Smith:

"Sugar, rum, and tobacco are commodities which are nowhere necessities of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation."

Adam Smith, *The Wealth of Nations*, 1776

Posted by Terry McGarty at [11:19 AM](#) [0 comments](#) 

Labels: [Health Care](#)

SATURDAY, APRIL 11, 2009

[HOFSTADTER, OBAMA AND GEORGE WILL](#)

We have written about the Galbraithian approach of the current Administration. That influence is one of power and the use of the technique of one side playing off against the other with the Administration above the fray, albeit benefiting from it.

On the other side there is a world view perspective which we believe flows from the Columbia University bloodstream of which Obama took part of as an undergraduate, It is the heritage of the Hofstadter view of the world.

A year ago George Will wrote an article in the Washington Post entitled "[Candidate on a High Horse](#)". In that article he states:

"The iconic public intellectual of liberal condescension was Columbia University historian Richard Hofstadter, who died in 1970 but whose spirit still permeated that school when Obama matriculated there in 1981. Hofstadter pioneered the rhetorical tactic that Obama has revived with his diagnosis of working-class Democrats as victims -- the indispensable category in liberal theory. The tactic is to dismiss rather than refute those with whom you disagree.

Obama's dismissal is: Americans, especially working-class conservatives, are unable, because of their false consciousness, to deconstruct their social context and embrace the liberal program. Today that program is to elect Obama, thereby making his wife at long last proud of America.

Hofstadter dismissed conservatives as victims of character flaws and psychological disorders -- a "paranoid style" of politics rooted in "status anxiety," etc. Conservatism rose on a tide of votes cast by people irritated by the liberalism of condescension."

To best understand the Columbia culture one need go no further than looking at Richard Hofstadter, the late Professor of History, a person who had significant influence of the cultural underpinnings of Columbia University in the 1950s and 1960s. Hofstadter was also a self proclaimed intellectual. To him and the clique he was associated with, the intellectuals were a chosen group who circled around academe, and Columbia was considered a major focal point at

the time, and they saw what truth was and from them truth would be disseminated. Their intellectual work was considered by them and their followers to be without peer.

Hofstadter wrote several books, amongst them *The Age of Reform* and *American Political Tradition*. His writings were not of the type which included any original research but were more targeted at a broader non-academic audience. Though not a general press type writer, he did achieve success in his wider audience of liberal devotees.

In an article in *The Nation*; America, [*Through a Glass Darkly*](#), by Jon Wiener in the October 23, 2006 issue, Wiener while reviewing the Brown biography of Hofstadter states:

"The American Political Tradition, published in 1948 and widely regarded as Hofstadter's best book, is still selling briskly almost sixty years later: Recently it had an Amazon ranking of 4,400, which would be envied by most historians with books on the market today. (Brown's, for example, was at 22,000 on the same day.) Knopf's 1948 publicity marketed the book as a work of consensus history: "In this age of political extremism, this young and brilliant Columbia historian searches out the common ground among all American parties and factions." In fact the book was more subtle, and much more interesting, than that.

Hofstadter wrote the book from a vantage point on the left. While others, like Daniel Boorstin, celebrated consensus, Hofstadter was openly critical. It opens with a description of an "increasingly passive and spectatorial" state of mind in postwar America, a country dominated by "corporate monopoly," its citizens "bereft of a coherent and plausible body of belief" and adrift in a "rudderless and demoralized state." "

This shows that Hofstadter is still held in high esteem by the left, since this was so well received in *The Nation*.

But let us look at Hofstadter a bit more closely. Hofstadter makes the following comments in 1963, the year Kennedy was killed in office:

"In these pages I have been mainly concerned with the relationship between Protestant evangelicism and American anti-intellectualism, simply because America has been a Protestant country, molded by Protestant institutions. It would be a mistake, however, to fail to note the distinctive ethos of American Catholicism, which has contributed in a forceful and decisive way to our anti-intellectualism. Catholicism in this country over the past two or three generations has waxed strong in numbers, in political power, and in acceptance. At the middle the nineteenth century it was, though a minority faith, the largest single church in the country and was steadily gaining ground despite anti-Catholic sentiment.

Today the Church claims almost a fourth of the population, and has achieved an acceptance which would have seemed surprising even thirty years ago. One might have expected Catholicism to add a distinctive leaven to the intellectual dialogue in America, bringing as it did a different sense of the past and of the world, a different awareness of the human condition and of the imperatives of institutions.

In fact, it has done nothing of the kind, for it has failed to develop an intellectual tradition in America or to produce its own class of intellectuals capable either of exercising authority among Catholics or of mediating between the Catholic mind and the secular or Protestant mind. Instead, American Catholicism has devoted itself alternately to denouncing the aspects of American life it could not approve and imitating more acceptable aspects in order to surmount its minority complex and "Americanize" itself. ...

In consequence, the American Church, which contains more communicants than that of any country except Brazil and Italy, and is the richest and perhaps the best, organized of the national divisions of the Church, lacks an intellectual culture. "In no Western society," Q. W. Brogan has remarked, "is the intellectual prestige of Catholicism lower than in the country where, in such respects as wealth, numbers, and strength of organization, it is so powerful." In the last two decades, which have seen a notable growth of the Catholic middle class and the cultivated Catholic public, Catholic leaders have become aware of this failure; a few years ago, Monsignor John Tracy Ellis's penetrating brief survey of American Catholic intellectual impoverishment had an overwhelmingly favorable reception in the Catholic press. ..."

Hofstadter keeps seeing the Church and its members as one and the same. Although he states that the growth of a Catholic middle class has presented a challenge to the Catholic Church, he lumps the Catholic middle class in with the Church hierarchy as dolts. One must also remember that this is also the Period of Vatican II with dramatic openings in the Catholic Church, for better or worse. Hofstadter then continues:

"Two formative circumstances in the development 'Of early American Catholicism made for indifference to intellectual life. First in importance was the fiercely prejudiced Know-Nothing psychology against which it had to make its way in the nineteenth century. Regarded as a foreign body that ought to be expelled from the national organism, and as the agent of an alien power, the Church had to fight to establish its Americanism. Catholic laymen who took pride in their religious identity responded to the American milieu with militant self-assertion whether they could and Church spokesmen seemed to feel that it was not scholarship but vigorous polemicism which was needed...."

The Church thus took on a militant stance that ill accorded with reflection; and in our time, when the initial prejudice against it has been largely surmounted, its members persist in what Monsignor Ellis calls a "self-imposed ghetto mentality."

A second determining factor was that for a long time the limited resources of the American Church were pre-empted by the exigent task of creating the institutions necessary to absorb a vast influx of immigrants-almost ten million between 1820 and 1920-and to provide them with the rudiments of religious instruction. So much was taken up by this pressing practical need that little was left over for the higher culture, in so far as there were members of the Church who were concerned with Catholic culture, exceptionally unproductive in all areas of scholarship, achieve their best record in the sciences."

At the time of this book by Hofstadter, Catholics were educated in secondary and College levels at Catholic institutions, but there was also a clear breakout into the secular world. Even in New York, CCNY became equally populated with Catholics and Jews, not all Catholics went to

Fordham or St. Johns, many, like the Jewish immigrants, could only afford a CCNY education. The Catholic Church frankly performed a great social function in New York by setting up schools, hospitals, and orphanages. The City could not handle the social issues presented by the influx of immigrants.

By having these institutions, the new working class could productively contribute without costing the tax payers the added amount that would have been necessary for health and education. The Catholic institutions also taught an ethic that reduced crime, it made what the Italian and Irish gangs did sinful and used its social pressure in a manner which we see little of in many of today's churches."

Hofstadter then continues:

"As one might have expected, the way of the Catholic intellectual in this country has been doubly hard. He has had to justify himself not only as a Catholic to the Protestant and secular intellectual community but also as an intellectual to fellow Catholics, for whom his vocation is even more questionable than it is to the American community at large. Catholic scholars and writers tend to be recognized belatedly by their.....co-religionists, when they are recognized at all.

All of this concerns, of course, not so much the anti-intellectualism of American Catholicism as its cultural impoverishment, its non-intellectualism. But it will serve as background for a more central point: a great many Catholics have been as responsive as Protestant fundamentalists to that it is against modernity of which I have spoken, and they have done perhaps more than their share in developing the one-hundred per cent mentality. In no small measure this has been true because their intellectual spokesmen—who are now growing in numbers and influence—have not yet, gained enough authority in the Catholic community to hold in check the most retrograde aspects of that revolt, including its general suspicion of mind and its hostility to intellectuals. "

American Catholicism for Hofstadter became a pervasive genetic disorder seemingly to infect any person who professes to be Catholic and moreover any person in any way related to the Catholic Church, such as a Catholic High School Graduate. Hofstadter states that the Catholic holds a hostility to the intellectual, namely Hofstadter and his ilk.

The hostility is that the Catholic thinker may disagree with them, and this disagreement to Hofstadter is prima facie evidence of dollardism. Hofstadter, and the Columbia clique, somehow view that they are prophetic and without fault or error in their intellectualism, that they solely have seen truth, and that it is their word ex-cathedra from Morningside Heights which contains the truth and the light. The arrogance of these men, and they were all men at the time, is appalling. It fundamentally rejects any other thought process.

"A great deal of the energy of the priesthood in our time has been directed toward censorship, divorce, birth control, and other issues which have brought the Church into conflict with the secular and the Protestant mind time and again; some of it has also gone into ultra-conservative political movements, which are implacable enemies of the intellectual community.

Catholic intellectuals on the whole have opposed the extreme and (from the point of view of the faith) gratuitous aspects of this enmity, but they have been unable to restrain it. Indeed, one of the most striking developments of our time has been the emergence of a kind of union, or at least a capacity for cooperation, between Protestant and Catholic fundamentalists, who share a common puritanism and a common mindless militancy"

He then goes on:

"For evidence that Catholic clergy and laymen alike are unusually hostile to freedom of thought and criticism, even on subjects remote from dogma see Gerhardt Lenski: *The Religious Factor* (New York, 1960)."

This is a broadly damning statement. Hostile to freedom of thought and criticism, even on subjects remote from dogma. Catholics at that time were becoming lawyers, scientists, mathematicians, engineers, physicians, and they were certainly not hostile to criticism in these fields. Perhaps they took positions orthogonal to Hofstadter's but that it acceptable in and discourse amongst thinkers. Yet disagreement with an intellectual is anathema.

In Hofstadter's *Age of Reform* he further states:

"At the so-called grass roots of American politics there is a wide and pervasive tendency to believe - I hasten to add that the majority of Americans do not habitually succumb to this tendency - that there is some great but essentially very simple struggle going on, at the heart of which there lies some single conspiratorial force, whether it be the force represented by the "gold bugs", the Catholic Church, big business, corrupt politicians, the liquor interests and the saloons, or the Communist Party..."

In The New York Times review of the [biography of Hofstadter](#) by Sam Tanenhaus states:

"These were Hofstadter's subjects in his most productive years, the 1950's and 60's, when he nested among a nucleus of thinkers at Columbia that included the social theorists Daniel Bell, Seymour Martin Lipset and Robert K. Merton and the literary critic Lionel Trilling. Together they formed a loose federation of like minds and temperaments. All were secular Jews (or in Hofstadter's case, half Jewish). Many had weathered chastening experiences on the left. Most were influenced by European social science, in particular by psychoanalysis and depth psychology, which offered more fruitful diagnostic methods than the tired formulas of Marxism and the class struggle.

The Columbia group did much to create the vocabulary of mid-century liberal thought in America as it sought to move beyond ideology and toward a kind of broad public doctrine or "orthodoxy," as Brown puts it.

"In Hofstadter's case this meant exploring in a systematic way "the sociological penumbra of political life" — the murky substratum of desires and impulses that underlay the surface pageantry of American politics. He was much impressed by "The Authoritarian Personality" (1950), a survey of contemporary American political attitudes compiled by a team of researchers under the direction of the German émigré Theodore Adorno. Hofstadter adapted Adorno's

“social-psychological categories” in his essay “The Pseudo-Conservative Revolt,” an attempt to uncover the hidden sources of McCarthyism. ”

Tanenhaus continues:

"In the boom years of the 1920's, for instance, millions of small-town and rural “native stock” Americans, alarmed by the ascendancy of the country's pluralistic urban culture, had embraced the organized bigotry of the Ku Klux Klan and flocked to the punitive crusades of anti-evolutionism and Prohibition.

The pattern was being repeated in the 1950's, also a boom period, only now it was a curious alliance of upwardly mobile white ethnics (many of them Catholics) and downwardly sinking displaced WASPs, who looked to secure their status as authentic Americans by converging upon “liberals, critics and nonconformists of various sorts, as well as Communists and suspected Communists..... And if, as Hofstadter maintained, political issues now reflected a wider cultural debate over “the capacity of various groups and occupations to command personal deference in society,” then the largely Jewish inhabitants of what Brown calls the “Claremont Avenue ghetto” were, for all their seeming detachment, as deeply embroiled in the struggle as Midwestern rubes or urban Catholics."

The characterization of Midwestern rubes and urban Catholics and their antithesis which he calls the Claremont Avenue Jews⁷ are somehow in a massive cultural struggle, with these bone headed rubes and Papists pitted against the small enclave of intellectuals who have singular knowledge of the truth.

The small group of left wing intellectuals, according to Hofstadter, has taken the place of blacks, evolutionists and anti-prohibitionists, and the rubes and Papists are unjustly and in total ignorance attacking them as a result of their social status! The irony is that the Irish Catholics and Italian Catholics in New York at that time were still Police and Garbage Collectors and had just returned from the War.

Neither Hofstadter nor Bell had done the country the honor of such service and kept their comforts on the hill at Morningside Heights while the Irish Catholics, Italian Catholics and Protestant rubes from the mid West lost their lives defending their rights to call them dolts! Yet their attitude was and, in many ways, remains pervasive at Columbia.

In Hofstadter's writing, *The Pseudo-Conservative Revolt*, in the book edited by Daniel Bell, *The Radical Right* in 1955, and updated in 1963, Hofstadter writes:

"Paradoxically the intense concerns of present day politics are shared by two types of persons who arrive at them, in a sense, from opposite directions. The first are found among types of old-family Anglo Saxon Protestants and the second are found among many types of the immigrant families, most notably the Germans and the Irish, who are frequently Catholic."

He then goes on to describe the Irish Catholics as just slightly above Neanderthals and acting like sheep in their movement to what he has termed Pseudo-Conservatives. What is amazing is that

Kennedy had been in office for two years at this point and one would assume that Hofstadter were aligned with the Kennedy wing, if one reads what Brown writes in his biography. Yet the continually telling diatribes against Catholics are never ending.

In Brown's biography of Hofstadter (p. 122) he further reinforces the anti-Catholic and moreover anti-Irish Catholic views held by Hofstadter as well as Daniel Bell⁹. In fact Brown states: "Much of Bell's scholarship during this period focused on the cultural origins of McCarthyism. Like Hofstadter, with whom he worked closely on The New American Right project. Bell observed in the defensive posture of isolationists, anti-communist Irish and German Catholics, and other recent immigrants an eagerness to support a messianic approach to foreign policy as a show of loyalty."

Bell graduated from CCNY in 1939 and avoided all military service during World War II. He spent the time as a reporter for The New Leader magazine which was a front for the Socialist Party of America. The magazine was a hotbed of socialists and left leaning followers like Arthur Schlesinger. Bell completed his PhD at Columbia in 1960 and then went on to Harvard.

But it appears that Bell was just another of the many faculty including Hofstadter who looked at Irish Catholics as the enemy, as ignorant and superstitious religious zealots who had nothing to contribute to the Academy. The irony was, and still is, that there is no true in-bred Irish in New York, New York is the ultimate melting pot, intermarriage between nationalities, religions, races, and whatever. Bell became putatively a Harvard and made a name for him with the publication of several books.

George Will continues in his piece regarding Obama, and in so doing brings the Hofstadter mindset into the current time¹⁰. He states:

"The emblematic book of the new liberalism was "The Affluent Society" by Harvard economist John Kenneth Galbraith. He argued that the power of advertising to manipulate the bovine public is so powerful that the law of supply and demand has been vitiated. Manufacturers can manufacture in the American herd whatever demand the manufacturers want to supply. Because the manipulable masses are easily given a "false consciousness" (another category, like religion as the "opiate" of the suffering masses, that liberalism appropriated from Marxism), four things follow:


First, the consent of the governed, when their behavior is governed by their false consciousnesses, is unimportant.

Second, the public requires the supervision of a progressive elite which, somehow emancipated from false consciousness, can engineer true consciousness.

Third, because consciousness is a reflection of social conditions, true consciousness is engineered by progressive social reforms.

Fourth, because people in the grip of false consciousness cannot be expected to demand or even consent to such reforms, those reforms usually must be imposed, for example, by judicial fiats."

The Will article was written a year ago. It holds more meaning now given the events of the past few months. To understand the current Administration, one must, as we have argued, understand Hofstadter and Galbraith and the culture of Columbia University from the 1950s. It was a culture that rejected the common mass at that time, the "uneducated Catholics", the blue collar masses, since the Columbia educated elite knew what was best.

Posted by Terry McGarty at [4:56 AM](#) [0 comments](#) 

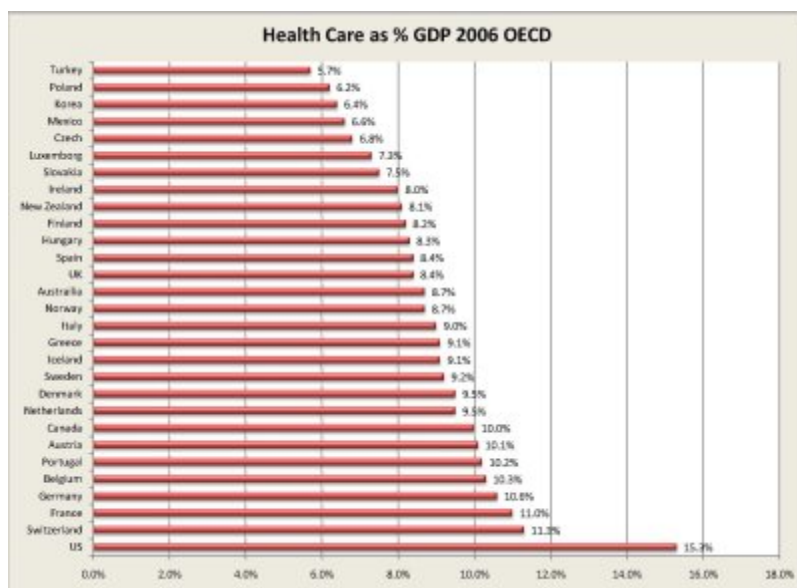
Labels: [Commentary](#)

FRIDAY, APRIL 10, 2009

HEALTH CARE COSTS AND THE OECD

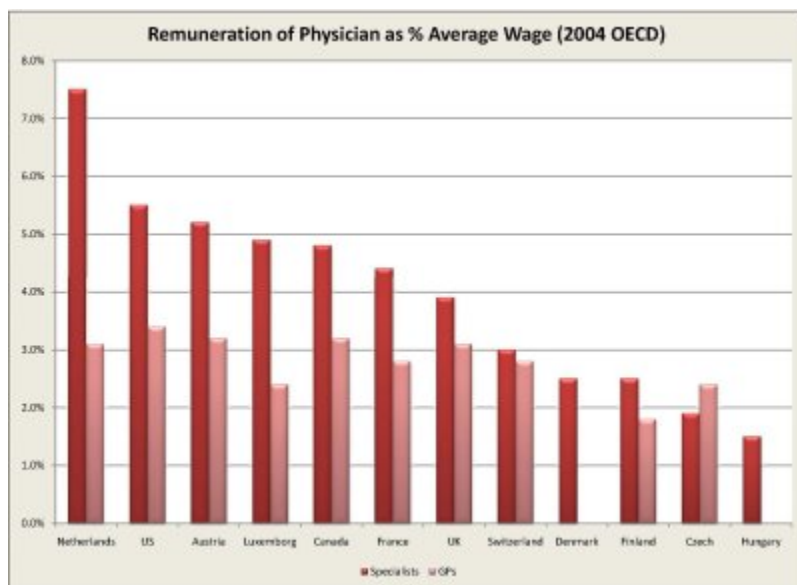
The [OECD](#) has recently released several statistics on health care costs in the US and Europe. We present some of them here and we look at some insights which may be gained from them.

First we present the Table which shows the health care costs as a percent of a nations GDP. This is below.



In the above we note that the US is at 15%. Thus at a \$14 trillion GDP we have a \$2.5 trillion health care costs. The next simple question is, is this because our physicians are paid more or are there other dominant factors. To address that question they have also presented other data.

The following shows the costs of physicians, general practice including internists and specialists as a percent of the average wage in a country.

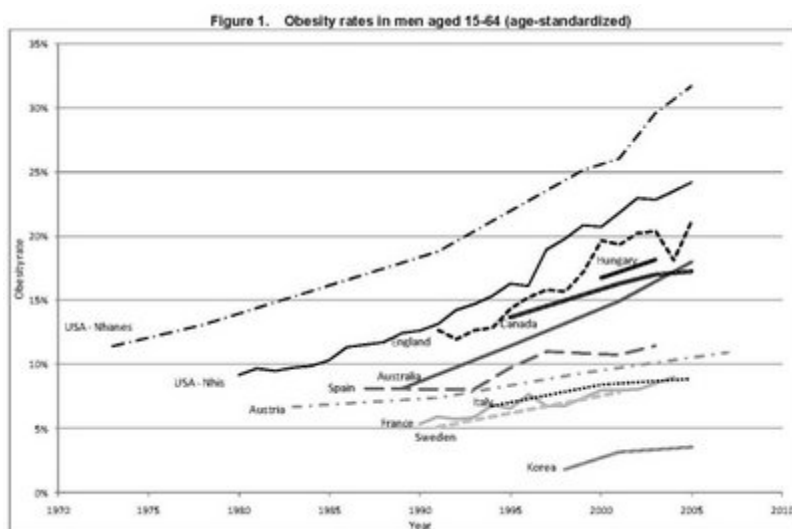


Note that the US is second here and the Netherlands is first. Austria is third and it is close to Luxembourg and Canada. For general practitioners the salaries of the top 8 are almost the same as a percent! The Netherlands total costs are 2/3 s of the US whereas their physician costs are a 1/3 more for general physicians. This anomaly persists throughout the data.

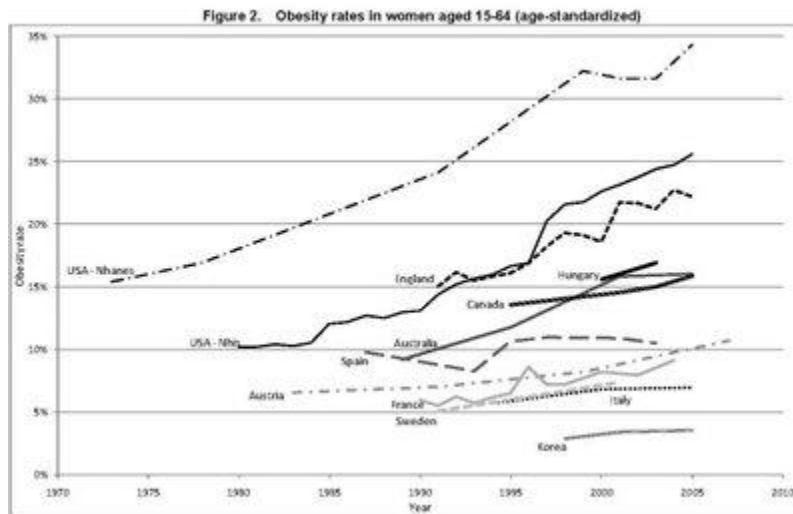
The conclusion is that it is NOT the physician that is causing the problem in the US. We have argued that it may very well be the chronic diseases such as those due to obesity that are indeed the true cause. The OECD also recently released a [study on obesity](#).

The first chart below is for obesity in men. Obesity is a BMI in excess of 30. The US clearly dominates in this area with an explosive growth rate. The US has an obesity rate in excess of 30%. The relationship between diabetes (type 2) and obesity is almost 1:1. This means that we can expect almost 30% of the males in five years to have Type 2 Diabetes and then its consequences.

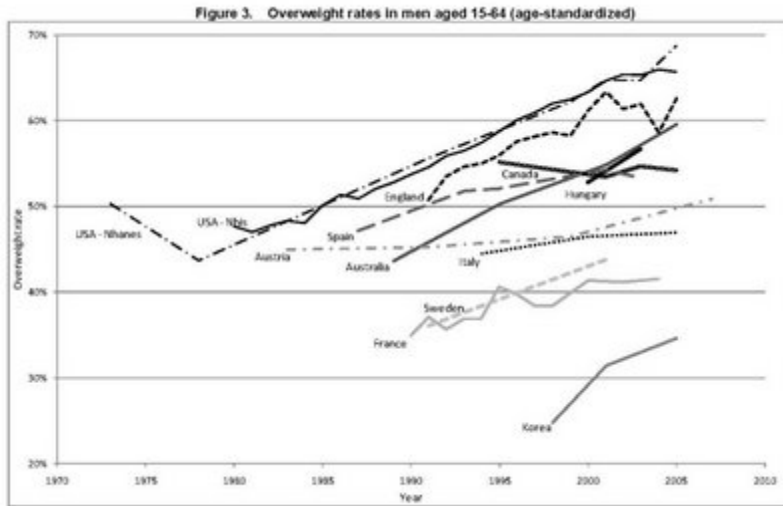
Sweden and France are at 5%, one third the number. This alone may account for much of the difference. We argue in our other [White Papers](#) that this was indeed the case.



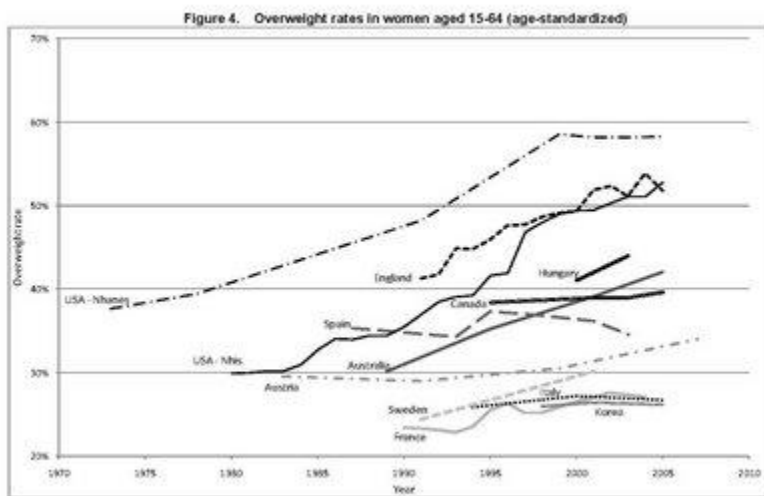
Now the second chart is for obesity in women. The results are the same. In fact women are even more obese! The impact on women can be even more severe in that it causes increased infant mortality and increases in breast cancer as well as the plethora of all other Type 2 Diabetes disorders.




Now we look at overweight which is a BMI between 25 and 30. For men we show it below from the OECD study. The overweight category is a precursor of the obese stage. Most overweight persons become obese in 10 year time span. The results for men are shown below. 70% of US males are overweight! That means we can anticipate truly explosive health care costs unless we remediate this immediately!



Finally the last is for overweight in women. The rates are comparable.



The result is clear. The major reason for health care cost difference in our opinion are solely related to obesity and the resulting Type 2 Diabetes effects. This is a preventable disease. It can be resolved by taxing.

Posted by Terry McGarty at [1:47 PM](#) [0 comments](#) 

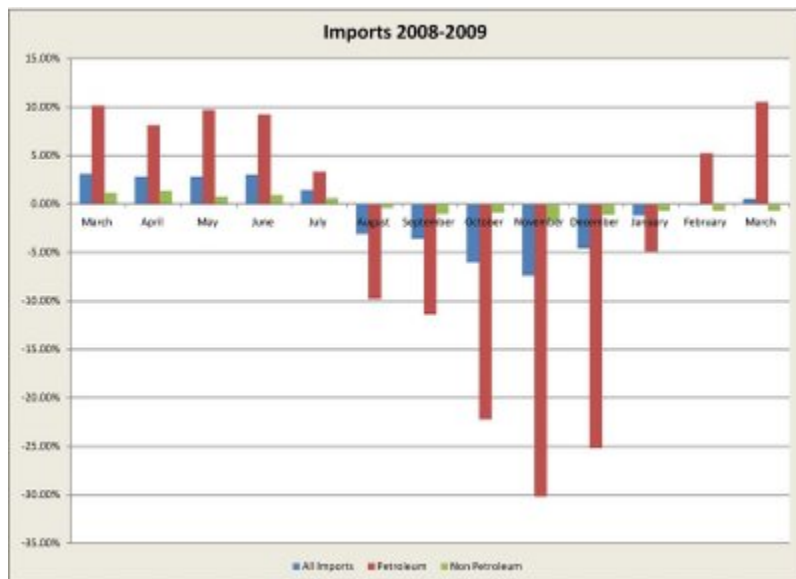
Labels: [Health Care](#)

THURSDAY, APRIL 9, 2009

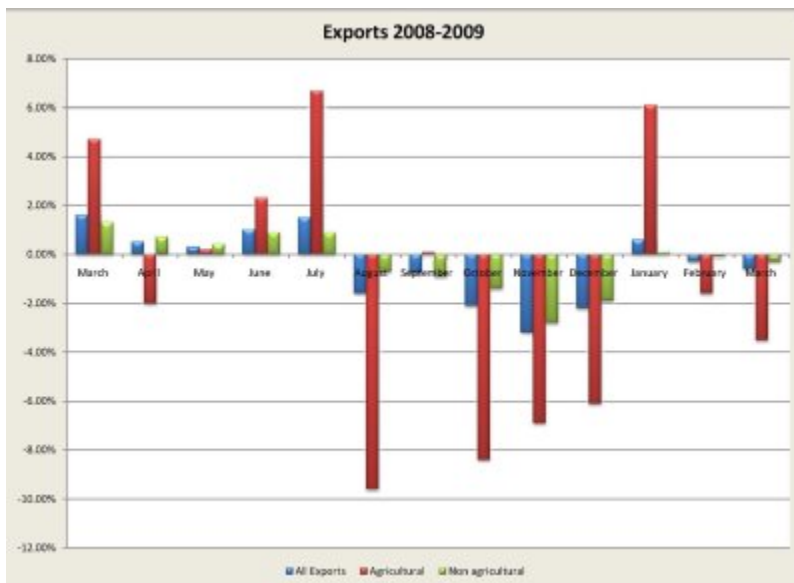
[IMPORTS AND EXPORTS: MARCH 2009](#)

The following are Figures demonstrating Imports and Exports through March 2009 from the [DOL Data](#) release as of today.


The Imports are shown below in % change per month. Note the drop in petroleum during the price explosion. Also note that the imports in petroleum in 2009 have returned to the pre spike values, leading one to suspect that there may be increases in oil depending on general economic restabilization. However the other imports have returned very slowly to low negative values. The economy is still in a slow recovery by looking at the other import numbers.



The Exports are shown in the following. These are the seasonally adjusted values so that the agricultural values are still showing weakness. Overall exports are weak showing that the other economies are still in very weak condition.



No long term trends can be determined at this time.

Posted by Terry McGarty at [7:43 AM](#) [0 comments](#) 

Labels: [Economy](#)

THURSDAY, APRIL 9, 2009

BROADBAND STIMULUS: CAN IT EVER WORK

The more I read about the Broadband Stimulus the more I am concerned that this is just a waste of billions. Let me simply address the implementation issues:

Fact 1: There are a limited number of ways to provide broadband.

They are:

1. Fiber to the Home
2. Wireless: Licensed
3. Wireless: Unlicensed
4. Satellite
5. BPL: Powerline applications

Fact 2: If Fiber is used then it is necessary to obtain a Franchise.

You see in all the existing Franchise Agreements, or at least almost all, there are clauses that albeit non-exclusive, that the next public way provider, namely anyone using the public access, like telephone poles and buried systems, have terms at least as onerous of the cable provider or worse. Thus this means that unless we also abandon due process and equal protection clauses of the Constitution, yet we have already destroyed contract and corporate law, so why not the Constitution, the new entrant needs an equitable Franchise, and I would assume that towns and municipalities could not claim Sovereign Immunity protection. As we all know, or should know if we get into this business, the process for Franchising is costly, not covered by RUS financing, and worst of all takes years!

Thus we cannot see how any of these new players will ever get to deploy FTTH in an reasonable and cost effective manner.

Fact 3: Wireless which is licensed, like WiMax, requires a license.

This is a tautology that many people forget. Thus if you desire to deliver a broadband using a wireless system which is wide area effective such as WiMax then you need the license. That means you must buy the license from someone. That is unlikely and if possibly quite expensive. It

also takes time. Thus we see that any licensed system for any new entrant is highly unlikely. In physics one would call it impossible, namely zero probability!

Fact 4: Unlicensed Wireless requires significant local infrastructure for local interconnectivity. It may be quite costly for rural locations as specified by the law.

The [Meraki](#) systems and other mesh networks work well in some urban and many suburban markets. However they really do not work well in rural areas. The best effective radius of coverage is 500' and when homes are in wooded areas and there is a low density of homes per mile, this means that this system does not function either well or at all.

Fact 5: Satellite systems require satellites.


This is another tautology. [Wild Blue](#) is one of the systems using satellites. They also have limited capacity and they have delay problems as rates increase with TCP/IP protocols.

Fact 6: BPL requires power lines and this means that distribution is limited to rural power companies. BPL also suffers from significant interference with the Amateur Radio bands and is the subject to continuing litigation.

BPL has been proposed for years now as a major means for rural broadband. It has advantages and significant disadvantages. There is ongoing litigation from the [ARRL](#) trying to stop its deployment. The providers are usually the local power companies who really are late 19th century firms in nature who have not come to develop capabilities of 21st Century broadband companies. The culture mismatch is quite extensive. [IBM](#) recently announced its intent to try and serve 200,000 homes with BPL but one suspects this is a trial.

The conclusion from these above facts is simple; rural broadband may just be downright impossible. Perhaps there is some way to do it which gets around the above Facts but we have not seen it. We have performed over three dozen detailed [Feasibility Studies](#) in towns of the type in the Stimulus package and have had to just walk away. They are either physically un-doable, economically un-doable or politically un-doable. Colebrook, NH and Rindge, NH are typical of the economically and physically un-doable type. Unless you own the license for WiMax. Hanover, NH is politically un-doable, we have discussed our experience there.

Of course the legal and political limitations may be just written off if one selects the right politicians in the right towns and then one may get the desired results, albeit not in a manner which may be economically viable. Politically controlled businesses lack rack records of long term viability, just look at Fannie and Freddie.

Posted by Terry McGarty at [5:29 AM](#) [0 comments](#) 

Labels: [Broadband](#)

TUESDAY, APRIL 7, 2009

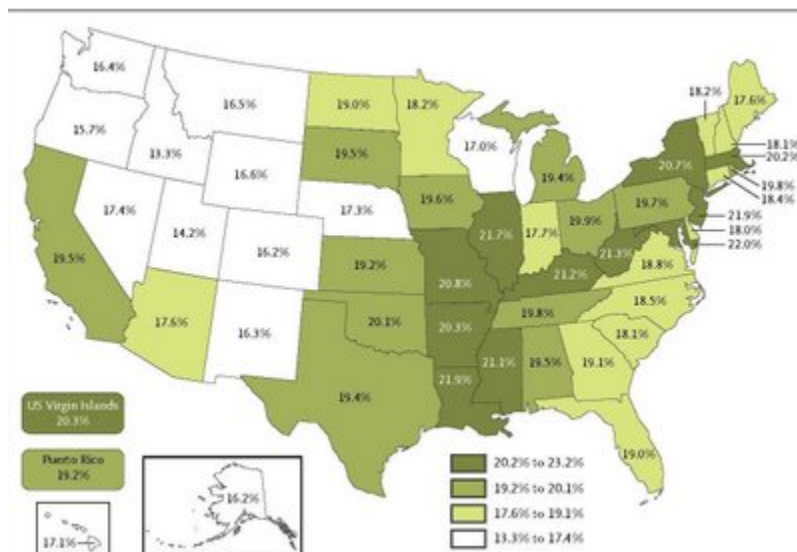
[MEDICARE: AN INTERESTING NUMBER](#)

Now that I have been over 65 for a while and now that many of my friends are also, I read the paper in today's NEJM on the hospitalization of Medicare recipients with some surprise. The [NEJM paper](#) states that there were 13 million Medicare participants enrolled who were


hospitalized in the year between 1 October 2003 and 30 September 2004. If one goes to the Medicare Site and look at the [Medicare Trustee Report](#) for that period one sees that there were:

"In 2004, 41.7 million people were covered by Medicare: 35.4 million aged 65 and older, and 6.3 million disabled. Total benefits paid in 2004 were \$303 billion. Income was \$318 billion, expenditures were \$309 billion, and assets held in special issue U.S. Treasury securities grew to \$289 billion."

This means that 32% of the Medicare participants were hospitalized at least once. That is one in three. That means that of the fifty or so friends in that age who I know and see somewhat frequently, enough so that if they were hospitalized I most likely would know, more than 16 of them should have been hospitalized! I can only think of one, and that one has been a chronic one for years. A closer look shows that of the 41 million only 34 million were 65 and older so it even gets worse, that is 38%! I wonder where all these sick old people are hiding out? The map in the paper shows a story which may or may not be correct. Clearly it reflects the data, no question there, but it may also reflect another tale. The picture is shown below from NEJM:



The question is, does the lack of higher hospitalizations in the low states reflect healthier people, or have the sicker people moved, and why? There is still the lingering question as to where all these chronically ill people are. They are hospitalized not just seeing a physician. Just some food for thought. There are times when these numbers really get confusing....I will look for the old people like me this week when I go to New Hampshire to work the farm, they are probably out tilling the soil!

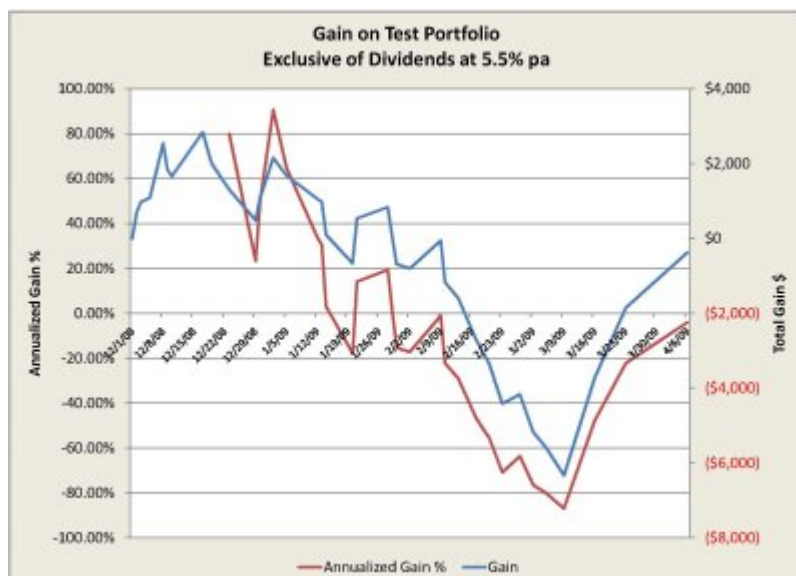
Posted by Terry McGarty at [3:42 PM](#) [0 comments](#) 

Labels: [Health Care](#)


0BMONDAY, APRIL 6, 2009

CHANGES IN THE MARKET

This is the performance of our bundle as we look at it as of today. It has made a turn back to almost where it was in December when we started.



We are now just a bit under what we were at when we started. The question is, is this sustainable? Time will tell.

Posted by Terry McGarty at [5:26 PM](#) [0 comments](#) 

Labels: [Baseline Portfolio](#)

MEDICARE, BUNDLING, AND JUST LETTING THEM DIE

There has been a flurry of proposals for paying and reimbursing under Medicare. One of the strangest proposals is the Bundling approach which seems to have originated out of a Medicare advisor group. We look at that proposal briefly.

[MedPAC](#) is a Government policy panel formed under law to do the following:

"The Medicare Payment Advisory Commission (MedPAC) is an independent Congressional agency established by the Balanced Budget Act of 1997 (P.L. 105-33) to advise the U.S. Congress on issues affecting the Medicare program. The Commission's statutory mandate is quite broad: In addition to advising the Congress on payments to private health plans participating in Medicare and providers in Medicare's traditional fee-for-service program, MedPAC is also tasked with analyzing access to care, quality of care, and other issues affecting Medicare."

In a [2008 paper](#) in the New England Journal by Hackbarth and others, all part of MedPAC, the authors propose a "Bundled" payment system. This bundled system simply stated is that

"Under a bundled payment approach, Medicare would pay a single provider entity (comprising a hospital and its affiliated physicians) a fixed amount intended to cover the costs of providing the full range of Medicare-covered services delivered during the episode, which might be defined as the hospital stay plus 30 days after discharge. Bundling payments in this way should provide incentives to increase efficiency, coordinate in-hospital and post-hospital care, and, if combined with pay-for-performance initiatives, improve the quality of care."

MedPAC published a [detailed report](#) in 2008 on bundled care. This report is in many ways the blueprint for Bundled payments.

This bundled approach of MedPAC assumes that if one needs medical care in a hospital that the patient in some manner stops dealing with their physician and then enters into some yet to be defined agreement with a hospital which in turn provides the full "team" and a bundled price. Thus if you require an aortic heart valve replacement, or breast cancer surgery, or prostate cancer surgery, you first get the hospital to tell you what bundle you get.

They choose all physicians and surgeons and they tell you the procedures and they set the price, somehow in accord with Medicare. You just show up and pray that the person or persons who treat you have some idea what they are doing. Your choice, your responsibility, your freedom as a patient is destroyed for the better good, in this case the hospital, which in turn reports to the Government!

A detailed paper by Fisher et al called [Fostering Accountable Health Care](#) states that:

"We then present a specific payment reform proposal for Medicare designed to foster the development of accountable care organizations (ACOs) and provide empirical evidence of the potential impact of this approach..."

They continue:

"We propose a voluntary and incremental program that would foster the development of ACOs. Our proposal builds on the current Physician Group Practice (PGP) Demonstration, a program

in which large group practices are rewarded with a share of the savings they achieve in caring for their Medicare patients if they also achieve documented quality improvement. During the first two years of the program, the participating groups achieved major gains in quality and savings for the Medicare program overall."

They conclude:

" But other approaches to reducing the growth of health care spending and fostering integration face serious constraints and even stronger resistance. The political opposition to requiring all beneficiaries to join capitated health plans would likely be fierce.

Bundled payments reinforce the principle of shared accountability and encourage collaboration and coordination among providers but are unlikely to have much impact on the overall costs of care. Bundled payments will not discourage the provision of unnecessary services outside the context of the episode; nor do they necessarily reduce the provision of unnecessary or questionable episodes of care. And cuts in payment rates will be vigorously opposed as threats to providers' ability to provide care to Medicare beneficiaries. The tensions that have to be managed include the difficult physician-hospital relationships pervading some markets, the increasing need to slow spending growth, and the widely held perception that cost containment requires income loss for some providers.

A promising middle ground. In this difficult environment, we believe that a voluntary payment reform designed around ACOs and shared savings offers an incremental and promising middle ground that could meet the interests of providers, beneficiaries, and taxpayers better than the competing alternatives. And interest in the approach is growing....."

In effect their proposal is in contradistinction to the bundled plan. The above highlights their view that the bundled plan would not achieve its goals.

There is also a paper called the [Long Term Care Quality Alliance](#) which presents a comparison of the following approaches:

1. Accountable Care Organization (Shared Savings or ACO)
2. Primary Care Medical Home
3. Bundled Payments
4. Partial Capitation
5. Full Capitation

This paper views many negative aspects of the bundled care approach. The paper promotes the ACO model which it defines as:

"The Accountable Care Organization (ACO) model establishes a spending benchmark based on expected spending. If an ACO can improve quality while slowing spending growth, it receives shared savings from the payers. This model is well-aligned with many existing reforms, such as the medical-home model and bundled payments, and also offers additional support (and accountability) to the provider organization to enable them to deliver more efficient, coordinated

care. This approach has been implemented in programs like Medicare's Physician Group Practice (PGP) Demonstration, which has shown significant improvements in quality and savings for large group practices."

This paper concludes on a positive note regarding the ACO approach:

"The ACO model is receiving significant attention among policymakers and leaders in the health care community, not only because of the unsustainable path on which the country now finds itself, but also because it directly focuses on what must be a key goal of the health care system: higher value. The model offers a promising approach for achieving this goal without requiring radical change in either the payment system or current referral patterns. Rather, fee-for-service remains in place, and most physicians already practice within natural referral networks around one or a few hospitals. By promoting more strategic and effective integration and care coordination, the ACO model holds substantial promise as a reform that offers a potential win-win for providers, payers, and patients alike."

The unintended consequences of a Bundled approach are many:

1. The Patient and Provider lose a Nexus: The relationship becomes one with the hospital and not the physician. It breaks the fundamental bond that is the cornerstone of health care.

The patient and the physician are an important nexus. The only physicians who have little to no contact with a patient are the pathologist, radiologist, and anesthesiologist. The surgeon has contact as do the other specialists. It goes to the heart of practicing medicine. The hospital has the least.

In my experience, hospitals are run by managers who care less about patients and more about their bottom line. They are not professionals as are physicians. The only fear a hospital administrator faces is possible loss of accreditation, which only comes after gross negligence if even then. The hospital is run for the benefit of the management and not the patient.

Teaching hospitals may be different in that they are run to produce new physicians. Thus the teaching hospital may be further out on the risk profile.

By placing the hospital at the focus as is done in a bundled approach one creates a barrier between patient and physician and further places the worst possible party in a position of control, the hospital administrator.

Hackbarth et al state:

"Bundling the payments for multiple providers would create incentives for providers not only to contain their own costs but also to work together to improve their collective efficiency. Providers accepting bundled payments would have the flexibility to develop entirely new approaches to organizing care and allocating payments among themselves in ways that could help them

achieve efficient, high-quality care. They could then share in any savings gained by improving coordination, quality, and efficiency. "

There is no basis for this statement. They continue and state that perhaps some adjustments may be made. In fact by placing the hospital in the nexus one creates the most inefficient form as we have shown in our analyses.

2. It institutionalizes and memorializes the hospital at a time when the role of the hospital may be at a massive turning point with genetic medicine.

The Bundled approach places the hospital at the center of the model. We have argued that this entity is the most vulnerable to downsizing and change and is also at the heart of the explosion in costs. This is especially true for Medicare patients. Thus we see that placing such an entity at the core creates a tension for continuation of bad practices.

3. It creates massive problems with the issue of transfer pricing of services and creates the incentive for further padding by hospitals.

Anyone who has ever been in business, in a large multifunction company, has come to grips with the transfer pricing problem. Many business school doctoral theses have been written on the topic and many a corporate war has been fought over the issue. The price one unit charges another for a good or service is difficult to ascertain. This is difficult even when there is a market for the product. For the buying unit may easily say the internal price is too high and that they will go elsewhere. The hospital could do the same. They may say your physician is too costly so you must accept theirs or no surgery, just go home and die!

4. It drives good physicians out of the delivery of Medicare services further disenfranchising those on Medicare.

Physicians are opting out of Medicare in droves, as was reported by the [New York Times](#). As the paper states:

"Many people, just as they become eligible for Medicare, discover that the insurance rug has been pulled out from under them. Some doctors — often internists but also gastroenterologists, gynecologists,... and other specialists — are no longer accepting Medicare, either because they have opted out of the insurance system or they are not accepting new patients with Medicare coverage. The doctors' reasons: reimbursement rates are too low and paperwork too much of a hassle."


This means that with the system as it is already, it is becoming harder for medicare patients to find physicians which will take them. If one adds the burden of bundling then it becomes worse.

In our opinion, as we have stated many times in the past, the rearrangement of deck chairs, namely the many plans on how to cut costs via payment and control mechanisms miss the point. First, demand can be modulated, second, costs can be reduced by multiple means, third, genetic medicine will change the paradigm fundamentally and having the agent which will be changed

the most in the middle will just delay this change, and finally, and only as the last step is the payment issue.

Let me pose a different issue, however. The plans discussed by Fisher, albeit well posed and meaningful, work for the majority of chronic and acute care problems, such as acute MI, heart valve replacements, and even hysterectomies. However, consider the following. A woman has a BRCA positive breast nodule which upon fine needle aspiration is determined to be a malignancy. She lives somewhere in New Jersey and she has the option, assuming that it still exists, to seek service through one of the Fisher like plans in the local hospital or she goes to Memorial Sloan Kettering in New York. Well, off to New York she would go! She may often have a greater chance of dying from nosocomial infection at some local hospital, I am not saying it would be the one in the town in New Jersey, before the cancer gets to her. The plans proposed by Fisher for Medicare would prevent her from going to a tertiary care facility, even if it could save her life.

My concern is that the on the average approach works on the average. Yet there must always be room for exceptions, yet the exceptions are always what Government seems so unwilling to deal with, it is inherent in any bureaucracy. I strongly believe that as patients become more aware and as medicine has centres of excellence, that patient choice, albeit at a price, must be maintained. The abuse that Fisher in his many writings presents can and must be eliminated but not at the price of patient choice.

Posted by Terry McGarty at [5:02 PM](#) [0 comments](#) 

Labels: [Health Care](#)

1BSUNDAY, APRIL 5, 2009

[OUSTING BOARDS AND MANAGEMENT](#)

In today's [Financial Times](#) is recounted the statement made by the Secretary of the Treasury today on the Sunday Talk shows:

"Tim Geithner warned on Sunday that the US government would consider ousting board members at American banks as a condition for giving the institutions "exceptional" assistance in the future.


The Treasury secretary said the Obama administration would be prepared to force out senior management to protect US taxpayers, and ensure accountability, as a condition for providing money to help banks restructure. "If, in the future, banks need exceptional assistance in order to get through this, then we'll make sure that assistance comes with conditions," Mr Geithner told CBS television."

As we have been saying all along there are legal procedures to do this, it is called a shareholder's meeting. Unfortunately the US Government is NOT a shareholder only a debt holder. This is in clear violation of US laws! I find it difficult to believe that not one newscaster not one Congressman has said word one. Debt holders have one option, it is called bankruptcy. This law has been around for a real long time. If the creditor violates covenants and cannot remedy then your remedy is only taking them into Chapter 7. The same holds true with the auto companies. I am continually amazed that the Federal Government and specifically this current Administration is deliberately violating the most scrde of our laws, those relating to property. The article continues:

"Mr Geithner pointed out that the administration had replaced the management and board of other companies that had received "exceptional" help, including Fannie Mae, Freddie Mac and AIG.

"We've done that because we want to make sure that taxpayers' assistance is going to make these companies stronger, make sure there's accountability, make sure it comes with strong conditions," he said. "And we'll do that in the future if that is necessary. It's a single standard, a single principle. And our obligation to the American people is to do what's necessary to try to bring recovery back on track as quickly as possible."

But Freddie and Fannie are owned by the Government and as the sole shareholder they can do whatever they want. Geithner is blatantly wrong. The US Government has zero ownership in banks and auto companies and thus have no rights under law! And we thought Monica Gate was a problem!

Posted by Terry McGarty at [3:42 PM](#) [0 comments](#) 

Labels: [Commentary](#), [Economy](#)

2BSUNDAY, APRIL 5, 2009

[SOME THOUGHTS ON SPRING](#)

Just a few thoughts. Here is evening sun on the Magnolia stellata. Soft light on the new blooms. Yes indeed summer is on the way!



Some more:



And some more. A close up of an open *Magnolia stellata*. The primal structure of this plan, the genus and even the family, holdovers from millions of years ago.



Posted by Terry McGarty at [9:32 AM](#) [0 comments](#) 

Labels: [Commentary](#)

[THE PREPONDERANCE OF "UH"](#)

Taking a break from Sunday chores I get the opportunity to view the Sunday talk shows. I am amazed at the use of the word "uh" by so many. From Prague, my old home away from home, having spent years there, I see a top Administration official speaking and every other word is "uh".


I am reminded of my third year Latin and the oration of Cicero against Cataline:

"Quo usque tandem abutere, Catilina, patientia nostra? Quam diu etiam furor iste tuus eludet? Quem ad finem sese effrenata jactabit audacia?"

Not a single "uh"! Young Romans as well as Greeks all studied rhetoric, the process of speaking publicly. It was and is still important. The words of Cicero, Seneca, and many others go down in time as strongly as they were over two thousand years ago. They were spoken words, they were given without teleprompters and words composed by the speaker, who perforce of their own training in rhetoric could place two words together without as single "uh".

Just listen to the melody of Cicero, it effuses with his contempt for Cataline. Where is that sense of outrage in the rhetoric of today? Perhaps instead of all of the culturally uplifting courses we could reintroduce rhetoric again, of course this is after grammar which also seems to be a vanishing art.

And yes, as best as I remember, I never heard an "uh" in Czech, Greek, Italian, Russian, French, Spanish, or even Polish!

Posted by Terry McGarty at [7:22 AM](#) [0 comments](#) 

Labels: [Commentary](#)

3BSATURDAY, APRIL 4, 2009

[EVERY SYSTEM HAS INSTABILITIES: ANOTHER LOOK AT JOHNSON](#)

Everywhere I look over the past few days I see a copy of [Simon Johnson's](#) paper [The Quiet Coup](#). Even [David Brooks](#) at the Times has decided to write about it. Then there is the writing of [Felix Salmon](#) on the Li Formula which measures risk in complex portfolios. There is also the brilliant but under-publicized book by MacKenzie called [An Engine, Not a Camera](#) (MIT Press 2008) which looks at the 1987 crash from an historical and philosophical view. Finally there is also the overview of depressions and recessions recently by [Muller](#).

However, the Johnson paper recounts what happened. But there is also a layer below this which is more fundamental. MacKenzie recounts the establishment of the mercantile exchange and the necessity of railroads and the requirement to have a commoditized whet or corn product so that corn was corn and wheat was wheat so that one could then write futures independent upon a specific bushel of corn or wheat. This established the first break in the nexus between the commodity, the good, the property is you will, and the financial instrument which was then collateralized against it.

A contract was no longer on a specific bushel of corn from a specific farmer. It was just corn of a certain specification. Yet what was preserved was the basic issue of money for goods, hard assets were always at the core. One had to remember that of you traded commodity contracts you never wanted to hold the contract at the end, it made you buy the wheat. Even if you lived on Fifth Avenue, the railroad care was now yours!

We now make a few observations which we believe extend the Johnson model and world view.

1. Financial Contracts Were Unlinked from Real Assets

If you have a mortgage on a house if all else fails you still own the house. If you have an option to buy eggs at the end you own the eggs, albeit costly, and you either make a large omelet or try

to sell them at a loss. But when you created new financial instruments which were based on the performance of another set of financial instruments you moved from owning something to betting on a horse at Belmont. If you bought an option on an interest rate, albeit secured by some complex instrument, you just as easily could have bought a ticket for Lucky Larry in the 4th at Belmont. At the end of the race you won or lost and your relationship to the horse and the jockey remained unchanged, you had none. The development of these new instruments made more money for the purveyors but they were just bets. It was gambling. Everyone knew that. Land is land, that is why people like it, gold is gold, but a bet is just a bet.

2. Derivatives are Both Derived from Something Else and a Mathematical Derivative

Derivatives evolved as complex sets of new securities which were derivative from some set of reality based securities. A short, especially a naked short, is just that. But there is a second definition of derivative which applies. Namely the mathematical derivative. Namely dx/dt . We all know that if $x(t)$ is a stock price of house price that $dx(t)/dt$ is its derivative and we can get higher and higher derivatives. They go up fast and they go down really fast! Worse if $x(t)=z(t)+w(t)$ where w is some noise in the system, well, hold onto your hat. Taking derivatives of noise is a sure guarantee to see things just go crazy. The white noise, Wiener process, that is assumed in the quants models when differentiated is unstable. The differentiate if n times and what do you get, Armageddon.

3. Every thing in the world is a System

Everything in life is a system. Cells are systems, genes are systems, the stock market is a system. A system is a set of interrelated and dependent states which can be measured and characterized and which has a dynamic set of interactions which evolved over a period of time. Some systems are easy to understand. A radio is a system where a signal comes via an antenna and is converted by a small set of electronics to a sound we hear. The simple observation about systems is that everything is connected. Every action has a consequence whether you know it or not. Tell a three year old not to touch a hot stove and then five minutes latter they do and come screaming that they burned their hand. Hopefully they do not do it again. However Financial managers seem to be unresponsive three year olds, they just keep touching the stove.

4. Systems Have Feedback Paths

The system we look at have paths that feed back on other elements. Push here and it pops up there. Some paths are negative and reduce effects and some are positive and increase them. Some paths are delayed and the delay can cause jerky hesitation. Some complex delayed feedback can cause instabilities.

5. Systems with Feedback are Unstable

Every engineer is shown a picture of the Seattle Tacoma Narrows Bridge collapse and told to beware of this phenomenon. There is unstable feedback that cause collapse. Engineers sped their careers looking at the past and looking to avoid these problems. That is why they over design things. That is why Apollo 13 returned. Financial managers are clueless. They are Masters of the

Universe who never look behind. They could never be a spy, they never look back to see who is following them, and often times it is the instabilities of the very systems they are playing with. The quants were for the most part physicists and mathematicians. The engineers, real engineers, are just too cautious. I recount a prior article on my comments on the Black Scholes model in 1973.

6. Systems are Stochastic, Random

Every system has random elements. They are random either because we can never really model them or because things just happen. Cancer in many cases is a rand event. In Chronic Myelogenous Leukemia there is a splitting of a chromosome in the stem cells in the bone marrow. A fragile part of one chromosome breaks off and attaches to another. This is considered random, it just happens. Perhaps if we knew more about it we could deterministically say it has a deterministic cause, but maybe it just happens. All systems have these characteristics. The Quants modelled randomness in a Gaussian manner. The Gaussian world assumes that every event is independent and that they add up in such a manner and that clustering of "stuff" is impossible. There are various theorems which lay this view out in detail. The Gaussian world is a kind world, bad things happen independently and infrequently. In the really world clustering of event are all too common. It is this un-modellable world that we live in.


7. Random Systems with Feedback Can Be Really Unstable

If deterministic systems can be unstable then random feedback systems can be really unstable.

8. "S..t" Happens! Unstable Systems can result from the confluence of Events.

Well all of the above may just sound risky enough but there is also the favorite problem, we engineers call it Murphy's Law, the unexpected. It always happens. I remember Apollo 13 which I had designed the optical guidance system at the last minute and I thought it would never be used. Who'd da thunk! Things just have the habit of clustering. It is like telephone traffic was on mothers day. We all knew it and we planned for it. But then when the second all digital switch was deployed in Beverly Hills in 1966 they forgot about the fact that 1 PM in Beverley Hills was 4 PM in New York and everyone called their stock broker that day because of the glitch in the Stock Market and the switch failed because of an overload. This stuff just happens.

Thus Johnson is spot on in his analysis and the world of *Bonfire of the Vanities* lingered. The Financial Managers never got the point. They just went further and further and created their own world akin to the Oligarchs of Russia. The Fannie Mae and Freddie Mac [bonus problem](#) is another example of this arrogance. It continues and it is permitted to continue. Johnson observed the human side of the problem. My points articulated here is an attempt to detail a few of the laws of nature related to this problem. By the way, the same will apply to the current budget process. Thus beware!

Posted by Terry McGarty at [8:59 AM](#) [0 comments](#) 

Labels: [Commentary](#), [Finance](#)

4BFRIDAY, APRIL 3, 2009

[THE REPUBLICANS, MIT AND CAP AND TRADE](#)


Congressman Boehner and the House Republicans used an [MIT Energy Report](#) to say that the cost per household was to be \$3,000. Then the [MIT Group](#) wrote a [rebuttal letter](#). This is from the web site of Think Group. They have a few facts incorrect starting with calling Reilly a Professor. Let us look at a short analysis of the problem. Unlike the Sloan School wonks, I am just a humble engineer who thinks that the back of an envelope is all one needs if you have any idea what you are speaking of. Remember folks, it was the Sloan School quants who got us into this mess in the first place. So beware!

Now to the envelope. Here are the facts:

1. The current Administration wants to create an auction for any and all carbon credits, this is an open public auction held by the Government and for any and all carbon credits, NOT just those above a cap. The auction will sell off the rights to emit a metric ton of CO₂. Well what price will clear the market, \$5, \$25, \$50, who knows. What we do know is that when the Government auctioned spectrum, which frankly has little human survival value, as compared to electricity, it was a lot more money than expected. Solet's say \$25, although I think this is too low.
2. As of 2010 assuming no miracles in the deployment of a smart grid, wind mills, nuclear power and the like, the current demand for just electricity generates 2,388 million mTon of CO₂. True fact.
3. Now multiple \$25 by 2.4 billion and we get \$60 billion. Now divide by 300 million people and we get \$200 per person. Now assume 2.5 people per HH we get \$500 per HH in 2010. That is not chopped liver! And that is just the beginning.
4. Now the fun begins. The demand goes up, so does the population. By 2030 the cap is lowered to 50% of what it was in 2010. Just what does that mean? It means the auction price goes up dramatically. We have estimated that it readily exceeds \$3,000 to \$5,000 per HH by 2030! That is in 2008 dollars even! In addition, the Government will penalize excessive uses. That will further drive prices up.

So where are these guys at MIT getting with their politically incorrect jabbering. Frankly nowhere. Their analysis, and one must read the MIT letter to see how convolved it becomes, just misses the point. The current Administration proposal is a stand-alone plan, devoid of any multinational compliance, and one where every gram of CO₂ is taxed *ab initio*. Starting from the first emission.

Thus, one need just run through the numbers. It is not complex. We have commented and written on this extensively, but all you have to do is run the numbers. They just explode in terms of their regressiveness as a tax. They will destroy the economy. The unintended consequences are massive, massively negative.

Posted by Terry McGarty at [9:33 AM](#) [0 comments](#) 

Labels: [Cap and Trade](#)


[DOL LATEST NUMBERS](#)

The [DoL](#) issued its latest numbers as shown below. Unemployment is now at 8.5%. As we have been saying all along, we still anticipate it reaching 10.5% at peak and the current recession lasting until the end of 2010. However there may be the exacerbating fact of the explosive spending from the Current Administration which combined with the FED placing new money on its books that will cause massive inflation followed by another downturn.

Latest Numbers		
Consumer Price Index	+0.4%	Feb 2009
Unemployment Rate	8.5%	Mar 2009
Payroll Employment	-663,000(p)	Mar 2009
Average Hourly Earnings	+\$0.03(p)	Mar 2009
Producer Price Index	+0.1%(p)	Feb 2009
Employment Cost Index	+0.5%	4th Qtr 2008
Productivity	-.4%	4th Qtr 2008
U.S. Import Price Index	-.2%	Feb 2009
Unemployment Initial (UI) Claims	669,000	March 28, 2009
UI Claims 4-Week Average	656,750	March 28, 2009
Federal Minimum Wage	\$6.55	Current

(p) preliminary; (c) corrected


Also as we have said there were two other shoes to drop; commercial real estate and then high yield debt collapse. We are seeing the signs of the commercial collapse now and we have seen the signs of the high yield via the Sirius restructuring. Unfortunately there are many more Sirius as we had indicated months ago. The other bad sign in the above numbers is the CPI increasing. Given the bad news one would assume it would be decreasing. The PPI is also positive and productivity is down. This is a sign of impending inflation.

Posted by Terry McGarty at [6:06 AM](#) [0 comments](#) 

[OCC MORTGAGE REPORT](#)

The OCC issued its [quarterly mortgage report for Q4 2008](#). It is worth the read. It can be summarized as on their web site:

"The report showed that credit quality continued to decline in the fourth quarter of 2008. At the end of the year, just under 90 percent of mortgages were performing, compared with 93 percent at the end of September 2008. This decline in credit quality was evident in all loan risk categories, with subprime mortgages showing the highest level of serious delinquencies. However, the biggest percentage jump was in prime mortgages, the lowest loan risk category and one that accounts for nearly two-thirds of all mortgages serviced by the reporting institutions. At the end of the fourth quarter, 2.4 percent of prime mortgages were seriously delinquent, more than double the 1.1 percent recorded at the end of March 2008."

Posted by Terry McGarty at [5:13 AM](#) [0 comments](#) 

Labels: [Economy](#)

5B **WEDNESDAY, APRIL 1, 2009**

[SPECTRUM, CONGRESS AND OPPORTUNISTS](#)

Yesterday, as reported in the [Wall Street Journal](#), Senator Kerry of Massachusetts is now chairman of the *Senate Communications, Technology and the Internet subcommittee* which gives him a platform for promoting a new set of agenda in the broad technology area. The WSJ states:

" Kerry is addressing a dinner with hundreds of cable executives....“We’ve got to develop a coherent, comprehensive national approach to broadband service in this country,” Kerry planned to say. “We have to view the \$7.2 billion broadband investment in the stimulus package as a down payment on a national strategy to deliver broadband to rural Americans who can’t access it and urban Americans who can’t afford it.”...Already, Kerry and Republican Sen. Olympia Snowe of Maine have co-sponsored legislation that would require the government to inventory the nation’s airwaves and see if the spectrum is being used efficiently. The report would be the first step toward future government action to remove “spectrum squatters,” freeing airwaves for high-speed Internet or other wireless services."

Let us briefly examine the last statement regarding the tasks of creating "inventory" spectrum and "remove "spectrum squatters"". Frankly these statements and conclusions of Senators Kerry and Snowe are, in my opinion grossly misguided technically, but alas these are politicians, and are in another sense a grab for the property of others which we see is becoming a common thread of the current Administration.

Fred Wilson, a VC in New York, states in his [Blog](#):

"The fact is that wireless spectrum is not being used efficiently except in the unregulated bands (like the band that wifi runs in). We need open spectrum in this country and we need it now. If we unleaded entrepreneurs and engineers on the spectrum by opening it right now, we would solve the rural and urban access issues easily. It would take some time, maybe five years, maybe a bit more, but not much longer. We'd save the \$7.2bn (it's too late to save that, it will be spent digging trenches and doing things the old way) and we'd get better, faster, and more reliable WIRELESS broadband."

He then goes to quote Tom Evslin, the former head of the now defunct ITXC, one of the VOIP carriers in the late 1990s. Evslin states:

"Ten years from now the idea of licensing swatches of the radio spectrum for private use will seem quaintly obsolete. Most spectrum will be available for any entity – including individuals - to use so long as the rules for the use of that spectrum are observed. Today almost all usable frequencies are licensed to private license holders or reserved for specified public uses."

Let us pause and consider some laws of physics. To anyone who knows the telecommunications and data business on the technical side, not financial or marketing types, but those of us who really did something, there are certain laws we adhere to. For example:

1. **The Randomness of Traffic:** In the old copper telephone system, a telephone at a home may be used 600 minutes per month. That is the old telephone. The cell phones on average, do not use a great deal more. Now there are 60 min in an hour, 24 hours in a day and 30 days in a month, or 43,200 minutes per month. Thus a phone uses the copper only 1.4% of the time. That copper is unused 98.6% of the time! What a waste of copper! Not really, this is the essence of communications traffic, it is Poisson in character, voice and data, with some twists now and then, and one builds a network for peak loads, not the average.

Thus we build a communications system which may be empty almost all the time but when needed it is there. The work we did on [VOIP](#) in the 1990s, yes we competed against ITXC, demonstrates some of these facts. Thus communications networks are designed for peak loads, not for average. Looking at average as ones where the carrier is just squatting is technically and operationally fallacious. Just imagine if we designed our highways to have zero space between cars, well we do in some cities, and traffic just stops!

2. Spectrum Sharing is Possible: We have developed many spectrum sharing schemes over the past twenty years. What is spectrum sharing? Simply it is the concept that there is a single owner of spectrum and that the owner is a public utility that provides access to the spectrum on some specific method of allocation. WiFi is a first come first serve type system. We argued that a [Nano Auction](#) system could be developed to actually monetize this for the FCC. In 1994 we presented a paper at [TPRC](#) which was the first fully detailed description of this approach. Thus this system functions by each using having a shared signalling channel as the process to bid for spectrum real time and the highest bidder get spectrum on an as needed basis. This then readily monetizes the use of spectrum and it also increase potential usage.

However, and this is a big "however", the problem articulated in the first point, namely you still have the laws of traffic engineering at play, cannot be neglected. The manager of such a shared network would default to a scheme similar to what we see in any of the current wireless networks! There is still a temporal hogging when the traffic drops. You cannot violate the laws of physics.

Here I agree with Wilson, although I suspect that I do so based upon facts and he upon belief, but that is an engineer versus a VC. The Evslin remark is a truism, namely as long as the rules are followed. The question is what rules and whose rules. At least I provided a few. The problem is that the FCC would have to agree and the powers that be would object. But there is a third issue.

3. Spectrum is a Property Right: Verizon and others paid good money for the spectrum. They own it and they have a property right in it. Well at least until the current Administration came along. We have destroyed contract law, we have destroyed corporate law, so why not try a turn at property law, all of the thousands of years of good old English law. Give it a whack guys. People are worrying about privacy while the main pillars of our society are slashed from under our feet. Verizon owns that spectrum, as do others, and they are economically profiting from it, as well they should, and they are not squatters in any way. They design the switches and cell sites to optimize coverage and performance, not squat on spectrum! Where in God's name did that idea come from, Oh yes, Washington lobbyists! Why am I not surprised.


To summarize;

(1) *Spectrum is not being left fallow, it makes no sense economically or technically.* Traffic is random and at times it is high and at times it is low! You cannot organize Mother Nature folks, Einstein in one of his 1905 papers on Brownian motion had shown that! As did I in my first Book (Stochastic System and State Estimation, Wiley 1972.).

(2) *Sharing is Technically Possible but Legislatively Quite Difficult*: I have been pitching this concept now for decades. Others have as well, such as Eli Noam and the spectrum Commons. I have designed and implemented it. Yet it is a political problem first and foremost. Do not expect a quick resolution.

(3) *Property Rights MUST Not be Abrogated*: We are facing a dramatic shift in how the law is applied and the first 100 days of the current Administration are not even over. I suspect that there will be a swing back again after the results are in. But the issue of property rights should be held sacrosanct. It was Locke who established the place of property in our legal system and it was the concept of property which was an anchor of our Constitutional Government. We have seen it eroded in the last 70 days in contracts and corporate law, we should not see it done here.

There is a land grab for the billions in Federal dollars for this broadband project. Why have the incumbents not delivered, because they cannot see an reasonable economic return. Thus why would any other new player be successful economically? We have argued that from the point of actually having tried. Other than franchises and the stupidity of public-private partnerships, this is nothing more than a grab for "our" money by those who could not make a business of it in a normal business environment. We, the taxpayers, unfortunately foot the bill, not and for generations to come!

Posted by Terry McGarty at [3:33 PM](#) [0 comments](#) 

Labels: [Broadband](#)

6B **WEDNESDAY, APRIL 1, 2009**

[OBSERVATIONS ON VERIZON RETIREES](#)

There is a group called the [Verizon Retirees](#) who have issued a [press release](#) regarding capping Verizon executive pensions. Being such a retiree, and having worked for a while directly for Seidenberg, and having run several of my own telecom business in my career, I think it is worth an observation.

First, in my opinion Seidenberg is one of the best senior executives I have ever met. He is focused, at time a bit mercurial, very bright, a chess player who thinks twenty moves ahead, and despite what the market thinks he is always keeping quite a few steps ahead. On a dividend basis alone Verizon stock is better than US Treasuries. If China were just plain greedy they would buy Verizon and not US Treasuries.


Second, Verizon has developed a long term strategy which is brilliant. We have written on it many times, in our opinion. They build fiber, close down copper, use the real estate that is no longer needed to pay for the fiber and still have cash left over. The new company has no need of central offices, it reduces its outside plant costs dramatically and it positions itself to clobber the cable companies. One chess move at a time, brilliant.

Third, wireless is integrated. The only mistake they have made is Vodaphone, because Vodaphone will not depart at any price. But alas that is not a strategic problem. All they have to do is to continue add new services.

Fourth, the management is now being prepared for succession. People like Killian represent the next generation. Great choice and it is clear that even here Seidenberg is thinking well ahead. He has a great team with Strigel and the others. He managed without any massive palace intrigues to select, build, integrate, and operate.

So what are the retirees complaining about. They got their pension, as did I, albeit after problems with the pension outsourced manager, but that is another story of corporate bungling, not a Verizon issue, and so health care changes, but it has for all of us.

I think every once in a while one should compliment a good manager, so good job Ivan!

Posted by Terry McGarty at [12:23 PM](#) [0 comments](#) 

Labels: [Commentary](#)


7B **TUESDAY, MARCH 31, 2009**

[CAP AND TRADE IS GETTING CLOSER](#)

Congressmen Waxman and Markey have introduced the cap and trade bill. Welcome to the next step in the financial destruction of the United States. One must remember that it was Markey who pushed the Telecom Act of 1996 which led to one of the last melt downs and in turn resulted in the destruction of all telephone switch companies in the United States. That is a long story but we told it in 2002!

There is an [Overview of the Bill](#) and the full [Bill](#). A quick scan of the bill will find that the words cap and trade are missing, at least from the one I just scanned. The Bill is 648 pages in length! It is a massive attempt to control all of the US economic development. It will destroy the remnants of coal and its target is roughly 20% of the 2005 emissions by 2050, assuming there is anything left of the United States at that time.

We will analyze this bill and get back to you. Hold onto your hats. China may be the only capitalist democracy left by that time! I am not kidding.

Posted by Terry McGarty at [12:36 PM](#) [0 comments](#) 

Labels: [Cap and Trade](#)

[SARKOZY AND THE G20](#)

In the [Times](#) of London today they remark that President Sarkozy will walk from the G20 if he does not get his way. Specifically:

"President Sarkozy yesterday threatened to wreck the London summit if France's demands for tougher financial regulation are not met.

France will not accept a G20 that produces a "false success with language that sounds good but contains no commitments", his advisers said.

Asked if this meant a possible walk-out, Xavier Musca, Mr Sarkozy's deputy chief of staff for economic affairs, said: "A basic rule with nuclear deterrence is that you do not say at what point you will use the weapon."

This is what we have been saying for months.

Posted by Terry McGarty at [5:03 AM](#) [0 comments](#) 

Labels: [G20](#)

[ONLY THE BRITS CAN COMMENT THIS WAY](#)

This is on the [Times](#) web site in London. Worth a look for its view of things....

[The Wives and Husbands of the G20](#)

There must be some deep analyses which can be done with this but I leave it to the viewer.

Posted by Terry McGarty at [4:59 AM](#) [0 co](#)

8B **TUESDAY, MARCH 31, 2009**


[WE BREACHED CONTRACT LAW, NOW WE BREACH CORPORATE LAW](#)

I assume when the President was at Harvard he took the basic course on corporate law. One of the classic texts is written by Robert Clark, who may very well have taught it at the time. It is a good text by Clark, entitled just Corporate Law. It covers the main points. The law has evolved but it is the backbone of our economy and our culture.

The body of corporate law is almost as old as contract law. When I commented on the AIG contract issue I said let them sue the Government but not just trash the all Contract law issues. However in the GM case we have a real problem. The US Government is NOT a shareholder of GM. It is a debt holder. It cannot, without the process of law, restructure the company, only the shareholders can. Well in the last few days, all of corporate law has been destroyed and it appears as if no one has noticed. Corporate law and contract law are the backbone of the capitalist system. The current Administration has just trashed both! Does anyone at all care? It appears not.

What should the President have done? Well like anyone one else, Kirk Kirkorian and others, you take it to the shareholders. You oust the Board in a legal manner and then the new Board replaces management. Debt holders, no matter how large, cannot oust anyone. Buy the stock and then call a shareholder's meeting, vote the stock, and then put your people in. That is the law. NOT what the current Administration just did. That just destroyed the law! This is a coup, we as a country have been taken over and no one is paying attention.

What others laws will be trashed next, the Constitution, perhaps, and all other inconvenient laws at the time.

Posted by Terry McGarty at [4:19 AM](#) [0 comments](#) 

9B **MONDAY, MARCH 30, 2009**

[ANOTHER LETTER TO SENATORS AND CONGRESSMAN; HEALTH CARE](#)

The following was sent today regarding health care to my New Jersey Senators and Congressman.

"I have been a resident of New Jersey for thirty years and have resided at the same location for that period. I have doctoral degrees from MIT and the joint MIT/Harvard program in medicine. I taught at MIT until 1975 and then went into business. I returned to MIT in 2005 after I sold my companies. I have spent the last ten years of my active entrepreneurial career in Central Europe and am quite familiar with multiple health care systems. The current Administration's efforts are

laudable because health care needs reform. The heavy handed approach of Hillary Clinton left a sour taste in the mouths of many. Hopefully the current Administration will be more open.

Having spent the last quarter of a century working in the field peripherally, as an investor and as an entrepreneur, I am personally aware of the many problems that are in the system.

Furthermore having returned to MIT, after thirty years, I can see the great advances that are on the immediate horizon. However, as a successful businessman and at heart an engineer, above all else, I see that there are things that require fixing and processes and procedures that need to be ordered and prioritized.

Unlike almost all of the current policy makers who seem to be worrying about how the pay for it, I believe that we should first understand what the "it" is and where it may be proceeding. Then, and yes possibly simultaneously, we can determine how to pay for "it". I believe it is an iterative process since we clearly see that many things are changing, all at the same time.

It is critical not to fall into the fatal trap of assuming that we are changing an old health care system, for the target is a moving target, and the motion of that target can be influenced for better or worse by your actions.

I have just published a set of White Papers on the health care issue¹. The intent of the White Papers was two-fold: first, develop a simple analytical model to understand how it works and what the consequences of current thinking are. Second, to consider the alternatives of reducing demand and reducing costs as well as seeing what changes may fundamentally change health care as we know it. My conclusions are as follows in four simple steps:

1 STEP 1: DEMAND REDUCTION IN HEALTH CARE IS ACHIEVABLE AND IS REQUIRED TO ACHIEVE ANY GOAL. BY ADDRESSING PREVENTABLE AND REMEDIABLE DISEASES IT IS POSSIBLE TO REDUCE LONG TERM HEALTH CARE COSTS BY 25% OR MORE. DEMAND REDUCTION IS AN ESSENTIAL STRATEGY TO BE DEPLOYED IN ANY HEALTH CARE ENVIRONMENT AND IT IS ONE STEP THAT IS MOST SUCCESSFULLY PERFORMED WITH THE SUPPORT OF GOVERNMENT.

All the policy makers assume that demand is inelastic, namely the demand by people for health care is independent of price. A simple counter example is cigarette smoking. Taxes on cigarettes have driven male deaths from lung cancers down 35%-40% from their peak.

The counter to that is the epidemic in Type 2 diabetes driven almost solely by obesity. If we were to continue the trend, we will go from the current 8% of health care being spent on Type 2 Diabetes and its consequences, heart, kidney, neurological, eye, and other problems to almost 20% by 2030! Type 2 diabetes is a simple disease to cure, just lose weight, exercise and drop the carbohydrate intake.

Taxing carbs, as Governor Patterson of New York suggested, is a great first step. Banning carbs, high fructose corn syrup, and frankly many carbs, will do more for reducing health care costs than reducing everyone's LDL! This is a superb example of how Government can cut costs by

using taxation as a negative modulator. Cigarette smoking and over eating if controlled can prevent the two major threats to cost explosion in health care. They are preventable disease and preventable by demonstrated Government action.

The second area of disease management if remediable diseases, namely those which if screening is used then the impact will be significant reductions in long term costs. In this case I have analyzed the list of top screenable cancers. I have analyzed this and determining that it is possible by universal screening, the cost can be reduced by 5%.

2 STEP TWO: THE COSTS OF THE SUPPLY SIDE OF HEALTH CARE CAN BE REDUCED BY A MULTIPLE OF MEANS, AND A TOTAL REDUCTION APPROACHING 15% TO 20% IS ACHIEVABLE. THIS WILL REQUIRE A COMBINE TECHNOLOGICAL, MEDICAL MINDSET, REGULATORY AND GOVERNMENTAL SET OF CHANGES.

Health care costs are assumed to be managed and controlled by external controls such as insurance companies and the Government. We argue that this is not the case. In fact there are facts to demonstrate that Government regulation is one of the significant drivers in the explosive overhead costs of health care.

Thus there are several things which will reduce the costs of health care delivery.

First, electronic medical records are critical but their development and introduction must be organic and evolutionary. Like the Internet, which was organically and evolutionarily developed via the Internet Engineering Task Force, the IETF, the EMR should see a similar development, facilitated but not controlled by the Government. It is well known that Government is not good at picking market winners and at managing ill defined programs. Thus the Government should facilitate and not manage.

Second, medical billing and collections should be fully integrated and automated. There is a plethora of such systems and medical practices are all too often placed in the position of financing insurance companies and Medicare via accounts receivable and bad debts. Third, a set of best practices oversight to reduce nosocomial infections, faulty diagnoses and misapplications of drugs is essential. The three of these and many more can reduce health care costs by 12-15%.

Third, there are many "housecleaning" issues that can dramatically reduce costs. These include control of nosocomial infections, misdiagnoses and treatments, and drug errors in hospitals. These issues have been around for years and account for well over 200,000 deaths per year in aggregate, not to mention well over a million cases of increased and costly morbidity.

We believe that the following specific actions are then required:

1. Billing Coordination

a. Implement single entry billing process

b. Implement short time payment

2. Electronic Medical Records

- a. Develop profession supported EMR system*
- b. Utilize an IETF framework for implementation*
- c. Evolve it in time, not all at once*

3. Nosocomial Infections, Mis-Diagnoses, Drug Errors

- a. Implement best practices to reduce nosocomial infections*
- b. Utilize integrated EMR/Billing systems to reduce drug errors*
- c. Use the EMR as a means to track compliance with these areas requiring compliance*

3 STEP THREE: THERE WILL BE A MASSIVE CHANGE IN HEALTH CARE RESULTING FROM THE APPLICATION OF GENETIC TECHNIQUES IN THE AREAS OF SCREENING, STAGING, TREATMENT AND PREVENTION. THESE CHANGES WILL RESULT IN AN UPHEAVAL IN THE VERY ARCHITECTURE OF HEALTH CARE DELIVERY IN THE UNITED STATES. IF THE US MAINTAINS A LEAD IN THIS AREA IT WILL ALSO PROVIDE A CRITICAL PART OF THE UPSIDE GROWTH POTENTIAL FOR THE US ECONOMY IN THE CENTURY TO COME.

Genetic testing can be used for screening, staging, treatment and prevention. These applications of genetic methods will be explosively expanded in the next ten years. After that will be genetic applications to treatment and prevention. Thus in a twenty year span we expect to see a dramatic change in the delivery of health care whereby disease we see causing the greatest burden can be dramatically and economically managed in a totally outpatient basis. Thus we argue that any health care policy must not only consider this effect in its development but must stress these efforts in its implementation.

1. Screening: The screening for the BRCA gene in breast cancer and of many other genes in cancers can provide the physician with better insight to how best to treat the disease. Companies like Correlagen in Cambridge screen for genes for which remediation can be achieved, not just telling the patient that they may have a problem. Screening can dramatically reduce certain disease mortality and morbidity and also create an environment for more focused management and monitoring.

2. Staging: Looking for the presence of a Philadelphia chromosome in CML and other genetic tests can assist in the staging of the disease once it is detected. In prostate cancer, for example the staging can be done with the following genes: (i) TMPRSS2 Promoter and TES Transcription, (ii) Androgen receptor pathways, and (iii) PTEN and HER2.

3. Treatment: New treatment methods using targeted genes are in thousands of clinical trials. Again in prostate cancer we have: (i) Immune based gene therapy, (ii) Cytotoxic gene therapy, suicide genes, and (iii) Conditionally replicating oncolytic adenoviruses.

4. Prevention: The use of the vaccine in cervical cancer to treat the influence of papilloma virus is a prime example.

We know that looking solely at the past as prologue to the future to be patently false. Consider two past examples; infectious diseases and psychiatry.

In the early part of the 20th century health care was dominated by the management of infectious diseases. New York City had its own Tuberculosis hospital, Sea View Hospital, which was filled with TB cases which the City cared for. With the introduction of an aggressive public health care system in New York and the ultimate development of drugs such as Rifampin and isoniazid, cures or at least strong containment of TB could be achieved. Thus it is no longer the case that one needs massive numbers of beds for TB patients.

The psychiatric centers such as Willow Brook Hospital on Staten Island in New York City were filled with psychiatric patients until the early 1970s. With the advent of drugs such as haloperidol and the like they closed in just a few years. The Commonwealth of Massachusetts had in 1965 a total of 45,000 hospital beds occupied every day. 25,000 of those were for psychiatric patients. By 1975, the psychiatric beds were reduced to 6,000 and today they are less than 1,000.

Thus, if we planned health care in 1965 for twenty years into the future using the past and not recognizing the impact of the new "technologies" then we would have been grossly in error! This is a clear warning as the Government approaches this task.

Also it is critical to understand that if the U.S. continues to dominate the genetic medical field that it is also establishing a base for a truly expansive economy throughout the current century. This is an area where the Government, through its funding and clinical support, can be of significant assistance. I see this also missing from the discussion of a plan by the current Administration.

4. STEP FOUR: RESTRUCTURING THE OVERALL HEALTH CARE APPARATUS IN THE U.S. CAN BE ACHIEVED IN AN INCREMENTAL MANNER. HOWEVER CERTAIN PRINCIPLES ARE REQUIRED.

Finally, I address the issue of a plan and the principles of a plan. I strongly believe that the above prior three issues must be discussed before or at least contemporaneously with the health plan structural issues. Otherwise the "what" one plans for is not a true reality or reflection of the future. In fact, planning for the wrong "what" can cause a great deal more harm to the optimal path discussed above.

The following I believe are essential for any evolving health care plan:

•*Catastrophic Coverage: There should be coverage of catastrophic incidents such as cancers, stroke, and long term disabling diseases such as MS, ALS, Parkinson's and Alzheimer's. The costs of these catastrophic diseases are on average low but to those who are affected they are disastrous. They are not preventable and in the most part currently not curable. Any one or family in one of these cases should be financially protected and should be available with the best of care, medical and palliative.*

•*Universal: Like the Massachusetts Plan, it must require all to participate. Unless the requirement for coverage is universal it cannot work. Arbitrage will occur and the system will not work as an insurance system but almost akin to a hedge fund, with the taxpayers paying for those who lose their bet. Coverage should not be denied and pre-existing conditions should not be factored into rates. Having Type 1 diabetes is a matter of fate not a matter of choice. Yet as we have stated earlier certain choice results such as Type 2 Diabetes and lung disorders related to smoking may have excess premiums applied.*

•*Choice: The Plan(s) must allow choice so that a patient may choose their health care provider and hospital. The physician must also have broad flexibility, since any stringent application of evidence base medicine or comparative clinical effectiveness applied too broadly is destined to disaster. Choice should also be allowed to selection of plans. Plans should at a minimum cover catastrophic coverage and other drastic forms of coverage. However any broadly based coverage and out of pocket expenses should be discretionary.*

•*Motivate Removal of "Bad Habits": Use economic rewards and taxes to remove such things as obesity and improve screening.*

•*Reward Good Health: There must be a system which incentivizes good health practices and dis-incentivizes bad ones.*

•*Establish Public Health Facilities: Utilize Public Health Clinics in place of the ER as a means of dealing with those in need of non-urgent care. Facilitate this by staffing with Medical School Graduates with tuition repayment.*


•*Evolve Enabling Technology: Mandating technology solutions means the Government is choosing winners and losers and this always leads to increased costs and reduced quality of care. Thus allow the health care community to evolve their own solutions within the community and not have a Federal mandate. Federal "czars" breed politically correct solutions to non-problems and these solutions line the pockets of favorites at the expense of the taxpayers.*

Finally it is essential that any health care plan look forward and not backward. Addressing the payment mechanism without addressing the other three more critical elements is a major failure. It will just keep the past frozen in the future. The current assumption is that the provisioning of health care will be a natural extension of the current practice. This is an approach of accountants and economists. They are the archeologists of our economy. We need future looking insight not recriminatory looks at the past.

My concerns reflect those of one who has successfully run business as well as having been professionally and academically involved in medicine. The problem that I see with many of the others proposing a health care policy is that their proposals all too often are just too academic. Books like those of Luft, Porter, Cutler and others, with their academically contrived plans, reflect views from the ivory tower of academe and grossly fail to do what any good business person would do. Namely they fail to look ahead as well as look at reducing costs. They all focus on the issue of how to pay for "it". That approach to me is vacuous.

These changes that we face in the provision of health care are sea changes that exceed those in health care in the past. It is essential I believe that we develop and implement a new health care policy in an orderly and business-like manner and just not rearrange the deck chairs which is a costly and non-productive exercise.

Very truly yours,"

Posted by Terry McGarty at [4:01 PM](#) [0 comments](#) 

Labels: [Health Care](#)

SUNDAY, MARCH 29, 2009

HOW NOT TO DO A HEALTH CARE PLAN

A proposal called the [Health Care Dialog](#) was issued Friday by a diverse group and commented on by the [Wall Street Journal](#) and [Politico](#) amongst many others. The Plan suggests:

"1. INCREASING COVERAGE AND ACCESS

...Seek to ensure coverage for all; strengthen public safety-net programs for low-income families; make private health coverage more affordable; and provide fair and adequate reimbursement for care.

2. STRENGTHENING WELLNESS AND PREVENTION

...The Centers for Disease Control and Prevention estimate that eliminating three risk factors — poor diet, inactivity, and tobacco use — would prevent 80 percent of heart disease and stroke, 80 percent of Type 2 diabetes, and 40 percent of cancer.

3. ENSURING QUALITY AND VALUE

- *Develop infrastructure to close gaps in quality and outcomes.*
- *Conduct comparative clinical effectiveness research (CER) studies via a public-private partnership to provide additional information that can help improve care decisions.*
- *Expand and accelerate the development of meaningful quality measures.*
- *Expand reliable data sources to build an evidence base for quality care...."*

They go on to say:

"The Congressional Budget Office (CBO) estimates that total health spending will rise from 16 percent of Gross Domestic Product (GDP) in 2007, to 25 percent in 2025."

Politico starts its report by saying:

"A coalition of special interest groups that met privately for months to reach a consensus on overhauling health care ended up sidestepping the most contentious issues: coverage mandates, a public insurance plan and financing..."

Whereas the WSJ says:

"A collection of health care groups calling itself the Health Reform Dialogue issued a set of recommendations today aimed at governing the debate over restructuring health care, and their ideas are generally consistent with the direction Democrats are heading..."

The Politico post appears as if some gang got together and put up their goody list whereas the second states that they aligned for the first time with the Democrats. What is amazing is how anything can come of a process like this. I have sat on many such panels and they result in group-think where any one having a good idea is shouted down by the others because they want their ideas included and the net result is the least common denominator.


The process of doing this health care reform is quite complex. I can see that academics are generally clueless, they generate arcane and often self-serving solutions that reflect their local politics less than true reality, a reality that they are in no way able to grasp. Physicians are too mired in the day-to-day practice of medicine and its ensuing overhead to get together and accomplish anything. Although the physicians often have the most to bring they are so close to ground zero that they cannot step back and propose. The physicians are not after all like lawyers who thrive on confrontation and posturing. Government bureaucrats have their agendas, lobbyists have their clients, and all other groups have the natural dynamics that lead the to LCD result.

Perhaps it is the ever present outsider who can bring some light to this issue. What seems to be missing again and again is the modulation of demand. Clearly the CDC recognizes the problem, cancers and type 2 diabetes, but somehow modulating obesity via market mechanisms may be politically incorrect.

As is remarked in the [New York Times Magazine](#) of today in the story about Freeman Dyson:

"What may trouble Dyson most about climate change are the experts. Experts are, he thinks, too often crippled by the conventional wisdom they create, leading to the belief that "they know it all." The men he most admires tend to be what he calls "amateurs," inventive spirits of uncredentialed brilliance like Bernhard Schmidt, an eccentric one-armed alcoholic telescope-lens designer; Milton Humason, a janitor at Mount Wilson Observatory in California whose native scientific aptitude was such that he was promoted to staff astronomer; and especially Darwin, who, Dyson says, "was really an amateur and beat the professionals at their own game."

Thus it may take a Darwin working alone and working against the grain. It must then take a group who believe in the new Darwin and become zealot like in their promulgation of the well thought out solution. Groups just always seem to miss the mark.

Posted by Terry McGarty at [8:38 AM](#) [0 comments](#) 

Labels: [Health Care](#)

SATURDAY, MARCH 28, 2009

PERHAPS THE US PRESS MAY BE CATCHING ON


The [New York Times](#) has just written a piece regarding the difficulties that the Administration will face when it arrives in London next week and then travels throughout Europe. We have been arguing that for a few months now. It most likely will even be worse than anything that the US Press can imagine. The new policy in Afghanistan and the confusion over Iran and how to deal with the nuclear issue and then compounded with the fumbling on how to deal with the war on the southern border over drugs where the Administration says it is the US's fault, and on and on.

This meeting will top off his first hundred days by it being his first foray into international politics. Merkel and Sarkozy are not going to be as friendly as he would think and Putin and his entourage will test his metal at the first but only as a Russian can.

If the Administration thinks it has problems with those in its own party on the Hill, the Russians will challenge them in ways they have never seen before. They are brilliant at that. And all the while the Chinese, the rapidly evolving eminence grise of capitalism, are no longer smiling at the nouveau politique of the Administration, but they are seriously worrying about the world economy which they may very well inherit sooner than they had ever anticipated.

This will be a fun week. Then just to add spice to it all will be the mass of crazies marching the streets, ah good old Europe, home to all we hold dear in culture.

All the while Americans under 50 are asking what next the Government will do for them. Imagine an Andrew Jackson or a Daniel Boone writing back to Washington asking for help. I think not.

Posted by Terry McGarty at [6:17 PM](#) [0 comments](#) 

Labels: [Commentary](#)


MY FRIEND ENJOYING THE LAST OF THE CORN



Here is one of my friends enjoying the last ear of the autumn harvest. You can note that he is rather robust for one who has just managed to get through a Goreian winter, 10F lower than last. I guess global warming has done little harm. Happy spring Antnee!





Posted by Terry McGarty at [12:22 PM](#) [0 comments](#) 
Labels: [Squirrels](#)

FRIDAY, MARCH 27, 2009

[SOME MORE THOUGHTS ON HEALTH CARE](#)

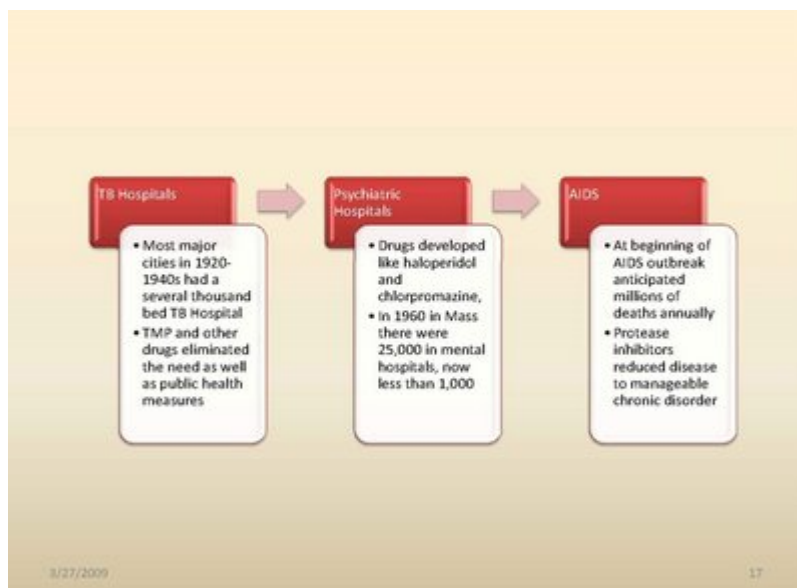
As we have been speaking to people on the health care issue we have been giving talks to some physician friends and their input is quite useful, and essential. Here are some points of note:

First we see the health care problem as having four elements. They are shown below; demand modulation, cost reduction, genetic development and finally organization, namely how do you pay for it.

These four steps we will detail more in a short while.



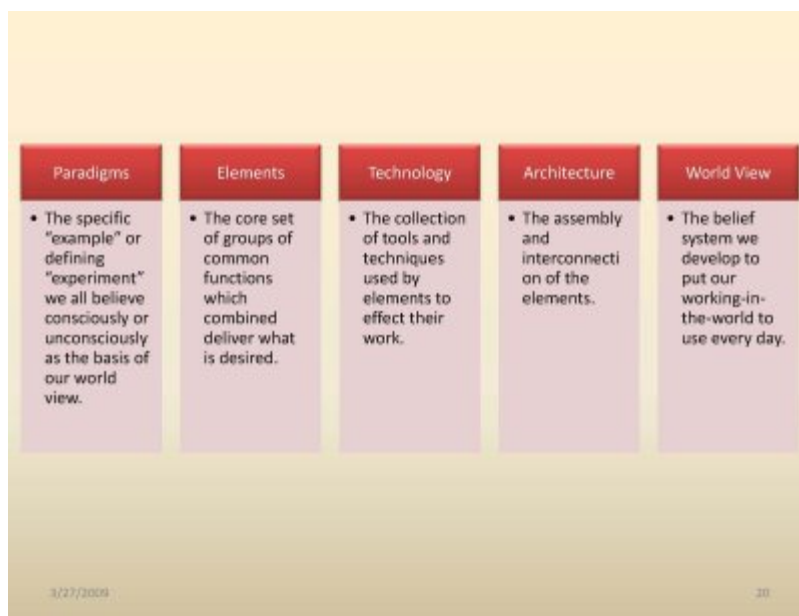
Yet to develop a good health care policy we must understand that we must be wary of assuming that the past is what the future will be . We know that looking solely at the past as prologue to the future to be patently false. The chart below is descriptive of three major changes in the 20th century. There are of course many more.



Consider two past examples; infectious diseases and psychiatry. In the early part of the 20th century health care was dominated by the management of infectious diseases. New York City had its own Tuberculosis hospital, Sea View Hospital, which was filled with TB cases which the City cared for. This is no longer the case. The psychiatric centers such as Willow Brook Hospital on Staten Island in New York City were filled with psychiatric patients until the early 1970s. With the advent of drugs such as haloperidol and the like they closed in just a few years. The Commonwealth of Massachusetts had in 1965 a total of 45,000 hospital beds occupied every day. 25,000 of those were for psychiatric patients. By 1975, the psychiatric beds were reduced to

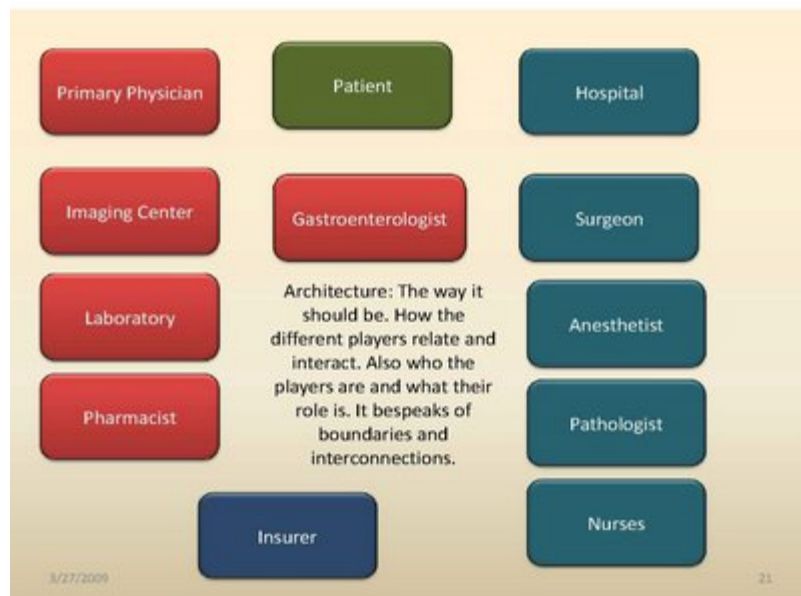
6,000 and today they are less than 1,000. This would mean that if we planned health care in 1965 for twenty years into the future using the past and not recognizing the impact of the new "technologies" then we would have been grossly in error! This is a clear warning as the Government approaches this task.

Looking to the future we must be careful to understand how we assemble the pieces or elements of the health care system. The chart below depicts the approach of Kuhn in his work on scientific revolutions. We believe it applies directly to health care as well.



The elements are the bits and pieces which make up health care. The paradigms are those examples which we hold as the basis of our beliefs. The world view is the almost religious understanding of how things should work. When the paradigm shifts, due often to new technology, the assembly of the pieces moves all over the board.

Now look at the elements as shown below. The question we pose is that if we see in genetic medicine the changes we anticipate in the next twenty years, this change will create a new paradigm, namely core example, and this paradigm will change the world view and in turn the architecture. Government should not address how to manage the past but ow to promote the future. By targeting genetic screening, staging, treatment and prevention we change the field of medicine. By rearranging the deck chairs we spend money and wast time and delay the future.



These thoughts will be provided in a new paper shortly. The understanding of how to approach the problem is critical. One needs a framework, a philosophy, so as to assemble a broad picture. As I have been reading the current collection of health care policy types they see to totally ignore these factors. Kuhn was brilliant in his articulation. He applied it to science but as I have looked at many other fields his approach stands the test of time in all areas and policy makers must take this into account. Antibiotics, psychiatric drugs, protease inhibitors, imaging systems, all of these changed the way we view medicine and changed the way it is architected. We truly believe that gene therapy will do the same. We also truly believe it will do so in a shorter time than most anticipate. Hopefully our Government leaders do not set it back because of their lack of understanding and that the policy makers do not just rest in their ignorance.

Posted by Terry McGarty at [1:04 PM](#) [0 comments](#)

Labels: [Health Care](#)

[CAP AND TRADE: A LETTER TO SENATORS AND CONGRESSMAN](#)

The following was sent to my Senators and Congressman on the issue of the current Administration's proposal on Cap and Trade:

"I have been a resident of New Jersey for thirty years and have resided at the same location for that period. The last time I wrote my Congressmen was when the Hillary Health Care plan was in the offing. However this time the proposed Obama Cap and Trade proposal is a devastating plan which will have massive negative unintended consequences. I have been a Professor at MIT and have returned there after I sold my companies and retired. I still reside in New Jersey. I have lived and still have contacts with people I befriended in over twenty countries where I had started branches of my company. Yet, they too have concerns about the current expansive spending proposed by this current Administration and the impact on the United States and in turn on them. China is not asking for a new currency because it dislikes the color of ours, it is doing so because it fears that ours may very well become worthless. I share their concern.

I have just published a White Paper on the cap and trade issue. The intent of the White Paper was two-fold. First, develop a simple analytical model to understand how it works and what its consequences are. It appears that no one has presented such an approach. Second, consider and evaluate the impact of the unintended consequences of this cap and trade proposal. We have found that it is essential to study these unintended consequences lest you find yourself back in the same mess we have in the financial markets.

The current Administration seems so hell bent to institute this cap and trade system that they are totally neglecting the downside risks! I summarize a few here.

The law of unintended consequences plays an ongoing role in all Government programs. Whenever the Government acts, there are reactions to avoid the actions. The unintended consequences are critical to understand and hopefully anticipate and if necessary avoid. Let me list but a few:

1 THERE WILL BE MASSIVE JOB LOSS AND JOB DISPLACEMENT RESULTING FROM THE DESTRUCTION OF INDUSTRIES BASED UPON COAL SUCH AS MINING AND THOSE INDUSTRIES REQUIRING LOW COST ENERGY FOR CHEMICAL AND SIMILAR CONVERSIONS SUCH AS ALUMINUM AND CONCRETE.

Coal is the livelihood for hundreds of thousands in the United States. Wheeling, WV is a lynchpin in this world, and in the "hollers" of that region the mining of coal has been the base of centuries of human existence. This current cap and trade proposal by the current Administration will drive them totally into the Stone Age. One of many technological solutions is a "clean coal" which seems to be dismissed totally out of hand by the current Administration. Technologically ignorant people assume if it has not been done it cannot be accomplished. President Roosevelt was not such a Luddite; the atomic bomb was a glimmer in the eye as late as 1943. It took really just over two years to deploy. The same effort could be applied to coal and the creation of "clean coal". But for some almost religious reason it has been defaulted to be undoable.

One of my typical exercises when teaching at MIT is to tell my students on a Friday that "such and such" cannot be done. By Monday they have delivered a solution and showing me how little I knew. For in reality anything can be accomplished and the costs of these accomplishments can always be engineered to a realistic and economic level. Added to this will be the industrial collapse of many industries because of the dislocations of these industries and we would expect massive unemployment. The recovery would take generations. It would be costly beyond any trillion dollar Stimulus we have yet to see.

2 MASSIVE INDUSTRIAL MOVEMENT FROM THE U.S. WILL OCCUR RESULTING FROM THE ESCALATING ENERGY PRICES.

The Industrial sector is a major user of energy in the United States. One approach of controlling the CO₂ emissions at the source would be to have the Industrial sector be controlled like the electricity sector. If we analyze the data as we have in our report, the industrial sector relies heavily on oil, gas and even coal. Coal is used for aluminum and concrete, it is a cheap energy source for creating these and also concrete as a chemical process also produces CO₂.

Thus if we were to apply the same restriction here we would inevitably drive these industries from the US totally. The Information Technology industry is a heavy user of electricity and it too would find itself driven elsewhere. Thus one of the unintended and totally un-thought about consequences is this driving of industrial entities, the residual ones at that, from the US to countries which have available and affordable power.

3 DRAMATIC INFLATION AND INFLATIONARY PRESSURE RESULTING FROM THE IMPOSED TAXES WILL BE THE RESULT.

The problem of inflation is pandemic in this approach. Cap and Trade taxes will drive up costs of the energy sources which will drive up costs of production and on and on. The cap and trade proposal may very well set in motion a whole cycle of dramatic and destructive inflationary pressure. It may also have the unintended consequence akin to Gresham's Law that it may actually drive out "good fuels" and leave bad. For example as coal becomes non-existent in electric power plants, there may be created a "Black market" for coal and furthermore wood may even replace coal in certain markets. It will be akin to prohibition, the demand will be intensified because of the inflationary and prohibitory pressures.

The home "still" of the 1920s will be replaced by the home coal burning stove and a new massive Federal police force will likely be formed to strike down the down-trodden pollution violators.

4 DESTRUCTION OF ENTREPRENEURIAL INNOVATION WILL RESULT DUE TO THE EXTRACTION OF MASSIVE AMOUNTS OF CAPITAL FROM THE ECONOMY AND ITS TRANSFER TO THE GOVERNMENT. GOVERNMENT HAS NEVER HAD A RECORD IN CREATING NEW BUSINESS; IN FACT THE RECORD IS OVERWHELMINGLY TO THE CONTRARY.

One of the things which seem to be coming out of this current Administration is a total lack of understanding of the entrepreneur and their role in creating value in this economy. This cap and trade proposal will remove vast amounts of money from those who invest and take risks in new ventures and place it in the hands of Government bureaucrats. The Government, with all due respect, has never invented anything. It has been the risk takers embodied by the entrepreneur. This massive destruction of capital from the American system will destroy that engine for generations.

5 INHERENT INSTABILITIES IN DEPLOYMENT OF ALTERNATIVES BY ENVIRONMENTALIST INTERVENTION. THERE IS A WELL ESTABLISHED RECORD THAT THE ENVIRONMENTAL LOBBY WILL OFTEN OPPOSE ANY CHANGE TO THE ENVIRONMENT FOR ANY REASON. THUS THE DEPLOYMENT OF AN INTELLIGENT GRID, A NEW NUCLEAR POWER PLANT, WIND AND SOLAR WILL ALL FACE COSTLY AND TIME CONSUMING DELAYS FROM THE NEVER ENDING PETITIONS AND LITIGATIONS FROM THESE GROUPS. AT THE SAME TIME THE CAPS WILL DROP AND THE TAXES WILL MOUNT, AND FLOW DOWNWARD DESTROYING THE ECONOMY FURTHER.

As we have seen in so many prior cases, the environmental lobby, for reasons often known to only them, opposes anything. The use of wind has seen objection after objection. The deployment of large wind turbines across the mid country would be in the path of many migrating birds. Thus they cannot go there. Or the environmental impact statements would go on forever. Delay is often the deadliest form of denial. Delay can occur at the Federal, State, and local level, and the delay adds costs directly and derivatively. Furthermore delay will just result in the cap and trade algorithm driving up energy costs even higher with no ability to seek alternatives due to the delays. This is a countervailing power that the Environmental lobby has. As a personal note, I operate a nursery in New Jersey and have a strong personal interest in good environmental practices. However in my experience it is the extreme groups which give all the rest of us bad names.

6 FAILURE TO DEPLOY A NATIONAL GRID IN A TIMELY MANNER WILL RESULT IN DRASTICALLY HIGH TAXES. ENVIRONMENTAL AND OTHER DELAYS WILL MAKE ANY ATTEMPT TO BRING ON-LINE WIND, SOLAR OR NUCLEAR A FUTILE EFFORT. THE MAJOR PROBLEM IN THE DEPLOYMENT OF AN INTELLIGENT GRID IS THAT THE COMPETENCE IN THE AREA IS SCARCE IN THE U.S. RESULTING IN A UNION DOMINATED PROGRAM TO PUSH OUT TECHNICAL GRADUATED WITH H1B VISAS.

You cannot get wind and solar or even nuclear unless you have a national grid. This is in and of itself a major task. What is an intelligent grid? It is an evolving and learned process of distributing electrical energy. It is very much akin to the Internet. The Internet did not spring forth fully formed. It began in the late 1960s and slowly evolved assisted by thousands of highly intelligent and collaborative systems and development engineers. The power industry has been a backwater of engineering talent for the past fifty years.

Thus the competence set is just not there. Classic companies like GE most likely will not develop the smart grid by themselves. It will take a similar group of a broad base of smart and motivated engineers working in a collaborative manner with some support from a 1970s like ARPA. However the problem is that the people to do this just do not exist. Thus the achievement of this essential first step, the intelligent grid, is at best problematic. Ironically many of those who could do this have H1B visas and are soon to be shipped out of the US! Who is forcing this? The Unions. They want all Americans. The H1Bs want to become Americans and yet we throw them away. The system seems to devour itself in an endless fashion.

There are many other ways to implement a cap and trade system. The current Administration's proposal is a bald-faced tax, a regressive and extortionary tax which will hit the citizens of the state of New Jersey and of the United States. It will set our Country back economically into the Stone Age. I am asking you to think otherwise, since implementation of this tax will, in my opinion, destroy the United States.

WEDNESDAY, MARCH 25, 2009

[SOME THOUGHTS ON THE AIG BONUS ISSUE](#)


The [NY Times](#) today published a letter from a former employee, executive, of the AIG unit that had the major problems and the large bonus. The letter seeks sympathy for a job, well not quite well done but done.

Having never worked in the financial industry, I did have one opportunity in the mid 1980s at Salomon Bros but at the time my college room mate had just bought it and was Vice Chairman and the advice was that a baseball team did not need a brain surgeon, that organ was just missing in the business, it ran on gut. So I passed and was never happier, for shortly after that came 1987 and the collapse. I sought the security of high tech venture start ups. A secure safe spot in a troubled world!

To the point. In my world of venture start ups, you took the calculated risks, won some and lost some, but you were never rewarded if you failed, there just were no such things as retention bonuses. If you wanted another step up to try and hit another ball in another game you always cleaned up your mess if you left one and in many cases there just was no compensation, none, period.

You did it to gain credit, to maintain credibility. You just failed, so fix it and move on. As I have said time and time again, it is the entrepreneur who has created this country and its economy. It is that combination of Dutch and English adventure and focus which created a strong economy, not a Government, and not ab initio the financial community. The Dutch West India company did the financing but it was the actual Dutch in New Amsterdam, aka New York, who set about the business on a day to day basis.

Thus the self indulgent whining from those who may not have personally created the mess, and yet if one is an Executive Vice President there must be some nexus here, one would suspect, is both unprofessional and merely self serving. For those of us who have been in the trenches of entrepreneurial start ups, as they say, it comes with the turf. Get over it.

Posted by Terry McGarty at [6:22 AM](#) [0 comments](#) 

Labels: [Commentary](#)

TUESDAY, MARCH 24, 2009

[THE CHINESE LECTURE ON CAPITALISM](#)

The Head of the [People's Bank of China](#) has just spoken about the creation of a new currency akin to what Keynes had proposed at Bretton Woods. Zhou Xiaochuan who heads the Bank, and curiously is a PhD Chemical Engineer and NOT an economist, a rather insightful observation in itself, has thrown down this challenge to the US a week ahead of the G20.

Some of what he has said is of note and a warning to the Administration:

"The outbreak of the current crisis and its spillover in the world have confronted us with a long-existing but still unanswered question, i.e., what kind of international reserve currency do we need to secure global financial stability and facilitate world economic growth, which was one of the purposes for establishing the IMF? There were various institutional arrangements in an attempt to find a solution, including the Silver Standard, the Gold Standard, the Gold Exchange

Standard and the Bretton Woods system. The above question, however, as the ongoing financial crisis demonstrates, is far from being solved, and has become even more severe due to the inherent weaknesses of the current international monetary system....

I. The outbreak of the crisis and its spillover to the entire world reflect the inherent vulnerabilities and systemic risks in the existing international monetary system.... Issuing countries of reserve currencies are constantly confronted with the dilemma between achieving their domestic monetary policy goals and meeting other countries' demand for reserve currencies. On the one hand, the monetary authorities cannot simply focus on domestic goals without carrying out their international responsibilities and on the other hand, they cannot pursue different domestic and international objectives at the same time....


II. The desirable goal of reforming the international monetary system, therefore, is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies...

III. The reform should be guided by a grand vision and begin with specific deliverables. It should be a gradual process that yields win-win results for all ...

Special consideration should be given to giving the SDR a greater role. The SDR has the features and potential to act as a super-sovereign reserve currency. Moreover, an increase in SDR allocation would help the Fund address its resources problem and the difficulties in the voice and representation reform. Therefore, efforts should be made to push forward a SDR allocation.... Create financial assets denominated in the SDR to increase its appeal. The introduction of SDR-denominated securities, which is being studied by the IMF, will be a good start. Further improve the valuation and allocation of the SDR. The basket of currencies forming the basis for SDR valuation should be expanded to include currencies of all major economies, and the GDP may also be included as a weight...

IV. Entrusting part of the member countries' reserve to the centralized management of the IMF will not only enhance the international community's ability to address the crisis and maintain the stability of the international monetary and financial system, but also significantly strengthen the role of the SDR...."

Hopefully the Administration is prepared for the G20 next week. The Europeans are preparing for world regulation of all financial markets and the Chinese are planning for a new world currency. The Geithner-Obama bailout looks a lot like a Paulson-CDS II type plan. It really creates a great deal of long term credit uncertainty. The Chinese are warning the US not to over reach on the US internal spending, namely excessive domestic programs, all at once. It is amazing to be lectured by the Chinese on Capitalism! This may be more telling than anything else.

Posted by Terry McGarty at [5:17 AM](#) [0 comments](#) 

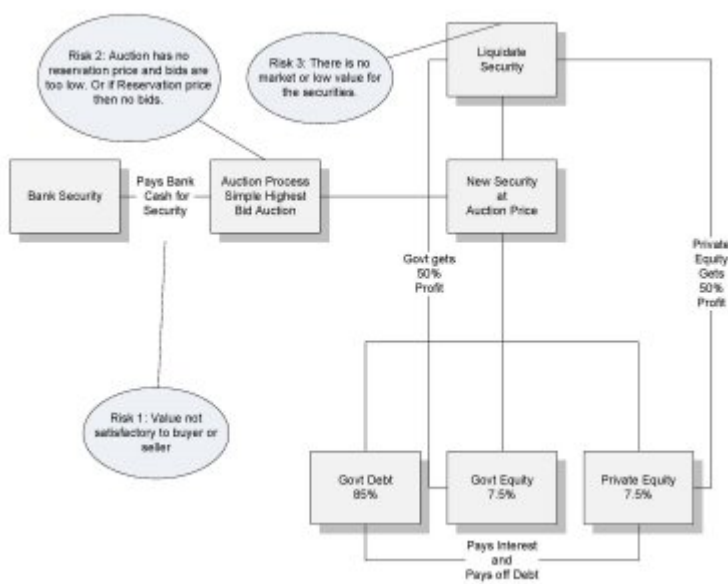
Labels: [Economy](#)

MONDAY, MARCH 23, 2009

CREDIT DEFAULT SWAPS II: THE TREASURY PLAN

The [Treasury Plan](#) to reduce the toxic waste was revealed today. [Paul Krugman](#) has taken some objections to the plan. The plan is shown below. It works as follow, hopefully:

1. Banks take bundles of their bad assets, mortgages or securities, and then place them in a Government auction. It is a highest bid auction. It is not clear if there is a reservation price and it is not clear just how much transparency there will be. The devil is in the details here. This was the stumbling point for the Paulson plan. Here is where we see the first risk. No one shows. The reservation price is too low or non-existent or there is a total lack of transparency and no one can purchase without some due diligence. This really needs clarification.
2. The auction proceeds and the buyer pays 7.5% and the Government puts in 7.5%. Equal equity but the buyer controls.
3. The buyer then somehow gets debt from the market and the debt is totally guaranteed by the FDIC, and somehow the FDIC can underwrite the debt. This is really another credit default swap. This CDS II is the real devil in the detail. Somehow no one has seemed to identify this issue.
4. The buyer holds the security for a while until it can be sold. This is a risk factor three. It assumes that there is a greater fool to purchase this at a higher price. Somehow there is a cash flow behind the security or perhaps a secondary market. Again there is the risk of another set of CDS behind this. Hopefully they are regulated.
5. Then the Government gets paid back, hopefully, and the Government makes a profit, hopefully.




The risk factors are shown below. Note that there is a hedge created by the Government FDIC debt guarantee. This means that there is a maximum loss of 15%. One can imagine the many derivatives which can be generated on this hedge. The figure below also a probability distribution, lacking any black swans and long tails, that lets one look at the spread of the returns.



We believe that this proposal is most likely the best that can be done at the present. The risk is placed upon the Government and there is no underwriting of the risk. This is the same as the naked risk taken by AIG which got us in the mess. This is a movement of chairs on the deck of some ship, hopefully not the Titanic. One can perform a set of detailed analyses on this scheme but I believe it will all rest upon the auction. This was the same problem Paulson never seemed to solve. Geithner seems to "solve" this via the FDIC underwriting. Hopefully this gets some traction. If it does, and if the toxic waste can be moved and monetized, then hopefully the system is put back in motion.

All of this is set in motion awaiting next weeks meeting of the G20 in London. That will, as we have been saying, is critical.

Posted by Terry McGarty at [7:52 PM](#) [0 comments](#) 

Labels: [Economy](#)

[SOME VISITORS](#)

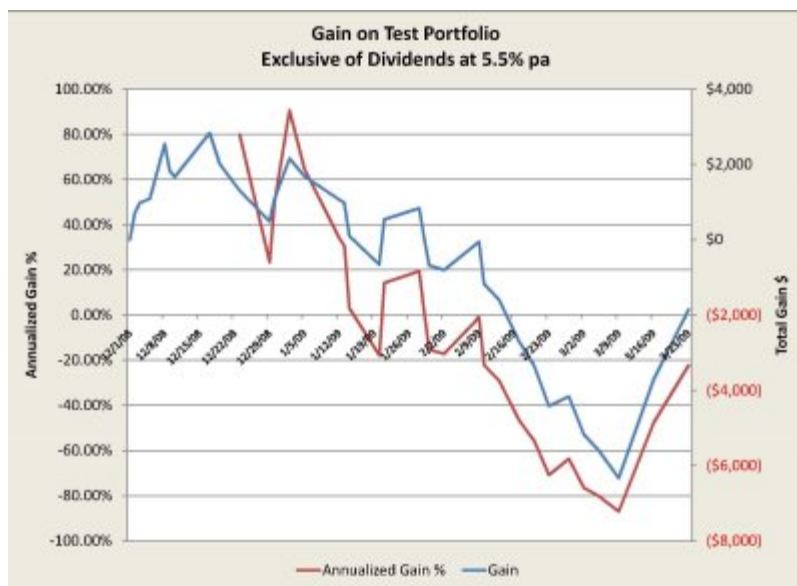


Interesting to see just one day of visitors. I guess that someone thinks this is of interest, at least worldwide. Google Analytics does a great job! Many thanks to those folks at Google.

Posted by Terry McGarty at [2:05 PM](#) [0 comments](#)

[FROM THE DEPTHS, LAST TWO WEEKS LOOK GOOD](#)

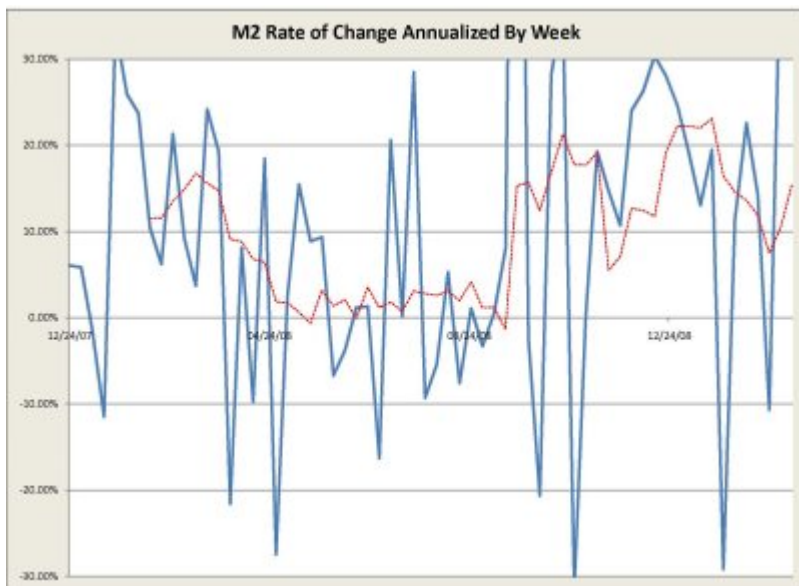
The results of today's market are presenting a hopeful trend. The bundle of goodies we have been watching since 1 December 2008 is shown below.




Back to our doomsday scenario, well the last two weeks have been looking good, we are still down 20% on an annualized basis but that is much better than what we saw before. We are also tracking M2 which given what the Fed did last week and the other pumping of the economy we would expect a substantial change (We have links to this and all of our other stats in the [Telmarc Links](#) location). This is shown below.



However we show below the annualized rate of increase of M2. We also plot the 60 day moving average.



For the last six months the M2 has been growing on a running average between 15% and 20% per annum. This is exclusive of the inclusion of the Feds recent actions since it is current until 9 March 2009. We anticipate that this may be the canary in the mine shaft and the only thing holding back a massive inflation tide if unemployment. If the Administration's plan works, that stimulates employment and savings then this would be expected to expand dramatically and induce significant inflation.

Posted by Terry McGarty at [1:15 PM](#) [0 comments](#) 

Labels: [Baseline Portfolio](#)

SUNDAY, MARCH 22, 2009

PUBLIC-PRIVATE PARTNERSHIPS: AN EXAMPLE

In 2002 one of my companies, [The Merton Group](#), set out to work with communities to establish public-private partnerships for the purpose of deploying [municipal broadband](#) in New England communities. We worked with over [35 towns](#) and spent thousands and thousands and thousands in the process. We even got a multimillion dollar financing for Hanover, NH from the Rural Utilities Services (RUS). We met with selectmen, town councils, jumped through hoops and then we came upon the [Franchise](#) in [Hanover, NH](#), home to the famous intellectual institution of Dartmouth, a bit tongue in cheek if you did not get it, and the alma mater of one Secretary of the Treasury Geithner.

What happened is most likely prologue for any and all public-private partnerships and further may exemplify the mindset incubated in Hanover NH.

After we received a [RUS loan from the Department of Agriculture](#), and after Congressmen and Senators praised our work, we just needed a pro forma franchise as a condition precedent to closing the loan. Well, did the fun begin here. The Selectmen and Town Managers began to ask for more and more. They wanted to have us provide Universal Service. I said we have no obligation. They then demanded. I then replied that I would personally pay the bill of any household found in Hanover that qualified. It is not as if Hanover was readily open to the indigent. It is like Cambridge but with no poor people.

Then they demanded that we provide coverage to 95% of the town, despite the fact that the cable company, then Adelphia but soon to be Comcast had 45% coverage. They insisted, they demanded, welcome to a public private partnership. Soon it became clear that the cost of dealing with the town was more costly than the construction on a per subscriber basis! We eventually told the town that they had to give us a franchise pari passu with the cable company, we gave them 90 days.

Then, after no franchise, we walked. They then were furious that we walked. It was after all our money. I informed them that the Government had a 13th Amendment and that we could not be held as workers against our will and forced to pay out of our own pockets. We never took the Government money, we never built the network, and we learned a very serious lesson. Quasi intellectuals who purport to represent the people may often cause more damage as unintended or otherwise consequences.

Fortunately in this case we just wasted our time and money, we did not waste the taxpayers. I would not take that money unless I was assured that I could repay it, honor is an important virtue. At least to some.

Thus, public private partnerships like the one in Hanover, I think not!

Now I would like to make a few conclusions. This was based upon the fact that one hour after I posted this someone apparently from Comcast in Washington read this blog, I would guess


because it mentions Comcast only in passing. Rather paranoid perhaps but it shows what the Internet can do. You see me and I see you.

Now to the conclusions.

1. The above experience shows that despite Washington's best intentions, in this case with RUS, there was tremendous intervention by the vested interests and this case it was the cable industry. They tried to get our RUS filing from USDA under a FOIA filing and they also lobbying the town to ensure we had a materially higher hurdle to climb over. Thus this conclusion is no matter what there are incumbents who will see whatever is done as a threat and they in turn will amass their forces to work against it. In my case above cable against any competitor. As from my 1 hour ping on a Sunday morning they seem to be still fearful. I await the next ping. Remember guys I went to MIT not Harvard!

2. Local governments have interests not necessarily aligned with the Federal Government. These interests may often be in addition to the Federal Government and to use the Galbraithian phrase they may become countervailing interests. Thus Hanover wanted total coverage and free service. A rather unstable request in the context of any economically stable system.

These two conclusions are what Geithner must face. Wall Street may have given him a hint of that but so far he has not shown it. Living outside the US while growing up does not give you a sense of local politics. Growing up on the streets of New York City may.

Posted by Terry McGarty at [7:50 AM](#) [0 comments](#) 


Labels: [Politics](#)

SATURDAY, MARCH 21, 2009

[BANK BAILOUT AND RESTRICTED COMPENSATION](#)

The [Financial Times](#) reported that bankers were quite upset over their loss in bonuses for 2009 via taxation. In reality anything they get will actually cost them since when one adds NY State and NY City tax plus Medicare tax one approaches 102%! But that aside. There is one question, where would they go to hide, perhaps Nepal, or Paraguay. The EU intends to orchestrate even stricter rules, and if one knows Russia, well let us say there is no home there, and China and India are already occupied. Then there is the infrastructure which supports them, the networks, and of course restaurants.

But wait, what do other industries do when upon hard times? Well they just tighten the belt all around. These folks are crying like babies. They caused the problem. It is not as if they invented the option pricing formula, that was Fokker and Planck! In any business, money talks, and they of all people know that. In this case it is the taxpayer's money, NOT the Government's. The taxpayers are now your bosses and they do not like it. Then there is the self centered [former trader](#) who had been paid bonuses of \$750,000 and who now barely gets by as a Pizza delivery man. What in God's name did this person do with that money? That is 20 years salary of some poor Joe and his wife and three kids! They should be lucky that they even got the Pizza job given the way they seem to have handled money! As they say you cannot make this stuff up.

Posted by Terry McGarty at [4:58 PM](#) [0 comments](#) 

Labels: [Politics](#)

SATURDAY, MARCH 21, 2009

[SOME INTERESTING LINKS](#)

From time to time there are links that may have more than passing interest. I will try to assemble them here.


[CBO Obama Budget Analysis](#)

[G20 UK Links](#)

[G20 Plan](#)

[G20 and Global Trade](#)

[CBO Cap and Trade](#)

Posted by Terry McGarty at [6:21 AM](#) [0 comments](#) 

Labels: [Economics](#)

FRIDAY, MARCH 20, 2009

[WORDS MEAN SOMETHING: THE PROSTATE STORY](#)

The [New York Times](#) today has an editorial on the prostate papers in [NEJ M](#) which we commented upon yesterday. The Times says:

"The studies — one done in the United States, one in Europe — both show that screening had little or no effect in reducing prostate cancer deaths."

That is **NOT** what the papers said. They said that the protocols used to screen had little or no effect. NOT that "screening had little or no effect". Really folks, words count.

The question the researchers should have asked was:

"What level of PSA yields a positive result regarding the reduction of mortality?"

or even better:

"What level of PSA and what level of PSA velocity yields a positive result regarding the reduction of mortality?"

They did not ask that question. They asked the question:

"Does a PSA test of 4.0 threshold reduce mortality as compared to two sample groups."


Well, as we also said the American sample groups were both "tested" albeit not as frequently, and the European sample groups were for all purposes untested. Thus frankly the level was wrong, which was known since 2003 as in NEJM, in the paper by [Punglia](#) et al, which showed that a PSA of 2.3 was required to get reasonable levels! The 4.0 level was outdated for six years. No wonder there was no positive result, in addition to the samples used.

Why worry about stupid reporters and editorial staff writers, well because it may become health policy! And that policy can kill. Consider if we did a test that said for women we screen for palpable breast lesions only larger than 4 cm in diameter. Then we would likely conclude that breast screening is ineffective since those screened and those not screened died at the same rate! Dumb, yes.

This demonstrates two issues:

First, the newspapers do not have the basic competence to read and report the facts. Words mean something and in this case lives hang in the balance.

Second, you may get answers to a question but it may very well be the wrong question. Ten years ago this may have been the right question, but we learned something. So does that mean we just continue a flawed study. I truly hope not.

Posted by Terry McGarty at [3:24 AM](#) [0 comments](#) 

Labels: [Health Care](#)

[GALBRAITHIANIST: NEITHER SOCIALIST NOR MARXIST](#)

There are many who are calling the current Administration's ways Socialist or Marxist. We argue that it really is Galbraithianist. We explain briefly here using Galbraith's three major works: American Capitalism, Affluent Society, New Industrial State. This trilogy established the Galbraith economic philosophy which seems to be what is dominating the current Administration in their goals and their actions.

Unlike pure Keynes philosophy which looks upon the economy as a system with knobs which one can manipulate the Galbraithian economist looks upon the economy from a power perspective. Namely that the Government has power for good and evil and that the Government has a duty to deploy that power for what it sees as good. The famous book by Bertrand Russell on Power is an interesting example of how power has been used through the ages. Galbraith's experience during his times in Washington showed him how power can be applied in a societal context.

American Capitalism

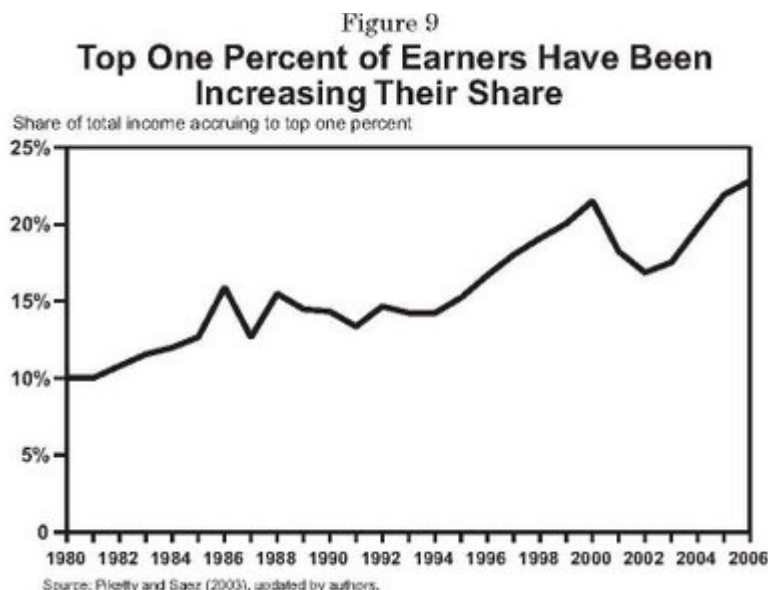
In American Capitalism Galbraith states (p 104-105):

"In one way or another nearly all of the great American fortunes are based on the present or past possession of monopoly power.Income inequality like monopoly distorts the use of resources. It diverts them from the wants of the many to the esoteric desire of the few...Unnecessary inequality in income, unnecessary in the sense that it does not regard differences in intelligence, application or willingness to take risks, may also impair economic stability."

Thus to Galbraith, monopoly is evil and those with intelligence, hard work, and risk takers get rewarded but that excessive wealth distorts the true direction of the economy. The work by Piketty as shown below is an example of the current trend of socialist economists who worry that income distribution is skewed. In the Piketty plot we see the percent of wealth held by the top 1% of the population. We see the explosion now in the US reaching levels not seen since the beginnings of the Depression. However these are not monopoly amounts.



The current Administration picks up on Piketty and in page 11 of the 2010 Budget puts the Piketty curve. The curve has been updated to 2006 and is for the US alone. It is quite interesting to see that Piketty showed the curved back before the Depression in 1930 whereas the Administration shows it only to 1980. As one says, Statistics can be quite confusing! It can also be the hand maid of deception.



Countervailing power was the second theme of this work. As Galbraith says (p 111):

"In fact, new restraints on private power did appear to replace competition. They were nurtured by the same process of concentration which impaired or destroyed competition. But they appeared not on the same side of the market but on the opposite side, not with competitors but with customers or suppliers. It will be convenient to have a name for this counterpart of competition and I shall call it countervailing power."

To some degree there is a Marxian like dialectic at play here between the thesis, antithesis, and synthesis, yet Galbraith does not share the inevitability of the Marxist and is more a Darwinian in his thought, albeit one where control or stabilization by the Government is a key player.

Galbraith continues (p. 136):

"In fact, the support of countervailing power has become in modern times perhaps the major domestic peacetime function of the federal government.....These measures, all designed to give a group a market power it did not have before, comprised the most important legislative acts of the New Deal. They fueled the sharpest domestic controversies of the New and Fair Deals."

Thus in his first work we see Galbraith positing two issues:

1. Income inequality leads to social unrest and income inequality is a result of the ineffectiveness of Government in permitting monopolistic entities to take advantage of the people.
2. Countervailing Power is a major element of Government's balancing the interests of the American people and the Government's use of this effects the establishment of new power groups whose new influence can modulate that of other groups. The Government has both the authority and the moral force to effect the establishment of these new entitlements and the support of these new countervailing groups.

The last point is again a bit Marxian in that there is the dialectic process at work again and in this case it does pit the proletariat against the capitalists. We see this in the current Administrations efforts in various venues. We see this in the President's own background as a Community Organizer. It is the Acorn empowerment and it is the Government's role as facilitator, not necessarily as the end agent itself.

Affluent Society

The Affluent Society claims three major things concerning consumption (See [The Global Development And Environment Institute at Tufts University](#)):

1. That the producers create consumer demand that the consumer is in many ways responding to the producers of the goods via advertising.

The consumer's mind has effectively been taken over by the producer. The producers, according to Galbraith, have the ability to produce what they can produce and get the consumers to buy whatever they produce.

2. That the relationship between consumption and some form of consumer utility function is near evaporating, that consumer buy when motivated by the producer and not as a result of some underlying exogenous need or utility.

This means that people are no longer the arbiters of their own fate, This was developed as a response to Madison Avenue advertising and the advertising age in the 1950s and 1960s. During that period people believe that by the appropriate form of advertising, media manipulation that people could be made to buy anything. The natural extension corollary to this is the use of the broad based media of today by Government to make people believe whatever Government wants them to believe. This assumes that people have abandoned any inherent utility function. More importantly this assumes that people have abandoned values.

3. That the structural pressures to increase private consumption drives out the provision of public goods.

This means that to Galbraith the consumer was being directed by the producers to spend their money on goods from the commercial sector and as such the needs of the public sector were being neglected. This in Galbraith's eyes meant that the countervailing power of the government should intervene via taxation and reallocate the expenditures based upon trends as perceived by Government into public works which in the view off the government were more beneficial, and had a utility far in excess of the consumption which was occurring.

Galbraith has been quoted as to his environmental bent by telling the tale of a family who goes on a camping journey amidst roads in disrepair and streams filled with polluted waters.

New Industrial State

The New Industrial State was his third in the trilogy. I remember reading it when it came out in the mid 60s. There also at the time was the debate between Solow and Galbraith. This is well elaborated upon in the book by Parker on Galbraith. Indeed the Parker book is exceptionally well done albeit politically biased towards Galbraith and strongly anti-Republican. Parker relates the thesis that is at the heart of this book (pp 439-448):

1. The giant corporation is the "characteristic organization" of modern capitalism.

In the mid 60s there was AT&T, GTE, ITT and massive companies in all sectors. The age of the true entrepreneur was not yet there. In fact it was the Government which expressly prevented this. For the Government made AT&T a monopoly and the Government actually sucked massive amounts of capital in taxes, 90% marginal rates, and massive amounts of technical people into Defense and NASA efforts thus depleting the US economy for a generation. To some degree this is akin to the "green jobs" of the current Administration which will suck the people from "market driven" value creation to Government funded employment.

2. Shareholders, the nominal owners of the company, have little power over the company.

Again true then but shareholder suits did start up albeit they were eventually suppressed by the Government.

3. The members of what Galbraith calls the "technostructure", the techno bureaucrats in companies, own little in the company and seek low risk by not maximizing profits and fitting the classic economic model.

This is also now a changed paradigm. Again the entrepreneur changed this and then it was adopted en masse by the corporations where options now make management large owners in companies. Those massive compensation packages are truly light on salary but heavy on deferred option compensation. Yet profit maximization is deferred for long term market survivability. That is more a way of the market than of the change in corporations.

4. Corporations do not profit maximize but seek to sustain themselves and to survive.

This is clearly true of the large company, because if they maximized profit from quarter to quarter the way the market works volatility would be too excessive. However if we look at the recent financial crises there is clearly just the opposite. They went to extremes maximizing profit. The extremes took them to, and over, the brink.

5, Advertising and a national ideology of praise for growth in the consumption of consumables misdirects the collective energies away from the fact that the US is awash in affluence.

Galbraith is fixated with the affluence issue. Strange since in this period it was nowhere near what it had been during the pre-depression period or now.

6. The key resource of the US economy is not the large industrial capacity but the ability to mobilize organized intelligence in the business sector.

Galbraith saw the result of the deployment of intelligence during the war and after it in industrial areas. This included the application of statistics to marketing and the ability to target specific customers with specific messages. This was all new and he saw in it a major strategic advantage.

Current Administration


We look at the current Administration and in many key areas they exhibit Galbraithian approaches to Government. Specifically we look at the following:

1. Power: Galbraith was a believer in power, and power to influence, to control, to manage. The Galbraithian power if held in the hands of a benign and fatherly government. The current Administration is a massive collector of power. It does so through the explosive expansion of entitlement programs.
2. Countervailing Power: The Galbraithian believes that Government can use its power to create countervailing dialectics in the economy between established classic capitalist entities and collections or groups which the Government believes can and should be represented. Acorn is a prima facie example. The groups being sponsored by illegal immigrants is another. These groups are empowered by the Government and then the dialectic is created. Countervailing power is in the end Government power as well. The Government facilitation if not outright creation and support of countervailing powers are the ways Government can exercise control of the people with an arm's length approach. It is an invisible to most approach. One must deconstruct the new entities introduced often through legislation to see what their true purpose is.
3. The Prevalence of Large Corporations: This assumes that there does not exist any class of entrepreneurs as we know them today. That business organically thrives to the point of monopolies and then continues in a risk adverse manner to persevere. That they are not driven by classic capitalist drives but by mere survival sustained forever. This history of capitalism is just the opposite. It is purely Darwinian. Just look at AT&T. The Administration's treatment of GM is an example of this belief of the countervailing power with the large sustained corporation and fails to understand that it is unacceptable in a capitalist world. The weak must not survive, that includes an over bloated labor union.
4. Advertising, or in our current day parlance, the new media, can control public opinion: The current Administration is a true believer and practitioner in that. They believe that, like the Galbraithian Corporation which uses advertising to promote its view, the Government can do the same. Thus, the President on Leno.
5. Government is the ultimate and optimum arbiter of all societal issues: Government is a benign and all knowing benefactor and is required to arbitrate between all the players. Government is essential. Government worked well when it worked big. The Government is the wise Oz, the wizard who is all knowing and all powerful. The market, specifically the free market, is a ruthless jungle from which the Government protects the citizens. Unlike a socialist who wants the Government to own the resources, the Galbraithianist wants the Government to arbitrate

between the consumer and the corporations. This is clearly what the current Administration proposes and is attempting to do.

6. Concentration of Wealth is bad: The accumulation of wealth in the hands of a few is unacceptable and it strikes at the heart of American culture. It is the role of the Government to transfer such excessive wealth to those in need, need as determined by the Government. The Administration seeks to take wealth from those at the top incomes and to further flatten the distribution of wealth to all. In their mind the skewed distribution is almost immoral. There should be equality of wealth because wealth in a Galbraithian sense is inherently evil. Wealth however is defined on their terms.

7. The People can readily be motivated by media to act in accord with Government: People are artificially motivated to consume commercial products by corporations to the detriment of public services, goods, and the environment. The Administration's plan for cap and trade is an example of how the Administration seeks to flow money from the consumers, the people, to programs and projects that the Government believes are better. The Stimulus package is another step in the direction. Unlike the New Deal, the current Administration has taken massive moves in those areas.

Posted by Terry McGarty at [1:04 AM](#) [0 comments](#) 

Labels: [Political Analysis](#)

THURSDAY, MARCH 19, 2009

[A REVIEW OF A HEALTH CARE PLAN](#)

I just finished reading the book by Luft proposing another health care plan, entitled, Total Cure (Harvard University Press, Cambridge, 2008). I was drawn to this book by a review in the New England Journal of Medicine (360: 5 pp547-549, March 2009) which somewhat praised the book. However upon reading it one sees a rambling style of pedantic text that leads nowhere. Let me clarify:

1. The author structures the book about what he calls his **SecurePlan**. The Plan basically takes health care and breaks it into two types: (i) major acute and major chronic and (ii) everything else.
2. The author states that universal care is essential as a given and that his proposed plan is the way to achieve it.
3. The author proposes amongst others that a Federal Reserve type structure be established to provide for the distribution of the universal essential services.
4. The author suggests the restructuring of the payments into a fee for intervention for the major acute and major chronic issues and a fee for service for most others.
5. The fee for intervention assumes that there are medical teams which group together and do, say cardiac catheterization under the rubric of a hospital. He in effect places the hospital as the

arbiter. He also in effect removes from the patient the choice of the team elements. You get what the hospital has contracted with.

6. His proposal would require a massive restructuring of all health care as we know it today.

Now let me look at some details that are missing:

1. The book is based upon a de minimis number of facts. It reads like an op-ed piece but it drones on forever. It is often quite difficult to see where the author is going.

2. The author is purportedly an economist and he seems to neglect the economics of the problem. As most economists strangely do, the modulation of demand is never considered in the analysis of health care. They all assume that the demand for healthcare is inelastic. That is, the health care services are truly price independent to the consumer, the patient or future patient. We know that to be blatantly false. For example, as we increased taxes on cigarettes we have seen almost a 50% reduction in lung cancer among men. Thus there can be a market effect which can be useful in reducing demand. This can be extended to Type 2 Diabetes if one does as Gov Patterson of New York suggests and tax carbs. Obesity is the major cause of all Type 2 Diabetes and reducing the Body Mass Index below 22.5 eliminates the disease in over 90% of the cases. No drugs, no secondary diseases, no treatment, the reduction of BMI takes away the overload on blood sugar. This alone would save 10% of the current expenditures in health care in the US. Then there are remediable diseases which by screening can also see their costs dropped by 50%. Screening for colon, breast, prostate, and similar cancers, means that we can, including screening costs, reduce the total cost burden for treatment of that specific disease from the current 12% of health care costs to 6%. Then we can address the cost equation or the supply curve; namely improving billing, using EMR, managing nosocomial infections, reducing diagnosis errors and the like. Treat the health care delivery as a process as one would do in any production or manufacturing industry, drive out costs and improve quality. Imagine if semiconductors were managed like health care; costly, unreliable, and the list would go on. The author totally disregards these issues as he invents his plan.

3. The Hillary Health Care Plan of the early 1990s was also a centralized control plan and we saw where that went.

Now let me deal with several specifics:

1. On p 48 he begins with assumptions. Again one must ask what the basis for these assumptions is. Are they observations, anecdotal, or is there substantial basis as to where they are coming from.

2. Page 55 then goes into design principles which suffer from the same things as the assumptions.

3. On p 61 he states that once someone has diabetes or cancer they always will. That is factually incorrect. This type of factual error pops up from time to time.

4. Throughout the book, say from pp 81 onwards, the acronyms he invents as neologisms become highly distracting. There is the UCP, PI, PCP, CDT, DRG, CIM, and on and on. Some are well understood terms of art such as DRG but the others overpower the reader. The best one is MOOP on p. 123 which is money out of pocket, instead of out of pocket payments.

5. On p 92 he commences his discussion of the role of the hospital as the linchpin in delivering the care to major events. There are many issues here and as one looks at hospital managements they are anything but sterling.

6. Finally on p. 155 he establishes ex-cathedra that health care is a right and that some form of taxation should be the way to provide it. As we discussed above this we know is rant with issues.


Finally one may ask why all of the proposers of these plans like Luft make several what I would consider fatal flaws in assumptions. They are:

1. The past is prologue to the future and in fact the future is a direct continuation of the past. This may very well not be the case here. With the explosion of genetic screening, diagnosis, staging, treatment, and prevention one would see the role of the physician as the genetic controller of disease as becoming paramount and one would hope the position of the hospital is for those which we have not yet understood. The problem with most of the health care proposals is that they delimit the future and plan as if nothing will change.

2. The development of a change architecture depends upon one's world view and this per Kuhn is contingent upon the paradigms which create our understandings. The Luft paradigms are in middle 20th Century medicine and are thus directed at how one pays for "it" and never questions what "it" may be evolving to, and even more so, how can we get "it" to evolve better.

Thus Luft sits between Porter's recent regurgitation of Strategy, **Redefining Health Care**, and Cutler's, **Your Money or Your Life**, a paean on Hillary Health.

As we have been arguing, the first step is to understand how to control demand, for it can truly be done, and then how to control costs, since we have one of the last medieval guilds around, and then figure out how to pay for it. We always seem to want to do it backwards, perhaps out of just plain lack of any real world experience on the part of the promoters.

Posted by Terry McGarty at [9:59 AM](#) [0 comments](#) 


FED BUYING TREASURIES: A REAL TERRIFYING MOVE

In today's [Financial Times](#) they report:

"...Goldman Sachs said the Fed was throwing the "kitchen sink" at the problem. The plan to buy Treasuries caught investors off guard. "It appears that they wanted to give the market a jolt," said Peter Hooper, an economist at Deutsche Bank. The last time the central bank attempted to bring down yields on long-term securities through direct intervention came during the ill-fated Operation Twist in the 1960s. Recent comments by Ben Bernanke, Federal Reserve chairman, and William Dudley, New York Fed president, did not suggest that Treasury purchases were imminent. But the deterioration in the US outlook, problems rolling out the US financial rescue

plan and the Bank of England's success in buying UK government gilts seem to have persuaded the Fed to act..."

This should be truly terrifying since it is the true beginning of printing of money. The concern is that they just print money to buy bonds because no one else believes in them. Gresham's law then takes over, bad money drives out good, and then the US dollar suffers massive inflation. Add to that the Administration plan for cap and trade and they yet to be mandated plan for health care and one gets a mess.

Posted by Terry McGarty at [9:51 AM](#) [0 comments](#) 

[PROSTATE CANCER: AMERICAN AND EUROPEAN STUDIES AND THE NEW YORK TIMES](#)

The New England Journal of Medicine published two studies today on prostate cancer screening. Before presenting their results for analysis let me first show what the NY Times said. Their headline was: "Prostate Test Found to Save Few Lives"

First the NY Times author, one Gina Kolata, states:

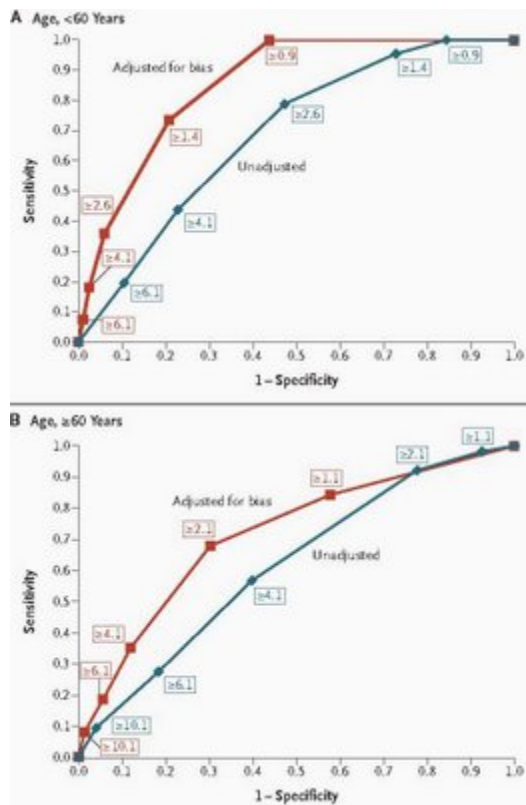
"The PSA test, which measures a protein released by prostate cells, does what it is supposed to do — indicates a cancer might be present, leading to biopsies to determine if there is a tumor. But it has been difficult to know whether finding prostate cancer early saves lives. Most of the cancers tend to grow very slowly and are never a threat and, with the faster-growing ones, even early diagnosis might be too late."

The PSA test is not just one test. It is not a black and white thing. It is a process that has evolved over time. There is not a good and bad PSA per se. Admittedly if you are 65 and have a PSA of 60 you are in some trouble. But as we now know a PSA of 2.1 when you are 50 is of concern. But more critically the rate of change in PSA is almost diagnostic. Thus a 25% rate of increase per year should be followed up.

In July 2003 Punglia et al in the New England Journal of Medicine published a study which demonstrated that the then current set point for PSA missed many cancers. They stated:

"Adjusting for verification bias significantly increased the area under the ROC curve (i.e., the overall diagnostic performance) of the PSA test, as compared with an unadjusted analysis (0.86 vs. 0.69, $P < 0.001$, for men less than 60 years of age; 0.72 vs. 0.62, $P = 0.008$, for men 60 years of age or older). If the threshold PSA value for undergoing biopsy were set at 4.1 ng per milliliter, 82 percent of cancers in younger men and 65 percent of cancers in older men would be missed. A digital rectal examination that is abnormal but not suspicious for cancer does not affect the overall performance characteristics of the test....A lower threshold level of PSA for recommending prostate biopsy, particularly in younger men, may improve the clinical value of the PSA test."

They presented the following Figure:



The PSA test has been refined over the period of these studies, the PLCO Study, "Prostate, Lung, Colon, Ovary".

Now to issue two, Let us assume that a biopsy is performed. If a Gleason score of 7 is noted then you best have some attention paid, even a 6 is a problem. You have cancer! It will grow. It may very well kill you! That is if you do not die of something else. The problem is twofold; first, the doubling time of the cancer cells may be short, and second, the metastatic potential could be great. For Prostate cancer has the habit of metting to the bones, especially the spine. Does one want to take that risk?

The European study states the following protocol:

"We identified 182,000 men between the ages of 50 and 74 years through registries in seven European countries for inclusion in our study. The men were randomly assigned to a group that was offered PSA screening at an average of once every 4 years or to a control group that did not receive such screening. The predefined core age group for this study included 162,243 men between the ages of 55 and 69 years. The primary outcome was the rate of death from prostate cancer. Mortality follow-up was identical for the two study groups and ended on December 31, 2006..."

The European trial is akin to a Fire House which uses an answering machine which it checks every three days to see if there is a fire. They then study the town with this Fire House and a town without a Fire House and discover that there is no difference in destroyed houses. Well one

would perhaps think that having someone there to answer the phone when it rings and then immediately dispatching a fire engine would improve things.

Let me explain. PSA screening once every year, this is based upon a tumor doubling time of 3 months, a DRE and PSA are performed. If the PSA is measured as per Punglia statistic then we would use 2.6 for men under 60. Punglia states:

"These findings, as well as recent data from a randomized trial showing that prostate-cancer treatment improves disease-free survival, 28 indicate that reduction of the threshold PSA level at which biopsy is recommended to 2.6 ng per milliliter, at least in men under 60 years of age, may be reasonable."

Subsequent studies indicate that the added measurement of velocity or rate of change per year is also critical. Thus a 25% per year rate of change should be used as a way to seek an examination.

The American Group provides the following results:

"From 1993 through 2001, we randomly assigned 76,693 men at 10 U.S. study centers to receive either annual screening (38,343 subjects) or usual care as the control (38,350 subjects). Men in the screening group were offered annual PSA testing for 6 years and digital rectal examination for 4 years. The subjects and health care providers received the results and decided on the type of follow-up evaluation. Usual care sometimes included screening, as some organizations have recommended. The numbers of all cancers and deaths and causes of death were ascertained....In the screening group, rates of compliance were 85% for PSA testing and 86% for digital rectal examination. Rates of screening in the control group increased from 40% in the first year to 52% in the sixth year for PSA testing and ranged from 41 to 46% for digital rectal examination. After 7 years of follow-up, the incidence of prostate cancer per 10,000 person-years was 116 (2820 cancers) in the screening group and 95 (2322 cancers) in the control group (rate ratio, 1.22; 95% confidence interval [CI], 1.16 to 1.29). The incidence of death per 10,000 person-years was 2.0 (50 deaths) in the screening group and 1.7 (44 deaths) in the control group (rate ratio, 1.13; 95% CI, 0.75 to 1.70)."

This American group was one with PSA at 4.0 and a second where PSA may or may not have been used as was a DRE. This is NOT a comparison of two distinct samples. The control group is a mix of anything and everything. Thus there are in my opinion two major faults;

First, the PSA numbers were set too high since we now know they should be set lower.

Second, the Control group was not the untested group as may be inferred, it was unlike the European study which alleges no treatment, and it was tested but just haphazardly.

Thus we have four groups:

Group 1 (American): PSA at 4.0 and DRE annually

Group 2: (American) PSA at 4.0 and DRE haphazardly

Group 3: (European) PSA at 4.0 but only once every 4 years

Group 4: (European) No screening

What is missing is what we now know to be the case. A PSA at 2.0 and an age dependent PSA with velocity measurements.

Thus our conclusion is that the Bayesian analysis, namely determining the probability of death given PSA measurements is or is not independent of the PSA measurement. We believe that the Bayesian approach of using screening at 2.0 under 60 and then testing and addressing a malignancy will reduce the a posteriori mortality. The data assessing that hypothesis appears to bear that out.

The NY Times headline is confusing, and frankly in error. The study proved at best that the specific screening protocol did not result in longer lives. That has been known now for six years! The question is what protocol will prolong life. It is not that PSA does not work; it just does not work as it was being used ten years ago. This study only shows that.

The Times further states:

"In the European study, 48 men were told they had prostate cancer and needlessly treated for it for every man whose death was prevented within a decade after having had a PSA test. Dr. Peter B. Bach, a physician and epidemiologist at Memorial Sloan-Kettering Cancer Center, says one way to think of the data is to suppose he has a PSA test today. It leads to a biopsy that reveals he has prostate cancer, and he is treated for it. There is a one in 50 chance that, in 2019 or later, he will be spared death from a cancer that would otherwise have killed him. And there is a 49 in 50 chance that he will have been treated unnecessarily for a cancer that was never a threat to his life. Prostate cancer treatment can result in impotence and incontinence when surgery is used to destroy the prostate, and, at times, painful defecation or chronic diarrhea when the treatment is radiation."

Again that is not what the data says. The data shows that men were treated and did not die in either case. The two US cases are so overlapping that a bright line is not there and the European cases due to the longer time between screenings also merge to being identical. The statement about impotence and the like are scare statements since we know that if you have cancer and if we do not know the true level of malignancy then we just remove it, we don't want to be sued.

This leads to the final issue, genetic evaluation. Namely as we have discussed elsewhere we believe that genetic testing for predisposition, presence, staging, and prevention is slowly making progress. It is this effort which will eventually bear fruit.

In a 2005 paper in Science by Tomlins et al they state:

"A central aim in cancer research is to identify altered genes that play a causal role in cancer development. Many such genes have been identified through the analysis of recurrent

chromosomal rearrangements that are characteristic of leukemias, lymphomas, and sarcomas (1). These rearrangements are of two general types. In the first, the promoter and/ or enhancer elements of one gene are aberrantly juxtaposed to a proto-oncogene, thus causing altered expression of an oncogenic protein. This type of rearrangement is exemplified by the apposition of immunoglobulin (IG) and T cell receptor (TCR) genes to MYC, leading to activation of this oncogene in B and T cell malignancies, respectively (2). In the second, the rearrangement fuses two genes, resulting in the production of a fusion protein that may have a new or altered activity..."

Their conclusion is:


"The existence of recurring gene fusions of TMPRSS2 to the oncogenic ETS family members ERG and ETV1 may have important implications for understanding prostate cancer tumorigenesis and developing novel diagnostics and targeted therapeutics. Several lines of evidence suggest that these rearrangements occur in the majority of prostate cancer samples and drive ETS family member expression. "

Thus gene expression will be essential as a diagnostic tool. In a recent 2008 NEJM article by Zheng et al they state:

"Multiple SNPs in each of the five regions were associated with prostate cancer in single SNP analysis. When the most significant SNP from each of the five regions was selected and included in a multivariate analysis, each SNP remained significant after adjustment for other SNPs and family history. Together, the five SNPs and family history were estimated to account for 46% of the cases of prostate cancer in the Swedish men we studied. The five SNPs plus family history had a cumulative association with prostate cancer ... In men who had any five or more of these factors associated with prostate cancer, the odds ratio for prostate cancer was 9.46 ..., as compared with men without any of the factors. The cumulative effect of these variants and family history was independent of serum levels of prostate-specific antigen at diagnosis...SNPs in five chromosomal regions plus a family history of prostate cancer have a cumulative and significant association with prostate cancer."

This further indicates that significant gene progress is being made.

The key fact to take from this exercise is that the results proved something which has some merit. It did not address the true question of what PSA testing if any can reduce mortality. It proved that there was no difference between two sets of PSA testing protocols. However as we have argued one would not have expected a difference. Furthermore the work done since this trial has begun has fine tuned this testing. The true question will ultimately be a genetic question.


Posted by Terry McGarty at [9:38 AM](#) [0 comments](#) 

MONDAY, MARCH 16, 2009

[WOW, THAT WAS FAST, I GUESS HE LEARNED SOMETHING AT HARVARD](#)

The [NY Times](#) just reported that the President tells Geithner to block the AIG bonuses, just 30 min after the post. Good Idea! Not that millions of the citizens whose money it really is have not

been screaming from the left and right and middle. Having spent a lot of time in Hanover NH, and having seen the types from Dartmouth I am not surprised it took a Harvard lawyer to tell a Dartmouth grad how to do things. Imagine what an MIT grad would do!

Posted by Terry McGarty at [9:53 AM](#) [0 comments](#) 


[THE AIG BONUS ISSUE: A SMALL PROPOSAL](#)

Contracts are contracts. If a contract is breached then the sole remedy is limited to what the contract would have provided if it had been honored.

However, in the case that the US Government owns AIG and in the event that AIG would breach the contract with the London screw-ups who blew a fortune into the stratosphere, then a proposal is to breach the contract and then have the US via AIG claim sovereign immunity! Namely tell the Brits to "go pound sand".

Having dealt with many bankers in London in my lifetime, this is my first modest proposal, a rather Swiftian compromise to solve the arrogance of the incompetents. Where are the good lawyers when you really need them. This is Washington, is it not, there are more lawyers in Washington than residents. Can we not find one smart litigator who can spin this to the advantage of the US Taxpayer, now owners of AIG.

This is the problem with having no individual in the Administration who has ever run a business, especially one with a nexus to London bankers. We stiffed them in 1789 so why not do it again. Worst case it comes to trial in the US. Try and find twelve people in the US who would agree to the claimants request! Oh, well, perhaps in San Francisco, but not anywhere in the rest of the United States. Let's hold the trial for breach of contract in the Southern District of New York, remember Bonfire of the Vanities!

Posted by Terry McGarty at [9:11 AM](#) [0 comments](#) 

SUNDAY, MARCH 15, 2009

[THE G20 JUST KEEPS HEATING UP](#)

As reported in [Reuters](#), the G20 Financial Ministers released a position statement today consisting of the following key points:

- "1. We have taken decisive, coordinated and comprehensive action to boost demand and jobs, and are prepared to take whatever action is necessary until growth is restored. We commit to fight all forms of protectionism and maintain open trade and investment.*
- 2. Our key priority now is to restore lending by tackling, where needed, problems in the financial system head on, through continued liquidity support, bank recapitalisation and dealing with impaired assets, through a common framework (attached). We reaffirm our commitment to take all necessary actions to ensure the soundness of systemically important institutions.*
- 3. Fiscal expansion is providing vital support for growth and jobs....*

4. Interest rates have been cut aggressively in most countries, and G20 central banks will maintain expansionary policies as long as needed, using the full range of monetary policy instruments, including unconventional policy instruments, consistent with price stability.

5. We are committed to helping emerging and developing economies to cope with the reversal in international capital flows.....

6. To further strengthen the global financial system we have completed the immediate steps in the Washington Action Plan and we welcome the Financial Stability Forum's (FSF) expansion to all G20 members. We remain focused on the medium term actions, and make recommendations to the London Summit to ensure:

- -- all systemically important financial institutions, markets and instruments are subject to an appropriate degree of regulation and oversight, and that **hedge funds or their managers are registered and disclose appropriate information to assess the risks they pose**;
- -- stronger regulation is reinforced by strengthened **macro-prudential oversight** to prevent the build-up of systemic risk;
- -- **financial regulations dampen rather than amplify economic cycles**, including by building buffers of resources during the good times and measures to constrain leverage; but it is vital that capital requirements remain unchanged until recovery is assured;
- -- **strengthened international cooperation** to prevent and resolve crises, including through supervisory colleges, institutional reinforcement of the FSF, and the launch of an IMF/FSF Early Warning Exercise.

7. We have also agreed to:

- regulatory oversight, including **registration, of all Credit Rating Agencies** whose ratings are used for regulatory purposes, and **compliance with the International Organisation of Securities Commissions (IOSCO) code**;
- full **transparency of exposures to off-balance sheet vehicles**; the need for improvements in accounting standards, including for provisioning and valuation uncertainty;
- greater **standardisation and resilience of credit derivatives markets**; the FSF's sound practice principles for compensation;
- the relevant international bodies **identify non-cooperative jurisdictions** and to develop a tool box of effective counter measures.

8. To strengthen the effectiveness and legitimacy of the IFIs we must enhance their governance and ensure they fully reflect changes in the world economy."


It appears that Geithner has agreed to almost all of the Sarkozy-Merkel proposals for the April meeting. This statement seems to imply the international regulation and control of hedge funds, derivatives, credit rating agencies, off-balance sheet accounting, and the like. This statement is an acquiescence of the regulatory paradigm which we have been speaking of for the past few months. This will take from the hands of Congress much of its regulatory authority if passed. However since this would be a treaty and the Senate need approve, one can expect a massive fight to ensue.

In an accompanying story by [Reuters](#) there is a continuing and expanding rift. The article says: "The absence of a coherent, coordinated fiscal response globally could damage consumer and business confidence going forward," said Neil MacKinnon, director and chief economist at ECU Group, a hedge fund based in London.

"A lot of this may have been discounted (by markets) last week. I don't think there's anything (in the statement) to surprise the markets," MacKinnon said.

He didn't think markets would react strongly to the statement one way or the other, and instead highlighted the negative impact on financial assets that would result from the euro zone's stance on fiscal policy."

This second story seems to imply that despite the US agreeing to the new "**Internationale**" regulatory regime that the gang of 19 others did not agree³ with the massive handouts that the US has set to provide. One wonders that after China's Wen chastising the Administration why any nation would follow the path of the US, setting itself afloat on a sea of trouble.

Posted by Terry McGarty at [4:19 PM](#) [0 comments](#) 

SATURDAY, MARCH 14, 2009

CHINA AS ECONOMIC LEADER

In reading Chairman Wen's remarks in the [China Daily](#), it states:

"Premier Wen Jiabao said on Friday he was "a little worried" about the safety of Chinese assets in the United States, and urged the US government to ensure the security of those assets Wen noted that Beijing was the US' biggest foreign creditor and asked Washington to ensure that its response to the global slowdown did not damage the value of Chinese holdings.

"We've lent a huge amount of capital to the United States, and of course we're concerned about the security of our assets. And to speak truthfully, I am a little bit worried," said Wen at a press conference after the close of the annual parliament session.

"I would like to call on the United States to honor its words, stay a credible nation and ensure the safety of Chinese assets."

China has invested its huge foreign exchange reserves in low-risk but low-yield assets such as US government bonds.

"China is indeed the largest creditor of the United States, which is the world's biggest economy. We are extremely interested in developments in the US economy," Wen said.

He said he hoped the measures taken by the Barack Obama administration to counter the global financial crisis would be effective.

Wen reiterated China's principle of guaranteeing the "safety, liquidity and good value" of its foreign exchange reserves and diversifying its investment."

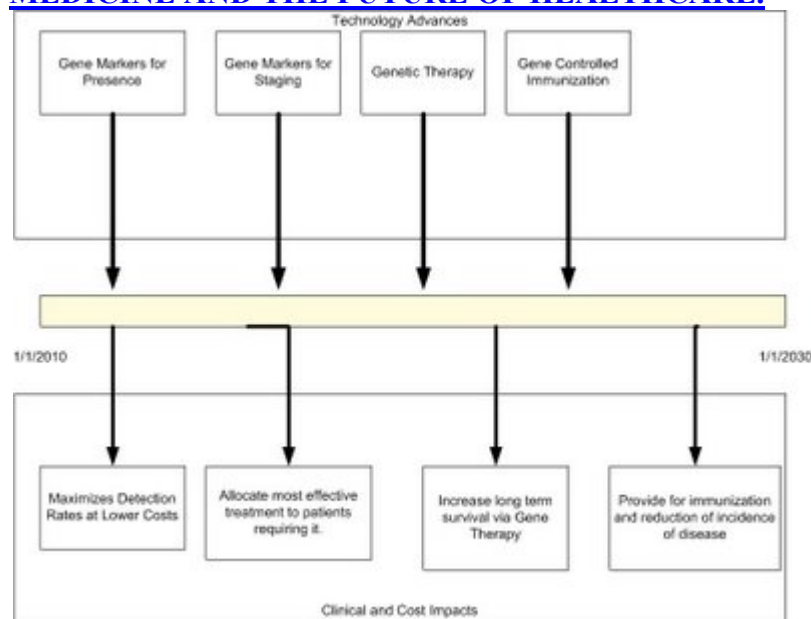
When one looks at the words of the Chinese Government officials one get reassured that these erstwhile Communists have a better grasp of the world economy than the Harvard minions in the White House. Seeing the Wen Press conference one is reminded of a stern and reprimanding father lecturing to an overspending and petulant child. The Chinese leaders look like the adults and the White House like the geek version of Animal House.

The G20 meeting should be quite interesting. The US entering position is, as we have stated for two months now, the antithesis of the EU position and now China is positioned as the only sane member worrying about how it will bail out its spendthrift children. This is a real problem for the US. It has been lectured properly on economics by Communists, financially successful Communists at that.

Posted by Terry McGarty at [5:50 AM](#) [0 comments](#)

SATURDAY, MARCH 14, 2009

A LOOK AT CANCER: INSIGHT INTO THE CHANGE IN THE PRACTICE OF MEDICINE AND THE FUTURE OF HEALTHCARE.



We have just published a [White Paper](#) which examines a set of cancers which can be detected in many cases in early stages. However for many of these there is little support for ensuring that this is accomplished resulting a three times increase in health care costs due to the failure to capture at an early state. The failure to capture at a early state is an economic and psychological problem. We believe that the issue can be re-mediated by addressing both issues. Further this analysis brings out an interesting and quite important observation about almost all health care proposals, namely that they merely project the past forward assuming that there will be no fundamental change in medicine and medical techniques. We believe that for many cancers in the 2010-2030 time period that significant genetic modalities of detection and therapeutics will alter the very structure of the health care delivery system.

We remark on the above diagram and a paradigm changing trend in medicine the following four steps:

1. Gene Markers for Presence: There has been a tremendous amount of work performed in all of the eight target cancers for gene markers for a predisposition for the cancers. Clearly having a gene is not totally predictive but it permits a measure for increasing vigilance and testing. Thus have a set of gene markers for cancers which can be re-mediated are quite useful. It does not stop the gold standard test of pathological resection. There as of yet does not appear to be a large set gene markers for presence. We know that the BRCA gene establish a high probability for breast and other cancers. However they in and of themselves do not establish presence. However we know that when a clonal cancer starts there will be the results of both primary and secondary pathways on the clonal cells themselves as well as other cells reacting to the clonal aberration which can be measured and used to detect presence.


2. Gene Markers for Staging: Gene markers for staging are the next step. This means that we can now, having detected the presence of the cancer, determine its aggressivity and then to take the appropriate actions. Prostate cancer is typical in this class. Some colon cancers also fall here as do some limited superficial spreading malignant melanomas. In fact it is know that certain melanomas regress, albeit may latter appear as a secondary met.

3. Genetic Therapy: There is a beginning effort in gene therapy now. It is slow and is progressing along the usual lines. However in the next twenty years this is expected to grow at a startling rate. This will be a case of many small victories until the tools are developed and then a massive growth phase. This will dramatically reduce the morbidity and mortality. The issue is will it educe the costs. Again with Federal funding and rights accruing to the sponsors such costs may be minimized.

4. Genetic Immunization: This is the final step in the time horizon we are looking at. Clearly there will be a way to establish what we see as an immunization. This is not akin to the cervical cancer immunization against the papilloma virus but an actual genetic insertion or modification to either repair or block the effects of the precipitating genes.

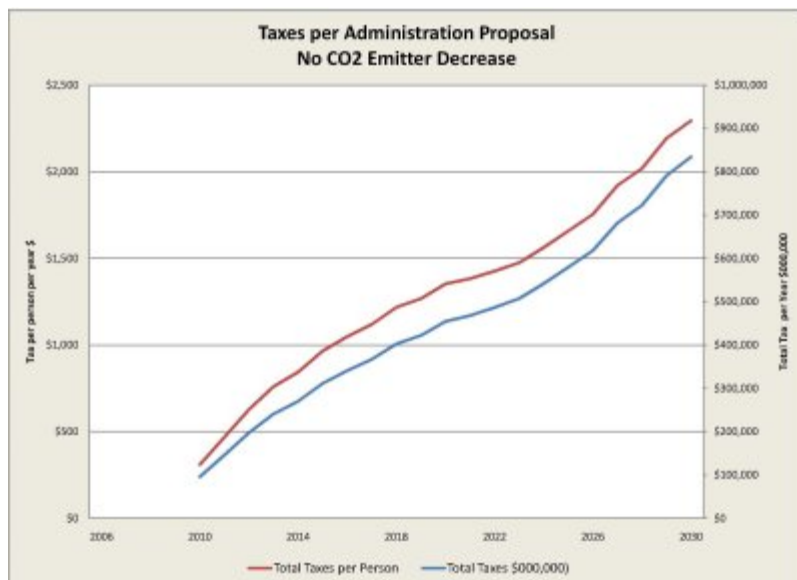
These four are also benchmark elements for policy formulation and Government funding. The basic research is completed to permit much of this to commence, albeit there are still some loopholes to be filled in, but a focused research program will be essential to re-mediate the cancers we have discussed herein.

If this is done, then a forward looking plan, one looking at remediation of controllable diseases via genetic means will evolve and become an integral part of any long range health care plan. It is not just a question of who pays what for what is currently performed. This is an event changing program.

Posted by Terry McGarty at [3:15 AM](#) [0 comments](#) 

TUESDAY, MARCH 10, 2009

[IT COULD GET THIS BAD! CAP AND TRADE BY OBAMA](#)



I thought it would be worth the calculation to include the following case in Cap and Trade Costs per the current Administration's proposal. Let us make the following assumptions:

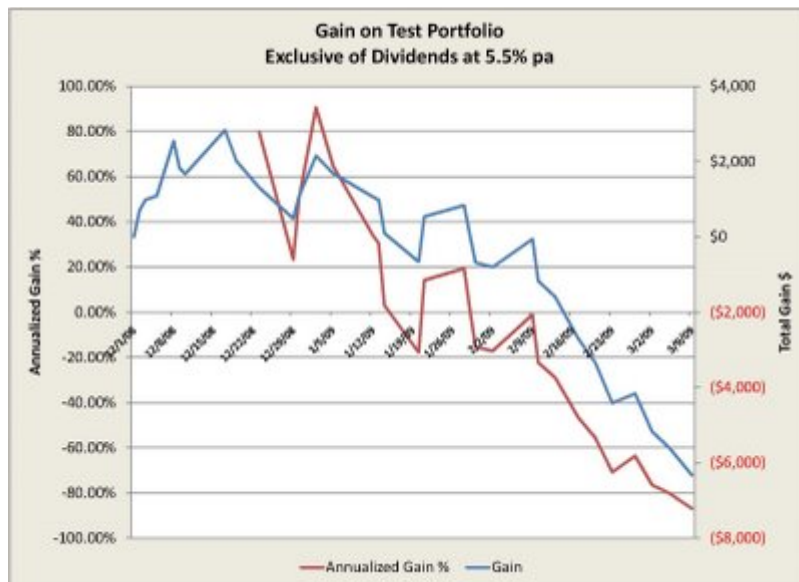
1. We use the Administration proposals as to cap, cap reduction, and taxes per metric Ton of CO2.
2. We assume that all the environmentalists prohibit any nuclear and wind and solar.
3. We looked at the period of 2010 to 2030.
4. The above is the result based on the DoE assumptions for demand.

Holy cow! By 2030 there is \$1 trillion tax coming from the cap and trade alone! The more I look at this proposal, which is followed nowhere in the world, it will totally destroy our civilization! Is there anyone listening?

Posted by Terry McGarty at [4:25 PM](#) [0 comments](#)

MONDAY, MARCH 9, 2009

[HEADING TOWARDS ZERO!](#)

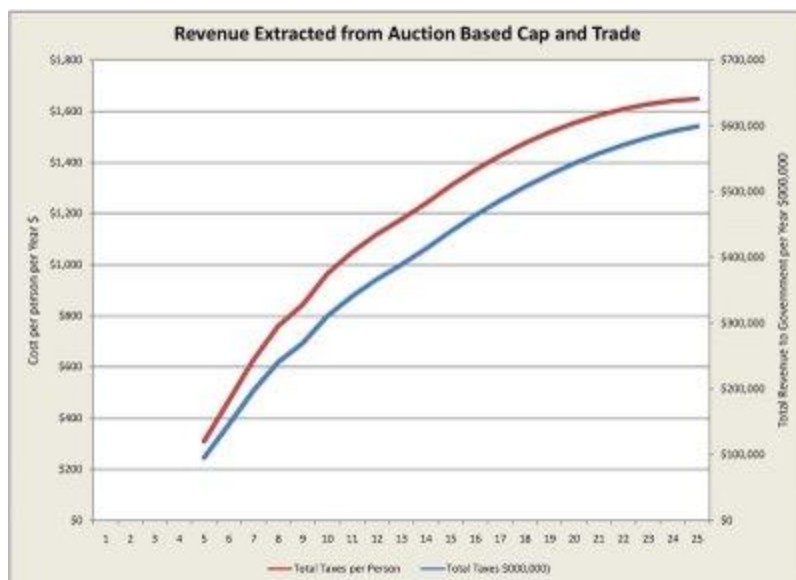


We are now heading towards a total loss in the stock market. The above is for the test portfolio of band aids, mac and cheese, soda and beer and a phone call. This is terrifying, it is approaching a 90% drop in the stock market by year's end if we continue at this unending rate. Add to that the taxes from cap and trade, add to it the bloated budget, the bloated stimulus, and the generally lack lustre performance of DC in general, well there may be no place to hide. Good Luck folks!
Posted by Terry McGarty at [2:52 PM](#) [0 comments](#)

MONDAY, MARCH 9, 2009

[MORE THOUGHTS ON CAP AND TRADE](#)

We have calculated an estimate of what the Administrations proposed 100% Auction based cap and trade proposal will cost. The results are shown below and are based upon the model we have developed before. This uses the same data but now assumes that the Government runs an auction for credits with a strict cap. By strict cap we mean it sets a price, quite high, if you exceed the cap. The Auction sells or clears at 80% of the excess cap.



The analysis above also assumes that a full compliance is made by deploying wind, nuclear and the like in a timely fashion. This is a highly optimistic plan. The above Figure shows several interesting results from the Administrations proposal. They are:

1. In constant dollars the tax per person goes from \$310 to \$1,650 per year. To get the number per household you multiply by 2.5 yielding \$775 to \$4125. This is just for electricity and does not include any additional costs for industrial pass through and the like.
2. This fee take \$95 billion and growing to \$600 billion per year out of the economy and places it in the Government coffers! This removes massive amounts of capital from productive sources and places them in the hands of Congress and the Executive!

In an early 2008 [blog comment](#) from the then CBO head Orszag, he wrote on the alternative CO2 control options:

"In this study, CBO examined a variety of incentive-based policies for reducing CO2 emissions, including a tax and a cap-and-trade system:

1. *A tax would set an upper limit on the cost of emission reductions—firms would undertake reductions that cost less than the tax—but would leave the amount of emissions uncertain.*
2. *An inflexible cap-and-trade program would set an upper limit on the amount of emissions but would leave the cost of reducing emissions uncertain.*
3. *A flexible cap-and-trade program would maintain the structure of a cap-and-trade program, but would include features designed to limit the cost of meeting the cap. Specifically, a cap-and-trade program could include one or more of the following:*
 - i. *A price ceiling (often referred to as a safety-valve) and/or a price floor;*
 - ii. *Provisions that permit firms to “bank” unused allowances in one year for use in a future year*

and/or “borrow” future allowances for use in an earlier year;
iii. Provisions to make the cap less stringent if the price of allowances rises beyond an agreed upon amount. A “circuit breaker” would directly modify the cap. Alternatively, the government could indirectly modify the cap by changing the terms under which firms could use borrowed allowances.”

He then continues:

“The study finds that:

A tax could achieve a long-term emission reduction target at a much smaller economic cost than an inflexible cap. Provided that the tax was set equal to the expected benefit of reducing a ton of CO₂, a tax could thus result in substantially greater net benefits (benefits minus costs) than a comparable cap-and-trade program. The advantage of a tax stems from the long-term nature of climate change (which depends on the build-up of emissions over many decades, but is not sensitive to the amount of emissions in any given year) and the uncertain and variable nature of the cost of reducing emissions (which will vary from year to year based on the weather, conditions in energy markets, and the availability of new technologies).

An inflexible cap-and-trade program would provide more certainty about annual emissions than would a tax; however, that certainty would come at a cost: The cap would require too many reductions when the cost of achieving them was high and would mandate too few reductions when the cost was low.

Flexible cap-and-trade programs could achieve some, but not all, of the efficiency improving/cost minimizing advantages of a tax:

Out of the flexible cap designs that CBO considered, a cap-and-trade program that included both a safety valve and either a price floor or banking provisions could offer the greatest potential to minimize the cost of meeting a given long-term target.

Including a circuit breaker, or altering the extent to which firms could use borrowed allowances, could help prevent the price of allowances from going higher than policymakers wanted. Either approach, however, would be less direct, and less effective than including a safety valve.

Either a tax or a cap-and-trade program could be relatively easy to implement. Some flexible design features, such as banking, borrowing or a safety valve, would be straightforward to implement. In contrast, price volatility in the allowance market could make it difficult for the government to know when to implement a circuit breaker (or to change the terms associated with borrowing allowances). Minimizing the cost of reaching a global emissions target would entail undertaking the lowest-cost emission reductions regardless of where in the world they were located. If coordinated among emitting countries, a tax would help minimize the cost of achieving any given target. Linking the cap-and-trade programs of various countries could help minimize global costs, but could create some significant concerns:

- *Countries would give up sovereignty over the price of allowances traded in their programs.*

- *Poor monitoring or enforcement in any one country could undermine the integrity of the allowances traded throughout the whole system.*
- *Flexible design features, such as a safety valve, banking, or borrowing, would become available to all regulated entities in the linked system.*
- *Major emitting countries could help minimize global cost of reducing emissions by establishing*
- *national cap-and-trade programs that each included a safety valve set at roughly the same level."*

In our recent [White Paper](#) we presented a cap and trade with strict caps but with a Government free Exchange for the credits. We assumed that the transaction costs were cleared in an open market manner. However this is NOT what the Administration seems to be proposing. From the Administration's overview of the [2010 Budget](#) they state:

"Begin a Comprehensive Approach to Transform Our Energy Supply and Slow Global Warming.


*The Administration is developing a comprehensive energy and climate change plan to invest in clean energy, end our addiction to oil, address the global climate crisis, and create new American jobs that cannot be outsourced. After enactment of the Budget, the Administration will work expeditiously with key stakeholders and the Congress to develop an economy-wide emissions reduction program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately **83 percent below 2005 levels by 2050**. This program will be implemented through a **cap-and-trade system**, a policy approach that dramatically reduced acid rain at much lower costs than the traditional government regulations and mandates of the past. **Through a 100 percent auction** to ensure that the biggest polluters do not enjoy windfall profits, this program will fund vital investments in a clean energy future **totaling \$150 billion over 10 years**, starting in Fy 2012. **The balance of the auction revenues will be returned to the people, especially vulnerable families, communities, and businesses to help the transition to a clean energy economy.**"*

Now this implies the following:

1. The Government will auction off rights to generate CO2 emissions to the highest bidder. This will be akin to the FCC spectrum auctions. We have had major problems and have been dominated by the largest carriers. This means that the proposed national 100% auction will generate massive industry consolidation and massive monopolization of the power industry as well as of industrial production. The Administration continually fails to understand the unintended consequences which will flow from their actions.
2. The Government will maximize its returns on ALL CO2 emissions. In our model the intent was to cap emissions. In the Government model it is to cap emissions as well as collecting a massive amount of tax by having a monopoly on the auction process.
3. Government auctions are inefficient and time consuming and tend to either maximize prices, thus becoming a highly regressive tax, or result in people just walking away. The FCC spectrum auctions give many examples. Fraud also has been rampant in these auctions.

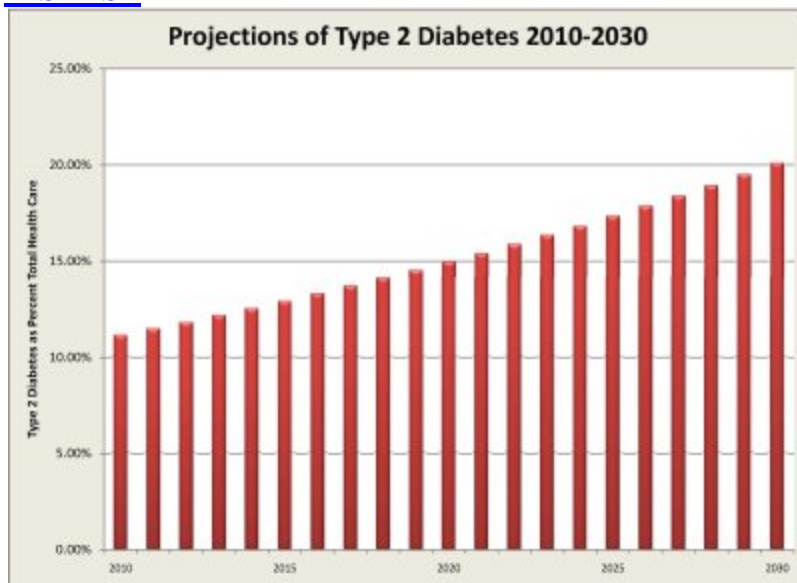
4. The tax collected in this process will just be handed down to the consumer and business. This is a massive tax and will draw capital from the US economy and destroy massive amount of entrepreneurial efforts. It appears that the current Administration is bent on destroying the American entrepreneur at all costs. They seem to believe that they and they alone have the insight to "invest in America" and "to make the right choices" in what is to be done, the market be damned. The more one looks at this cap and trade scheme the more Americans should be terrified that their future shall disappear in the smoke that contains less CO2.

5. The CBO just a year ago supported a tax plan if any were required. Yet the Administration's proposal is a 100% Auction hard cap plan. This then allows the Administration to effectively take over the power companies, drive out the industrial base and destroy any creativity. Frankly this goes from Socialism to, well, I think we may have seen this before.

Posted by Terry McGarty at [7:37 AM](#) [0 comments](#) 

SUNDAY, MARCH 8, 2009

[TYPE 2 DIABETES: AN EXAMPLE OF AN ECONOMICALLY CONTROLLABLE DISEASE](#)



Type 2 Diabetes is predominantly caused by obesity. Obesity is defined as a body mass index, BMI, in excess of 30. Type 2 Diabetes currently affects 5.9% of the population and this is increasing at the rate of 6% per year. In 2008 we estimate that it costs \$275 billion in fully loaded health care costs and this was 12% of the total. By 2030 we estimate that it will take 20% of all health care costs if left unabated.

We have prepared a [White Paper](#) detailing how this can be turned around by taxing at the source. As was done in tobacco tax, thus reducing male cancers by almost half in twenty five years, we believe the same if not more can be accomplished in the area of Type 2 Diabetes.

We conclude in the paper the following.

1. Type 2 Diabetes is a disease caused by the person having it. It is a self induced disease for almost all. A very few have a massive as yet identified genetic flaw, but that is de minimis. It is obesity as the main and almost sole cause.
2. The prevalence of Type 2 Diabetes is growing exponentially and the term of epidemic is not unjustly employed. It is an epidemic resulting from childhood lack of food control, lack of exercise, and lack of recognition that the problem is moving downward in age and becoming explosive as that population itself ages.
3. The current means of managing Type 2 Diabetes with drugs such as metformin, insulin, sulfonylureas, and others mask the true problems and in many ways exacerbate the secondary disease states.
4. Type 2 Diabetes is now at 12% of the total health care costs and with its current growth rate combined with costs and population may reach 25% of the total health care budget. This disease has the sole potential for collapsing the health care system.
5. Type 2 Diabetes is a disease which can be controlled and possibly eliminated by purely open market means. By pricing carbohydrates at a point that exceed the propensity to buy, then there will be a reduction in carbohydrate driven obesity. This is akin to taxing the use of tobacco in cigarettes.
6. The use of combined drugs such as statins and the existing insulin modulating drugs oftentimes create additional tertiary health problems that add to the overall burden while also costing a great deal in the use of the drugs themselves.

Posted by Terry McGarty at [5:02 PM](#) [0 comments](#)

SATURDAY, MARCH 7, 2009

[CAP AND TRADE: UNINTENDED CONSEQUENCES](#)

We have just published a [White Paper](#) on the cap and trade issue. The intent was two fold: first, develop a simple analytical model to understand how it works and what are its consequences. It appears that no one has present such an approach. Second, to consider the unintended consequences of this proposal. We have found that it is essential to study these otherwise you find yourself back in the same mess we have in the financial markets. The Administration is so hell bent to institute this that they are totally neglecting the downside risks! We summarize a few here.

The law of unintended consequences plays an ongoing role in all Government programs. Whenever the Government acts there are reactions to avoid the actions. The unintended consequences are critical to understand and hopefully anticipate and if necessary avoid. It is akin to flying an F-16 having had one lesson in a WW-I bi-plane. If you enter a dog fight you best have some skills.

Leakage from Mexico and Canada

Why not just set up coal power along the Mexican border. It would employ hundreds of thousands of Mexicans, and then send it across the border. Likewise Canada could use shale oil and do the same on the North. Then watch the trade deficit sky-rocket. The cap and trade proposal is a national first mover approach. Yet Canada and other nations have already moved. Thus what the US does is not followed by other countries.

Inherent Instabilities in Deployment of Alternatives by Environmentalists

As we have seen in so many prior cases, the environmental lobby, for reasons often known to only themselves, oppose anything. The use of wind has seen objection after objection. The deployment of large wind turbines across the mid country would be in the path of many migrating birds. Thus they cannot go there. Or the environmental impact statements would go on forever. Delay is often the deadliest form of denial. Delay can occur at the Federal, State, and local level, and the delay adds costs directly and derivatively.

Failure to Deploy Grid; Environmental and Other Delays

You cannot get wind and solar or even nuclear unless you have a national grid. This is in and of itself a major task. What is an intelligent grid? It is an evolving and learned process just as was the Internet. The Internet did not spring forth fully formed. It began in the late 1960s and slowly evolved assisted by thousands of highly intelligent and collaborative systems and development engineers. The power industry has been a backwater for the past fifty years. Thus the competence set is just not there. IBM had developed SNA, something that one may now find in history books. A handful of very smart people developed TCP/IP and its progeny. GE will not develop the smart grid. It will take the same group. However the problem is that they just do not exist. Thus the essential first step is at best problematic. Ironically many of those who could do this have H1B visas and are soon to be shipped out of the US! Who is forcing this? The Unions. They want all Americans. The H1Bs want to become Americans and yet we throw them away. The system seems to devour itself in an endless fashion.

Stability Problems and Cycles

As I recalled about my involvement of the Black-Scholes model, my parting comment was beware of the instabilities. They seemed to have forgotten that admonition in Long Term Capital Management. This is not a static system, year upon year. It is a random dynamic process with nonlinearities. By definition they become unstable and they oscillate. However we can model and monitor them. They may be controllable and than can be observable. It just means that you fully understand this and have people looking at it as a system. Economists are poor at this since economists never have to design something that works. They are not engineers, scientists, or physicians. They are at best abstract conjurers.

Massive Job Loss and Displacement

Coal is the livelihood for hundreds of thousands in the United States. Wheeling, WV is a lynch pin in this world, and in the hollers of that region mining of coal has been centuries of existence. We will drive them totally into the stone age. The technological solution is a clean coal which seems to be dismissed out of hand by the Administration. Technologically ignorant people assume if it has not been done it cannot be accomplished. Roosevelt was not a luddite; the atomic bomb was a glimmer in the eye as late as 1943. It took really just over two years to deploy. The same effort could be applied to coal. But for some almost religious reason it has been defaulted. Add to this the industrial collapse because of dislocations of Industries and we would expect massive unemployment. The recovery would take generations. It would be costly beyond any trillion dollar Stimulus we have yet to see.

Massive Industrial Movement from the US


The Industrial sector is a major user of energy in the United States. One approach of controlling the CO2 emissions at the source would be to have the Industrial sector be controlled like the electricity sector. If we look at the Table below the sector relies heavily on oil, gas and even coal. Coal is used for aluminum and concrete, it is a cheap energy source for creating these and also concrete as a chemical process also produces CO2. Thus is we were to apply the same restriction here we would inevitably drive these industries from the US totally. The IT industry is a heavy user of electricity and it too would find itself drive elsewhere. Thus one of the unintended and totally un-thought about consequences is this driving of industrial entities, the residual one at that, from the US to countries which have available and affordable power.

Dramatic Inflation and Inflationary Pressure

The problem of inflation is pandemic in this approach. Taxes will drive up demand which drive up costs of the energy sources which drive up energy which drives up costs and on and on. The cap and trade proposal may very well set in motion a whole cycle of such inflationary pressure. Also like Gresham's Law, it may drive out "good fuels" and leave bad. For example as coal becomes non-existent in electric power plants, there may be created a "Black market" for coal and wood may replace coal in certain markets. It will be akin to prohibition, the demand will be intensified because of the inflationary pressures. As one begins to know this Administration, the home still will be replaced by the home coal burning stove and a new massive Federal police force will likely be formed to strike down the down trodden pollution violators.

Destruction of Entrepreneurial Innovation

One of the things which seems to be coming out of this Administration is a total lack of understanding of the entrepreneur. As we have written before the entrepreneur is the engine of innovation and commerce in the US since the Dutch settled in Manhattan.

Posted by Terry McGarty at [5:46 AM](#) [0 comments](#) 

FRIDAY, MARCH 6, 2009


[BACK TO THE RESTAURANT AT THE END OF THE UNIVERSE](#)

In the tale of the Restaurant at the End of the Universe a planet expels its middlemen keeping its thinkers and doers. Of course the middlemen survive and the thinkers and doers implode upon themselves. Then there is the Obama meeting on healthcare as reviewed by the [Washington Post](#).

I have spent a few minutes looking at the list and it is composed of legislators, lobbyist and lawyers! The deadly three Ls. At least Hillary collected a group who had been thinking and analyzing the problem for some time before assembling. Imagine if you will, for but a brief moment, in a room with Jimmy Hoffa, Marian Wright Edelman, Donna Shalala, John Dingell, and Larry Summers. Even Dante could never have imagined such a collection! And from this we will get a new Healthcare Plan!

To gain credibility, one first needs to assemble those who bring value to the process. In a conversation with a good friend and highly successful and technically advanced physician, we discussed electronic medical records, and he said it will never work because Physicians are just "stupid". I took that in the sense of accepting technology. However anyone who has ever taken a patient history clearly knows that this is not a table checking process, it is not always linear, you don't start from the head and work your way to the toes. There are interjections, deflections along differing paths and the like. The problem is to diagnose and if at all possible cure. Diagnosis requires first listening to the patient, and sometimes that can be a lengthy and circuitous process.

Thus the almost childlike simplicity of the new Healthcare Plan, yet to be formed, needs the 3 Ls only after it had been developed and digested. Otherwise it becomes just another fire hydrant exercise with all of the dogs in the neighborhood.

Posted by Terry McGarty at [10:19 AM](#) [0 comments](#) 

[DOL NUMBERS, THE WINTER MAY JUST BE BEGINNING](#)

The [Department of Labor](#) just issued the unemployment numbers. They are shown below:


Latest Numbers

Consumer Price Index	+0.3%	Jan 2009
Unemployment Rate	8.1%	Feb 2009
Payroll Employment	-651,000(p)	Feb 2009
Average Hourly Earnings	+\$0.03(p)	Feb 2009
Producer Price Index	+0.8%(p)	Jan 2009
Employment Cost Index	+0.5%	4th Qtr 2008
Productivity	-.4%	4th Qtr 2008
U.S. Import Price Index	-1.1%	Jan 2009
Unemployment Initial (UI) Claims	639,000	February 28, 2009
UI Claims 4-Week Average	641,750	February 28, 2009
Federal Minimum Wage	\$6.55	Current

(p) preliminary; (c) corrected

Unemployment has reached 8.1% and the market is falling at an annualized rate of 80%. As we said almost three months ago, we anticipate this going well into 2010, a DOW at well below 6000, unemployment exceeding 12.5% and then a swing in inflation approaching 20% as a way to "pay off the massive debt". The major problem is that the current Administration is attempting to do everything at once and not accomplishing anything. Again as we said, focus, focus, focus, and the primary focus in the economy.

The US is going into the G20 with no cards. Perhaps the exchange of gifts between the Prime Minister and the President were most telling, the Prime Minister gave the President items of great historic value, stressing the nexus between the US and Great Britain. The President gave a bunch of DVDs! Really, you can't make this stuff up! Even the [Chicago Tribune](#) says that Obama may do what no one else could, make Bill Clinton look great.

Posted by Terry McGarty at [6:10 AM](#) [0 comments](#) 

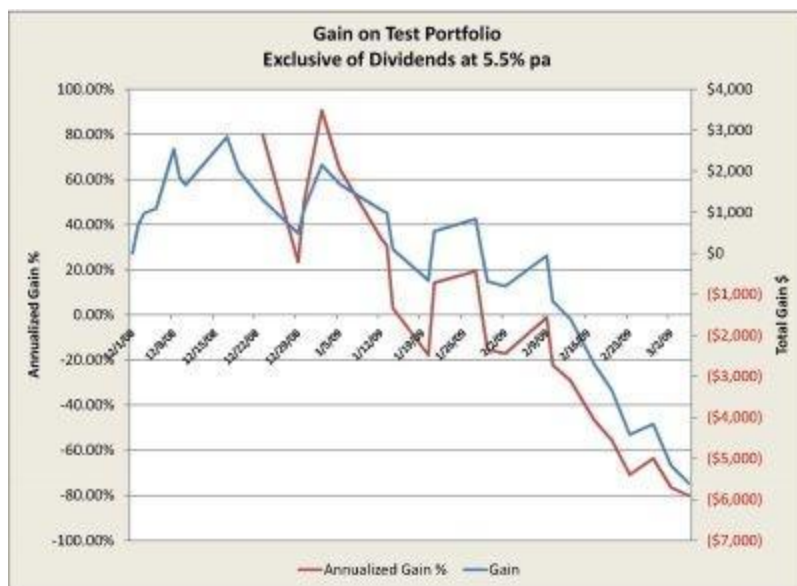
THURSDAY, MARCH 5, 2009

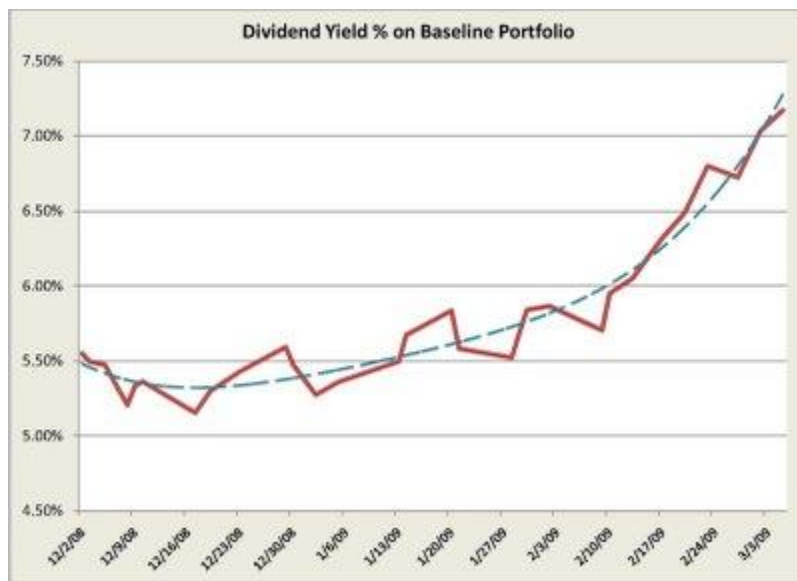
[EARTH TO OBAMA: THIS IS NOT A TRACKING POLL](#)

This really is not just like a tracking poll Mr. President. The citizens of the country you currently head are losing their life savings as you continue to build Government, add taxes via cap and trade, and reconstruct the health care system all the while allowing for the billions in special projects to continue.

Hint, give Harvard back its faculty and go hire a few people who have built and run companies. It will be those people who will rescue the country.

The following charts are from today, Mr. President, these are real, they impact the citizens each day. I just returned from a two day jaunt to DC, speaking to all foreign nationals, they even think you are way too socialist, and that is from socialists! Focus on the economy, right now you are spread all over the map, a recipe for total failure.



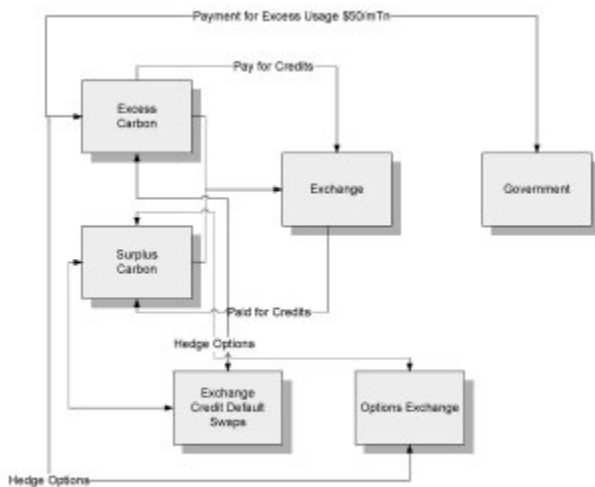


Posted by Terry McGarty at [1:45 PM](#) [0 comments](#)

MONDAY, MARCH 2, 2009

THE DANGERS OF CAP AND TRADE

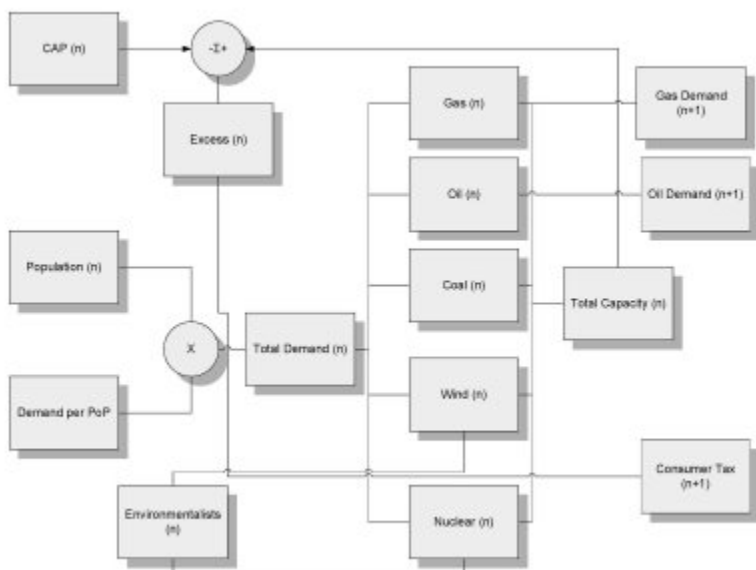
We have begun an analysis of the Cap and Trade model that the Administration is proposing. Simply, it works as follows:



1. The Administration places a cap on CO2 emissions by region.
2. Emitters are adjudged as contributing emissions based upon the amount of fuel the use. Thus there are a certain amount of CO2 in metric Ton, mTn, emitted per X BTU of coal or the like.
3. Emitters can then determine what their cap is on some pro rata basis.
4. Then an emitter is either in excess or surplus, namely they emit too much or emit too little.

5. Then we assume some exchange to swap these credits and debits, at a small fee of course, and there is some guru who has established and profits from the exchange, possibly an Al Gore. Perhaps if you create the problem you may profit from it.
6. If the emitters exceed the cap they then pay the Government for this excess, say at \$50 per mTn of CO2.

Simple, yes but it is the dynamics that catch you.




1. You may think wind and solar and nuclear will win, since they emit no CO2.
2. Wait, environmentalists object to each. Wind makes the Cape and the waterfront in New Jersey look bad or kill birds or the like. Nuclear, well we all know nuclear, everyone hates it. And solar, well there are crowds who oppose that as well. Thus the zero emitters are blocked while the cap decreases each year to 20% of the 1990 number, which is about 10% of now! Get used to living on a single light bulb. At that point London in 1599 emitted more CO2 than all the earth at that point.
3. But Oops, we forgot, the population keeps getting larger and each person demand more BTU per person and thus the total demand is exploding.
4. Coal being the greatest emitter and taxed the most is displaced by gas and oil, increasing the demand on gas and oil, driving the price of gas and oil higher and higher.
5. Since the environmentalists stopped all zero emitters, the excess emissions are now taxed at more than \$50 per mTn thus exponentially adding to the cost of a BTU.
6. The combined emission tax and costs of gas and oil drive the cost of BTU into an unstable mode.
7. Total collapse of civilization occurs!

The developers of this have failed to account for the dynamics and instabilities in this process. This is deadly.

First, the exchange for a Cap and Trade will have its own options and Credit Default Swap markets as well and these may be extra-territorial since we are taxing the heck out of everything here. It will be an unregulated market for better or worse.

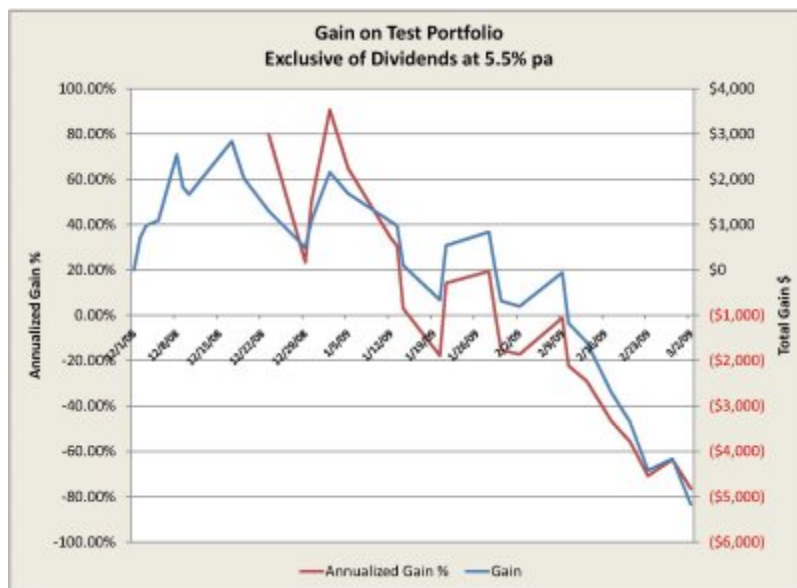
Then second the dynamics of the process are not well understood. The model we present shows growing exogenous population and the demands per person are unbounded.

However the exogenous effectors of delay such as the environmentalists will allow for reduction in caps while delaying the introduction of alternative means. The market distortions will result in uncertainties and shortages each reflected in explosive prices.

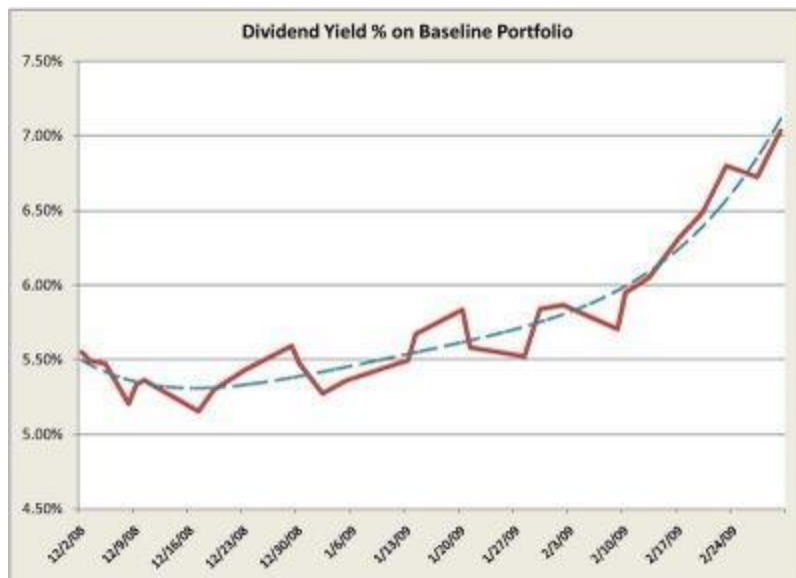
Posted by Terry McGarty at [6:11 PM](#) [0 comments](#) 

THE OBAMA MARKET - YOU BREAK IT YOU OWN IT

Another day and we are now down below 7,000 well on our way to 5,000. As Secretary Powell said, "You break it you own it!" Well it sure looks broken! Thank God I am not near Wall Street, they may soon start jumping, the few left behind.



You could not make this up! Do they give Nobel Prizes in Economics for destroying an economy. Let's take a look at our "Obama Portfolio", yes we know things are bad and getting worse but having a new set of cheerleaders driving the lemmings over the cliff does not help! The portfolio of core good we have been tracking is now looking at an annualized drop of almost 80%. Now for those concerned about a Depression, welcome it has arrived.




As to inflation, the Dividend yield curve above shows what we expect, in excess of 20%. Thus with 20% inflation, 80% market collapse, 12% unemployment, in three years they can bring back the Ronald Reagan phrase, "Are you better today than four years ago?" and it will evoke a drastically different answer.

To add to this we have been analyzing the Cap and Trade scams. If you like the CDS, the swaps, then this one will far exceed the gains we made there. We have heard, unverified however, that Al Gore has financial interests, in the markets for CO2 caps. The trades themselves will generate billions amongst a few. Then there is the massive added costs to Americans, residential electricity we estimate will treble in ten years, or sooner, production costs with also double, and the case goes on and on. We also see multiple points of economic instability in this system as the financial geniuses that brought you the current mess get into CO2 derivatives. We hope to have our analysis complete in a month.

Now for a dreadful scenario:

1. Market collapses totally
2. Unemployment hits 20% and taxes drives out money
3. Liquidity disappears
4. Cap and Trade explodes energy prices
5. Healthcare unbridled under Government overhead collapses
6. Eastern Europe falls economically
7. Russia collapses financially and moves to Easter Europe to protect borders
8. Western Europe starts to collapse
9. Election season of 2012 starts!

Posted by Terry McGarty at [11:03 AM](#) [0 comments](#) 

[WHERE IS VALUE CREATED?](#)

There is one term missing from the Administration's Budget and Stimulus package, the entrepreneur, the value creator. Just what is an entrepreneur. Well simply put, it is that person,

who despite all odds, has an idea, works alone until they can convince a core group of fellow believers, and then endlessly pursues any and all resources necessary to achieve their goal. The entrepreneur eschews Government support, the entrepreneur is driven by the desire to get people to buy his creation. Frequently the drive of the entrepreneur is market acceptance not abject personal wealth accumulation.

The Bankers on Wall Street are wealth accumulators and not value creators. The management of large corporations fall likewise in a similar patch. Both are in many ways the antithesis of the entrepreneur. All too often the entrepreneur's objective is the continuing acceptance of their creation, and the expansion and extension of that creation. Jobs of Apple is an example of the entrepreneur who despite the displacement of the classic corporate type in Scully, managed to expand Pixar, create Next, and then return and reinvent Apple. A similar person was Olsen at DEC, albeit there was an end to his run, failing in a reinvention as the PC came along.

The entrepreneur seeks to get to the other side of the mountain. The entrepreneur will go over the mountain, under the mountain, around the mountain, through the mountain or even turn around and walk all around the earth in the other direction to get to the other side. It is potentially and endless process of goal attainment. The entrepreneur does not demand Government money, there is not a single entrepreneur who has stepped up to the counter with their hand out because the culture, the ethos, of the entrepreneur is against such. Akin to the monks of old, who adhered to the vows of poverty, chastity and obedience, the entrepreneur can readily adhere to the first two, but the good entrepreneur is fundamentally disobedient, they seek what they have been told they cannot do, it is the trend towards disobedience that drives them.

There are few if any entrepreneurs in Russia, a small number in Europe, some in China, but the United States owes its very existence to that spirit. The current Administration takes not only little notice of them, but almost refuses to recognize their existence. Perhaps that is a good thing. Perhaps as this economy goes through its melt down there will be a reawakening of the entrepreneur, not the pseudo-Internet entrepreneur who create wealth by a tweaking of some incremental change, but the true American entrepreneur who strikes out on their own to create something fundamentally new. For American entrepreneurs are fundamentally individuals who flourish in adversity.

It will be the entrepreneurs and only the entrepreneurs who will create new value in this society, not the Government spending programs. I am continually drawn back to the 1960s and the Kennedy Space Program, a massive Government effort which sucked the best and brightest technical people into Government service and then in the early 1970s dropped them all on the street. The result of the 1960s effort was the rise of Japan in the 1980s, since the United States did Government non-value creating work for a decade, the result of the 1970s wilderness was the technological explosion of the 1980s and 1990s.

Regrettably the entrepreneurs in our Graduate schools are almost all foreign nationals, bright and creative, and the fear is that this time, this massive Government effort, will result in the 2010s and 2020s being the upsurge of China's and India's entrepreneurs, raised in the crucible of America and discharged as a result of the current Government Stimulus and Budget social restructurings. The result, if you think we have economic problems now, just wait!

Posted by Terry McGarty at [4:22 AM](#) [0 comments](#)

SUNDAY, MARCH 1, 2009


[DEJA VU, SARKOZY AND THE COLLAPSE OF HUNGARY](#)

One must follow the European Press to gain a better sense of what is happening. This has become a world meltdown and one can best see it from the French side. Today in [Le Monde](#) there is an article discussing how Sarkozy is dismissing the requests of Hungary to support their economy and also not to set up protectionist trade barriers, Specifically it says:

"Malgré les demandes du premier ministre hongrois, les chefs d'Etat et de gouvernements européens, réunis dimanche 1er mars à Bruxelles, n'ont pas cédé. Les dirigeants européens ont rejeté l'idée d'un grand plan d'aide pour l'Europe de l'Est face à la crise. Des aides au cas par cas pour l'Est de l'Europe. Plusieurs pays d'Europe centrale avaient appelé leurs partenaires de l'Ouest à être plus solidaires face aux problèmes de liquidités et de changes auxquels certains - surtout la Hongrie et la Lettonie - sont confrontés. Le premier ministre hongrois, Ferenc Gyurcsany, a ainsi demandé à ses partenaires d'éviter "la mise en place d'un nouveau rideau de fer". Mais il a réclamé sans succès un plan d'aide aux banques de l'Est compris entre 160 et 190 milliards d'euros - bien au-delà des 24,5 milliards annoncés vendredi par la BEI, la BERD et le FMI - impliquant également la Banque centrale européenne."

In effect the Hungarian by ancestry but now French President Sarkozy may become the catalyst for European collapse! One cannot make this up. It will be a great book seventy years from now but at this moment it sets the world on edge. If Central Europe, not truly Eastern Europe, there is still Russia, Ukraine, Georgia, Turkey and Moldova just to mention a few, collapse then this will drag down the west. Sarkozy has along with Merkel taken a position of ego driven control which will collapse Europe totally!


The next month will foretell a great deal. This is what happens with Democratic Socialists and Washington should beware of their tendencies in that direction. This could very well be a repeat of the 1930s!

Posted by Terry McGarty at [2:47 PM](#) [0 comments](#) 

[STRENGTH OF CHARACTER AND A SENSE OF DUTY](#)

[Greg Mankiw](#) has posted a link to a Boston Globe article written by an MIT faculty spouse bemoaning the difficulties of their mate's taking a position in Washington in the new Administration. As I read this I thought of a close friend who was just posted to Iraq, she being a senior Naval Officer with two children, no bemoaning, nor pain, with just my advice from having been in that type of situation generations ago, "watch your back, don't sit near a window, and look for shadows" and yes also one more thing, no purple ribbons if you can. As we have hundreds of thousand of men and women going daily into harm's way, the self-centered bemoaning of a faculty spouse of only seeing their mate on a weekend is incredulous. Then I recalled, this was Cambridge, this was the current Administration, this was the way the left responds to a call to duty. The spouse should be thankful that the only flak will be from press


releases and not incoming mortars. I am thankful my father, my uncles, my great-uncles did not bemoan being home on weekends with the family. They did return with a few [Distinguished Service Crosses](#) and a few purple ribbons. For that we should all be thankful. I am. Everyday!

Posted by Terry McGarty at [6:59 AM](#) [0 comments](#) 

SATURDAY, FEBRUARY 28, 2009

[LADY ISABELLA SQUIRREL AND THE BARD](#)

We have just posted another tale in the [Squirrel Chronicles](#), this is [Lady Isabella Squirrel and the Bard](#). It is a tale about a Lady in Waiting Squirrel to Queen Elizabeth I in the year 1599 when the Earl of Essex was to have quieted Ireland and instead returned to London to stir up a revolt against the ailing Queen. Enlisting Shakespeare to write three plays, *Henry V*, *Julius Caesar* and *Hamlet*, the Queen, with the astute help of Lady Isabella, works with Shakespeare to form these plays to propagandize their Royal views to the people and thus defeat Essex. Politics then and now.

Posted by Terry McGarty at [10:29 AM](#) [0 comments](#) 

WEDNESDAY, FEBRUARY 25, 2009

[REMEMBER THE DEPRESSION](#)

In the book by Liaquat Ahmed, **Lords of Finance**, he recounts the major bankers whose actions through and post WW I led inevitably to the Depression of the 1930s. He also intertwines Keynes as a shadow like figure lurking in and out of the process. However he makes two interesting points.

First, one immediate result of financial instabilities of then and now is massive inflation. This inflation benefits some and disadvantages many. It benefits those with hard assets, the land owners, and it benefits the civil servant, since Government keeps raising their salaries and benefits. I can recall my mother's fear that after WW II we would face another Depression and that my father should take a job with the Police Department as her father had worked with the Ports and Harbors Department. It would guarantee an income. The logic here befuddled me then and now. In New Jersey the State workers are now compensated at industry levels if not higher and their benefits are massive. This places a burden on the state taxpayers which is exploding. However we now hear outbursts from the people about the state workers and the state workers response are hostile, not a good way to deal with those who are putting gold in their mouths! It may be different this time around. But the ones who did poorly in the Depression were doctors, professionals of many types, and the laborers. Also not to mention the entrepreneurs just disappeared, and they and they alone are the engine that drives the US economy, more than any other country.

Second, the collapse of London as the world's financial capital occurred since the US, especially New York, was the financier of the European parties in WW I. This was the tipping point for the loss of London's preeminence. This time around the swap may be from New York to Shanghai.

In the Appendix, there is reference to a 1999 Time magazine cover story about "The Committee to Save the World" composed of Alan Greenspan, Robert Rubin, and Larry Summers. Somehow

one always gets to the top and then descends again. The Camus tale of the Myth of Sisyphus as played out again and again. Clearly there is a mapping between the Lords of Finance and the Committee to Save the World, I leave the details to the reader.

Now back to the G20, one of my favorite issues. The BBC quotes Sarkozy as saying, "Capitalism must be given a new foundation!" The BBC continued:


"....As well as greater supervision of all financial markets and instruments, leaders underlined the need to reassess the issue of pay at finance firms. Mr Sarkozy added said people could "no longer tolerate the reward package system for traders and bankers". There has been much criticism of bankers' bonuses, which have been high despite their bank's poor performance. Leaders also said they wanted to crack down on tax havens. Ms Merkel said: "As far as uncooperative players, tax havens or areas where non-transparent business is carried out are concerned, we need to develop sanction mechanisms. These must be made very concrete," she said She added that a list would be drawn up "clearly showing which the uncooperative jurisdictions are.""

Sarkozy is playing a dangerous hand. He feels that France is in a strong position and that now he can dictate to all the others. Sarkozy is not DeGaulle. DeGaulle, a French father and Irish mother, was French. Sarkozy still is Hungarian in many ways. That results in a dissonances that must be dealt with, for it is a historical world view that will not lead to a safe conclusion for all.

The [China People's Daily](#) states:

*"In view of the seriousness of the ongoing, surging global financial crisis, leaders participating in the meeting called for assuring, without fail, the success of imminent London financial summit. **The crisis can be phased out only when the structural reform is done to the international financial system, they noted. At a news conference held at the end of the meeting, Chancellor Angela Merkel called for adopting a "sanction mechanism" to penalize "tax havens" and establishing a blacklist of those unwilling to adhere to the international cooperation prior to April 2.** The incoming April London Summit, the follow-up meeting of the Washington Summit on Financial Market and World Economy which was convened on 14-15 November 2008, is primarily up to the task of designing a suitable response to the global financial crisis. To this end, said Chancellor Merkel, the Berlin meeting is hoped to contribute in reforming the international financial system. "A clear message and concrete actions are necessary to engender new confidence in the markets and to put the world back on a path toward more growth and employment," Merkel said. Leading EU nations, nevertheless, have their own respective expectations for the London financial summit."*

China is watching to Europe talking and to the US swinging in the breeze. There may very well be a repeat of what occurred a century ago. The names are different but the characters are the same. This time, however, there is a sleeping giant in China on the edge, safe and secure, able to redirect its stored up resources for internal infrastructure buildup, and when this ends they will emerge a true giant against a very injured United States.

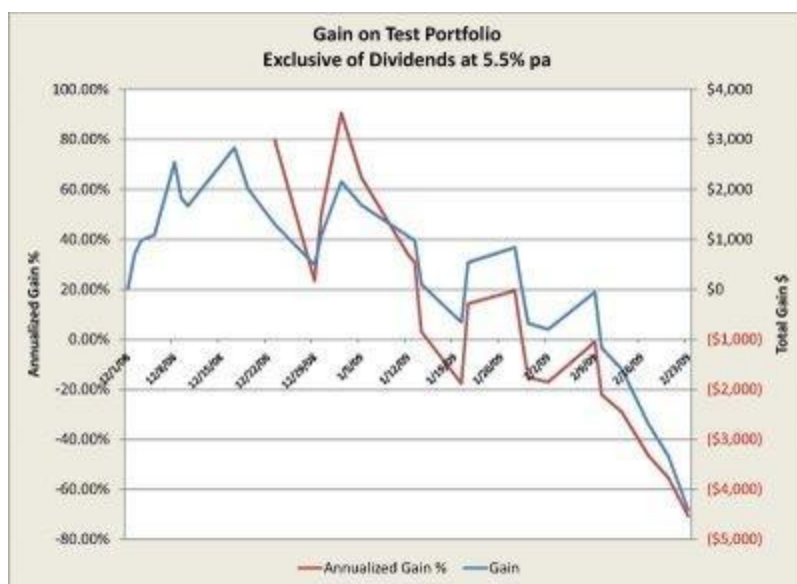
Posted by Terry McGarty at [6:00 AM](#) [0 comments](#) 

MONDAY, FEBRUARY 23, 2009

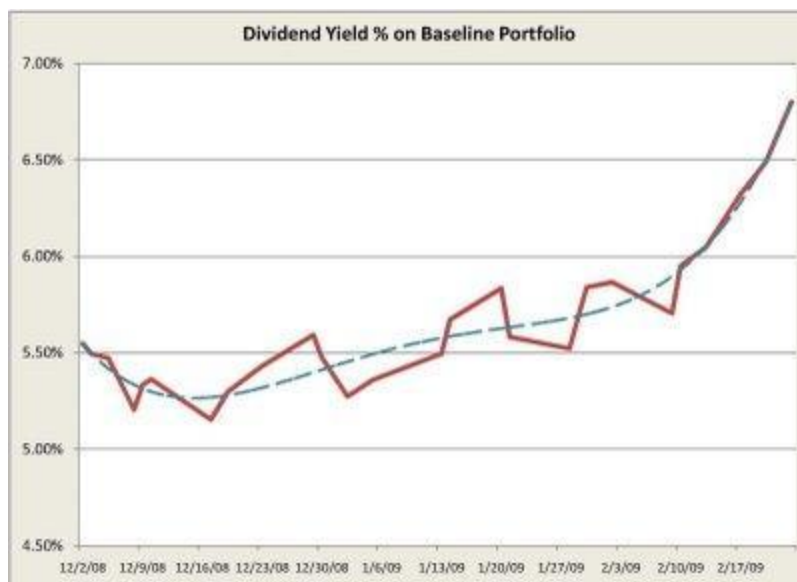
ANOTHER DAY OF DISASTER

This is another day of disaster. Looking at or Baseline Portfolio, such as Verizon, Kraft, DuPont, Dow, J&J, Alcoa, and no financials, just food, soda cans, drugs, stuff we use every day, has taken another nose dive.


The Figure below shows in the first Figure of the Portfolio value and its return. The drop from Inauguration Day is unrelenting. These are NOT financial stocks. They are core stocks in companies that make what we live on day to day. They are telephone calls, mac and cheese, vanilla wafers, aluminum cans, band aids, drugs. They are core chemicals and the other items which make up or economy.



The second is the effective yield curve if we were to purchase this portfolio today and seek only dividends, assuming no change in dividends.



We are seeing a 6.8% dividend yields starting from 5.5% in December. As we have said before the above yields are indicators of future massive inflation and the drops in stock value show that we may readily hit a DOW 6,000 or even lower. Thus we are looking at 20% inflation and a collapsing DOW. And things are very well most likely to get worse!

Posted by Terry McGarty at [1:45 PM](#) [0 comments](#) 

[VRAIMENT, LES OCCIDENTAUX DIVISÉS](#)

Truly the West is divided. On Friday last week [Le Monde](#) published a story regarding the G20. Again I am amazed as to the total lack of coverage of this event since it may very well become a defining moment for the new Administration.

Le Monde states:

"Français et Allemands ont travaillé en pleine entente sur la régulation, Berlin acceptant largement les propositions françaises. "Notre ministère des finances avait rédigé un papier qui était plus ennuyeux. Celui des Français était plus politique", commente Ulrich Wilhelm, porte-parole d'Angela Merkel. Mais les deux pays font face à un raidissement britannique et à une inconnue américaine. Londres est soupçonné de vouloir faire diversion, en élargissant l'ordre du jour du sommet de Londres."

Simply stated, the French and Germans have a plan and the US and UK are left in the dark. Regarding the specifics, Sarkozy is quoted as:

"Sur les hedge funds, les Européens veulent pouvoir enquêter en profondeur sur leurs comptes quand les plus libéraux se contenteraient de simples informations données volontairement par leurs gestionnaires aux autorités de contrôle."

Namely they are seeking to have a strong and transparent and international regulatory body control hedge funds. This would have a dramatic effect on the US based industry which albeit having its problems is not as bad as the regulated banks.

Finally Le Monde states:


"Unies sur la régulation financière, les deux capitales connaissent encore quelques tensions. Mme Merkel a envoyé vendredi aux capitales européennes ses propositions de conclusions pour la réunion de dimanche : coordonner les plans de relance économique et lutter contre le protectionnisme, pour protéger le marché intérieur européen."

Merkel has become the salesperson and Sarkozy the strategist. Merkel is going about with the over sale of the new regulatory regime. The question is what is the US doing, for even the UK is concerned and attempting to see its way through. This could lead to closed markets in the financial world, akin to trade barriers in the 1930s, these would become financial trade barriers. The result could make for a total tail spin into the dirt!

Finally there is a lack of credibility in the new Administration. Le Monde states:

"C'est le second souci. "Obama est du côté des Européens" continentaux, assure M. Wilhelm. Mais le calendrier est défavorable, le sommet intervenant trop tôt. M. Obama est préoccupé par le sauvetage de l'économie américaine, beaucoup plus urgent que la refondation de l'architecture financière mondiale à long terme. "Les Américains ne seront pas prêts sur la régulation pour le 2 avril. En revanche, ils vont accuser les Européens de n'avoir investi que 1,5 point de leur produit intérieur brut (PIB) dans la relance de l'économie, alors qu'eux y ont consacré 5 points", explique un ancien ministre français."

The US will not be ready by April 2nd for discussions on regulation. The question is what was the problem. The European view was lack of regulation but as we demonstrated yesterday there are many reasons, interlinked and some obvious and some subtle. The Europeans must beware of the law of unintended consequences and the fact that all too often the heavy handed Germans combined with the intellectually arrogant French can be a deadly mix!

Posted by Terry McGarty at [7:58 AM](#) [0 comments](#) 

SUNDAY, FEBRUARY 22, 2009

[RUMBLINGS FROM THE G20 AGAIN](#)

As we stated several weeks ago in a detailed [White Paper](#), the [New York Times](#) today reports that Merkel and Sarkozy are planning an assault on the US regulatory structure at the G20 meeting in London early April.

The Times states:

"French President [Nicolas Sarkozy](#) said that "Europe wants the system to be refounded," and stressed the importance of the April meeting.

"We all want London to be a success and we are all aware that it's (our) last chance," Sarkozy said. "We cannot afford a failure in London."

European leaders also backed Merkel's call for a "charter of sustainable economic activity" that would subject all financial market activities around the globe to regulation, including credit rating agencies.

Merkel's proposal envisions giving increased powers to the IMF, which the leaders agreed needed to receive double its current funding in order to help members respond "swiftly and flexibly" to a crisis."

It will be another crisis moment for the new Administration and we believe that this may be additive to all of the other issues. We will be following this closely.

The details reported by Reuters today makes the sense of confrontation ever more clear.

Specifically [Reuters](#) states:

"Below are highlights from a "chair's summary" of conclusions from the meeting that was seen by Reuters:

RENEWING GLOBAL FINANCIAL MARKET REGULATION IS A PRIORITY

.....

- We have today underscored once again our conviction that all financial markets, products and participants must be subject to appropriate oversight or regulation, without exception and regardless of their country of domicile. This is especially true for those private pools of capital, including hedge funds, that may present a systemic risk.*
- We also agreed that credit rating agencies should be subject to mandatory registration and oversight.*
- We have today agreed on advocating reforms to ensure that banks build additional buffers of resources in good times.*
- A list of uncooperative jurisdictions and a toolbox of sanctions must be devised as soon as possible.*
- The Financial Action Task Force, OECD and FSF should submit proposals in their respective fields to the G20 Finance Ministers meeting in March, for review at the London Summit.*
- We will strongly advocate (at the London summit)...the development of an effective early warning system by the IMF and FSF, working in close cooperation.*
- We will strongly advocate (at the London summit)...the adoption of principles on compensation practices to prevent bonus payments that contribute to excessive risk-taking."*

This is further exacerbated by the massive drops in Central European currencies such as the Polish zloty and the Czech currency. The Russian currency also continues to drop. In many ways this appears as if it were 1930 again. That presents many real threats to the Administration which may lack both the understanding of long term European history as well as that of the early part of the 20th century.

History has a strange way of repeating itself again and again.

Posted by Terry McGarty at [2:19 PM](#) [0 comments](#)

SUNDAY, FEBRUARY 22, 2009

[AN INTERESTING CHART: THE REAR VIEW MIRROR](#)

The Congressional Research Service recently published a paper on the [Causes of the Financial Crisis](#). It is a very good compilation of all the things that people think may have led to where we are.

They list 26 things that led to the crisis. Twenty six things and the same people in Congress who asked for and obtained this backward looking report never saw one of them in the past two years or even more!

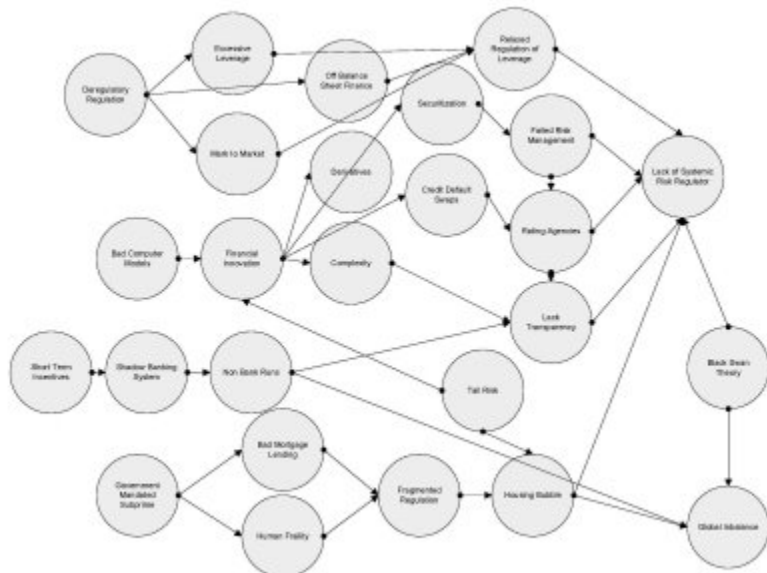
This is like a patient arriving in your office who is morbidly obese, with a three pack a day habit for thirty years, who lives a rather profligate life, also does crack, and then presents with small cell lung carcinoma, renal failure, has an MI on the table, and well you get the point. These problems were a long time coming. You could see the weight gain, you could smell the cigarette smoke, you could see the drug use in the eyes, and on and on. It was more than just a light at the end of the tunnel and finding out it was the train.

These 26 causes as seen by CRS are:

1. Imprudent Mortgage Lending
2. Housing Bubble
3. Global Imbalances
4. Securitization
5. Lack of Transparency and Accountability in Mortgage Finance
6. Rating Agencies
7. Mark-to-market Accounting
8. Deregulatory Legislation
9. Shadow Banking System
10. Non-Bank Runs
11. Off-Balance Sheet Finance
12. Government- Mandated Subprime Lending
13. Failure of Risk Management Systems
14. Financial Innovation
15. Complexity
16. Human Frailty
17. Bad Computer Models
18. Excessive Leverage
19. Relaxed Regulation of Leverage
20. Credit Default Swaps (CDS)
21. Over-the-Counter Derivatives
22. Fragmented Regulation
23. No Systemic Risk Regulator
24. Short-term Incentives
25. Tail Risk
26. Black Swan Theory

This is worth the read. Each of these has in some way been accused as being the dominant element in the crisis. Each has its advocate and in a way it was the perfect storm. Could this have come about with only one of these, how about two, maybe three, or do we need all 26. The following chart depicts a possible cause and effect relationship amongst these causes. That is

there were early causes and causes of causes. This means that there were canaries that were dying off well before the ultimate deaths.



Some of the causes are derivative of the others and some are just ways of rephrasing one or a few of the others. The Black Swan theory of Taleeb is an artifact that sells well, but it is the generally accepted Court Jester theory of evolution, also the one phrased by Eldredge and Gould and known as punctuated equilibrium. Simply changes occur when major events disrupt equilibrium. The direction of the change in a Darwinian sense is towards the survival of the fittest. However in an economic sense, the fittest may or may not be to those in power. Things happen that tend to disturb what we would commonly look towards as the fittest.

Posted by Terry McGarty at [5:30 AM](#) [0 comments](#)

SATURDAY, FEBRUARY 21, 2009

SUB PRIMES IN NEW JERSEY

Table 1
States with Highest Ratio of Subprime Mortgages in Foreclosure Process, per 1,000 Housing Units

Ranking	State	Subprime Mortgages in Foreclosure Process	Housing Units (1,000s)	Ratio of Subprime Mortgages in Foreclosure Process, per 1,000 Housing Units
1	Florida	52,974	8,481	6.2
2	California	61,107	13,188	4.6
3	Nevada	3,857	1,055	3.7
4	Illinois	15,909	5,210	3.1
5	New Jersey	10,446	3,477	3.0
6	Ohio	14,582	5,029	2.9
7	Connecticut	3,971	1,435	2.8
8	Rhode Island	1,216	450	2.7
9	Arizona	6,661	2,585	2.6
10	Indiana	6,747	2,775	2.4
	United States	287,118	125,891	2.3

The New York Fed published a paper on [Sub Prime Mortgages in New Jersey](#) and the data is quite enlightening. The first Table depicts the defaults as of August 2008 by state and shows that New Jersey is 5th in ratio of sub-primes in foreclosure on the basis of total homes. Namely the Table states that NJ has 3 of 1,000 housing units in foreclosure as compared to 6.2 for Florida and 4.6 for California.

Now the details of the counties can be shown in the following map. The highest foreclosures were in Union, Linden, Irvington and Plainfield. All of these towns have a well established housing base and are major Democratic strongholds. They are used again and again for carrying the New Jersey Democratic vote. Other counties, especially Republican counties account for only 64 of the 10,500 foreclosures!

ZIP-Code–Level Variation in Essex and Union Counties

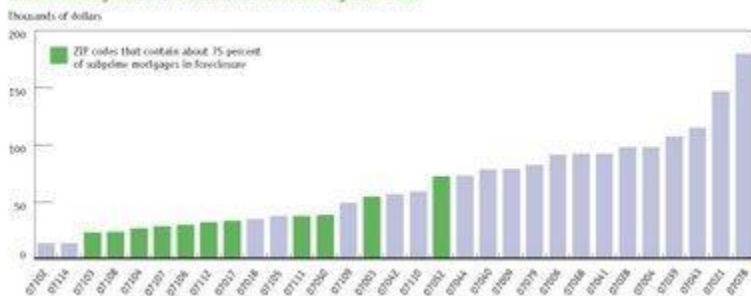
Percentage of Counties' Subprime Mortgages
in Foreclosure




The third Table depicts the default by Zip codes. The green boxes are zip codes where 75% or more of the sub prime loans are foreclosed. This is for Essex County. This is a county of older houses as is Union and the problem is clearly one of providing mortgages to people who clearly cannot afford them.

In addition, this was the Congressional District of Senator Robert Menendez before he went to the Senate. He pressured the banks to lend the funds and as seen in the following chart the lending went to those least able to afford them. 75% of the defaults were in ten zip codes! This was not a county as one finds in Florida or California where there was a great amount of new development. In fact there has been little or no development here in fifty to seventy five years. These were houses with well defined prices that were flipped and sold to those who clearly could not afford them, apparently driven by very strong political pressure.

Essex County Median Household Income by ZIP Code



Our observation and possibly conclusion is that the Democrats through their influence may have actually created circumstances which led to this collapse. The data at least for this part of New Jersey appears to bear this out.

Posted by Terry McGarty at [1:41 PM](#) [0 comments](#) 

[RED QUEEN AND THE COURT JESTER: WORLD VIEWS](#)

In a recent Science magazine article on evolution, Michael Benton presented a wonderful article on [The Red Queen and the Court Jester](#) world views in evolution.

Simply put, the Red Queen model is one of incrementalism in the milieu of the competing species, a collection of small but unending incremental changes results in the ultimate change in the involved species. This model is called that since in *Through the Looking Glass*, Alice says (Chapter 2):

"A slow sort of country!" said the Queen. `Now, HERE, you see, it takes all the running YOU can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!' "

To Darwin it was incrementalism, the slow and unending and environmentally controlled changes in selection, a gene at a time, or better yet a base pair at a time.

The Court Jester Model is an evolutionary model which is effected by large unpredictable changes. An example is a meteor smashing into earth and then all hell breaking loose. The current economic crisis is another example.

The Red Queen model is that of Darwin and the Court Jester is that of Van Valen.

In France, philosophically all Frenchmen are either Cartesians or Pascallians. The Cartesians start by doubting everything and ending up in abject certainty, whereas the Pascallians are those who have core beliefs and end up probabilistic believers in their world. There is a tension between the diptych sets of doubt-certainty and belief-probabilistic.

In our current economic environment there are the free market players versus the regulators. The Free market players are the Court Jesters, "stuff happens" and the market adjusts. They believe in the fundamental structure of the market. In many ways they are Cartesians. The Regulators are


the Red Queens, they believe that they are smart enough to ensure incrementalism and that they can control this uncertain but incrementally changing monster we call an economy.

On the sidelines are the likes of Taleeb and Norouri who are Court Jester believes, at least from their actions. On the other side are the Krugmans and Steiglitzs who are believers in a vision while being able to project a patina of controllability.

In 1990 I wrote a paper on [Telecommunications at Harvard](#) and looked at the evolution of telecommunications in the same dichotomous manner. World view is essential to understand. What is the world view of the people making the decisions and from that one could possible hope to ascertain what the result may be.


The current Administration is in my opinion a group of Red Queen people facing a Court Jester challenge. There is an impedance mis-match here, a tremendous impedance mis-match, and this will result in cognitive dissonances until they better understand their and our predicament.

Perhaps this was the cause of the Depression of the 1930s. Perhaps it is best to look at these economic events in evolutionary terms. Perhaps both Red Queen and Court Jester modes operate simultaneously. What is most important to do is to understand your world view and try to reconcile it with the reality of the moment, then and only then will your actions have the opportunity to resonate with the challenge.

Posted by Terry McGarty at [7:29 AM](#) [0 comments](#) 

LET THEM EAT CAKE! SAYS GIBBS

The White House Press Secretary, Robert Gibbs, reprimands CNBC reporter Santelli for in his not reading the Administration's plan. He arrogantly told the Press Corp how Santelli could and should have downloaded the Administration's Plan and then how he could have printed it, as if Santelli had no competence in the use of computers and only the technically advanced White House held such knowledge. This is akin to Marie Antoinette saying "Let them eat cake", a statement of abject arrogance which led to a less than welcome outcome. The Press Secretary should have seen and heard the mass of cheers and jeers behind Santelli. Frankly it was not what Santelli said but the visceral response of the pits, that is what should be worrying the White House, not "some cable TV reporter". Gentlemen, you missed what truly just happened in front of your faces! This may very well be a harbinger of things to come. Gibbs then said he would buy Santelli a cup of coffee, decaffeinated! More cake! There is a problem here and the arrogance of this nature fuels it more than any Rush Limbaugh rant on mid-day radio. In addition, remember that Santelli is reporting from the pits in Chicago...duhh!

Posted by Terry McGarty at [5:17 AM](#) [0 comments](#) 

FRIDAY, FEBRUARY 20, 2009

IF ALL ELSE FAILS LISTEN TO THE CUSTOMER (READ TAXPAYER)


Behind my desk is a sign that states, "*If all else fails, listen to the customer!*" This was the result of having done many turn arounds in the 1980s. I saw many technical start ups with great products and no customers. The opposite was also true, there may be many customers and a poor product. Sooner or latter the customers disappear.

[Rick Santelli](#) of CNBC went on a rant yesterday regarding the administrations mortgage bail out plan. Then today Jared Bernstein, the economic advisor to VP Biden, rebuked Santelli and then proceeded to tout the great advantages of the Administrations program. Let one say that Santelli was resonating with more chords than Bernstein. In fact Bernstein presented himself with the arrogance of those in power, not one in the midst of a whirlwind.

Let me return to the problem again. The problem is that banks have junk on their books, junk because, despite the fact that it may have some value, no one believes it has any value. Thus there is no first mover and the markets are frozen. One Darwinian approach is to just let nature take its course. There are some problems here. The next is to recapitalize the banks. Equity is not the way to go because it is a balance sheet problem of junk on the balance sheet. It means removing the junk, remember the TARP.

The way to do it is as we have suggested weeks ago. Create a [Federal Home Loan Bank](#), buy the junk at a haircut, who cares as long as it is above the current water level. Now everyone believes it is zero, so anything is better than nothing. Then move the mortgages to the FHLB and reissue them with certain covenants. However, issue them to vetted borrowers. Do not issue them to frauds, for there are many of them. Make real criminal indictments part of the issuance, namely if you lie to the FHLB you do hard time. Abject terror is frequently a strong motivation. This is one of the lessons learned from the [Joe Stalin School of Management](#), after all I ran a business in Russia.

There will also be a strange phenomenon if one does this, namely, the bad borrowers just will not even apply, they will collapse on their own and then the DoJ should target them! The arrogance of a Jared Bernstein should be eliminated when seen against the backdrop of the motivated and spirited and justified Santelli mobs at the gate. Remember the Bastille.

Posted by Terry McGarty at [10:33 AM](#) [0 comments](#) 


LATEST DOL NUMBERS

Latest Numbers

Consumer Price Index	+0.3%	Jan 2009
Unemployment Rate	7.6%	Jan 2009
Payroll Employment	-598,000(p)	Jan 2009
Average Hourly Earnings	+\$0.05(p)	Jan 2009
Producer Price Index	+0.8%(p)	Jan 2009
Employment Cost Index	+0.5%	4th Qtr 2008
Productivity	+3.2%	4th Qtr 2008
U.S. Import Price Index	-1.1%	Jan 2009
Unemployment Initial (UI) Claims	627,000	February 14, 2009
UI Claims 4-Week Average	619,000	February 14, 2009
Federal Minimum Wage	\$6.55	Current

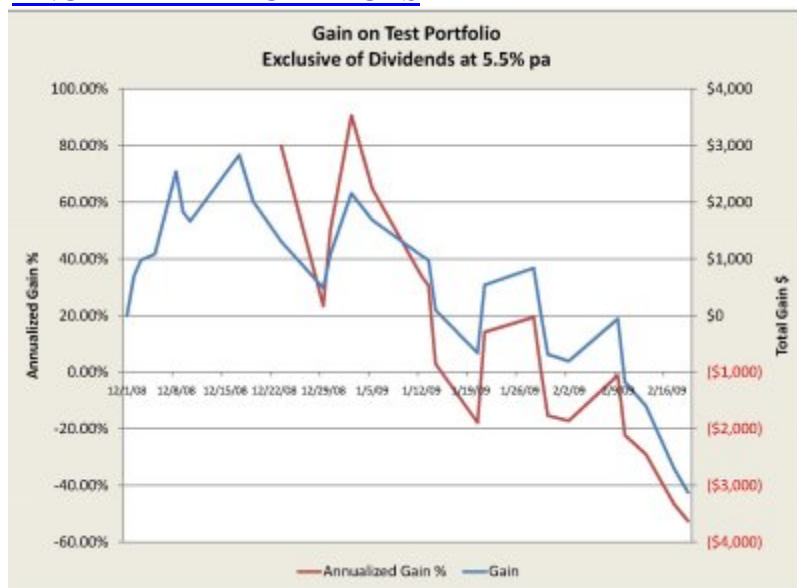
(p) preliminary; (c) corrected

The above are the latest [Department of Labor](#) statistics. There now appears to be increases in the CPI and the PPI, a dramatic switch from two weeks ago. The IPI is still negative. This increase along with our previous observation concerning our Canonic Portfolio which sees a forward looking inflation at 20% may be the beginning of a perfect storm. Collapse of value, massive inflation, exploding Government debt and the total destruction of the entrepreneurial market.

Posted by Terry McGarty at [6:13 AM](#) [0 comments](#) 

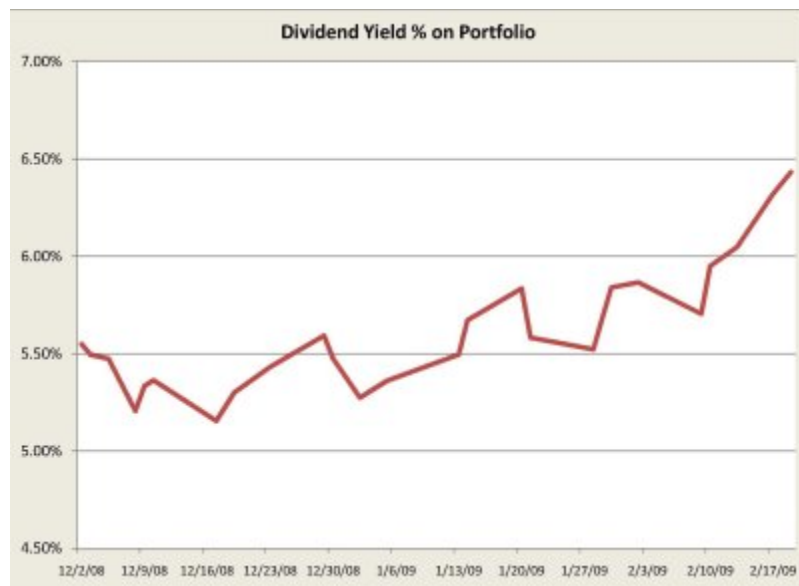
THURSDAY, FEBRUARY 19, 2009

ANOTHER DAY OF DROPS



The Canonic Portfolio has now gone to a targeted 52.5% loss for the year. Namely if the market continues to respond to the perceived economic conditions the stock market of "reasonable" dividend yielding stocks will drop to 52.5% of what they were on January 1, 2009.

There is money in the system, on the sidelines, and elsewhere, but it is not entering the market. If this continues we may be looking at a very bleak year.



There is a second curve which is even more interesting. This is the Dividend yield of the portfolio if it were bought at the date of the axis value, for example as of today the portfolio would yield a dividend of 6.43% up from the initial yield of 5.5%. This is a 20% increase in dividend yield. The increase in effective dividend yield is also a measure of forward looking inflation. Thus this metric shows we are looking at potentially a 20% inflation. We will be measuring this rate as well. The Market seems to be factoring in a tremendous inflation rate in anticipation of forward looking changes. This may be the Canary in the Mineshaft!

Posted by Terry McGarty at [6:31 PM](#) [0 comments](#)

WEDNESDAY, FEBRUARY 18, 2009

[THE HOME MORTGAGE PROPOSAL AND THE CONTRACT CLAUSE](#)

In May of 1987 I bought a condo in the ski area of New Hampshire for a determined amount. That fall the Stock Market crashed. The following summer, 1988, the condo was worth 25% less and the following year it was worth 40% less. I and my fellow borrowers never thought of getting a cram down on the mortgage. I waited seventeen years to sell the condo at almost the same price I paid when I bought it. If I sold it earlier I would lose money, and that was the risk of my venture into real estate, and in fact into any transaction in life.

The Constitution has a clause called the Contract Clause and it reads:

"Article I Section. 10. Clause 1: No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility."

In the infamous Blaisdell Case, HOME BLDG. & LOAN ASS'N V. BLAISDELL, 290 U.S. 398 (1934), which was the Roosevelt Court that abrogated the Contract Clause, the Chief Justice, Justice Hughes, states the words of Justice Marshall uttered more than a hundred years earlier:

"The occasion and general purpose of [290 U.S. 398, 428] the contract clause are summed up in the terse statement of Chief Justice Marshall in *Ogden v. Saunders*, 12 Wheat. 213, 354, 355: *"The power of changing the relative situation of debtor and creditor, of interfering with contracts, a power which comes home to every man, touches the interest of all, and controls the conduct of every individual in those things which he supposes to be proper for his own exclusive management, had been used to such an excess by the state legislatures, as to break in upon the ordinary intercourse of society, and destroy all confidence between man and man. This mischief had become so great, so alarming, as not only to impair commercial intercourse, and threaten the existence of credit, but to sap the morals of the people, and destroy the sanctity of private faith. To guard against the continuance of the evil, was an object of deep interest with all the truly wise, as well as the virtuous, of this great community, and was one of the important benefits expected from a reform of the government."*

Justice Marshall knew very well that a person's word was their bond. Agreements mean something, words mean something, contracts mean something. If the Government comes in and abrogates an agreement that means something, it means that agreements may have no value. It is the beginning of the end of an economy. It stops trade. All one has to do is look at Genoa in the 7th century and see how the early letters of credit started the expansion of Mediterranean trade, slowed during the Muslim dominance, and then recaptured from Venice.

In the current Administration plan it recommends:

"Institute Clear and Consistent Guidelines for Loan Modifications: Treasury will develop uniform guidance for loan modifications across the mortgage industry, working closely with the bank agencies and building on the FDIC's pioneering work. The Guidelines will be used for the Administration's new foreclosure prevention plan. Moreover, all financial institutions receiving Financial Stability Plan financial assistance going forward will be required to implement loan modification plans consistent with Treasury Guidance. Fannie Mae and Freddie Mac will use these guidelines for loans that they own or guarantee, and the Administration will work with regulators and other federal and state agencies to implement these guidelines across the entire mortgage market. The agencies will seek to apply these guidelines when permissible and appropriate to all loans owned or guaranteed by the federal government, including those owned or guaranteed by Ginnie Mae, the Federal Housing Administration, Treasury, the Federal Reserve, the FDIC, Veterans' Affairs and the Department of Agriculture."

The unintended consequences may very well be the total collapse of new credit. Why deal with any financial institution with a nexus to the United States if the terms of any loan can be summarily changed by the US Government.

The plan we suggested was quite different and one would have assumed more compliant with the Administration. It was the recreation of the Federal Home Loan Bank. To repeat:


1. Deal only with "qualified" borrowers. Let that definition be as with the current Administration proposal.

2. Pay off the existing mortgage with a 20-25% haircut. That most likely puts cash into the system, and eliminates risk. The latter is more important. The payout may be over some period of time and an interest consistent with Government bonds could apply. Thus it would cost the Government a large sum but it would be spread over a ten year period.
3. Issue new mortgages to the homeowners for the same face amount but for 40 years at 3%, for example. The Government could finance the payments to the original holders with these assets.
4. If the borrower sells the house at less than the face value of the loan after a minimal holding period, say three to four years, the Government eats the loss. If the house is sold for more than the loan value the Government gets 25% of the upside.
5. No Contract abrogation.

The main advantages of this proposal are:

1. Eliminates Bank balance sheet uncertainties.
2. Is financeable because of the Federal underwriting, in effect a swap like structure.
3. Avoids violating what little is left of the Contract clause thus maintaining the integrity of the markets.
4. May even be profitable!

Just a few thoughts for the day. The advantage of the new Administration is that it allows for new thoughts every day. That is an improvement in itself.

Posted by Terry McGarty at [11:12 AM](#) [0 comments](#) 

TUESDAY, FEBRUARY 17, 2009

[HEALTHCARE SUMMARY](#)


From NEJM Health Care and the American Recovery and Reinvestment Act, Feb 17, 2009

Program or Investment Area	Amount and Purpose of Funding	Total \$ 000,000,000
Comparative effectiveness research	\$1.1 billion, of which \$300 million will be administered by the Agency for Healthcare Research and Quality, \$400 million by the NIH, and \$400 million by the secretary of health and human services.	1.1
Continuation of health insurance coverage for unemployed workers	\$24.7 billion to provide a 65% federal subsidy for up to 9 months of premiums under the Consolidated Omnibus Budget Reconciliation Act. The subsidy will help workers who lose their jobs to continue coverage for themselves and their families.	24.7
Departments of Defense and veterans Affairs	More than \$1.4 billion for the construction and renovation of health care facilities.	1.4
Health information technology	\$19.2 billion, including \$17.2 billion for financial incentives to physicians and hospitals through Medicare and Medicaid to promote the use of electronic health records and other health information technology and \$2 billion for affiliated grants and loans to be administered by the Office of the National Coordinator for Health Information Technology. Physicians may be eligible for grants of \$40,000 to \$65,000 over multiple years, and hospitals for up to \$11 million.	19.2
Health Resources and Services Administration	\$2.5 billion, including \$1.5 billion for construction, equipment, and health information technology at community health centers; \$500 million for services at these centers; \$300 million for the NHSC; and \$200 million for other health professions training programs.	2.5
Medicare	\$338 million for payments to teaching hospitals, hospice programs, and long-term care hospitals.	0.34
Medicaid and other state health	\$87 billion for additional federal matching payments for state Medicaid programs for a	87.0
Total		136.24

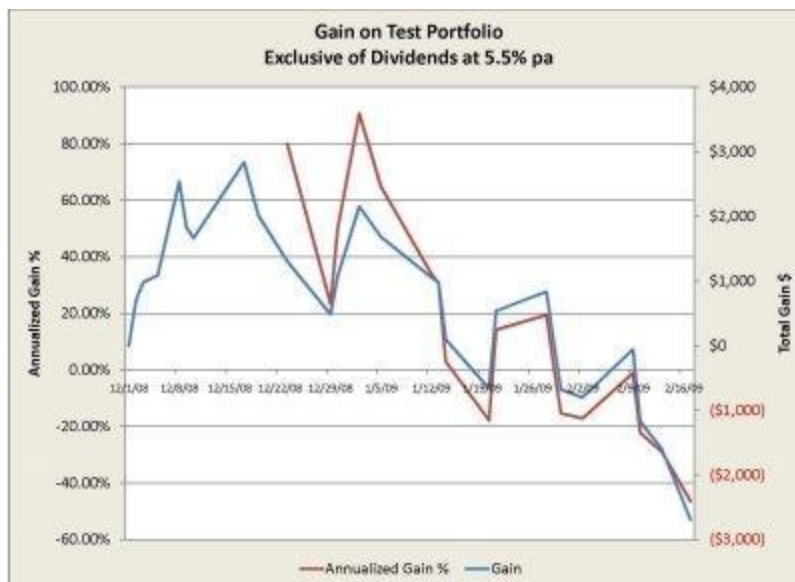
This Table is from the [New England Journal of Medicine](#) and is a great summary of the [Stimulus](#) plan for Healthcare. It shows an expenditure for HIT in excess \$19 billion which exceeds my previous number from [HR1](#) and its Section 3000 by \$12 billion. I must go back and figure out where the remainder is hidden. It grants physicians up to \$65,000 for implementation which is what I may have missed the first time through.

The total is \$136 billion! Of that \$87 billion goes to states for Medicaid programs. Additional \$25 billion goes to assist in unemployment health coverage and the comparative effectiveness is a total of \$1.1 billion.


One needs to become a biblical scholar reading the document again and again and reinterpreting it. Almost 17.5% of the Stimulus is for Healthcare and most of that is directly for payments to states and subsidies for COBRA payments.

Posted by Terry McGarty at [7:43 PM](#) [0 comments](#) 

[RESPONSE TO SIGNING THE STIMULUS](#)



This is our December 1, 2008 portfolio of classic American stocks. The declines each time the Administration takes another action is remarkable. The forward looking loss in American core business for 2009 is now in excess of 50% for this year. We may be looking at a DJIA hitting 4000 by year end if this is sustained. That means we may likely see in excess of 10.5% unemployment as well, possibly 15%. Confidence is ebbing away rapidly. The announcement of the mortgage bailout on Wednesday may likely add more bad news. Despite the erosion of the contract clause of the Constitution and the fact that mortgage holders can unilaterally have their contracts rewritten by a court, this bodes poorly for any future growth. The markets require some form of certainty. If a court can rewrite a financial agreement then the pricing of that agreement has no value. This means that this uncertainty will be factored into future agreements and thus make them less available and more costly. Beware the unintended consequences!

Posted by Terry McGarty at [7:07 PM](#) [0 comments](#) 

MONDAY, FEBRUARY 16, 2009

[HEALTH INFORMATION TECHNOLOGY: EVERY PART OF HRI CREATES ANOTHER PERMANENT GOVERNMENT AGENCY!](#)

In the Senate of the United States,*February 10, 2009.*

Resolved, That the bill from the House of Representatives (H.R. 1) entitled "An Act making supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization, for the fiscal year ending September 30, 2009, and for other purposes.", do pass with the following

AMENDMENT:

Strike out all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE.

2 *This Act may be cited as the "American Recovery and*
3 *Reinvestment Act of 2009".*

4 SEC. 2. TABLE OF CONTENTS.

5 *The table of contents for this Act is as follows:*

DIVISION A—APPROPRIATIONS PROVISIONS

TITLE I—AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG
ADMINISTRATION, AND RELATED AGENCIES

TITLE II—COMMERCE, JUSTICE, SCIENCE, AND RELATED AGENCIES

TITLE III—DEPARTMENT OF DEFENSE

The HR1 section on Health Information Technology is the third element of HR1 we have analyzed. There is a clear pattern.

I: Health Information Technology, SEC 3000 et al creates a \$3 billion Government Czar and infrastructure to develop an Electronic Health Record as defined:

"(13) QUALIFIED ELECTRONIC HEALTH RECORD.—The term qualified electronic health record means an electronic record of health-related information on an individual that— (A) includes patient demographic and clinical health information, such as medical history and problem lists; and (B) has the capacity— (i) to provide clinical decision support; (ii) to support physician order entry; (iii) to capture and query information relevant to health care quality; and (iv) to exchange electronic health information with, and integrate such information from other sources."

II: Broadband; SEC 201 Creates an NTIA Broadband Czar for \$7 billion. It also mandates but does not fund 50 State plus territories Broadband Czars which will add to the real estate tax payers load.

III: Clinical Effectiveness SEC 802 creates a Clinical Effectiveness Czar and a massive organization. This is \$700,000,000 for comparative clinical effectiveness research.


Each of these has a Czar, an organization, initial funding, and what appears to be a perpetual life. It is clear that HR1 is one of the greatest generators of Government bureaucracy ever known. Broadband is wasteful, clinical effectiveness is a natural part of the practice of medicine, as is

evidence based medicine, and the medical record issue is best done in the private sector, as was the Internet with the IETF.

Now let us briefly look at the definition of the Electronic Health Record as in the Bill and as stated above. It is vague and it grossly fails to provide what we have argued before is required. It must be patient focused, capable of handling complex multimedia elements, displayable and annotatable, and capable of being cross indexed and analyzable across and wide patient base and across a wide set of highly complex variables. If it has any use other than a data collection it must be able to be used for clinical trials. That should be a minimal benchmark.

The EHR section mandates "(iii) *The utilization of a certified electronic health record for each person in the United States by 2014*" Frankly it was easier to build an atomic bomb than to implement this nationally in five years. It is not the execution but defining what the answer is. The FAA has failed to upgrade the ATC systems for forty years and we all know what has to be done and there is a central point of control! How is this to be mandated from some Government Czar when the answer is unknown and the Government has an abysmal track record!

I would suspect that as one goes section by section through this massive bill that the theme of more, bigger, costly Government spending will be seen and that further the infrastructure built is both permanent and expansive. The shame is that no one was allowed to comment on these expenditures.

Posted by Terry McGarty at [6:00 PM](#) [0 comments](#) 

HR 1 BROADBAND: I HAVE THE DISTINCT DISADVANTAGE OF EXPERIENCE!



Broadband, yes this was a deployment in Kutztown, PA which I photographed in 2003. We then did 35 detailed market, engineering and business plans for markets in New Hampshire, Massachusetts and Vermont, we even got RUS funding, even built out a portion on our own, and then hit the brick wall of the greedy towns and their Franchises. This is the snake in the woodpile that this Bill somehow glosses over. Also the small fact that there may not be a business model which works.

Thus it is worthwhile providing the HR1 words on broadband, and then look at facts. Somehow all the cheerleaders for broadband have never: (1) ever built anything, (2) have even had to create a business to pay salaries, (3) have any idea as to the technology, (4) ever negotiated a

franchise. Regrettably I have, and I have done this in over 20 countries, the hardest is the US! Politics, the worst kind, local politics.

Now to the Bill. First the preamble:

**"NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION
BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM**

For an amount for “Broadband Technology Opportunities Program”, **\$7,000,000,000**, to remain available until September 30, 2010: Provided, That of the funds provided under this heading, **\$6,650,000,000 shall be expended pursuant to section 201 of this Act**, of which: not less than **\$200,000,000 shall be available for competitive grants for expanding public computer center capacity**, including at community colleges and public libraries; **not less than \$250,000,000 shall be available for competitive grants for innovative programs to encourage sustainable adoption of broadband service**; and \$10,000,000 shall be transferred to “Department of Commerce, Office of Inspector General” for the purposes of audits and oversight of funds provided under this heading and such funds shall remain available until expended:

Provided further, That 50 percent of the funds provided in the previous proviso shall be used to support projects in rural communities, which in part may be transferred to the Department of Agriculture for administration through the Rural Utilities Service if deemed necessary and appropriate by the Secretary of Commerce, in consultation with the Secretary of Agriculture, and only if the Committees on Appropriations of the House and the Senate are notified not less than 15 days in advance of the transfer of such funds:

Provided further, That of the funds provided under this heading, up to \$350,000,000 may be expended pursuant to Public Law 110–385 (47 U.S.C. 1 note) and for the purposes of developing and maintaining a broadband inventory map pursuant to section 201 of this Act:

Provided further, That of the funds provided under this heading, amounts deemed necessary and appropriate by the Secretary of Commerce, in consultation with the Federal Communications Commission (FCC), may be transferred to the FCC for the purposes of developing a national broadband plan or for carrying out any other FCC responsibilities pursuant to section 201 of this Act, and only if the Committees on Appropriations of the House and the Senate are notified not less than 15 days in advance of the transfer of such funds: Provided further, That not more than 3 percent of funds provided under this heading may be used for administrative costs, and this limitation shall apply to funds which may be transferred to the Department of Agriculture and the FCC."

Yes indeed that is \$7 billion for these many yet to be specified tasks! Now to Section 201!

SEC. 201.

The Assistant Secretary of Commerce for Communications and Information (Assistant Secretary), in consultation with the Federal Communications Commission (Commission) (and,

with respect to rural areas, the Secretary of Agriculture), shall establish a national broadband service development and expansion program in conjunction with the technology opportunities program, which shall be referred to the **Broadband Technology Opportunities Program**. The Assistant Secretary shall ensure that the program complements and enhances and does not conflict with other Federal broadband initiatives and programs.

(1) The purposes of the program are to—

(A) **provide access to broadband** service to **citizens residing in unserved areas** of the United States;

(B) provide **improved access** to broadband service to citizens residing in **underserved areas** of the United States;

(C) provide **broadband education, awareness, training, access, equipment, and support** to—
(i) schools, libraries, medical and healthcare providers, community colleges and other institutions of higher education, and other community support organizations and entities to facilitate greater use of broadband service by or through these organizations; (ii) organizations and agencies that provide outreach, access, equipment, and support services to facilitate greater use of broadband service by low-income, unemployed, aged, and otherwise vulnerable populations; and (iii) job-creating strategic facilities located within a State-designated economic zone, Economic Development District designated by the Department of Commerce, Renewal Community or Empowerment Zone designated by the Department of Housing and Urban Development, or Enterprise Community designated by the Department of Agriculture.

(D) improve access to, and use of, broadband service by public safety agencies; and

(E) stimulate the demand for broadband, economic growth, and job creation.

(2) The Assistant Secretary **may consult with the chief executive officer of any State** with respect to—

(A) the **identification of areas described in subsection** (1)(A) or (B) located in that State; and

(B) the **allocation of grant funds within that State for projects** in or affecting the State.

(3) The Assistant Secretary shall—

(A) establish and implement the grant program as expeditiously as practicable;

(B) ensure that all awards are made before the end of fiscal year 2010;

(C) seek such assurances as may be necessary or appropriate from grantees under the program that **they will substantially complete projects supported by the program in accordance with project timelines, not to exceed 2 years following an award**; and

(D) report on the status of the program to the Committees on Appropriations of the House and the Senate, the Committee on Energy and Commerce of the House, and the Committee on Commerce, Science, and Transportation of the Senate, every 90 days.

(4) To be eligible for a grant under the program an applicant shall—

(A) be a **State or political subdivision thereof, a nonprofit foundation, corporation, institution or association, Indian tribe, Native Hawaiian organization, or other non-governmental entity in partnership with a State or political subdivision thereof, Indian tribe, or Native Hawaiian organization** if the Assistant Secretary determines the partnership consistent with the purposes this section;

- (B) submit an application, at such time, in such form, and containing such information as the Assistant Secretary may require;
- (C) provide a detailed explanation of how any amount received under the program will be used to carry out the purposes of this section in an efficient and expeditious manner, including a demonstration that the project would not have been implemented during the grant period without Federal grant assistance;
- (D) demonstrate, to the satisfaction of the Assistant Secretary, that it is capable of carrying out the project or function to which the application relates in a competent manner in compliance with all applicable Federal, State, and local laws;
- (E) demonstrate, to the satisfaction of the Assistant Secretary, that it will appropriate (if the applicant is a State or local government agency) or otherwise unconditionally obligate, from non-Federal sources, funds required to meet the requirements of paragraph (5);
- (F) disclose to the Assistant Secretary the source and amount of other Federal or State funding sources from which the applicant receives, or has applied for, funding for activities or projects to which the application relates; and
- (G) provide such assurances and procedures as the Assistant Secretary may require to ensure that grant funds are used and accounted for in an appropriate manner.

(5) The **Federal share of any project may not exceed 80 percent**, except that the Assistant Secretary may increase the Federal share of a project above 80 percent if—

- (A) the applicant **petitions the Assistant Secretary for a waiver**; and
- (B) the Assistant Secretary determines that the **petition demonstrates financial need**.

(6) The Assistant Secretary may **make competitive grants** under the program to—

- (A) acquire equipment, instrumentation, networking capability, hardware and software, digital network technology, and infrastructure for broadband services;
- (B) construct and deploy broadband service related infrastructure;
- (C) ensure access to broadband service by community anchor institutions;
- (D) facilitate access to broadband service by low-income, unemployed, aged, and otherwise vulnerable populations in order to provide educational and employment opportunities to members of such populations;
- (E) construct and deploy broadband facilities that improve public safety broadband communications services; and
- (F) undertake such other projects and activities as the Assistant Secretary finds to be consistent with the purposes for which the program is established.

(7) The Assistant Secretary—

- (A) shall require any entity receiving a grant pursuant to this section to report quarterly, in a format specified by the Assistant Secretary, on such entity's use of the assistance and progress fulfilling the objectives for which such funds were granted, and the Assistant Secretary shall make these reports available to the public;
- (B) may establish additional reporting and information requirements for any recipient of any assistance made available pursuant to this section;
- (C) shall establish appropriate mechanisms to ensure appropriate use and compliance with all terms of any use of funds made available pursuant to this section;

(D) may, in addition to other authority under applicable law, deobligate awards to grantees that demonstrate an insufficient level of performance, or wasteful or fraudulent spending, as defined in advance by the Assistant Secretary, and award these funds competitively to new or existing applicants consistent with this section; and

(E) shall create and maintain a fully searchable database, accessible on the Internet at no cost to the public, that contains at least the name of each entity receiving funds made available pursuant to this section, the purpose for which such entity is receiving such funds, each quarterly report submitted by the entity pursuant to this section, and such other information sufficient to allow the public to understand and monitor grants awarded under the program.

(8) Concurrent with the issuance of the Request for Proposal for grant applications pursuant to this section, the Assistant Secretary shall, in coordination with the Federal Communications Commission, publish the non-discrimination and network interconnection obligations that shall be contractual conditions of grants awarded under this section.

(9) Within 1 year after the date of enactment of this Act, the Commission shall complete a rulemaking to develop a national broadband plan. In developing the plan, the Commission shall—

(A) consider the most effective and efficient national strategy for ensuring that all Americans have access to, and take advantage of, advanced broadband services;

(B) have access to data provided to other Government agencies under the Broadband Data Improvement Act (47 U.S.C. 1301 note);

(C) evaluate the status of deployments of broadband service, including the progress of projects supported by the grants made pursuant to this section; and


(D) develop recommendations for achieving the goal of nationally available broadband service for the United States and for promoting broadband adoption nationwide.

(10) The Assistant Secretary shall develop and maintain a comprehensive nationwide inventory map of existing broadband service capability and availability in the United States that entities and depicts the geographic extent to which broadband service capability is deployed and available from a commercial provider or public provider throughout each State: Provided, That not later than 2 years after the date of the enactment of the Act, the Assistant Secretary shall make the broadband inventory map developed and maintained pursuant to this section accessible to the public."

That's all folks! Now it is worth looking at details.

There is a lot of money going to Hawaii! Why, one can only guess! Then it also requires that the projects be complete in 2 `years! Try and get a franchise in that time, then get equipment, then pull on the poles etc. No way can this be done! It is physically impossible, but I forgot this was Congress, reality plays no role. Also the NTIA has no infrastructure, policies, procedures and the like to accomplish this. That in itself will take years and if not done properly will result in massive fraud. USDA and its agency RUS has decades of experience and a group of competent and dedicated people. They are not being used.

This is doomed to failure. Say goodbye to \$7 billion. This is not a stimulus it is a total and complete waste of the taxpayers money. Finally it is in the purview of the State to select the areas to be built out, in effect the States create market plans, and then somehow third parties submit bids for these parcels. States in charge of markets, again unlikely to work.

Posted by Terry McGarty at [2:29 PM](#) [0 comments](#) 

[LOOKING AT SECTION 802: THE CAMEL'S NOSE IN THE TENT](#)



The Section 802 of the Stimulus is worth a read because it may very well change the way Medicine is practiced in the United States. Here it is in detail:

"SEC. 802. FEDERAL COORDINATING COUNCIL FOR COMPARATIVE CLINICAL EFFECTIVENESS RESEARCH.

(a) ESTABLISHMENT.—There is hereby established a Federal Coordinating Council for Comparative Clinical Effectiveness Research (in this section referred to as the “Council”).

(b) PURPOSE; DUTIES.—The Council shall—

(1) assist the offices and agencies of the Federal Government, including the Departments of Health and Human Services, Veterans Affairs, and Defense, and other Federal departments or agencies, to coordinate the conduct or support of comparative clinical effectiveness and related health services research; and

(2) advise the President and Congress on— (A) **strategies with respect to the infrastructure needs of comparative clinical effectiveness research within the Federal Government**; (B) appropriate organizational expenditures for comparative clinical effectiveness research by relevant Federal departments and agencies; and (C) **opportunities to assure optimum coordination of comparative clinical effectiveness and related health services research conducted or supported by relevant Federal departments and agencies, with the goal of reducing duplicative efforts and encouraging coordinated and complementary use of resources.**

(c) MEMBERSHIP.— (1) NUMBER AND APPOINTMENT.—The Council shall be composed of not more than 15 members, all of whom are senior Federal officers or employees with responsibility for health related programs, appointed by the President, acting through the Secretary of Health and Human Services (in this section referred to as the “Secretary”). Members shall first be appointed to the Council not later than 30 days after the date of the enactment of this Act. (2) MEMBERS.— (A) IN GENERAL.—The members of the Council shall include one senior officer or employee from each of the following agencies: (i) **The Agency for Healthcare Research and Quality.** (ii) **The Centers for Medicare and Medicaid Services.** (iii) The National Institutes of Health. (iv) **The Office of the National Coordinator for Health Information Technology.** (v) The Food and Drug Administration. (vi) The Veterans Health Administration within the Department of Veterans Affairs. (vii) The office within the Department of Defense responsible for management of the Department of Defense Military Health Care System. (B) QUALIFICATIONS.—At least half of the members of the Council shall be physicians or other experts with clinical expertise. (3) CHAIRMAN; VICE CHAIRMAN.—The Secretary shall serve as Chairman of the Council and shall designate a member to serve as Vice Chairman.


(d) REPORTS.— (1) INITIAL REPORT.—Not later than **June 30, 2009**, the Council shall submit to the President and the Congress a report containing information describing Federal activities on comparative clinical effectiveness research and recommendations for additional investments in such research conducted or supported from funds made available for allotment by the Secretary for comparative clinical effectiveness research in this Act. (2) ANNUAL REPORT.—The Council shall submit to the President and Congress an annual report regarding its activities and recommendations concerning the infrastructure needs, appropriate organizational expenditures and opportunities for better co ordination of comparative clinical effectiveness research by relevant Federal departments and agencies.

(e) STAFFING; SUPPORT.—From funds made available for allotment by the Secretary for comparative clinical effectiveness research in this Act, the Secretary shall make available not more than 1 percent to the Council for staff and administrative support."

This creates two new Offices and expands one:

- (1) **The Agency for Healthcare Research and Quality.**
- (2) **The Centers for Medicare and Medicaid Services.**
- (3) **The Office of the National Coordinator for Health Information Technology.**

These offices will create policies and procedures to select the most effective health care treatments to be mandated by the Federal Government. This is a very powerful creation and may very well change the way we see health care being delivered in the future. This is the first big step, it is the camel's nose in the tent.

Posted by Terry McGarty at [12:41 PM](#) [0 comments](#) 

[GOVERNMENT OVERSIGHT OF MEDICINE](#)



There are provisions in the new Stimulus Bill to create a Government Oversight Board for ensuring that there is nationwide compliance with comparative clinical effectiveness, namely rating and ranking procedures, medications and the like for the treatment of various medical ailments.

Let us consider the colonoscopy. There already exists a "[Centers for Medicare and Medicaid services](#)" the "CMS" which has been performing that task for Medicare and Medicaid for years. Their most recent prognostication was that [CT virtual colonoscopy](#) had not met the level for acceptance so that it would not receive payment as an accepted procedure. This may very well be a valid conclusion. The reasons themselves may be varied and the procedure may still be performed unless the new Board as passed under this new Bill agrees with the CMS and then eliminates it.

But let us take another further look. A group of [Canadian physicians](#) performed a study that reached the conclusion as follows:

"Conclusion: In usual practice, colonoscopy is associated with fewer deaths from CRC. This association is primarily limited to deaths from cancer developing in the left side of the colon."

Namely they contend that based upon their study there is no benefit to screening for ascending colon lesions. The devil is in the details, however. First the Canadian system admits patients to colonoscopies at very late stages, it is truly a rationed system and in preventative medicing rationing means getting there too late.

Second, these are Canadian physicians in Canadian medicine which means that they permit less than fully qualified practitioners to perform these tests which require true skill and care. Their results included the following Table demonstrate that almost anyone can perform this procedure which demands great experience. The procedures were performed by a mix of physicians, most, if not all, not certified as endoscopists.

Table 2. Self-designated Specialty of Endoscopist

Variable	Gastroenterologist	General Surgeon	General Internist	Other
Total colonoscopies, <i>n</i>	1,808	2,303	944	695
Complete colonoscopies, %	83%	79%	80%	66%
All colonoscopies, %	31%	40%	16%	12%
Case patients, %	30%	42%	17%	11%
Controls, %	32%	40%	16%	12%

As is well known, colonoscopies can nearly eliminate colon cancer if performed by a skilled endoscopist. Sessile lesions in the folds of the colon are generally the greatest threat. They get missed and they are the killer lesions. Thus the endoscopist must be skilled, must take care and time, and must be thorough. The result is that a procedure costing some \$1,200-1,800 can save not only a life but hundreds of thousands in subsequent medical costs.

So how does the new Stimulus Bill, the existing CMS and the Canadian study all blend together? Simply, first we have a functioning Comparative Effectiveness system in place, it functions and already controls over 50% of healthcare. Thus Medicare and Medicaid will see no change, unless, and that is the big question, unless it is done for other purposes than patient care. However it is now possible that all other patients will see an impact, NO! will most likely become a common refrain.

Secondly, studies like the less than useful Canadian Study may become the hook to hang reduction of procedures on, especially as we see the new Board has a mix of Physicians and non-Physicians. Imagine Nancy Pelosi look-alikes on such a Board. There are even worse imaginantions!


Posted by Terry McGarty at [7:55 AM](#) [0 comments](#)

SUNDAY, FEBRUARY 15, 2009

[LAMBERTVILLE, NJ A SMALL CORNER OF QUIET](#)



Lambertville, NJ is a small town on the New Jersey side of the Delaware River. The other side is New Hope, PA. It presents a quaint calm location with an old restored canal, part of the old Delaware River barge canal and many small shops. Given the economic problems a quiet walk along the River can be settling, so take a few moments of contemplation on the fact that all of this may very well remain no matter what Washington does.

Posted by Terry McGarty at [5:01 PM](#) [0 comments](#) 

SATURDAY, FEBRUARY 14, 2009

[A LITTLE LOGIC, PERHAPS?](#)

The Administration is as per Larry Summers willing to put \$50 billion into [helping people pay](#) for their mortgages. The Bloomberg reports says:

"Summers, who is director of the White House's [National Economic Council](#), said the economy will be in for a rough time for a while and that unemployment will continue to rise, even with the stimulus package.

"I fear the economy will probably be showing decline and jobs will probably be being lost for some time going forward," Summers said. He added that the stimulus will probably prevent the unemployment rate from going above 10 percent, after it reached 7.6 percent in January"

However let us just apply a small bit of logic.

First, assume that a person bought a home at some price, but the issue was that they could pay the mortgage, no matter what the price. It was not the price but the ability to pay the mortgage which was important. If the market value of the home falls then the ability to pay may or may not have changed but that may very well be independent of the value of the house. The person could be ill or could have lost their job, a risk of say 8-10%, and thus could no longer pay. We assume that the lender would factor in such risk. If they factored in 4-5% risk then they suffer an excess loss of 4-5% which may be their profit but would not collapse their Balance Sheet.

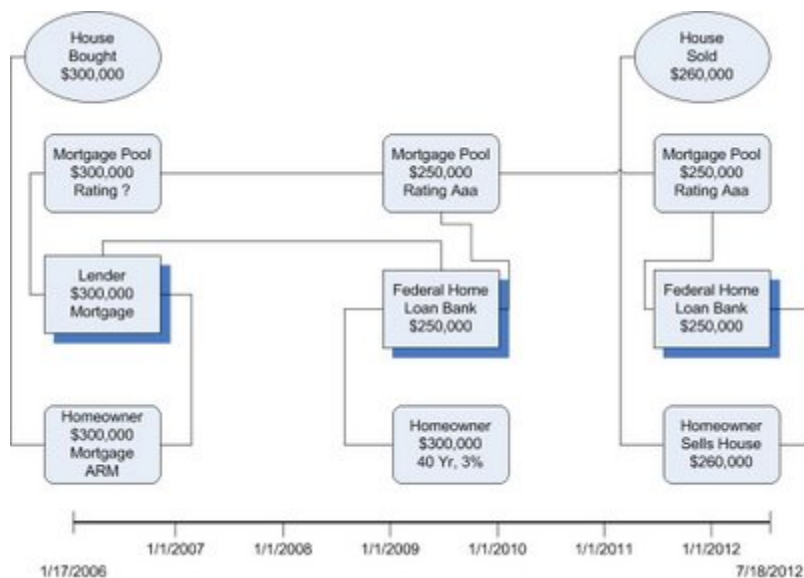
Second, if the First assumption is not correct, that is the lender knew ab initio that the borrower could not pay, or the borrower lied and defrauded the lender, or there was collusion by both to defraud the loan buyer such as Freddie Mac, then this is a criminal act, with one or two parties involved. So where is the Department of Justice? Why has not one Lender and not one Borrower been indicted? This applied to Bush as well as Obama.

Third, the current theme is that if one has bought an asset, and one had entered into a legal transaction and one is still able to pay for the debt on the initial purchase, then if the asset is now no longer worth what it was purchased for then one should have the rest of the taxpayers eat the loss and assist that person! Fair, only of you are the current administration. It may buy votes, but frankly it may also cost votes amongst those paying. A dangerous plan.

Is this what Summers is doing? We shall see.

An alternative to this is that we create a Government Home Loan Bank which then takes the mortgage notes at face value, namely for the value of the property at time of purchase less payment on principal. Even better, if the Government Bank could negotiate a haircut on the purchase of a mortgage at risk, it could get a \$300,000 mortgage for say \$200,000. The Bank then reissues a new mortgage at that value, and for say 3% and 40 years. If the borrower was able to pay the original note then this new Government Home Loan Bank note would be very payable also. Unless of course there was fraud at the outset and then they should and must pay!


Then at the time of sale, if the value of the asset is less than what the note is worth, say the home was originally for \$300,000, and the mortgage was at that level as well, but the sale of the house in a fair market price is \$225,000, then the Government takes the loss. However if the owners hold the asset for a while, and if the economy improves, then those losses could be de minimis and spread out over time.



Then even better, the Bank would be ahead of the game and the Government could sell shares in the Bank and finally privatize it totally for a handsome profit. Novel idea, no! Imagine the

Government managing it so we the taxpayers do not have to pay and in addition we make money! See what happens when you do not just have bureaucrats and academics.

Why not try that rather than paying people to pay the people who created this mess! If there were the slightest bit of honesty anywhere in these loans then this simple plan should work. If not then we are just paying off the Countrywides and their ilk. Pity, just more of our grandchildren's future down the proverbial rat hole!

Posted by Terry McGarty at [1:00 PM](#) [0 comments](#) 

[STRESS TEST VS COLONOSCOPY](#)

Treasury Secretary Geithner said last week:

"First, we're going to require banking institutions to go through a carefully designed comprehensive *stress test*, to use the medical term. We want their balance sheets cleaner, and stronger. And we are going to help this process by providing a new program of capital support for those institutions which need it.

To do this, we are going to bring together the government agencies with authority over our nation's major banks and initiate a more consistent, realistic, and forward looking assessment about the risk on balance sheets, and we're going to introduce new measures to improve disclosure.

Those institutions that need additional capital will be able to access a new funding mechanism that uses funds from the Treasury as a bridge to private capital. The capital will come with conditions to help ensure that every dollar of assistance is used to generate a level of lending greater than what would have been possible in the absence of government support. And this assistance will come with terms that should encourage the institutions to replace public assistance with private capital as soon as that is possible."


The metaphor of a stress test may result perhaps from some recent event in his personal life but frankly in no ways reflects what he needs to do. A stress test puts the patient under a load, increasing heart rate and cardiovascular output and then seeks to observe electrical aberrations which are reflective of blockages in normal cardiac response. There is no way he could put the patient, in this case the economy under any more stress, otherwise he will be conducting an autopsy. Perhaps the metaphor is more correctly a colonoscopy, which frankly is what needs to be done, see what is in there, for better or worse, remove the polyps, perhaps other lesions and pray for the best.

I have been examining the Balance Sheets of Bank of America and other major institutions. It is more difficult than translating hieroglyphics without a Rosetta Stone. One cannot ascertain what is good or what is bad.

Perhaps a solution is to have the market make that determination, the good old market. The Government could create a floor under the securities with a swap like structure, an insurance policy if you will, that would guarantee a bottom above zero for the packages sold. The

Government does not have to buy them but merely insure them at some level, a level well less than the values transacted.

With all of the now unemployed quants on Wall Street perhaps a Draft of quants into a military like service corps would help solve the problem and instill discipline in the quants.


Posted by Terry McGarty at [12:46 PM](#) [0 comments](#) 

[WHERE IS ROBESPIERRE WHEN WE TRULY NEED HIM?](#)



The Tennis Court Oath, the famous painting by David, depicts the victory, specious as it may have been, of the common people over their King. In many ways this was reflected this week as Congress passed the massive expenditure program and then began to strike out against the perpetrators of the acts, the Bankers. The Dodd amendment which caps salaries, albeit well timed, will have unintended consequences far beyond the good Senators intents, whatever they may have been.

The key question is when do we expect the shy and ruthless lawyer from the sticks, Robespierre, to enter the scene and begin the mass beheadings. Will it be the Fairness Doctrine, will it be choice in medicine, will it be the explosion of taxation and the drying up of all investment capital, perhaps we just eliminate any person with an entrepreneurial tendency.


Posted by Terry McGarty at [12:02 PM](#) [0 comments](#) 

FRIDAY, FEBRUARY 13, 2009

[FRIDAY THE 13TH: THE SHOES ARE STARTING TO DROP](#)

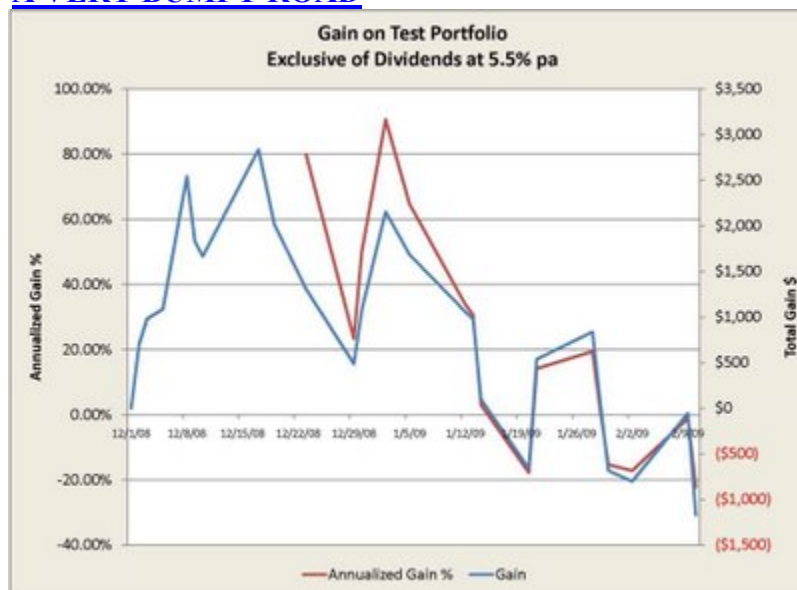
Yesterday Charter declared bankruptcy, Chapter 11, and down went \$3 billion of their debt. That means that \$23 billion of their total liabilities are also most likely gone. Sirius is on the edge and on Tuesday next week they may likely fall flat on their face as well. We detailed this several months ago as the next set of shoes to drop. We have counted 110 companies averaging \$5 billion each in potential default, and reaching almost a total of \$1 trillion in high yield default, not to mention the dumping of the equity holders.

We also have said we do not see the end of this mess until the end of 2010. with unemployment exceeding 10.5%. The passing today of the Stimulus Bill may most likely have little if any effect. It wastes money and does not address the true problem. Christina Romer presented the Obama response to the Stimulus passage and the presentation was like a 5th Grade teacher telling her class about the joys of Tetanus shots, how wonderful they will be not that they may hurt like hell! Between the mercurial and High School debater in Geithner and the happy faced Romer, one is left with a very hollow feeling that we may be getting into real trouble. Where is Larry Summer when we really need him.

Posted by Terry McGarty at [4:17 PM](#) [0 comments](#) 


TUESDAY, FEBRUARY 10, 2009

[A VERY BUMPY ROAD](#)



We opened our portfolio on December 1, 2008 as a way to test the market transition to the Obama Administration. The portfolio was characterized in an [earlier blog](#). We have been tracking it since then and our interest is in seeing how this cross economy package does. Metals, telephone, food, technology, chemicals, retail. A mix of dividend producing stocks in what would be a solid space. All have significant capital needs and all can be predictive of the economy in general.

What do we see a month later, well it is getting worse by the minute. After the Geithner talk today we see a continuing collapse. As we have argued before the economy needs a plan, any plan. The Obama Mantra egging on the HR 1 mass of giveaways, we need it now, like the old "I want my MTV!", seems to be lacking in his own backyard. The banks must be purged, the market must clear, and the lingering uncertainty will just cause further harm. In many ways Geithner appears as some High School Senior in the Debate Team, holding himself erect but lacking any experience and exuding abject terror and not confidence. We need Chuck Yaeger for Treasury and not some fresh pilot trainee.

Posted by Terry McGarty at [5:02 PM](#) [0 comments](#) 

[COMPARATIVE CLINICAL EFFECTIVENESS - AN ISSUE OR OF VALUE?](#)

There has been a flap over the inclusion in the **HR 1 Senate** version of a **Section 802** mandating the development of methods of Comparative Clinical Effectiveness (CCE) . The Section of the Bill is devoid of definition but one need look no further than a [CBO report](#) in December 2007 by Orszag which details these efforts. The Section states:

"SEC. 802. FEDERAL COORDINATING COUNCIL FOR COMPARATIVE CLINICAL EFFECTIVENESS RESEARCH. (a) ESTABLISHMENT.—*There is hereby established a Federal Coordinating Council for Comparative Clinical Effectiveness Research (in this section referred to as the “Council”). (b) PURPOSE; DUTIES.*—*The Council shall— (1) assist the offices and agencies of the Federal Government, including the Departments of Health and Human Services, Veterans Affairs, and Defense, and other Federal departments or agencies, to coordinate the conduct or support of comparative clinical effectiveness and related health services research; and (2) advise the President and Congress on— (A) strategies with respect to the infrastructure needs of comparative clinical effectiveness research within the Federal Government; (B) appropriate organizational expenditures for comparative clinical effectiveness research by relevant Federal departments and agencies; and (C) opportunities to assure optimum coordination of comparative clinical effectiveness and related health services research conducted or supported by relevant Federal departments and agencies, with the goal of reducing duplicative efforts and encouraging coordinated and complementary use of resources."*

It is not something new and frankly it is akin to the work done in the area of Evidenced Based Medicine (EBM). EBM espouses the practice of medical procedures based upon established clinical trials and using those trials one would incorporate a set of best practices. The CCE as defined by the CBO states:

"A variety of evidence suggests that opportunities exist to constrain health care costs both in the public programs and in the rest of the health system without adverse health consequences. Perhaps the most compelling evidence of those opportunities involves the substantial geographic differences in spending on health care—both among countries and within the United States—which do not translate into higher life expectancy or measured improvements in other health statistics in the higher spending regions. For example, Medicare’s costs per beneficiary vary significantly among different regions of the country, but much of the variation cannot be explained by differences in the population, and the higher-spending regions perform no better on available measures of average health outcomes than the lower-spending regions do.

Furthermore, hard evidence is often unavailable about which treatments work best for which patients and whether the added benefits of more-effective but more expensive services are sufficient to warrant their added costs—yet the current health system tends to adopt more expensive treatments even in the absence of rigorous assessments of their impact. Indeed, the extent of the variation in treatments may be greatest when evidence about their relative effectiveness is lacking. Together, those findings suggest that better information about the costs, risks, and benefits of different treatment options..."

Regrettably Senator Specter was questioned on this Section 802 as if it were a rationing provision. If done properly it is a quality improving position. As we have argued we must reduce costs and we must reduce demand. However, on the other hand, if one desires to pay personally for services which exceed those clinically proven to be effective, say rhinoplasty for a stuffy nose, then one should have the right to seek that out and pay accordingly. However Medicare or Medicaid, or even a private plan should have no obligation to pay.

The shaky ground occurs when dealing with catastrophic diseases and new protocols! Take the simple case of imatinib and CML. When it first came out, it was and frankly still is quite expensive. Does it prolong life, slightly, does it improve the quality of life, greatly. Thus the problem will be one of determining quality effects and their values and thus seeking the CCE solution. This will be especially the problem in Medicare, and with an aging population what treatments are proper, and which exceed the bounds. Marrow transplants for CML in patients over 80 is most likely not reasonable.

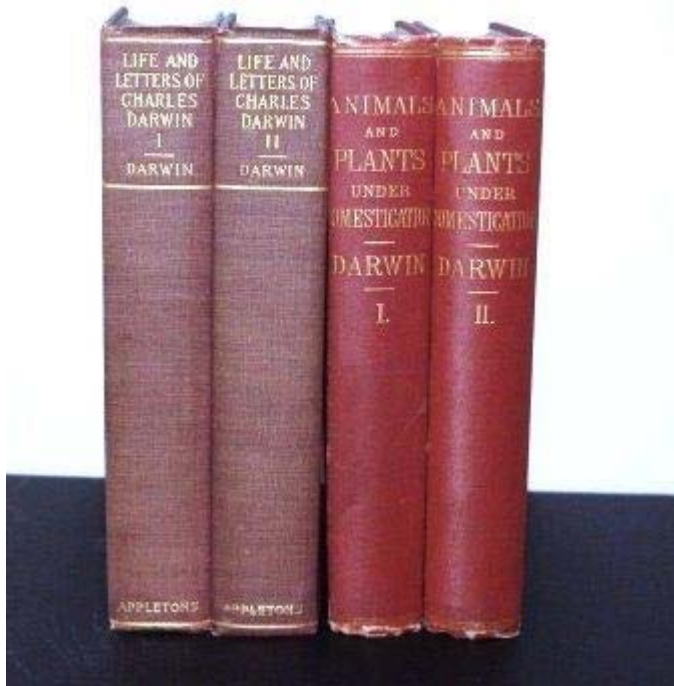
Then what of prostatectomies in men over 75, must they have only the watchful waiting option. For many men that is acceptable, but frankly we do not know enough of the genetic elements of PC to determine for what patients the protocol is best.

Thus the major problem of CCE is that it makes measurements which may fail to reflect the underlying differentiator, namely the genetic class of the patient. A woman with a BRCA gene defect will most likely best be served with aggressive treatment. A man with an indolent PC can watch and wait. In contrast a man with an aggressive PC, one which we cannot yet determine since we do not have the proven CCE approved test, will suffer bone mets and in in agony! The balance is a challenge to the Hippocratic Oath and to the bean counters in DC. Perhaps Orszag would think differently if he ever had to assist and dying patient with bone mets who had poorly treated PC!

Posted by Terry McGarty at [7:56 AM](#) [0 comments](#)

TUESDAY, FEBRUARY 10, 2009

[HAPPY BIRTHDAY DARWIN](#)




Thursday February 12th is the [200th](#) Anniversary of the Birth of Darwin. Strangely it is also the 200th Anniversary of the birth of Abraham Lincoln. The two men in their separate ways led to the release of human shackles that are key elements of formation of our current society. Lincoln in freeing the slaves and giving new breath to the idea of the United States and Darwin in positioning mankind in a continuum as well as demonstrating the essence of competition between and within species. On the one hand the Survival of the Fittest was redefined as society and on the other the survival of the fittest took on a broad set of metaphors.



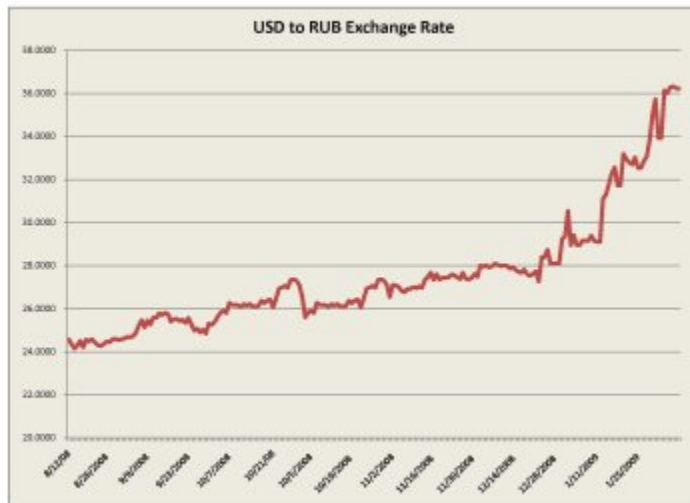


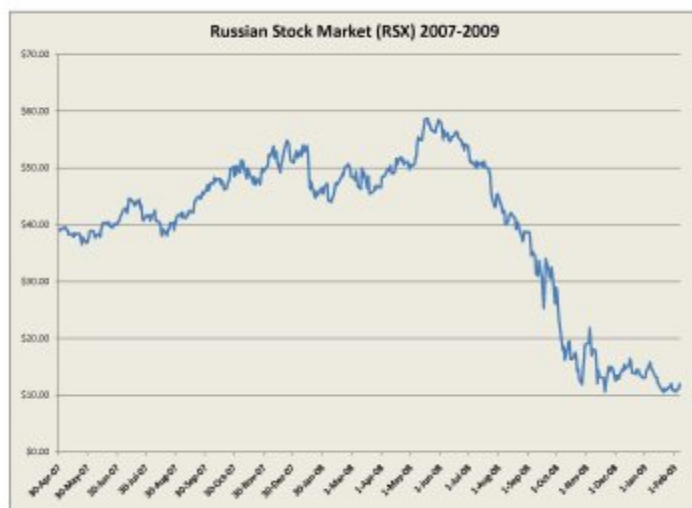
Thus a Happy Birthday to Darwin as well as Old Abe, the coincidence is not mere happenstance for it should make one think of the dimensions that both brought to humanity.

Posted by Terry McGarty at [6:17 AM](#) [0 comments](#) 

SUNDAY, FEBRUARY 8, 2009

[THE RUSSIAN PROBLEM](#)





The attached graphs depict two recent critical facts regarding Russia and its economy. The first is the Dollar/Ruble exchange rate. It is exploding in the past few weeks. It has almost doubled and is exceeding certain currency reserves set by European markets.

The second is the Moscow Stock Exchange RSX index which also has exploded in the negative direction. It is just collapsing in front of the eyes of Russians.

Having spent ten years in Russia, 1994 to 2004, and having started a business there with Russian partners, many of some considerable repute, and understanding the Russians from the ground up, this presents a clear and present danger, to them, to the US and to the world. I lived through the 1998 saw the building of the Putin economy and the success of oil. I had argued in the early 1990s that the US and Russia should work jointly to move the oil eastward towards Alaska and then develop strong mutual dependency and stability. It did not go that way.

I have made many observations in my dealings with the Russians. One was when we spoke at length about the US attitude towards Chechnya. They saw the US defending the Muslim side in the Balkans while accusing the Russians of near genocide when the Russians defended themselves against Fundamentalist Muslim terrorist in their homeland. My Russian friends could not understand the US. This was under Clinton. Then on September 9th 2001 in a bar in Athens speaking with two Russians they warned me as an American to the Fundamentalist Muslim threat resulting from the ben Laden move in assassinating the head of the Northern Alliance. The nexus to them was clear and imminent. The Russians seem to have an uncanny sense of threats, real and current.

On the other hand, unlike the Chinese, the Russians have an extraction economy, despite their brilliance in technical matters and their innate ability to build and create highly technical products. They seem to lack the merchant mentality of the English and Chinese. This places them in a position of severe instability in times like these. We the United States must be sensitive to that fact, sensitive to the pride and greatness of the Russian people, and attempt to work with

them in this time of crisis. The above charts we believe will only get worse. That may incite a great turning inward in Russia, something we would not desire.

Unfortunately the new Administration seems not to fully appreciate this challenge. The recent talk by Vice President Biden may be considered a threat to them, a swinging of a sword in their face at a time that close collaboration is required. For Biden has said in his speech:


" We also support the further strengthening of European defense, an increased role for the European Union in preserving peace and security, a fundamentally stronger NATO-EU partnership and deeper cooperation with countries outside the Alliance who share our common goals and principles. The United States rejects the notion that NATO's gain is Russia's loss, or that Russia's strength is NATO's weakness. The last few years have seen a dangerous drift in relations between Russia and the members of our Alliance."

He continued:

"We will not agree with Russia on everything. For example, the United States will not recognize Abkhazia and South Ossetia as independent states. We will not recognize a sphere of influence. It will remain our view that sovereign states have the right to make their own decisions and choose their own alliances. But the United States and Russia can disagree and still work together where our interests coincide."

There are two points here of concern. First, the push of NATO eastward is a threat to Russia built on centuries of historical precedent that Biden is unaware of. Russia has always sought to protect itself. The second is the threat in the telling Russia how to act in the Georgian situation which in many ways has two sides. Doing business outside of the US requires a deep understating the history of the head its peoples. Americans lack that to an extreme. Whether it is the 30 years war, Napoleon, the Huns, or the like, that is always in the he back of the cultural mind of the person on the other side of the negotiating table. Americans all too often are literally empty headed as regards to history, which plays such a powerful molding role.

It would have been better had Obama first met with Putin and Medvedev and developed a sense of mutual understanding, especially at a time when the Russian economy is in such a free fall, then there would have been some basis for a meting of the minds. Biden clearly is not the person to send out the message so close to Russian turf. His record stands by itself. The next question is how will Hillary Clinton do in this domain. This clearly is not one place for testing her metal.

Posted by Terry McGarty at [9:53 AM](#) [0 comments](#) 

SATURDAY, FEBRUARY 7, 2009

[HAYEK, SUMMERS, MACROECONOMISTS AND TRUTH](#)

In a recent post by Boudreaux on [Cafe Hayek](#) there is a link to [Hayek's Nobel Lectur e](#) in 1974, entitled *The Pretence of Knowledge*. The essence of Hayek's lecture was simply that macroeconomics is not a science, and the attempt to treat it as such and to guide an economy as

one would use astrophysics to guide a spacecraft would be at the very least fool hardy. We have been back at this same theme ourselves.

Yet there is something in Hayek that may give a slight glimpse of hope. This was presented in 1974, an interesting time, for several key things were happening then. First, biology which Hayek calls a field which deals with essential complexity was un-modellable in a manner akin to physics, was dramatically changing at that very time. Specifically Hayek in his talk says:

"Why should we, however, in economics, have to plead ignorance of the sort of facts on which, in the case of a physical theory, a scientist would certainly be expected to give precise information? It is probably not surprising that those impressed by the example of the physical sciences should find this position very unsatisfactory and should insist on the standards of proof which they find there. The reason for this state of affairs is the fact, to which I have already briefly referred, that the social sciences, like much of biology but unlike most fields of the physical sciences, have to deal with structures of essential complexity, i.e. with structures whose characteristic properties can be exhibited only by models made up of relatively large numbers of variables. Competition, for instance, is a process which will produce certain results only if it proceeds among a fairly large number of acting persons."

The second thing that that was changing was our ability to model dynamic systems which were essentially random processes. I published my first book in 1972, *Stochastic System and State Estimation*, stating in the Preface the thought, "the world is filled with uncertainty" and then I went on. In that book I presented the methods to deal with uncertainty and to predict with some form of certainty the future. I did so to the point of actually implementing it. It was these very theories that were used in the guidance of the Apollo spacecraft in the late 60s.

The third phenomenon which changed at that very time was the introduction of minicomputers and the explosion of the ability to perform massive amounts of computation in lower and lower cost environments.

Thus the three things: understanding biology via the paradigm of the gene, which is now done through quantitative genomics, understanding how to think of systems as random dynamic processes, and having the computer processing skills to execute the algorithms has taken the unthinkable in Hayek's mind of biology as a descriptive science, into what we now know as biology as akin to any engineering skill which we are all familiar with. I can now engineer a flower color and engineer a cure to certain cancers. Unthinkable in Hayek's talk.

However the unthinkable in macroeconomics is still there. There does not exist an underlying paradigm of reality to work with such as a gene, a photon, an electron, a molecule, a force field, or the like. There is just a massive set of folders with plants and dry bones which we still measure and classify. There is no DNA to measure closeness of species and how the genetic changes occurred to work backward and to work forward with statistical precision.

Now let us jump to the current situation and to Larry Summers. As the [Wall Street Journal](#) has said:

"At a briefing last week, Mr. Summers provided Mr. Obama with a 30-page book outlining options to beef up financial regulation. He asked former Fed Chairman Paul Volcker -- an Obama adviser during the campaign who Friday unveiled his new economic-recovery panel of advisers -- to lead the discussion. Other briefings have included health care, particularly on changes that can be made in the economic-stimulus and budget plans in anticipation of a health-care overhaul. The former Harvard economist is constantly doing his own first-person research. At the Alfalfa Club dinner this past Saturday night, Mr. Summers worked the room with a mission -- gathering evidence on how the president's economic stimulus package could work. When he saw an auto-industry official, he pushed for information on car sales to gauge the state of consumer demand."

This appears to state, and it is evident that he does believe this, that macroeconomics has an ability to quantitatively and with some accuracy, always with precision, predict the future of this Stimulus package. Yet as Hayek stated a quarter century ago, this is truly unachievable. Possibly if macroeconomics achieves a breakthrough as did biology it may be sought but such is not the case.

The level of this sense of hubris is exacerbated by the opening sentence of this article which states:

"An hour after the release of Friday's grim jobs report, Lawrence Summers was in the Oval Office giving President Barack Obama his daily economic briefing. The chief White House economic adviser told his boss with econometric precision that there was a roughly 80% chance -- "in the low 80s" -- that the \$800 billion stimulus bill being revised in the Senate would create as many jobs as Mr. Obama's original proposal. The president asked whether that is "83% or 84%," poking fun at Mr. Summers's tendency to quantify an event's chances and shun the usual briefer's hedges of "likely" and "unlikely.""


This is not a joke, it is a way to say that they truly believe that this is predictable to that level of accuracy. I remember when we sent men to the moon, I designed the optical guidance system so I had a "dog in the fight", that we looked at our errors quite carefully and we always looked at the downside risks and managed for them. My system worked in Apollo XIII. It does not give one comfort to see such a level of confidence in a field which has been built entirely on fee of sand!

We should remember some of the final words of Hayek in 1974:

*"It is often difficult enough for the expert, and certainly in many instances impossible for the layman, to distinguish between legitimate and illegitimate claims advanced in the name of science. The enormous publicity recently given by the media to a report pronouncing in the name of science on **The Limits to Growth**, and the silence of the same media about the devastating criticism this report has received from the competent experts⁶, must make one feel somewhat apprehensive about the use to which the prestige of science can be put. But it is by no means only in the field of economics that far-reaching claims are made on behalf of a more scientific direction of all human activities and the desirability of replacing spontaneous processes by "conscious human control". If I am not mistaken, psychology, psychiatry and some branches of*

sociology, not to speak about the so-called philosophy of history, are even more affected by what I have called the scientific prejudice, and by specious claims of what science can achieve."

The Limits to Growth written by the Club of Rome was in the period of the early 1970s a hubris beyond belief. This group had said they could model all of humanities future and from their models they started to tell society what they had determined was the best path. There is a fear here reflected in Hayek's words. This fear can today be applied to many areas, from the global warming hysteria of some, to the ability of some macroeconomists to give predictions within 1%!

Posted by Terry McGarty at [7:03 PM](#) [0 comments](#) 


LATEST NUMBERS

Latest Numbers		
Consumer Price Index	-0.7%	Dec 2008
Unemployment Rate	7.6%	Jan 2009
Payroll Employment	-598,000(p)	Jan 2009
Average Hourly Earnings	+\$0.05(p)	Jan 2009
Producer Price Index	-1.9%(p)	Dec 2008
Employment Cost Index	+0.5%	4th Qtr 2008
Productivity	+3.2%	4th Qtr 2008
U.S. Import Price Index	-4.2%	Dec 2008
Unemployment Initial (UI) Claims	626,000	January 31, 2009
UI Claims 4-Week Average	582,250	January 31, 2009
Federal Minimum Wage	\$6.55	Current

(p) preliminary; (c) corrected

These are the latest numbers showing the unemployment rate now at 7.6% We anticipate this to continue through September peaking at above 10%, most likely 10.5-10.8%. In addition the Stimulus, whatever it turns out to be, will most likely be a further drag on the economy by taking money from creative opportunities and putting them into Government programs.

After several discussions in DC on Friday it is becoming more obvious that the G20 meeting in April will potentially be another disaster. Clinton has failed to get an Undersecretary for that position and Treasury and Summers are focused on the Stimulus and banks and Obama has no international experience that the "testing of the new person" will be a disrupting event. There seems to be no plan from the White House or from State at this time and the other countries, Germany and France seem to be preparing to gang up. This will then enliven China, as the successor to the US in world position. Also the collapse of their extraction based economy in Russia and the oligarch's bleeding of the money from Russian banks may set Russia towards a very unbalance future. Thus despite all of our problems at home, the ripple effects worldwide will soon come to roost and it appears as if we have not the right energy at play in DC!


Posted by Terry McGarty at [7:25 AM](#) [0 comments](#) 

THURSDAY, FEBRUARY 5, 2009

DURBIN'S LOGIC

Senator Durbin spoke today on the Senate floor complaining about the Republican's intransigence in passing the Trillion dollar give away. He held up the 600 or so pages and said that the Republicans complaints amounted to but one page!

Well if one page out of 600 or more is all there is why not give them that one page Senator! Think of what you just said! Oh I forgot you were the Illinois Senator, now that makes sense! I guess all logic is left behind when entering inside the beltway.

Posted by Terry McGarty at [4:41 PM](#) [0 comments](#) 


LATEST FINANCIAL NUMBERS - DEFLATION HAS STARTED?

The following are the latest financial metrics from the [Department of Labor](#) statistics issued today. The CPI is down 0.7% in December but eh PPI is down 1.9% which is a predictor for CPI in Q1 2009. This is a sign for deflation which may have started in earnest. The Import Price Index is down a whopping 4.2% which drives the PPI.

Consumer Price Index	-0.7%	Dec 2008
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Unemployment claims for January are exceeding 582K. However productivity continues to rise. Payroll drops 524K.

The set of DoL numbers begins to paint the picture of deflation, which on top of the housing crisis will cause more twists in the overall financial mess.

Posted by Terry McGarty at [6:01 AM](#) [0 comments](#) 

WEDNESDAY, FEBRUARY 4, 2009

FOCUS FOCUS FOCUS

One of the first rules of management is to focus, focus, focus. In the current attempt to upright the economy it seems that the approach is to throw everything and the kitchen sink in all at once. However a simple proposal would be to propose and approve the following:

1. **The 2009 Employment Assistance Act:** This would increase unemployment, food stamps, Medicaid, SSI and all measures that would provide relief to those going through the current crisis. This is easily packaged and sold and then it should be the first passed.
2. **Housing Relief Act of 2009:** This is the act which would restructure the current collapsing housing market. It may have a fatal flaw. Namely there really may be a great number of plain frauds out there but let us assume it is manageable. The Act would create a Government Bank to issue 3% mortgages for 40 years and would issue mortgages at the then prevailing market value of the house. The Federal Government would pay the current issuer or holder the difference

between the purchase price and the amount under the new mortgage and in turn receive some form of equity in the holder to be determined. The homeowner would then also hold an additional note that they would have to pay back to the Government 50% of their capital gain upon sale of their home up to the amount that the Government covered the excess of the loan for.

3. **The National Infrastructure Act of 2009:** This is just that, an act to create new infrastructure and repair old. This is for bridges, roads, schools, but NOT broadband as currently structured. It would support broadband by providing a tax incentive of reducing taxes by an amount proportional to the new build in any broadly defined broadband. These Broadband Tax Benefits could be sold to a third party so that the builder could finance the builds.

4. **The Healthcare Improvement Act of 2009:** This would establish an IETF like entity, even part of NSF or the like, and provide funding for it, as was done with ARPA and the4 Internet, for the express purpose of developing a electronic medical records effort and infrastructure.

5. **The Energy Independence Act of 2009:** This would focus on the following: (i) the construction of an advanced and expansive power distribution network capable of feeding power from wind and solar sources into the existing network, (ii) the issuance of substantial tax benefits to builders of wind, solar and the like, such benefits which would be sellable and transferable for the purpose of financing the construction.

6. **The Tax Incentive Act of 2009:** This would be a tax incentive act to motivate spending and investment. It would dramatically reduce both capital gains tax and corporate income tax and it would provide for the reduction of personal income taxes to all making less than \$250,000 adjusted gross income. It would eliminate the AMT and also the estate taxes.

7. **The Educational Advancement Act of 2009:** This would extend Pell Grants but it would also establish a Commission which would seek to reduce the costs of Higher education.

8. **The Bank Recovery Act of 2009:** This is where we would place the "Bad Bank" structure but give what we would have accomplished above much of this may be reduced.

We have estimated the costs of this (see the Telmarc White Paper on the [Stimulus](#)), the impact on long term inflation and the impact on growth and employment. The results all dramatically exceed what was in HR 1. Furthermore it is sellable, a chunk at a time. It is a shame that no one is listening. It appears as if Pelosi wants to stuff everything in one big bundle, pity!

Posted by Terry McGarty at [5:21 AM](#) [0 comments](#)

TUESDAY, FEBRUARY 3, 2009

QUBE AND HOW HISTORY IS TOLD

There is an interesting video circulating about how newspapers were going on line in the early 19080s. [Newspaper Video](#) It gives the impression that all of this insight was driven by the newspapers. The giveaway in the video is reference to Columbus, OH. That was where QUBE, the creation of Warner Cable and its head Gus Hauser was started in 1978. I joined in 1980 and


one of my first tasks was to talk to the ANPA, the Newspaper Publishers Association I believe in Reston, VA. I told them how newsprint would eventually be driven from the market by electronic means. Well a bit early but spot on.

The commentary on this video by those who have no idea what they are talking about is amazing. I refer you to one [commenter](#) who apparently having no knowledge of the facts, in fact no interest in finding out, states that he wonders how they did this with no way of making money. I can assure you that this was hardly the case. The Boston Globe, The New York Times and on and on saw this as a threat but they were a bit like deer in the headlights.

Out of QUBE came both technology and content. The technology was two way cable with data and the content was MTV, Nickelodeon, Showtime and the like. Interactive video and video on demand. Gus Hauser led this effort on a small budget and then Warner was wonderfully positioned when the franchise wars started. It had an operational system and content.

In 1981 I developed the first two way video on demand system and we deployed it in 1982. This used the metaphor of a shopping mall to move around this electronic shopping mall. The naysayers at the time were some Board members like Lou Gerstner, subsequently CEO of IBM, perhaps out of lack of foresight or perhaps out of the fact that we were a bit too early. Yet during this period there were massive developments which embodied many if not all of what we see today.

The lesson from this little and ancient video is first find out what and why, history counts, especially when it can be readily accessed and second I am amazed as to how plebeian and crude some of the people are who put their "thoughts" up on the comment boards.

Posted by Terry McGarty at [9:50 AM](#) [0 comments](#) 

[BACK TO MCLUHAN](#)

Peter Drucker once wrote about his first meeting with Marshall McLuhan that McLuhan said:

"Did I hear you right," asked one of the professors in the audience, "that you think that printing influenced the courses that the university taught and the role of university all together." "No sir," said McLuhan, "it did not influence; printing determined both, indeed printing determined what henceforth was going to be considered knowledge."

In my MIT course in Multimedia Communications in 1989 I said:


"Thus this led to McLuhan's famous phrase that the medium is the message. Specifically, as we developed a new medium for human communications, we dramatically altered the nature of the information that was transferred and the way in which the human perceived what was "truth" and what was not."

As I start to use Google more and more, then one may ask if this, namely what I call Google world, is itself a new medium and thus becomes the defining vehicle for the new message. Is there a redefining of truth. Wikipedia is an example, since anyone can change anything and consensus with some unseen oracle thus defines truth.

I went on and said:

"The important observation that McLuhan makes is not often understood. He really means that the medium defines what is knowledge. A new medium, as a general construct, will define a new knowledge base. We all too often define knowledge so obtained with truth. In fact, truth is that relative reality that we find comfortable to our understanding, and all too often ascribe an absolute character to it. The essence of this paper will deal with these two issues; knowledge as defined in the McLuhanesque sense, and truth as a phenomenological expression of that knowledge. Multimedia communications will alter those definitions and will dramatically change the way we see, think, and ultimately act."

Seeing where the debate is today regarding the Budget and all that is in the political landscape, what I wrote twenty years ago is chilling.


Posted by Terry McGarty at [4:04 AM](#) [0 comments](#) 

MONDAY, FEBRUARY 2, 2009

[THE DEMOCRATS WAITING TO HELP THE AMERICAN HOMEOWNER](#)



Listening to Barney Frank talk about the Republicans I thought that this would help focus on his strategy. This is the good old Democrat waiting to help the beleaguered American homeowner!

Posted by Terry McGarty at [3:41 PM](#) [0 comments](#) 

THE BROADBAND FIASCO - MORE INSANITY

Congress in HR1 is proposing billions for Broadband as we have already detailed (See Telmarc Reports below). This is a \$2.8 billion NTIA grant which is in addition to a \$2.8 billion new authorization for Agriculture and an additional \$2.8 billion expansion of an existing Agriculture appropriation. This is a total of \$8.4 billion.

Telmarc was through one of its investments, Merton, one of the first companies to obtain RUS financing four years ago. Merton had to abandon the project because of the problems obtaining a Franchise from Hanover, NH one of the anchor towns. The problem was local government as well as State problems. The new HR1 bill states the following:

"(1) PRIORITIES REPORT SUBMISSION.—Not later than 75 days after the date of enactment of this section, each State intending to participate in the program under this section shall submit to the NTIA a report indicating the geographic areas of the State which— (A) for the purposes of determining the need for Wireless Deployment Grants under subsection (c), the State considers to have the greatest priority for— (i) wireless voice service in unserved areas; and (ii) advanced wireless broadband service in underserved areas; and (B) for the purposes of determining the need for Broadband Deployment Grants under subsection (d), the State considers to have the greatest priority for— (i) basic broadband service in unserved areas; and (ii) advanced broadband service in underserved areas."

This part mandates the States to perform the market plan! You must be out of your mind. There is no one in any State Government who could do this. Or perhaps this is an Illinois plan of finding the largest bidder to pay off some Government official. This makes no sense. Then the Bill goes on:

"(ii) give substantial weight to whether an application is from an eligible entity to deploy infrastructure in an area that is an area—

(I) identified by a State in a report submitted under subsection (b); or (II) in which the NTIA determines there will be a significant amount of public safety or emergency response use of the infrastructure; and (iii) consider whether an application from an eligible entity to deploy infrastructure in an area— (I) will, if approved, increase the affordability of, or subscribership to, service to the greatest population of underserved users in the area;

(II) will, if approved, enhance service for health care delivery, education, or children to the greatest population of underserved users in the area; (III) contains concrete plans for enhancing computer ownership or computer literacy in the area; (IV) is from a recipient of more than 20 percent matching grants from State, local, or private entities for service in the area and the extent of such commitment; and (V) will, if approved, result in unjust enrichment because the eligible entity has applied for, or intends to apply for, support for the non-recurring costs through another Federal program for service in the area."

This means that the providers must do so in a manner which satisfies all of these other requirements and not just being economically viable. This is a business, not a funding plan for local governments. We walked away from that. The costs are prohibitive and the delays are

unwieldy. This Bill now nationalizes this process. We believe that such a Bill will drive out true competition and creativity. We saw that with Hanover, NH. They wanted Universal Service. My reply was if they could deliver me one "poor" person in Hanover I would personally pay their monthly bills. We never saw one. In today's Wall Street Journal an writer, one Gordon Grovitz writes upon this package bemoaning that he thought that there would be \$100 billion and not well under \$10 billion. Specifically he states:

"But broadband, once thought to be in line for \$100 billion as part of the stimulus legislation, ended up a low priority, set to get well under \$10 billion in the package of over \$800 billion. This is a reminder that even with a new president whose platform focused on technology, and even with the fully open spigot of a stimulus bill, technology gets built by private capital and initiative and not by government."


Well Mr. Grovitz, as one who has the distinct disadvantage of experience, I always hate to bring up facts and experience especially to those in the Press, the \$100 billion is our money, the shareholders, and as I have already written, Verizon and others have the capital to do this and are doing it, and could you imagine the Government managing the whole \$100 billion. You must be out of your mind!

He then goes on to quote a Pew Study and says:

"In contrast, most other advanced countries have numerous providers, using many technologies, competing for consumers. A recent report by the Pew Research Center entitled "Stimulating Broadband: If Obama Builds It, Will They Log On?" concluded that for many people, the answer is no, often due to high monthly prices. By one estimate, the lowest monthly price per standard unit of millions of bits per second is nearly \$3 in the U.S., versus about 13 cents in Japan and 33 cents in France."

The very same Pew Study group said that there was de minimis incremental demand for broadband! I remember sitting in a meeting in Keene telling the city folk how we would deliver 1 Gbps. Then a hand went up and a gentleman a bit younger than me, in his fifties, asked the chilling question: "I just use it for a few emails, what am I going to do with all of this." The chill was not having an obvious answer that made sense. Not everyone is downloading You Tube videos all day. Some people work. As for USDA, we found them superb to work with but over worked, short on staff, and needing endless documents, but that was the deal. Then we also found that the Cable companies were slowing it all down by trying to disgorge all of our filings, before any decision was made, under FOIA requests.

Then we had to deal with that. The overhead here is monumental. USDA is fine, it works, it is slow, it is diligent, and it has been doing this for ages. NTIA is clueless at this point because it lacks the staff to do this effort. Thus it must staff up. That is costly, creates more Government and then just takes time. Imagine if all one did was to give tax benefits to say Verizon. Any new buildout would get a great tax break. That is being talked about but it should be in place of the above not in addition.

Posted by Terry McGarty at [9:46 AM](#) [0 comments](#) 

COLLEGE TUITION: DEMAND VERSUS SUPPLY

It is always interesting to see what is in the mind of certain members of Government Panels when they propose Policy. One person is Elizabeth Warren who recently chaired the *Congressional Panel* and published the report **Special Report on Regulatory Reform** in January 2009.

That Panel recommended:

1. Identify and regulate financial institutions that pose systemic risk.
2. Limit excessive leverage in American financial institutions.
3. Increase supervision of the shadow financial system.
4. Create a new system for federal and state regulation of mortgages and other consumer credit products.
5. Create executive pay structures that discourage excessive risk taking.
6. Reform the credit rating system.
7. Make establishing a global financial regulatory floor a U.S. diplomatic priority.
8. Plan for the next crisis.

The minority members were Congressman Jeb Hensarling and former Senator John E. Sununu. They prepared a minority report voicing free market views. Warren as a strong Democrat seemed to stress the role of Government in solving the problem with more regulation whereas Hensarling and Sununu voiced the other opinion. The question is, what is truth, if it exists at all.

One need look at Warren's suggestions regarding the problem of escalating College Tuitions. It is "Government Service". Namely you get your tuition forgiven if you spend time working at low wages in Government jobs. Specifically in her Harvard Law Review paper, **Service Pays: Creating Opportunities by Linking College with Public Service** by Elizabeth Warren et al the authors state in their conclusions:

"It is time for a new vision, time to focus on expanding opportunities for America's young people. Fully supporting college educations and promoting loan repayment through public service would reset national priorities. Even if only a modest number of young people moved to public service, value lies in the commitment itself. Making the commitment that any student who is willing to work can get a college diploma without incurring burdensome levels of debt would transform the idea of helping young people complete their educations from an empty promise into a real national priority."

The problem here as in her Regulatory Reform issue is that the true problem in education is not finding a way for Government to pay for the students tuition but to get Government out of education and reducing the costs. It is not professors salaries which have exploded but it is the added load of Deans for this and Deans for that. The Federally mandated overhead and protectionary tactics needed to avoid Federal law violations have added colossal costs to education. Thus we should not start a Federally subsidized indentured servitude program.


The problems with such a program are as follows:

1. It takes young creative people who would have normally created new businesses and value in the economy and places them in a Government job. It creates a dependence mentality which is totally counterproductive to the entrepreneurial spirit which has made this country. Has Warren ever created a job and met a payroll. doubtful.

2. It does not solve the problem, in fact it will exacerbate it. It will create a new and massive Government and academic bureaucracy to manage, monitor, and operate this program. The costs to society will be massive! Even France does not have such a program.

3. It almost violates the 13th Amendment! Young people may see no other choice but to sell themselves to the Government. That could easily destroy a generation.

The solution is simple. Reduce the costs by reducing the mandated overhead. Faculty salaries are not the issue. It is everything else!

Posted by Terry McGarty at [7:01 AM](#) [0 comments](#) 

[HAPPY GROUND HOG DAY](#)




As we look out across our ice frozen tundra at 25F, somewhat high for this season, and we see that the old ground hog, Al G. Hog will not be able to break his fat little head above the 8" of frost line, it appears as if we will be experiencing another eight weeks of winter! Our friends the mighty squirrels are happy for Al G. Hog wants to introduce a "corn tax" the ground hog version of the human "carbon tax" and he wants to apply it to all the squirrels.



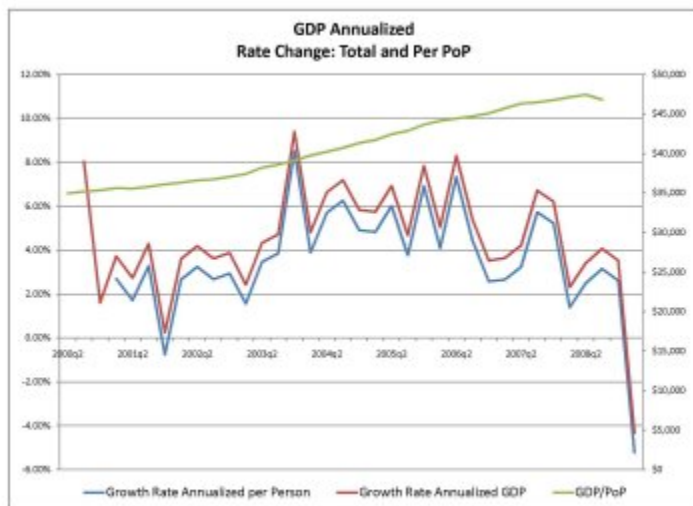
They are now enjoying their corn independent of Al G. Hog, whose chubby little carcass is warmly entrenched in his sunken hole till April.



Posted by Terry McGarty at [3:46 AM](#) [0 comments](#) 

SUNDAY, FEBRUARY 1, 2009

GDP PER POP AND TIME



The attached Figure is the GDP normalized by total population. There are several interesting facts. First it is almost never shown this way. Second, the GDP per PoP is still well above Q1 2006! Yes it is dropping but it is still well above three years ago. Hardly a Depression, yet. Third, the GDP per PoP change is much more than the GDP change in the Q4 2008 numbers. That may send a chill. It is -5.22 % down. annualized which is much more than the announced number for the total! Fourth, all of these numbers should be normalized for the total PoP in all cases.

Monday we will be doing a line by line analysis of the Stimulus Package, Just a quick heads-up. The School Lunch Program has been increased an additional \$20 Billion. That is about \$6 Billion per year over the period. There are 3 million unemployed extra. This means a \$2,000 per unemployed person for school Lunch! Assume 2 children per unemployed, that is \$1,000 per child and assume we have 200 days per school year, that is \$5 per day for lunch at school. Must be a lot more than Peanut Butter sandwich and container of milk, Oh I forgot it is the Union Help and then their Pensions, not yet factored in, to pay for this. The Tail costs that are NOT included will raise their heads in the next ten years, that way we will all go bankrupt at once!

Posted by Terry McGarty at [1:56 PM](#) [0 comments](#)


SUNDAY, FEBRUARY 1, 2009

AWAITING GROUND HOG DAY!



The guys are all out here awaiting to see what the ground hog does. Our local ground hog, Al G. Hog had been superb at predicting global warming all these years and the flock of squirrels are awaiting his prognostication again this year. The only issue is the snow and ice had frozen over

his hole! But that may be a good thing alas, since Al G. Hog has been threatening a Carbon tax on seeds of all kinds. Stay tuned until the morrow!


Posted by Terry McGarty at [6:47 AM](#) [1 comments](#) 

SATURDAY, JANUARY 31, 2009

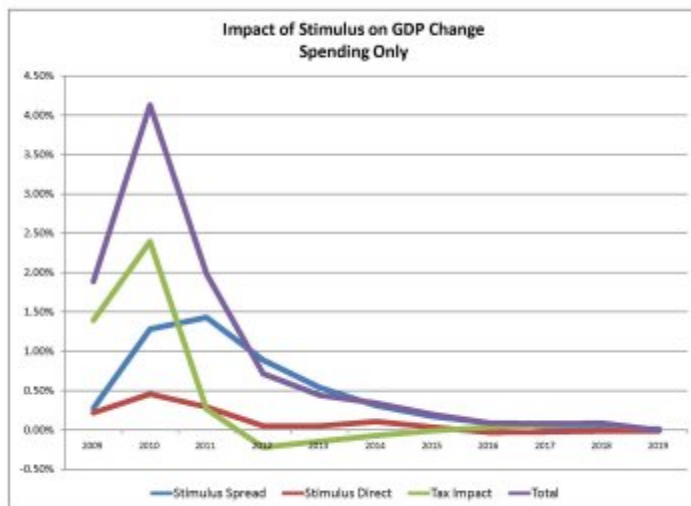
THE BAD BANK PROPOSAL

We have been hearing about this for a while. We had suggested this a few months ago along with several other elements. Specifically:

1. A New Bank of the US: AKA The Bad Bank, which would buy up certain assets for cash and then resell them at some future time.
2. Insurance: The Bank of the US or whatever would provide an insurance policy like the swaps and would then allow stability on the less than bad stuff.
3. The US would take secured equity positions for a time certain in any entity it invested in to hedge the risks on the downside. There would be a call provision to call back the equity into cash at some time certain or the bank would default and the Government would "sell" the asset.
4. All employees of the banks so obtaining US funds would have salaries capped. The fear of losing them is countered to where would they go! Frankly the better ones had gone to Hedge funds years ago and the ones left on Wall Street were the arrogant dummies. Noting worse than that combination, just look at Washington.
5. Apply the tax policy we suggested; zero corporate for all non-financials and zero capital gains for the same. This would drag investment to the US with great speed.
6. Abandon the massive redistribution of dwindling tax revenues! Now.


Posted by Terry McGarty at [6:46 PM](#) [0 comments](#) 

SO WHAT IS THE IMPACT ON GDP



A simple analysis of the proposed stimulus can reveal what its impact could be on the economy. We plot the percent change in GDP as a function of year for the three components. They are Discretionary, Direct and Revenue. This means new stuff, stuff there but more and tax relief. To do this correctly we must add two factors. First nothing happens instantly. Discretionary takes time to get out there, we assume three years with a burst, a peak and a drag. Then we use GDP multiplier of 1.1 to 1.3 for Discretionary and 1.2-1.4 for tax. This shows that the GDP from Q4 2008 may pop up 2% in 2009 and at best 4% in 2010 and then down to 2% and then flop. It is assumed that we have no more great endogenous drops in GDP, other than say 4% in 2009 so that the up 4% and down 4% means we stay even. However, if the money does not get out there and if the multiplier does not work, and if the economy keeps falling then this will make no difference other than getting further in debt.

We will continue watching this. I cannot see why others seem not to look at this impact. For us engineers this is a simple RC circuit follower by a gain adjusted amplifier. However there is some feedback in there which may go unstable yet!

Posted by Terry McGarty at [10:58 AM](#) [0 comments](#) 

FRIDAY, JANUARY 30, 2009


[A THOUGHT FROM MILTON FRIEDMAN](#)

Friedman wrote "**Capitalism and Freedom**" originally published in 1962. He opens the Introduction with the following:

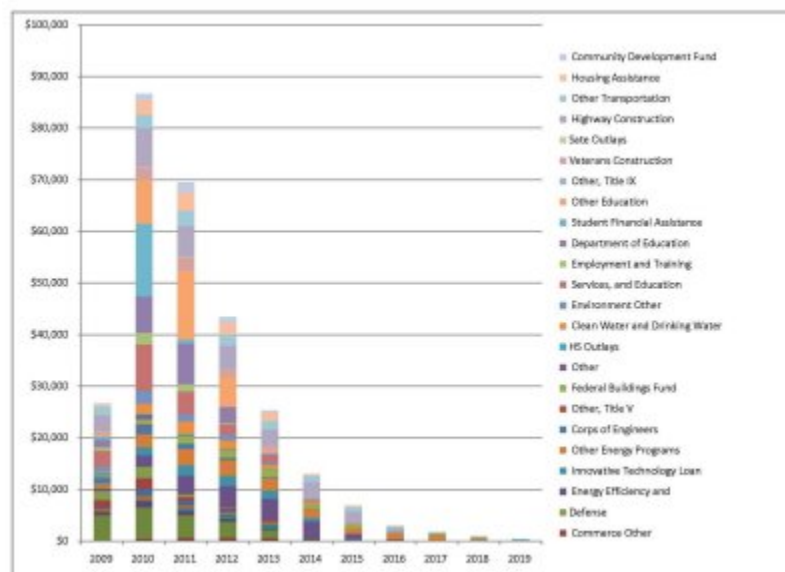
"In a much quoted passage in his inaugural address, President Kennedy said "Ask not what your country can do for you-ask what you can do for your country" It is a striking temper of our times that the controversy about this passage centered on its origin and not its content....The paternalistic "what your country can do for you" implies that government is the patron....The organismic "what your can do for your country" implies that government is the master or the deity, the citizen, the servant or the votary..."

He goes on. But in today's voices over the Stimulus package all one hears is "what am I going to get out of it" from the voters and from Congress "what can we pack in to get more votes" A twist and turn on the old words but telling, things have just gotten worse!


The more one looks at this Stimulus package the more concerned one becomes. The expenditure of a dollar of government spending allegedly creates a slightly higher increase in GDP, however there is a delay from the time spent and a decay after it is spent, thus it is delayed gratification with a transitory response. But the current package is a massive one in that it displaced from today the hard decisions which will make the morrow worse.

Posted by Terry McGarty at [6:18 PM](#) [0 comments](#) 

THE BUDGET EXPLOSION



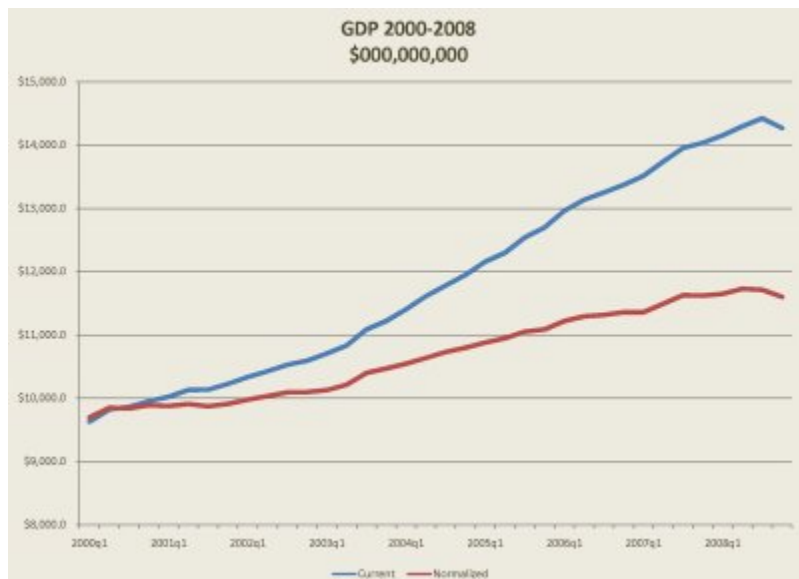
The chart shown here is a summary of the HR1 Budget for added spending to the amount of almost \$900 billion. Several interesting observations. This does NOT include the \$80 Billion going to the States! Those payments almost dwarf everything else. Instead of the States curtailing expenses this Budget which is atop of the already bloated budget sends almost half a Trillion to the States. Yet one may ask which States? California Yes, Texas NO! Fair, unlikely! Also there is \$250 Billion in Other which is mostly PORK and \$210 billion in Tax impact most of which is income redistribution. Anyone who is interested in this MUST read through the CBO HR1 Report issued 25 January 2009. This will establish a tremendous potential for financial collapse of this country! Also just look at the timing. There is only \$30 billion for infrastructure spread out over 10 years! As they say, you just can't make this up!

Posted by Terry McGarty at [3:19 PM](#) [0 comments](#) 

GDP, M2, AND INFLATION

The Commerce Department came out with the Q4 GDP today and it is worth a look. The first chart is the GDP for the past few years, unadjusted and adjusted. The downturn is now quite evident. The question is could this have been anticipated.

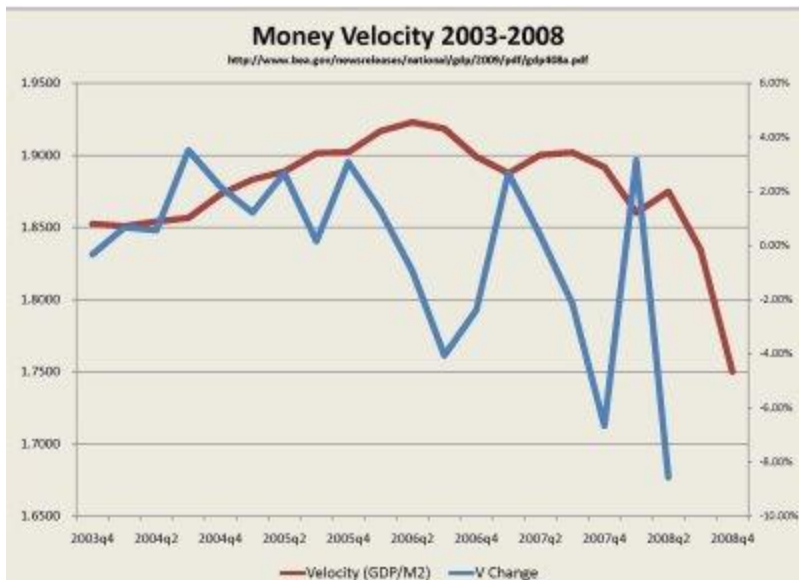
Following this is the M2 numbers from the FED.



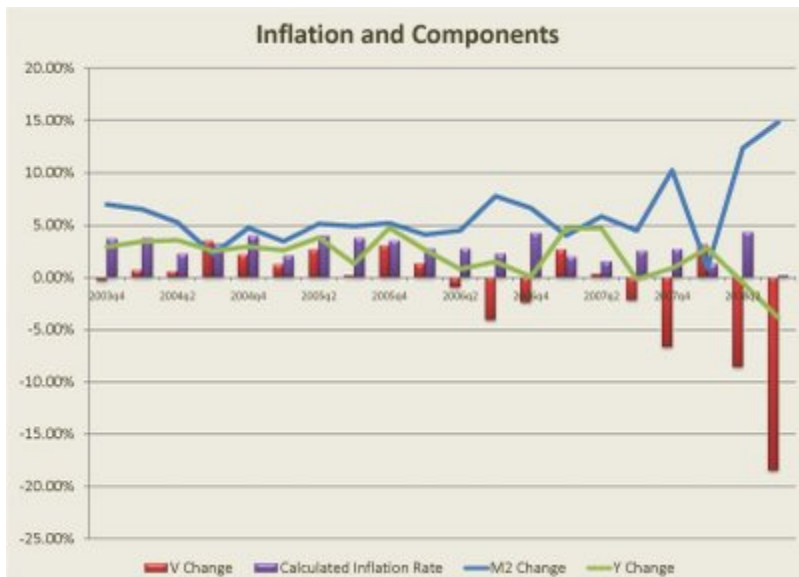
Note that the M@ numbers have continued to escalate as the FED has pumped more money into the economy. But that is still just part of the story.



Now look at the velocity, $GDP/M2$. It is falling off the cliff. No one is spending anything, the velocity is dropping quickly, and that is good since we are pumping the money in but the money is not turning around causing inflation. However it is like blowing air into a balloon, sooner or later it will burst.



Now look at the impute inflation. We are concerned as to what this is what it will look like if we suddenly break this ice jam. We may be looking at a 30% plus inflation rate and we have not even touched the Democrats spending spree. More on that latter. It really is worth looking at the CBO HR1 analysis of the proposal. Even better look at the details as to where all of this is going. The Democrat House is going absolutely wild. This will make for a few thousand PhD theses in economics, if they don't go out and hunt everyone of them down first!



The current inflation rate has been in the 3-4% range. We see it dropping because of the fall in GDP numbers but this may explode again. We have analyzed the [HR1 Package](#) in our recent White Paper.

Posted by Terry McGarty at [9:22 AM](#) [0 comments](#)

THURSDAY, JANUARY 29, 2009

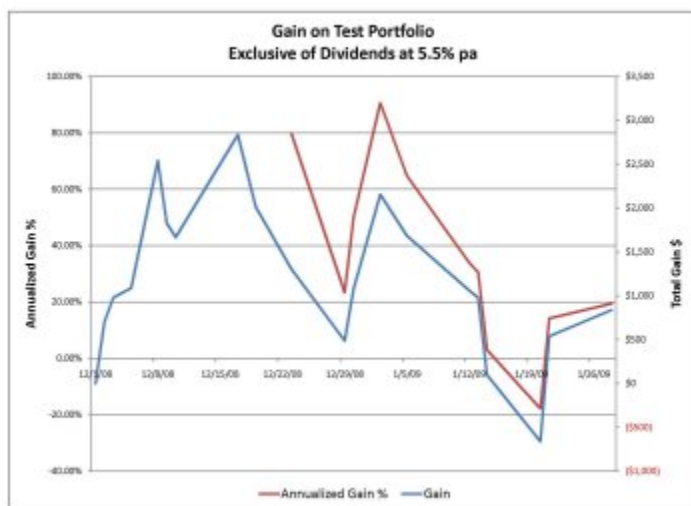
BROADBAND BROADBAND BROADBAND

It appears as if the folks in Washington want to use broadband as one of the major elements in recovery. The PEW Research has just issued the results of a study saying that a third of the folks are just not interested in getting on line! This is not measles vaccine! There is no public health hazard here if someone does not have broadband. We did thirty six market studies a few years back in New England, they are on our www.telmarc.com web site and they showed the same results! It is good to see PEW is spending its money wisely. The old adage, if all else fails listen to the customer, plays again. This will be a multi billion dollar give away! For people who do not want it! The other old adage, follow the money must also apply. Who is getting what for what?

The second part of this is the issue of fiber. If one gets money for fiber then one must have a franchise. The greatest delay in Verizon deployment is the franchise, just look at Philadelphia! Read Comcast. So who thinks anything will change here. Local governments are the largest stumbling blocks, Property taxes, fifth rate schools and franchise boards! Welcome to America! Posted by Terry McGarty at [2:18 PM](#) [0 comments](#)

WEDNESDAY, JANUARY 28, 2009

AN INTERESTING PORTFOLIO




On December 1, 2008 I assembled a portfolio based upon a dividend yield and a mix of potentially independent stocks. I included the following:

Company	Share Price
Verizon	\$31.61
DOW	\$18.13
IBM	\$77.60
J&J	\$55.73
Kraft	\$25.60


DuPont \$22.53
Alcoa \$9.46

Then I have been watching it as the market has bumped along. Dow has taken hist but IBM did well. I am a strong believer in Verizon but it is going nowhere. The Dividend from this pool based on December 1 2008 prices is 5.6%. So as long as it does not go down much I am doing well. So far it is a good package. Will keep you all updated.

Posted by Terry McGarty at [4:15 PM](#) [0 comments](#) 


[HEALTHCARE POLICY REDUX](#)

We have just published a policy paper on Healthcare and have examined the Obama Plan, a proposed plan and the old Hillary Health Care Plan. We have posted this on the Telmarc Web Site in the White Papers area. It is [Healthcare Policy Redux](#).

Posted by Terry McGarty at [2:45 PM](#) [0 comments](#) 

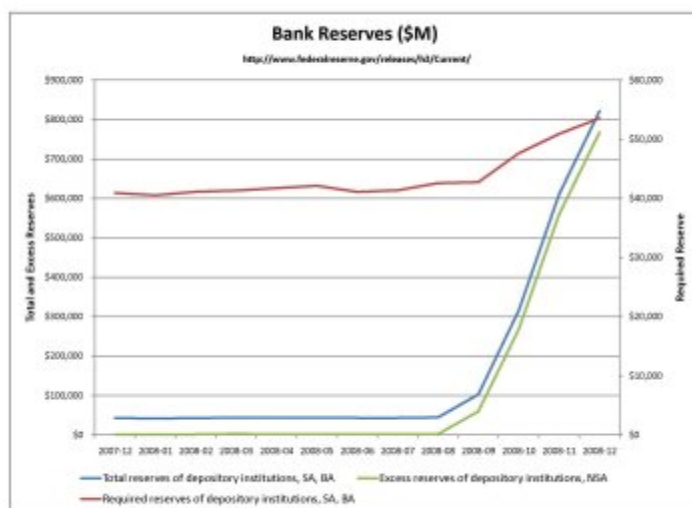
[HARRY BAILEY SQUIRREL AND HIS FRIEND GEOFFREY CHAUCER](#)

We have just posted one of our most recent squirrel tales. This is of Harry Bailey who from Oxford befriends Geoffrey Chaucer and it describes how the two create Canterbury Tales. One may read into these whatever one wishes! See [Harry Bailey Squirrel and His Friend Geoffrey Chaucer](#).

Posted by Terry McGarty at [8:20 AM](#) [0 comments](#) 


MONDAY, JANUARY 26, 2009

["THE EXPLOSION OF BANK RESERVES" WHAT DOES IT REALLY MEAN?](#)



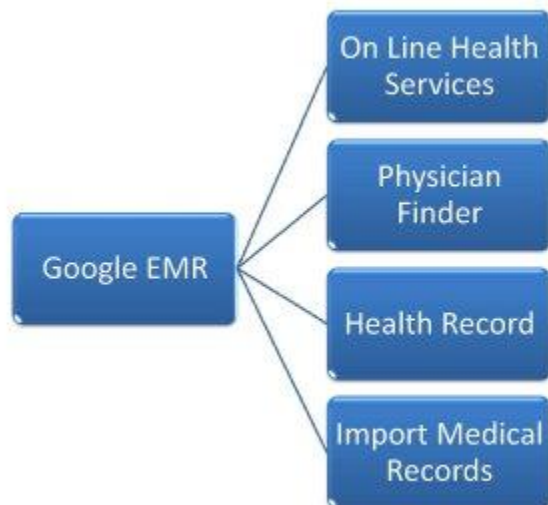
The following graph is from the Feds recent data on bank reserves, total, excess and required. The total, dominated by the excess reserves, has exploded in the past few months. This somewhat details how the banks are holding and not loaning out funds.

I have also been looking at the preachers of total doom such as Roubini who has somewhat accurately detailed the problems with mortgage debt and how large it could become. We agree and discussed that last year. He also has come upon the commercial real estate market issue again which we discussed last year. The problem missing is the collapse of the high yields debt markets. We still wonder what is keeping some companies alive like Sirius which has billions of short term high yield and massive losses. There must be loan covenants which if not breached are at the edge and there are paybacks due shortly. We see over 100 companies with 2-3 billion of high yield debt each on the precipice. This is another explosion behind the commercial real estate. Our concern is that the Roubini's of the world lay out one spoon of doom at a time with not placing it in total perspective and worse suggesting no solutions.

Posted by Terry McGarty at [5:46 PM](#) [0 comments](#) 

SUNDAY, JANUARY 25, 2009

[GOOGLE AND THE EMR](#)



The EMR, or Electronic Medical Record, is a major thrust in the new Obama Budget. It comes as no surprise then that Google, its executives being major Obama supporters, have positioned Google Health as a major player in this new Market.

The first Figure depicts the current structure of Google Health. It has the patients Health Record, allows for Importing medical data, connects to online health information and then allows for finding physicians.

I have tried out the Health Record and frankly any first year Medical Student would probably fail their course on history taking with what is available any any physician worth their salt would most likely go elsewhere. But this is a start. It is cumbersome with all the manual entries. This it is even more complicated for the physician.

The Record contains the demographic data, conditions and history, procedures performed, test results, immunizations. It does not permit ready comparison of HbA1C for example to monitor Type 2 Diabetes or ESR or CA 125 or a wide variety of tests which a physician wants to see change readily. It also lacks any multimedia ability to incorporate CAT, MRI, pathology slides, and ultrasounds.



The import of medical records is attractive since it allows the patient to import lab tests say from Quest or records from your hospital or from other sources. It is a patient oriented system and functions well for a cumbersome initial attempt.

The medical records can be imported, copies, shared, converted and thus have a potential for wide accessibility. The problem again is that they are so rudimentary that they are virtually useless in any real medical environment. They also lack any Evidence Based Medicine inputs which we believe will be critical. They also seem at this stage to lack pharmaceutical interaction


and of course there is no pricing or costs information, thus billing and awareness of costs is totally lacking.

The final chart below shows the details of the medical record we have discussed above.

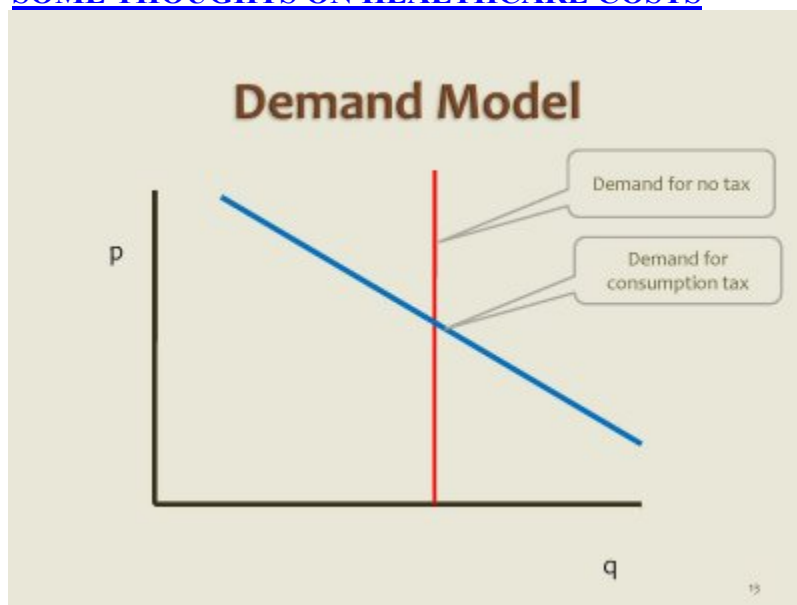
Finally, one wonders if this is a Trojan Horse for the EMR push that is in the new Budget. Clearly Google has the technology and political connections. It seems to lack the "business side" of the equation however. It lacks what Vint Cerf and Bob Kahn assembled in the days of the Internet's beginning, an IETF type organization, an entity of involved practitioners. That, in our opinion, is an essential and critical element in getting this effort moving and accepted. It must



have that ground up effort.

Posted by Terry McGarty at [5:35 PM](#) [0 comments](#) 

SOME THOUGHTS ON HEALTHCARE COSTS

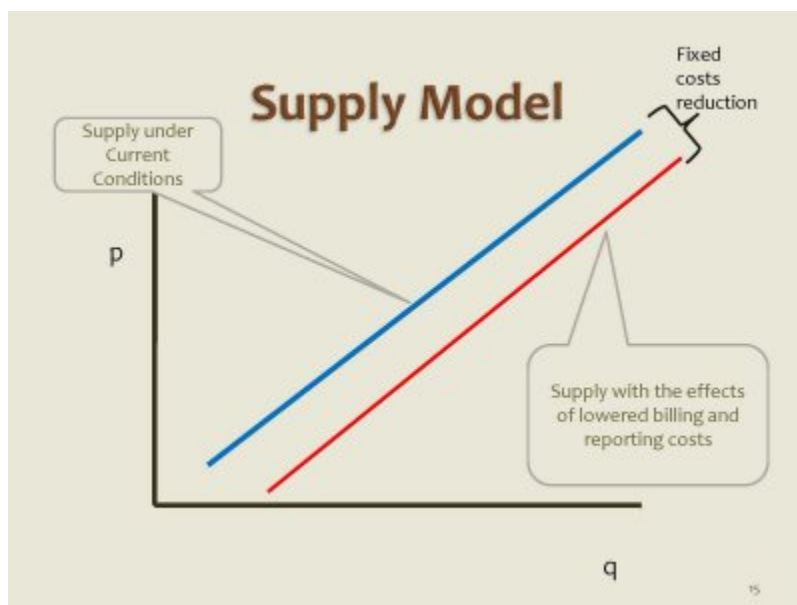


We have been doing a great deal of work on Healthcare, again, since 1993 and the old Hillary Health care program. This note is a simple way to look at what can be done in a set of basic economic concepts. It takes five slides.

Let us start with demand. We show it here. Note that in today's current market the demand is fixed and there is no elasticity with a price. You just go in and get it fixed, rich or poor, and then someone pays the bill. If you are unlucky enough to not have insurance and not be really really poor, you get a bill, a large and distorted bill.

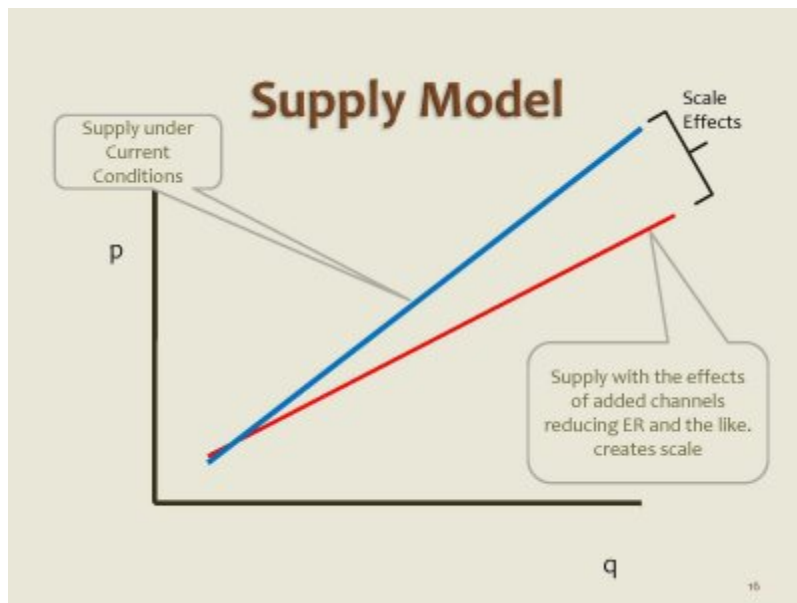
Now if we use the proposed "carb tax" or the "butt tax" we discussed before we can place some elasticity in the demand as we show in the curve.

Now let us look at supply, a costly process.



Here we show the current supply curve and then we show one which is dropped below it because we have managed to implement a program to reduce billing and record keeping costs. The cost per patient for the same units delivered is now reduced thus shifting down the supply curve, and reducing costs.

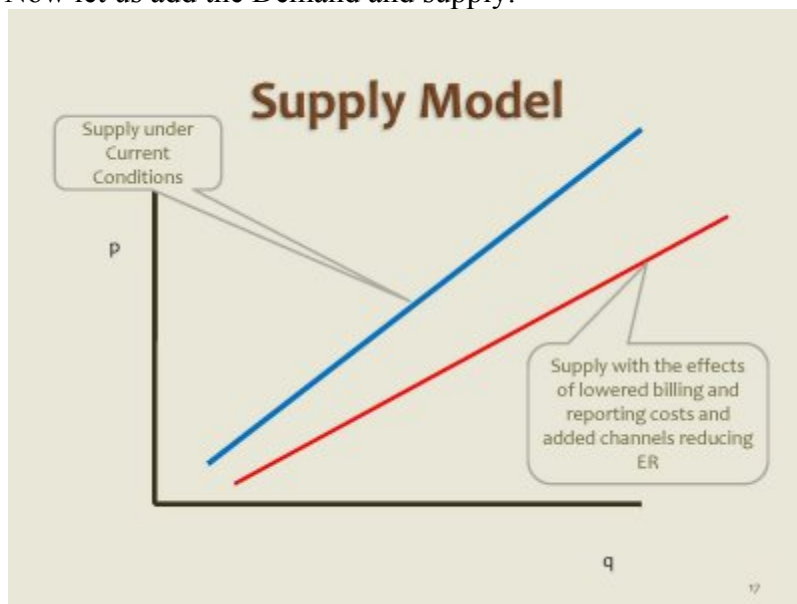
Now let us look at another option. This is in the third graph.

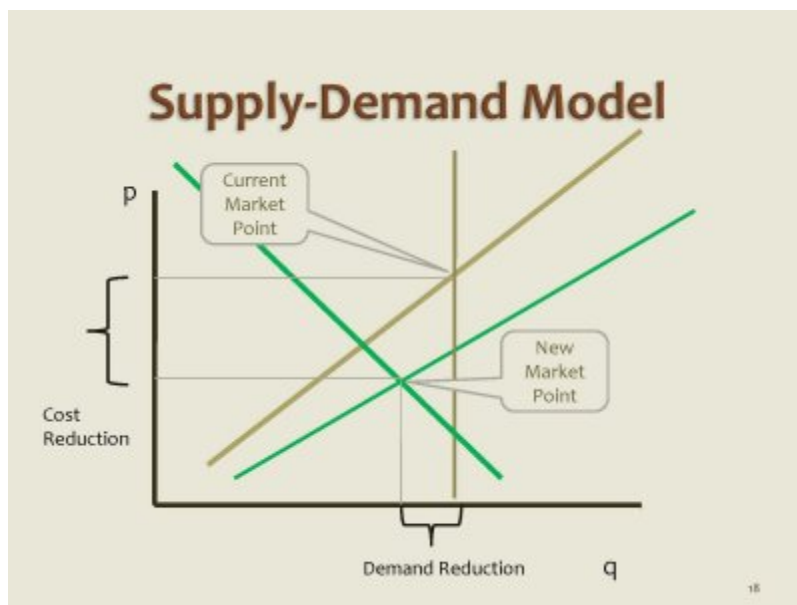


Here we have a change in supply by incorporating a scale economy effect such as one which can be effected by replacing the ER room with a Public Health system for those on the lower end of the economic scale. Yes this means different levels of care for those who pay, but we have that today. There are physicians on Park Avenue who accept no insurance and demand cash up front. And if you want to see them now you pay and added fee. It exists and it works.


Now we can combine these two to see what the total new Supply curve looks like, moved down and with a lower slope.

Now let us add the Demand and supply.





This gives the last chart. Not we have a new market point of dramatically lower costs and a somewhat smaller set of services. This is an example of how to think about solving the Healthcare dilemma. No, I did not even mention who pays and what the role of the Government should be. Perhaps our economics wizards in the White House could think a bit more along these lines, not just spending more, but targeting improvements for all!

Posted by Terry McGarty at [11:02 AM](#) [0 comments](#) 

THURSDAY, JANUARY 22, 2009

[ANOTHER MODEST PROPOSAL](#)

Healthcare is another area of economic concern. Here again we have our supply siders and our demand siders. I am a demand control sider, kind of.

Here is the proposal: If we cannot change human behavior, say cease smoking, then we tax it so that it pays for its negative effects, a kind of reverse Coase approach. Perhaps a Pigou type approach. Well let's explain:

Take the following disease and their remedies:

Eating and Type 2 Diabetes: Now we have 20% of adults with T2 Diabetes which leads to heart disease, kidney failure, blindness and a few others. This is a result of one thing, carbohydrates! Carbs lead to fat people and fat people have T2 Diabetes. Medications just exacerbate the problem by having their own effects plus giving the fatty a false sense that the disease is under control. T2 costs almost 5% of our healthcare costs, \$100 Billion (see CDC, www.cdc.gov). Thus we should institute a carb tax. This was actually proposed by Governor Patterson in New York, a brilliant idea. We permit up to 150 grams of carbs a day and then we tax anything above it. Let us assume that the typical T2 patient eats 700-1,000 g of carbs a day, that is half a dozen cans of soda and a box of cookies. We know that the typical T2 patient costs us \$10,000 per year.

They consume 350,000 more carbs per year than most other healthy people, so we establish a "carb tax". Then we charge that "carb tax" to cover the costs, of about \$0.02 per carb! It would make a Snickers a bit expensive but it would put a payment system in place to recover costs of a self inflicted disease, kind of like a "carbon tax" for the believers of Global Warming. Thus there are 20 million people with T2 Diabetes and if we use the carb tax of the type above we add \$10,000 on their diet and this generates almost \$200 billion!

Smoking: We know the incidence of lung cancer and other effects of cigarette smoking. Going through the same calculation we have from the same CDC sources that smoking has a direct health care cost of \$75 billion per year. We have about 400,000 people a year die of smoking related causes. We have approximately 75 million smokers. The cost per person smoking is about \$1,000 per person per year. To recover the direct costs, with a 1 pack a day habit, we need about \$3 per pack tax. To add for indirect costs we arrive at the conclusion that a \$4 per pack tax would suffice. This would generate \$110 billion.

Thus just from the "carb tax" and the "butt tax" we could start to cover our major healthcare costs! The two yield over \$300 Billion which is almost 15% of the Healthcare Budget! So what is the problem? Oh, by the way, I can extend this list for at least a few more pages on similar diseases, and ultimately eliminate the National Debt as well.

Posted by Terry McGarty at [4:14 AM](#) [0 comments](#)

THURSDAY, JANUARY 22, 2009

A MODEST PROPOSAL

After slogging through the various versions of the current economic stimulus proposals I have come to a slightly different one; I call it my Modest Proposal. Since I am not seeking election, and since most likely if I ever ran I would not be elected anyhow, I can feel free not to seek to buy votes as those in our Congress seem to do with their current proposal. Let me begin:

1. Tax Reform: Simply the first step would be a Tax Reform, not spending, and a long term reform. We all know from the now famous Romer and Romer paper that long term tax reform has the largest multiplier on GDP so let's go for it.

i. Eliminate all Corporate Income Tax for all entities except Financial companies whose Tax should be increased to a minimum of 70%.

ii. Eliminate all Capital Gains Taxes except for Financial companies whose tax should be 90%.


iii. Eliminate all Estate Taxes

The result would be a swarming of companies to do business in the US from everywhere, we would become the corporate tax haven of the world.

2. Re-institute the Bank of the United States

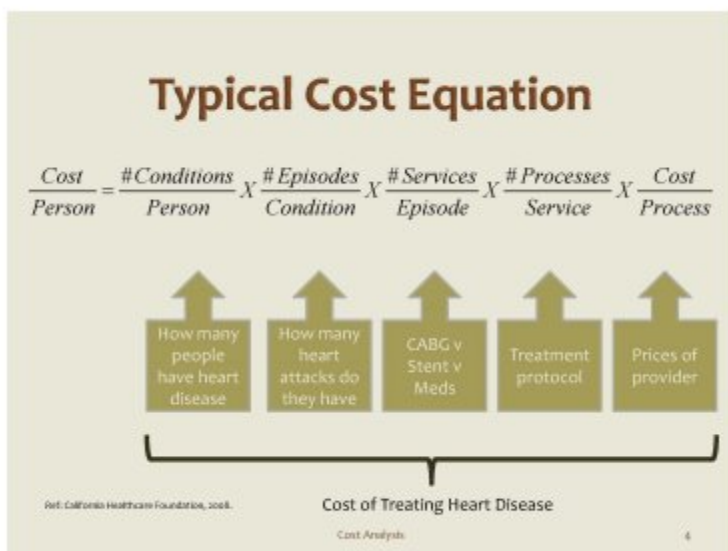
This would be a new Bank of the US which would take all of the bad assets that are on the books of the banks and replace them with cash, and then the new bank would work out the problems with the mortgages. Obtain equity from the Banks in return and in addition use the equity to wipe out current shareholders! Control salaries to be pari passu with Federal salaries. After all they would become public utilities.

Just a thought!

Posted by Terry McGarty at [4:05 AM](#) [0 comments](#) 

WEDNESDAY, JANUARY 21, 2009

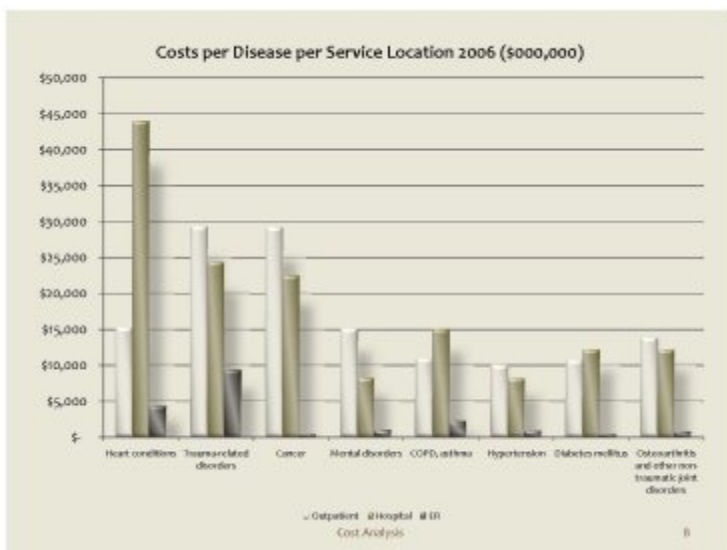
SOME THOUGHTS ON HEALTHCARE



Some thoughts. The wizards in Washington are focusing on how to pay for an ever growing health-care budget. Another way to look at it is to ask what does it cost and why and what can be done to do it better. That is regrettably a business approach. I have been looking at the proposals from the White House, still somewhat vague but clearly lacking the strident approach of the old Hillary Health Care Plan, which would have left her solely in charge of every health decision any human would make, a rather terrifying thought, especially if one were a male!

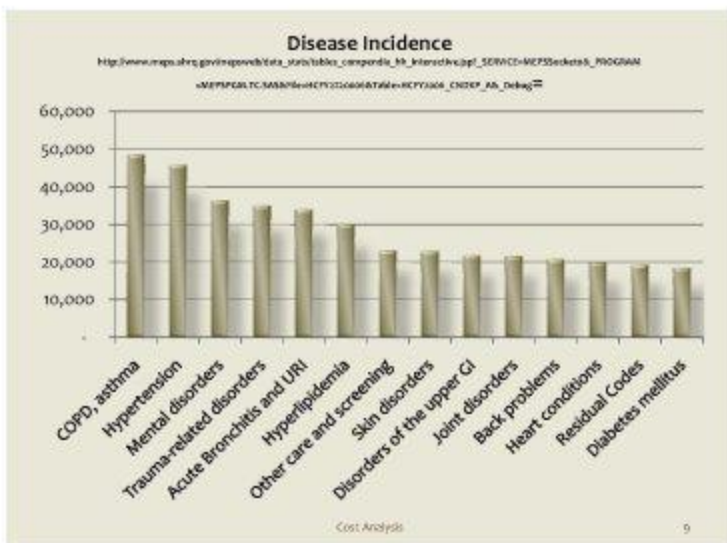
Thus to best understand the health care problem one must first understand the costs and processes. The chart shows a model presented by the California Healthcare Foundation and is an excellent paradigm for understanding the issue. It starts with the problem, namely people and diseases and the incidence of a disease, the new occurrence of it. Then it goes to the prevalence section, namely how many ongoing event, then to the services and processes, namely what is done to treat the incidents, and finally, if you will, the unit costs. The problem starts at the beginning. One should note that 75% of the disease states are chronic and half of the disease states are due to "lifestyle" issues, namely type 2 Diabetes, heart disease, cirrhosis, lung cancer and the like. Get people to be responsible and you potentially cut these issues in half! That saves 1.2Trillion a year and growing.


The following two charts indicate the costs and incidence of the major diseases and disease states. Note that Trauma and Mental Disorders are significant factors. Heart and cancer are major problems but as we have said much of the heart problems are avoidable with the elimination of smoking, better diets and exercise. The same could be said for several major cancers. In addition prostate, breast and colon cancers, the big three, can be detected early and effectively managed.



The biggest expense is Type 2 Diabetes which can be eliminated by diet and exercise in over 90% of the cases. The problem is that it is treated medically using drugs which in many cases just exacerbates the problem.

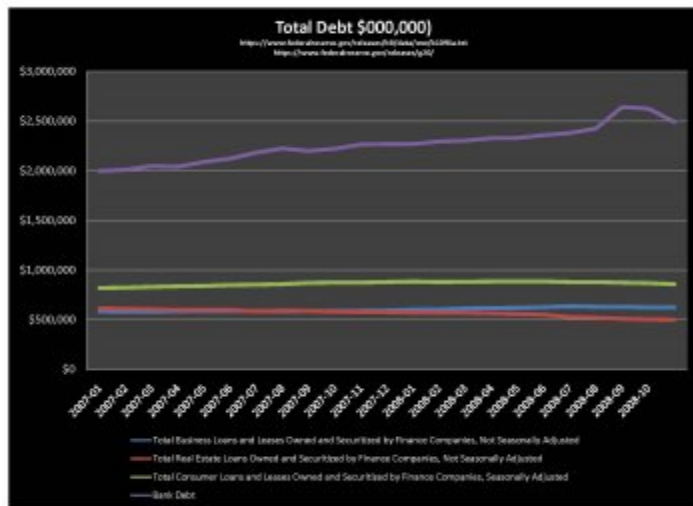
We will be preparing a White Paper on this shortly.




Posted by Terry McGarty at [3:04 PM](#) [0 comments](#) 

SUNDAY, JANUARY 18, 2009

[DEBT AND MORE DEBT](#)

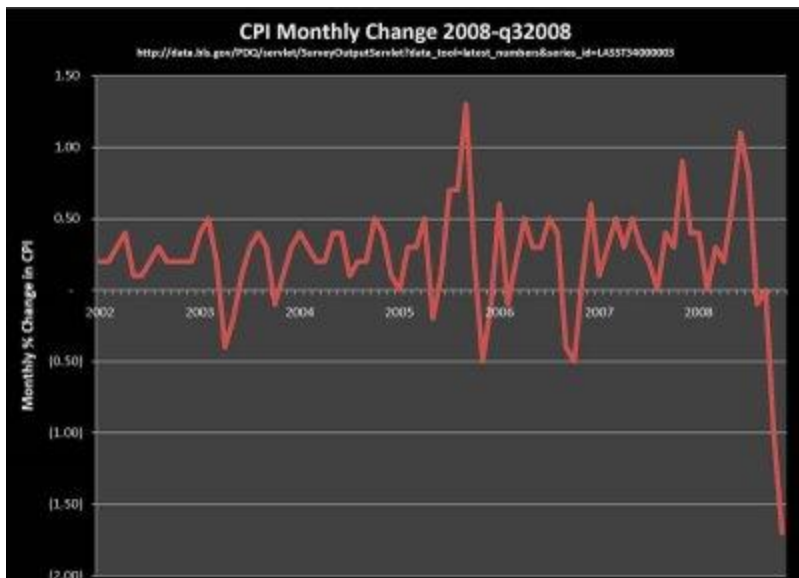


The chart is an interesting example of how Bank Debt has been growing in excess of other forms of Debt. It shows also the potential for the dramatic leverage which has been occurring. We have published a new monthly report on this area as well as a detailed analysis of how to take a new look at the field of macroeconomics. The concern is that the new team arriving on Tuesday may not be any better than the old team, except it will include more Harvard types, remember the Bay of Pigs folks!

Posted by Terry McGarty at [7:07 AM](#) [0 comments](#) 

THURSDAY, JANUARY 15, 2009

[THE CPI DATA](#)



The CPI was published and it begins to tell a worrisome story. It is shown here, Posted by Terry McGarty at [4:00 PM](#) [0 comments](#)

RECENT STATISTICS

Here are some recent DoL Statistics

CPI	-1.7%	Nov 2008
Unemployment	7.2%	Dec 2008
Payroll Employment	-524,000(p)	Dec 2008
Average Hour Wages	+\$0.05(p)	Dec 2008
PPI	-1.9%(p)	Dec 2008
Employment Cost Index	+0.7%	3rd Qtr 2008
Productivity	+1.3%	3rd Qtr 2008
US Import PI	-4.2%	Dec 2008
Unemployment Claims	524,000	January 10, 2009
Unemployment 4-week Avg	518,500	January 10, 2009

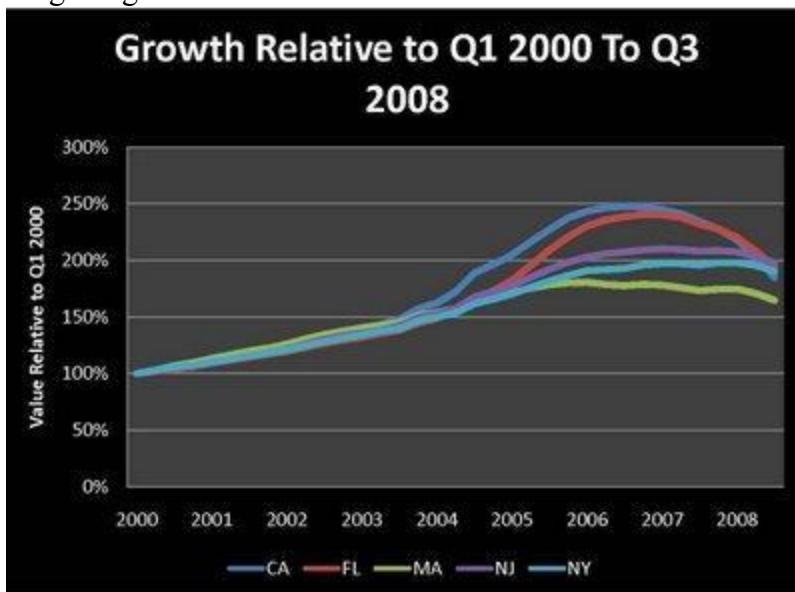
Posted by Terry McGarty at [3:55 PM](#) [0 comments](#)

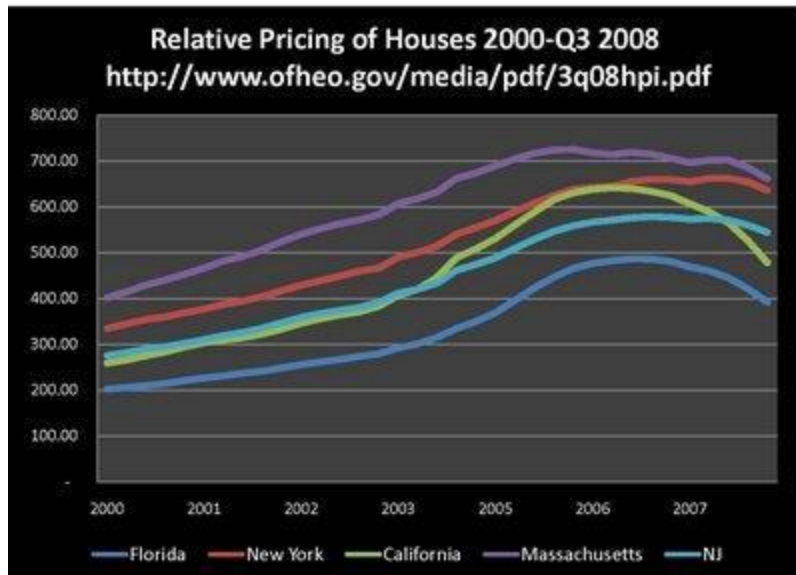
SOME LATEST VIEWS FROM THE NEST



The first is the latest plot of the quarterly change in house prices in the states we have been tracking. It is continuing to decline as shown is the figure to the left. The decline is also appearing to accelerate.

However NY, NJ, MA are declining less than 3% per quarter whereas the CA and FL changes are getting much worse.





The graph shows the relative growth since 2000. Note that CA and FL had the greatest growth and thus the greatest decline. This all seems so relative since they are all well above 2000 baseline.

This shows the metric from 2000 using a common 100 for 1993 for all.

Posted by Terry McGarty at [8:33 AM](#) [0 comments](#)

TUESDAY, JANUARY 13, 2009

YIKES AGAIN: JUST LOOK AT THE CHANGE TO THE FEDS BALANCE SHEET

FR balance sheets; 7/26/2007; 1/2/2009

Assets (\$ Billions)		Liabilities (\$ billions)			
Securities	791	496	Bank Reserves	13	860
Treasuries	791	476	FR Currency	776	853
Federal Agency	0	20	Treasury Balances	5	365
Repos	19	80	Other Liabilities	38	145
Swaps, other assets	59	637	Capital	33	42
Loans	.2	644			
TAF		450			
Discount window		94			
PDCF		37			
AMLF		24			
Other Credit (AIG)		39			
ML (Bear Stearns)		27			
ML II & III (AIG)		47			
CPFF		334			
Total	869	2265	Total	869	2265

The San Francisco Fed published a short discussion relating to actions that the Fed may take going forward. Bernake today warned that the Fiscal actions of the Obama Plan may not be enough. Now look at the Fed Balance Sheet above. We have increased the Balance Sheet of the Fed by \$1.2 Trillion just since last summer. This is in addition to the TARP of \$350 billion, the

next \$350 billion and the Obama plan for Tax and Government spending of \$775 billion. We are rapidly approaching \$3 Trillion! Soon this will be real money. The good news is that allegedly the TARP and Fed numbers could be collected back at some time. The Obama numbers are just out the window,

Posted by Terry McGarty at [11:22 AM](#) [0 comments](#)

TUESDAY, JANUARY 13, 2009

CONNECT THE DOTS: THE NEW BOARD GAME



I have been looking at the economy issues from a macroeconomics perspective and I often have difficulty with the assumptions. They all suffer from what I call the "If elephants had wings..." phenomenon. That is they all make assumptions based on models which are solvable but not reliable or on data that is looking backward and fails to provide a true basis for why it is what it is. Thus I threw down some elements and suggest a Board Game, call it The Economy. Now here is the game:

Here, above, is the Board you get to play with. This is a dynamic and random process and here are a few of the things you get to do:

1. Connect the blocks so that GDP is the output
2. Introduce the time sequencing and relationships into the sets of blocks so that this becomes a dynamic economy say from Quarter to Quarter
3. Add what is missing, whatever you think it is and then connect and time sequence the new things you added.

4. Add the random effects. These can be nice Gaussian/Wiener noise type processes or you can add outlier processes to keep the guru of the Black Swan world happy!

5. Perform an optimization so that you maximize the GDP growth rate subject to constraints on Taxes, employment or whatever you like.

5. Solve and send to 1600 Pennsylvania Ave! asap!!!

Posted by Terry McGarty at [9:53 AM](#) [0 comments](#) 

[THE OBAMA BUSINESS PLAN](#)

On Saturday morning the 10th of January 2008 the Obama Transition Team issued a 13 page plan for the economy totaling \$775 billion. There were several observations that are worth mentioning.

First, we analyzed the plan in some detail and posted it in the Telmarc White Papers on www.telmarc.com site. I leave it to the reader to draw their own conclusions.

Second, in a certain way this approach to opening the White House, even a little, and indeed this was a great deal more than a little, is a paradigm shift in Washington. It really can change things. The document was embargoed until 6 AM on a Saturday. Then it was posted on the web site of the Transition Team. This gave it all day Saturday for any of the web wackos to kick the ball around and to do whatever they need to on the various fire hydrants. The Obama Team could then look at the critiques, good, bad, and ugly, and then position themselves for Sunday. Brilliant! Twenty years ago, which is longer than the lifetime of some bloggers commenting, one would have some legislative assistant go to the appropriate office, cajole a copy from some confidant, copy it secretly, then fax it to the powers that be. The diffusion time to the audience at large was three to five weeks. Now we see it in seconds. The responses were instantaneous.


Third, some commentors, such as Professor Mankiw at Harvard were instantly vilified by bloggers for his questioning the Romer assumptions regarding tax cuts and their multiplies effect on GDP. I leave it to the reader to follow that war but some of the bloggers were spot on regarding certain points and Mankiw seems to have tough enough skin to survive and fight another day.

Fourth, this was a multimedia attack for Christiana Romer also put her pitch on YouTube! It was as if some nice old aunt was sitting there telling you why you should eat all of your spinach, but I assume the young kids just ate it up. Here was a controlled spin in the space of uncontrolled insanities. For after the Rome video the folks at YouTube made some bizarre suggestions. Perhaps they were targeted just at me.

Thus this new approach as I remarked in my White Paper, try and find out any detail regarding the TARP, Paulson won't divulge anything about how he is spending our money, the Obama

folks are "socializing" this to the extreme and it looks as if it is to their benefit. Get the pitch out there and then get all the flack and re-pitch it to slam down anything that could affect it.

This is a sea state change of significance.

Posted by Terry McGarty at [9:14 AM](#) [0 comments](#) 

THURSDAY, JANUARY 8, 2009 **TERENTIUS PUBLIUS SQUIRREL**

My latest Saga on Squirrel history talks about Terentius Publius the friend of Emperor Marcus Aurelius. An excerpt:

"Antnee, and just who is this Terentius Publius, another one of your historical tales?"

He sat there, ruffled up his whiskers, and looked at me with a slight bit of disdain for my ignorance. I guess somehow I should have known of this squirrel. In addition, my ignorance of squirrel history was vast, so I continued:

"Sorry Antnee, but could you refresh me on Terentius Publius, I just am unaware."


That clearly was unnecessary for he was ready to regale me with this spot of history. He started:

"Well Sir, Terentius Publius was the confidant of the good Emperor Marcus Aurelius. Yes Sir, the personal confidant of a true Roman Emperor."

I was again a bit taken aback and said:

"You mean the Marcus Aurelius who wrote the Meditations, that Marcus Aurelius?"


Worth a read, see www.telmarcgardens.com

Posted by Terry McGarty at [4:54 PM](#) [0 comments](#) 

WEDNESDAY, JANUARY 7, 2009 **YIKES: AND JONATHAN SWIFT WAS JUST KIDDING!**



Today in the *New York Times*, <http://www.nytimes.com/2009/01/07/dining/07squirrel.html?ref=dining> , that self described bearer of all that is fit to print has just written an article on our friend the gray squirrel and that the English, those creatures to our east, across the great waters, who believe they have some competence in our language, have begun hunting and cooking our fine friend! This is akin to the last British proposal by one *Jonathan Swift* in his article in 1729 entitled, *A MODEST PROPOSAL For preventing the children of poor people in Ireland, from being a burden on their parents or country, and for making them beneficial to the public*, which suggested that the solution to the Irish problem was to cook the young Irish children! Imagine the nature and character of a people who go out and hunt poor helpless creatures, squirrel or Irish child alike, and then cook them! I am aghast! Then, the New York Times publishes the recipes on how to prepare this atrocities for human consumption, how horrific! Perhaps I missed the Times recipes on Irish Children, fortunately for me for I might have made a meal for some fine English gentlemen, or perhaps the Times may have published recipes on to prepare gastronomic delights from other humans being held captive by their oppressive regimes! How cruel, how sadistic, no wonder we no longer trust such a paper, a paper which promulgates mass extermination of this sort via culinary delights! The very placement of the article, in the Times Dining Section of all places! Yikes indeed!


Posted by Terry McGarty at [4:50 AM](#) [0 comments](#) 

THURSDAY, JANUARY 1, 2009
[IS THIS A PREMONITION TO 2009?](#)



Christmas morning and looking into my kitchen was the turkey vulture. He weighed almost twenty pounds and just sat there looking in on me. Was he the economy vulture of 2009. Let's wait and see.


Happy New Year!

Posted by Terry McGarty at [2:59 PM](#) [0 comments](#) 

MONDAY, DECEMBER 22, 2008

THERE IS DATA AND THERE IS DATA.

I remember my first contacts with macro-economists in the early 1970s. They have equations for everything but generally they are just guesses. They explain their theories with graphs, showing that if this goes up then that goes down, or with ratios of derivatives, showing pretty much the same. Unlike engineers and other professionals who create models from physical realities and then use the models to expand on those realities, the macro-economist starts some global model and then attempts to justify it after the fact, there is never an underlying reality. The result is that the incoming administration intends to print a trillion dollars of new money with no idea as to what it will do, just pump it in and pray it works. In the old days of monetary theory the Government watched how much it generated since too much led to hyper-inflation of the Carter days, I remember, I was in Washington during that time. The question is, does any one of these brain trusts have a clue as to what they are doing, really doing, or is it really all theory. Also is anyone explaining it to the public, are we all in for a great surprise.

Posted by Terry McGarty at [2:31 PM](#) [0 comments](#) 

SATURDAY, DECEMBER 20, 2008

THE FIRST VIEW FROM ON HIGH

Why the Squirrel's Nest. Well because the mighty squirrel sits above mankind in the tall trees and looks down and wonders what these creatures are about. At the same time the squirrel spends little time in debate and a great deal of time just having fun, they have no elected officials just the challenge of the bird feeders. This will be a metaphor for my observations.

Posted by Terry McGarty at [3:05 PM](#) [0 comments](#)