THE WORLD IS AT A TIPPING POINT

BUT THERE ARE SO MANY ISSUES AND CONFLICTING AGENDAS

THE DILENSCHNEIDER GROUP
47th TREND/FORECASTING REPORT

SEPTEMBER, 2013

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September, 2013

Please receive this Trend/Forecasting Report—our 47th—and recognize that much is taking place right now in the U.S. and the world that will shape the generation ahead.

People around the world, especially in the West but also in the Middle East, Africa, and Russia, are yearning for leadership in business, politics, and the social sector. While many new faces have emerged, real leadership is yet to be seen. A major question is who will step forward on the big issues—the economy, Egypt, Syria, corruption, and more—and how will they do it?

Young people right now are being held hostage by the current state of affairs. In the U.S., the Wall Street protests have gone nowhere. In the cauldron of the Middle East, the hoped-for positives of the Arab Spring have not materialized. Russia and China have gone backward.

Society should fear the implications of all this.

The issues are many: the economy, job creation, energy, climate change, education, terrorism, and more.

But the real concern among young people is what does their future look like? What positive processes and possibilities are there for them? Is a groundwork laid so they can succeed?

There are fundamental concerns out there and dozens of questions, such as:

- How soon will Iran get nuclear weapons and what will be the international reaction if it does?

- What is the future of Egypt and the region as a whole?

- Is terrorism on the decline (we say an unequivocal no) and what should be done about it going forward?

- Is China starting a slow decline?

- Is the sequester here to stay, at least until the next president, and what does that mean for growth and the U.S. economy?

- How long can the U.S. continue to borrow 50 cents for every dollar it spends?

We are more than five years past Wall Street's meltdown, and financial reforms aimed at preventing another disaster have not taken place or are confusing at best. Less than 40 percent of the 400 rules of the 2010 Dodd-Frank legislation are in place. Fannie Mae and Freddie Mac, which account for nearly 80 percent of home mortgages, have still not been adequately addressed. Just-issued data show the percentage of Americans over 16 who have jobs, or are looking for one, dipped to 63.2 percent—the lowest since 1978.

Fear of terrorism is with us at every turn and in every part of the world today. Al-Qaeda is much stronger and more determined than ever to change the world order. Their leaders play on the shame, humiliation, and anxiety of the Arab Street. And there seems no clear way to turn this around.

The climate is right for a misguided populism to assume power in many parts of the world and some bad actors are working to stimulate this.

While civilized people struggle with the issues, count on the rogue states to work to destabilize the world. This is their only route to success. As noted, terrorism is still with us and will be for decades to come.

Amid all these issues, a great deal is going right simply because human beings will not sit still for inaction. The world is a better place than it was five years ago. Think back 10 and 15 years. We are better off in so many spheres of life.

Despite the statistics (400,000 new startups in 2009, down from 600,000 before the recession,) the passion for entrepreneurship in the U.S. is soaring. With tech/Web-based startups costing about a tenth of what they did ten years ago, many graduates now plan to start a business immediately or soon after they graduate.

There is some concern that there are too many tech startups and not nearly enough capital for more traditional brick-and-mortar businesses. Indeed, capital remains a big problem. AngelList, which matches entrepreneurs and investors, is very hot. So is Crowdfunding, which permits individuals and teams to raise money over the Internet from dozens or thousands of sources in small amounts.

Our point: There is action out there, especially among young people.

With this broad perspective in mind, and based on our continuing discussions over the past 12 months with hundreds of experts in diverse fields, including business, finance, journalism, the arts, academia, and the non-profit sector, we have identified another set of noteworthy trends for 2013-2014 and beyond.

This Report, then, as it has for more than 22 years, focuses on critical thinking and on how you might apply it in your life, your business, or in whatever pursuits you follow. Though there are many demands on your time, we urge you to put aside a few moments, whenever convenient, to read it thoroughly.

N.B.: Some complain that these Reports are too long and too dense. We take these concerns seriously and have tried to make this Report "faster." However, we urge readers to pause and reflect on what follows as "quickness" on these issues can place you in harm's way.

We would be pleased to hear any response you might have to this effort.

Best regards,

Robert L. Dilenschneider

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Closing Quote

"A man can be as great as he wants to be.

If you believe in yourself and have the

courage, the determination, the dedication,

the competitive drive, and if you are willing

to sacrifice the little things in life and

pay the price for the things that are

worthwhile, it can be done."

— Vince Lombardi

INTRODUCTION

The toughest critics of our Trend Report are the members of our Firm. We constantly question our work and ask: "Did we get it right?"

During many years of writing and distributing these bi-annual Trend Reports, we have forecast numerous crucial national and global developments, which before too long began to generate banner headlines on the world stage.

Our mission has always been that such early trend-spotting would provide readers with valuable insights and information about the political, social, economic, and cultural realities of a rapidly changing world, helping them make critical decisions about their own businesses and personal lives.

To cite a few recent examples, just one year ago in the September 2012 Trend Report, we featured "The Egyptian Enigma," warning about "a power struggle going on as the Egyptian military and others demand a voice in government through some kind of power-sharing." We followed-up in January of this year with a trend entitled "Egyptian Democracy? Too Early To Tell."

In that same Report, we also discussed "The Uncertain Arab Spring."

Current front-page events all demonstrate the foresight of such concerns.

Cyberwarfare and digital hacking are likewise very much in the news today. This was detailed in the papers in 2005 and 2006. Our January, 2013 Report carried a detailed analysis of this trend in two informative articles entitled "The New Threat: Hacktivism" and "Cyberterrorism—Here To Stay."

Or, consider the potentially explosive problem of a surplus labor force and continued high unemployment, now attracting major media attention. Not long ago, *The New York Times* ran a full page of reader comments solely about this serious issue, and *Time* magazine recently featured a cover story on "The New Robot Economy."

It is noteworthy that our January, 2012 Trend Report, "U.S. Jobs—Why They May Never Return" focused in detail on the fallout from global competition, outsourcing, automation/digitation, and excess U.S. production capacity as key contributing factors to what was shaping up as a permanent unemployed class of American workers.

The list of on-the-mark prophesies is long and impressive. We believe this latest Trend Report will also once again alert you to significant, impactful trends that can give you an advantage in planning ahead, as noted, in both your business and personal life.

THE ECONOMY:
BETTER, BUT STILL ON THE MEND

For the first time since 2007, there is at least some reason for cautious optimism about the state of the global economy.

But the list of positives is not overwhelmingly longer than the troubles that still persist. It is therefore extremely difficult to say conditions have stabilized; that all of the damage done during the Great Recession has been repaired. But as the calendar turns towards the final three months of the year, there has been improvement.

From a macro perspective, perhaps the biggest news is that the world's biggest economies, which include Japan, the United States, and Europe, together are contributing more to growth in the $74 trillion global economy than the emerging nations, including China, Brazil, and India. This has not happened since 2007, or just before the financial crisis in the United States and elsewhere precipitated the downturn.

Currently, recovery among industrialized nations is most pronounced in Japan, but conditions in the United States and Germany are also improving. Growth is still not yet forceful enough to have much of a positive impact on neighboring economies. Conditions in some countries—notably the United States—are subject to variables that could abruptly disrupt the positive momentum.

Emerging Markets Falter

Overall, the increase in output among industrialized countries is at least partially offset by slowing growth in the emerging markets. As a result of these divergent forces, over the summer, the International Monetary Fund forecasts that the world economy will expand at a 3.3 percent annual rate this year, up slightly from 3.2 percent in 2012 and down from 4 percent in 2011, a year when emerging market economies registered extremely strong growth. Despite this somewhat rosier outlook, there is still much to worry about, starting in the United States.

"It's hard for Americans to believe, but the United States managed the financial crisis better than the other advanced economies," according to Stanley Fischer, former governor of the Bank of Israel and former chief economist at the World Bank.

This remains the case today. In spite of a vigorous recovery in housing, strong auto sales, and a renaissance in domestic energy production, the American recovery, which began in June, 2009 is one that seems to command little or no respect from many of its citizens. Recently released revisions in second quarter growth show an economy that is starting to flex its muscles, but one that could be thrown into a disarray in very short order.

Boosted by strong exports, improved business investment and solid consumer spending, the American economy expanded at a 2.5 percent annual rate in the spring quarter, up sharply from the annualized 1.1 percent rate in the first quarter and from the preliminary second quarter estimate of 1.7 percent.

Few economists are projecting the American economy will soon recover to the point where it is growing at a 3 percent rate or better, a level that would generate significant numbers of new jobs. But job growth has remained steady over the past year, and the unemployment rate has fallen to 7.3 percent from a peak of 10 percent.

For the most part, the growth that has been achieved so far this year, and that is likely to be realized in coming months, has taken place with little or no help from the public sector. And in coming weeks there seems to be at least a chance elected officials in Washington could once again foment a crisis that would undermine confidence in America's ability to manage its affairs.

So far this year, cuts in government spending under the so-called sequester rules, coupled with restoring payroll tax rates to their previous levels, have combined to act as a drag on the economy.

Debt Ceiling Looms

Once again, financial markets are confronted with the possibility of acrimonious, unnerving debate over the future course of U.S. fiscal policy. The government's current fiscal year ends on September 30. According to estimates from the Treasury Department, roughly two weeks after that the United States will have exhausted its ability to finance its borrowings—the debt ceiling will once again have been reached.

As they have in the past, Republicans in Congress have threatened to use these dates as bargaining leverage to extract additional spending cuts in the federal budget. This tactic was employed two years ago; the results were embarrassing. At best, the ongoing debate about Syria has distracted lawmakers from addressing these issues; heretofore, neither Republicans nor Democrats have exhibited much—if any—willingness to hammer out a compromise.

Ben Bernanke's four-year term as chairman of the Federal Reserve Board expires in January, 2014 and speculation abounds as to who the White House will pick to succeed him. But between now and then, and in the foreseeable future beyond January, Fed policy seems unlikely to change much.

This is particularly true if additional spending cuts in the federal budget are realized. Indeed, over the past year or more Bernanke has urged Congress to increase federal spending as a way of boosting the economy. Monetary policy, he has argued, has its limits as a policy tool, and those limits have been reached.

The major issue confronting Bernanke and financial markets in coming months will be when the central bank will begin to ease off its most recent iteration of Quantitative Easing. For many months, the central bank has been buying $85 billion worth of Treasury and mortgage-backed securities as a way of helping the housing market. In recent months, speculation as to when this so-called "tapering" operation will begin has gyrated with each new piece of strong—or weak—economic data.

The equivocal nature of the data was clearly evident in the August employment report. On one level, there was good news: nearly 170,000 jobs were created and the nation's unemployment rate edged lower, to 7.3 percent. But as cited in the letter that opens this Report, there also are a number of discouraging details, including a large drop in the share of Americans who are either working or looking for work. The measure, known as the labor force participation rate, was at its lowest level since 1978.

Further, earlier estimates of job growth in July and June were revised sharply downward, and hiring over the summer months was largely driven by low-wage sectors like retail, food services, and health care.

On a certain level, the tapering issue is important to traders and investors because it will provide the clearest indication yet as to the Fed's confidence in the durability of the U.S. economic recovery. Between now and year-end, Bernanke is scheduled to hold two news conferences, one in September and the other in December. It is widely anticipated he will use one of those occasions to announce the Fed is reducing the size of its purchases of these securities.

No Fed Guidance

Even as they anticipate an end to tapering, the markets have received no guidance from the Fed that the central bank's basic approach to monetary policy has been at all changed by recent events. Some time ago, Bernanke made it plain the Fed would keep short-term interest rates, the rates the Fed most closely controls, at current levels until the unemployment rate fell to 6.5 percent. That is not likely to happen for some time yet.

Our interviews suggest that the only certainty about U.S. monetary policy at the moment is that the Federal Open Market Committee will not significantly raise interest rates until 2015.

Even in the best of times, worries about the Fed's approach to monetary policy abound. But the concerns—and the criticism—of what the central bank has been doing over the past several years has been particularly pronounced, largely because current policy has no precedent.

For now and the foreseeable future, though, analysts say the risks of inflation are minimal, citing massive amounts of slack in the American and global economies.

The odds continue to strongly favor a continuation of the economy's modest to moderate performance. Recent weeks, however, have begun to witness signs of the sorts of excesses that were worrying harbingers of the 2007-2009 recession.

As noted above, real estate markets are roaring again. And the stock market has continued to set records. Moreover, in the past year, investors' use of borrowed money to buy stocks has increased by about one-third to a record $384 billion earlier this year. To date, American companies have issued $240 billion in high-yield junk bonds, more than twice the amount during the same period in 2007. Meanwhile, total corporate bond debt has grown to nearly $6 trillion, up almost 60 percent since 2007. (The recession began in December of that year.)

As a result of all this borrowing, corporate leverage—a measure of financial risk that compares debt to earnings—has returned to pre-2008 levels. Leverage by companies rated investment grade has risen 20 percent since 2010, and is now 1.51 times earnings, about 6 percent higher than in 2008, according to analysts at JPMorgan Chase.

Lastly, companies have stepped up borrowing even as the growth rate of corporate profits has dropped from 39 percent in 2010 to 8 percent last year and 3.9 percent in the first six months of 2013.

Individuals continue to pare their debt levels, albeit at a slower pace. And analysts say the financial system is in much better shape than it was in the run-up to the crisis. Nonetheless, recent trends are worrisome and warrant attention.

IMPLICATIONS FOR BUSINESS: Consumer balance sheets are improving, but until and unless the employment situation improves substantially, demand for goods and services isn't likely to be uniformly strong.

Credit conditions will continue to be favorable. The Fed is accommodating and the federal government's borrowing needs have come down as the government's borrowing needs have eased.

It has been five years since the start of the financial crisis, but in most countries, particularly in the industrialized world, the operating environment will likely improve slowly, but remain challenging.

Inflation should not be a worry, given the slack labor markets worldwide, large amounts of spare capacity, and cost-conscious consumers. Passing on price increases will likely remain difficult.

DID YOU KNOW?

Two trillion dollars!
That's how much money Americans may have made in the past year that did not get reported to the IRS.

A LOOK AT THE FUTURE:

WHERE IS IT?

As we look around the world it seems that very few nations and businesses have long-term plans and strategies to address them.

China is one exception, but even there it appears focus is starting to shift and the plans put in place a decade ago are being abandoned.

In the U.S. and Western Europe it is hard to set long-term planning, aside from some major companies like General Electric, Amgen, Ford, and a handful of others.

Why is this the case?

Hard to say. It could be pressure from Wall Street. It could be ineptitude on the part of leaders. It could be the "questioning of everything" that seems so prevalent today.

IMPLICATIONS FOR BUSINESS: Lurching from event to event is not a positive. It is wiser to be alert and develop plans with short-term adjustments as may be needed.

A POLITICAL OVERVIEW: QUESTIONS / ISSUES TO RESOLVE

The political outlook in Washington, D.C., may be summed up in four words: Same old, same old. Political wrangling has not abated. Tensions between Republicans on Capitol Hill and the White House are as high as ever, and nobody thinks they will improve.

As Congress returned from its August recess, there was continued talk about government shutdowns, defaulting on the federal debt, entanglements abroad, the future direction of the Federal Reserve Bank, repeal of Obamacare, failure to pass a federal budget, stalled immigration reform and, as usual, prospects for next year's pivotal mid-term elections when control of the Senate, now in the hands of Democrats, could change.

But the attention of the nation's capital was diverted from almost everything else when President Obama vowed to punish the government of Bashar al-Assad for unleashing a chemical attack on Syrian civilians on August 21, killing almost 1,500 people, including more than 400 children. The global community has banned the use of chemical weapons since 1928.

Although Obama assured war-weary Americans that he would never order U.S. soldiers into Syria, the idea of another military engagement after more than a decade of war in Iraq and Afghanistan immediately was rejected by two-thirds of Americans, according to a number of polls. Having at first asked Congress for authorization to order a limited ("no boots on the ground") military strike against Syria's military assets, Obama then backed away and asked for a delay pending diplomacy. There was a huge, collective sigh of relief from Congress, whose members did not want to vote on the use of force against Syria and are desperately hoping they are never called to do so.

The nation was thus confronted with the need to trust Russia to make good on its proposal to ascertain that Syria would permit international arms controllers to dismantle its stockpile of chemical weapons, ensuring weeks if not months of back-and-forth uncertainty. The complex issue of how unarmed United Nations technicians are to dismantle hidden stockpiles of weapons during a violent civil war that already has taken the lives of more than 100,000 people and make certain the chemicals do not fall into terrorist hands, is part of President Obama's headache.

Twelve years after 9/11, the crisis over Syria was another indication the United States is still grappling with the controversy over whether it should be the world's policeman. Obama said that is not America's role. But he also told the nation that in some cases, force is necessary. President Obama insists that if Syria's government goes unpunished for the use of chemical weapons against its own people it is a threat to U.S. national security because it could encourage rogue nations such as North Korea to use weapons of mass destruction.
The dilemma—will the president order missile strikes against Syria if diplomacy fails and how he trusts but verifies—is certain to dog his administration and potentially divide the nation for his remaining years in office.

There were also renewed concerns about a new strain of isolationism in the United States despite the need for international efforts to solve global problems.

As President Obama struggled to deal with a credible policy toward Syria, its civil war and whether to help rebels who may include terrorists, he was also dealing with the volatile issue of how the National Security Agency uses vast amounts of data collected on American civilians. That issue has enraged both Democrats and Republicans alike as well as American allies around the world, as sensitive information about allies and their relationships with the United States has been leaked. One unanswered question: How can we countenance the collection of highly confidential personal information by a government agency that can't even prevent leaks itself?

Such ramifications over the leaking of national security information by Army Pvt. Bradley Manning, convicted and sentenced to 35 years in prison, and Edward Snowden, who may never return to the United States, have overshadowed much of Obama's 2013 agenda to lessen college debt, undertake measures to combat climate change, and pass immigration reform.

The poisonous atmosphere in the nation's capital has played havoc with the pace of the economic recovery, the hopes of the middle class for better jobs, and business planning.

Although Obama's overhaul of health insurance has been upheld by the Supreme Court, the House has voted 40 times to repeal it and a majority of Americans remain confused about what it would do. While a repeal measure could not pass in the Senate and Obama would veto it if it did, some Republicans are now saying they will try to shut down the government if implementation of the 2010 law is not defunded.

Foreign capitals are nervously watching to see if Congressional Republicans continue to force a showdown over raising the debt ceiling to pay the nation's already-incurred debts. This is being driven mainly by Tea Party Republicans, who say their job is to reduce the size of government and stop higher spending no matter what the cost to the world economy or the Country's reputation. House Speaker John Boehner, R-Ohio, and many other pragmatic Republicans are worried about this, but don't know how to stop it and avoid being driven out of office.

Despite the work of a bipartisan group of senators to provide increased border security with Mexico and provide a path to citizenship for 11 million undocumented immigrants currently in the United States, House Republicans say they will not pass the Senate's bill. They argue that helping immigrants already in the United States is not fair to those who have waited for years to come legally to the country.

The Obama administration has deported record numbers of undocumented workers and increased the number of agents on the border, although fewer immigrants are coming to the United States, partly because of the economy. But House Republicans say such measures are not enough.

Although an international panel of several hundred top scientists has concluded that climate change is man-made and that sea levels will rise by three feet if more action is not taken to curb carbon dioxide emissions, the likelihood of action in Congress such as a carbon tax is extremely poor.

Obama said he will use executive powers to curb emissions from power plants and reduce the levels of hydrofluorocarbons, a warming agent. But the scientists who are worried about the devastation caused by more extreme weather patterns, melting glaciers, and more droughts and flooding are not encouraged.

Investors are nervous about the Fed even though either of the two candidates for the top job held by Ben Bernanke, Lawrence Summers and Janet Yellen, probably would not deviate dramatically from his policies. As of the beginning of September, Yellen was thought to have a slight edge and Obama would make history by appointing the first woman to head the Fed. But Summers' supporters were not giving up, noting that he and Obama have a strong personal friendship. The key issue before the Fed is how long it will keep its easy-money and bond-buying policies in effect after signals from Bernanke that they will soon come to an end. Most observers think the Federal Reserve is set to begin reining in its stimulus efforts this autumn, which could unnerve stock market investors. Most worrisome to economists is that the number of Americans working or looking for work has fallen to its lowest level since 1978.

Added to the political and economic uncertainty is the unsettling development that the 2016 presidential race is already starting. The jousting makes it even more unlikely that Washington will undertake anything as substantive as tax reform. Pundits are already rubbing their hands in glee over the prospect of a Hillary Clinton vs. Chris Christie race, with other wannabes such as Joe Biden, Ted Cruz, Rand Paul, Marco Rubio, and many others itching to get in. While most political prognosticators think it is damaging to start a race this soon, arguing that front-runners this early often fade, Obama's difficulty in lining up a second-term legacy and the GOP's determination to block him at every angle are contributing to the push to open a new chapter.

IMPLICATIONS FOR BUSINESS: Few will spend, hire, or move until these urgent issues are resolved.

CONGRESS: IT'S ALL ABOUT THE MONEY

Few institutions in American life today are saddled with the negative public image currently defining the U.S. Congress. The favorability rating of Congress' 100 senators and 435 representatives has dipped to historic lows, sometimes falling below 12 percent. Called dysfunctional, uncompromising, polarized, and non-productive, both bodies have been essentially deadlocked, passing little legislation.

The 84th Congress in the mid-fifties passed a whopping 1,028 bills. As of this past June, the current 113th Congress passed just 15. The previous Congress (112th) agreed on a total of 238.

Putting aside, for the moment, major ideological and philosophic differences and the deep red/blue state divide, there are a number of other root causes contributing to Congress' bleak reputation, with both sides of the aisle equally guilty. The leading driver is most likely money. In 2012, House incumbents seeking re-election spent an average of $1.7 million while Senate incumbents shelled out on average $10.7 million.

More to the point, perhaps, in the wake of the Supreme Court's Citizens United decision, the latest edition of Vital Statistics on Congress reports outside special interest groups spent an estimated $457 million on Senate and House races in 2012. That compares to a relatively meager $9 million back in l986. Concurrently, in order to retain their seats, members of Congress now have to devote as much as half, if not more, of their time to just raising money.

Moves to curb this trend or expand public financing of elections have been part of the nation's history since the Jacksonian era. Nearly all have failed. Typically, in more recent times, Republican Senator John McCain and Democratic Senator Russ Feingold tried hard to change the system starting in 1997 when they co-sponsored a bill to limit soft money and TV advertising expenditures, but to no avail. These days, the cash spigot is wide open.

A second issue that has turned off many voters is the deeply entrenched "revolving door" syndrome. Now, once a politician arrives in Washington, he or she often appears reluctant to leave while the lobby shops on K Street beckon.

In 1974, only a tiny 3 percent of exiting Congresspersons opted to take jobs as lobbyists or consultants. Today, irrespective of party affiliation, an estimated 42 percent of ex-representatives and 50 percent of ex-senators now move into high-paying jobs in the booming lobbying/consulting industry. To this, add all the influential Congressional staff members who join the trek to K Street. A current best-selling book titled, "This Town," tells the story in great detail, naming names.

Public Resentment

This oft-followed trajectory does not exactly endear erstwhile politicos and their aides to the American electorate. A recent survey found that the number of lobbyists, consultants, and strategic advisers employed in D.C. may now well exceed 30,000. That is a figure to ponder whatever one's political leanings.

For many, there is also an issue, going back to the nation's founding, which they believe undermines democratic values—most particularly for residents of our larger states. It is a simple fact of the American political system (as defined in the U.S. Constitution) that California, with over 38 million residents, has the same representation in the powerful U.S. Senate as sparsely populated states like Wyoming (600,626) and Vermont (685,741).

And the senators from smaller states, thanks to seniority, often have much more power and influence than the legislators from heavily populated ones. When California, Texas, New York, or Florida voters do the math, they may rightly wonder about the unfairness and inequality this represents.

IMPLICATIONS FOR BUSINESS: The ability to gain access to lawmakers and obtain favorable regulations and legislation via lobbying is protected in the U.S. Constitution ("the right to petition the government," etc.) and, as such, a positive for business. But the bitter partisanship and excess in these areas—as we are often witnessing today—have the potential to backfire, fuel broad public resentment, and ultimately prove counter-productive. Some restraint and moderation would appear to be in order at this juncture.

FED FIGHT: TWO FOR THE SEESAW

One of the most important economic decisions President Obama will make over the balance of his term will be announced this Fall, when a successor to Ben S. Bernanke as chairman of the Federal Reserve Board is named. Expect a lot of noise and controversy.

Larry Summers' nomination, should it happen, will almost certainly be met with controversy and more than token opposition. Janet Yellen has more experience in the Fed.

Either appointment would carry the resonance of truth even in normal times. In times such as these, the appointment carries considerable weight and gravitas. The last four years have been an extraordinarily perilous period, a span Bernanke has navigated with great skill. But storm clouds remain and critics of Fed policy have not been silenced. Bernanke's actions helped avoid another Great Depression, but it cannot be said the crisis has been completely averted.

Dangers of a policy mistake that could tip the economy back into recession have not been eliminated. The need for virtuosity at the head of the central bank remains critical.

Both Well-Credentialed

For weeks, speculation has focused on the two candidates: Janet L. Yellen, who since 2010 has served as vice chairman of the Fed, and Lawrence H. Summers, whose resume includes stints as Secretary of the Treasury in the Clinton administration, president of Harvard University and director of the National Economic Council in the first Obama administration.

Yellen and Summers are both eminent economists, and have been rivals for the Fed job before. Both were considered four years ago, before President Obama asked Bernanke to stay on for a second term.

Their approaches to monetary policymaking seem close, but in the near to medium term the next Fed chairman seems unlikely to deviate much from the approach put in place by Bernanke.

Specifically, Yellen, who is 67 years old, or Summers, who is 58, may inherit the so-called “Quantitative Easing” policy that Ben Bernanke implemented, purchasing $85 billion worth of Treasury and mortgage-backed bonds a month as a way of helping to stimulate the housing sector and the economy.

Analysts are forecasting the Fed will signal a relaxation of its “Quantitative Easing ” policy soon, perhaps in September. But if signs of economic weakness persist, Bernanke may find he has little choice but to hand off the so-called “QE policy," which has been in place for several years, to his successor.

Similarly, it appears unlikely that either Yellen or Summers will back off from Bernanke’s pledge to keep short-term interest rates—the market interest rates it most closely controls—at current levels until the unemployment rate falls to 6.5 percent from its current level of 7.3 percent.

Further, as the next Fed chairman it is likely Yellen or Summers would urge Congress to pursue a more stimulating fiscal policy as a way of spurring economic activity—a position Chairman Bernanke has consistently advocated in his Congressional appearances for a year or more. So much slack remains in the economy that containing inflation, one of the Fed’s primary objectives, is not a real challenge or concern, according to many analysts.

As they consider the appointment, Obama and others inside the White House may be considering which candidate would mesh better in overseeing a Board of Governors that will be dramatically different next year. As many as half of the members sitting on the 12-person policy-making Federal Open Markets Committee could leave next year. This will mark the biggest change in high-level personnel at the Fed since before the recession. According to recent press reports, President Obama has yet to focus on identifying candidates for the other positions.

IMPLICATIONS FOR BUSINESS: At a critical time in the economic recovery, the last thing the Administration or the Country would seem to need—or want—is a Federal Reserve Board that is operating with less than a full complement of top officials. This appointment is critical to the future of the economy, to business spending, and to job creation. Watch it closely and adjust accordingly. No matter who is selected, the chances of an abrupt pickup in inflation are negligible, As a consequence, borrowing costs will more than likely remain low for an extended period. Expect the policies put in place by Chairman Bernanke to continue. As long as market interest rates remain low, the prices of other financial assets, particularly stocks, should be higher than they might otherwise tend to be.

DID YOU KNOW?

Within a quarter-century, the Census Bureau predicts, immigration will boost the U.S. population dramatically higher than natural increases would suggest (births minus deaths)—a huge shift from current 2015 predictions.

DECLINE OF THE CULTURE TO CONTINUE

Few will argue that there has been a pronounced coarsening of life and culture in this country as the 21st century continues to unfold—a trend that, for better or worse, appears to be escalating. Language, dress, human interactions, literature, films, drama, music—you name it—too often now seem to operate under the mantra of "anything goes."

Good taste has sailed out the window.

Theoretically, the U.S. has been bound by a puritanical heritage handed down from the nation's earliest settlers some four centuries ago. While that may still be true in many areas of contemporary life and some regions of the U.S., such attitudes are being challenged these days by hard realities elsewhere. What many give lip service to is not necessarily what they do in a shallow, trivialized, celebrity-worshipping culture.

Consider the explosion of once-forbidden language into everyday speech by both genders—and even the media. The young especially seem to believe there are no better words than four-letter words. We have come a long way from the day when Cleveland Indians Manager Al Lopez was criticized for saying "damn" after his team's loss. The vast adoption of new technologies has not helped. Frequently, today, human communication is made via digital texts and posts or e-mails that are woefully ungrammatical, appallingly misspelled, semi-literate, and dotted with profanity. One wonders what many young people would be left to say if the words "awesome, like, and cool" were suddenly banished from their vocabularies.

Dumbing Down

College teachers everywhere lament that so many students are unable to write simple, acceptable English sentences and do not read the great literature they should be reading. The new digital world, however valuable, productive, and essential, is also making a lot of people dumber and obsessed with trivia.

Dress codes, too, are becoming for many a thing of the past no matter how formal the setting. Somehow, for many men, the traditional tie appears to have vanished while scraggly, unshaven beards and unkempt hair are not uncommon. Sneakers and T-shirts are everywhere and even flip-flops can be seen in offices. Millennials, especially, also seem to think that disfiguring tattoos ("human graffiti") and piercings are some kind of anti-establishment statement.

In the performing arts—be it dance, cinema, video, theater, whatever—gratuitous foul language, and even frontal nudity for both sexes, have become almost ordinary and routine, rarely meriting critical comment. Popular hip-hop/rap music and artists are major offenders with lyrics that are often obscene and illiterate. We live in an era when vampires, the walking dead, and inane, mindless reality shows (from Kardashians to Real Housewives) seem to rule much of the airwaves; blockbuster, computer-generated fantasies, comic book heroes, and special visual effects reign in the cinema; and a trashy, poorly-written book about sadistic sex sells countless millions of copies.

The list goes on. Whatever happened, one may ask, to basic standards—to old-fashioned good taste???

IMPLICATIONS FOR BUSINESS: Unfortunately, the crude, tasteless, vulgar, and offensive sell and, for many, ignorance is, indeed, bliss. But that does not bode well in the longer term for any society or business.

THE MILITARY: IS IT IMPORTANT?

The military has always been important. Given what is happening around the world today the role of these men and women and their commanders is even more critical.

The military—more than one million American servicemen and women who are currently deployed around the world in harm's way—are crucial to the future of the U.S. and the world.

While other nations, notably China, are beefing up their military component, here in America we are discussing budget cuts at the Department of Defense. Any reader of this Report who thinks war is going away should think again. There are currently 46 armed conflicts being fought in the world.

To be sure, polling data shows the military is still number one in public esteem, ahead of doctors, scientists, the clergy, and others. Yet, it is clear that the broad public does not feel a close association with that military.

We do little for veterans returning with physical and mental challenges. There are programs aimed at hiring returning men and women, but there is little being done to train them in new occupations.

Some suggest that technological advances will supplement the need for the individual soldier. Do not count on it.

IMPLICATIONS FOR BUSINESS: Not supporting the military will have serious and negative long-term impact. Support for these men and women—vital to America's future—appears to be waning and the institution of the military is often being used as a political tool. The military relies on business, and supporting the defense entitlement can have a very positive economic result.

DON'T IGNORE CYBERSECURITY

A new battle is gaining momentum between the U.S. and cybercriminals—especially those based in China. The People's Republic of China has spent the last decade modernizing its military and transforming its ability to fight high-tech wars.

Cybersecurity is emerging as a top priority for the Defense Intelligence Agency. Today, cybercrime poses an authentic threat to the nation's critical infrastructure, as well as banking, utilities, transportation, and our overall national security.

Cyberbreaches are becoming more common, with attacks up 68 percent this year. Officials estimate hacking now costs this Country about $300 billion a year. Hacking, data theft, digital espionage, denial of service attacks, and other cyberassaults are triggering major business disruptions and costly liabilities.

Syrian Attacks

Only this past April, the Syrian Electronic Army hacked the AP's Twitter account, tweeting that the White House had been attacked and President Obama wounded, causing the Dow to crash 143 points in just three minutes. And last September, Iranian government hackers breached the customer websites of Wells Fargo, US Bank, JPMorgan Chase, and PNC, leaving them inaccessible for more than a day. System vulnerabilities are irresistible to organized hacker groups—some of them criminal enterprises, some politically motivated, others merely malicious vandals.

Cybercriminals also use major news stories to target individuals and businesses. In July, they used the news of birth of the royal baby in the U.K. to take advantage of the distracted and excited. In the hours leading up to and following Prince George's birth, users who searched for the latest news were targeted with e-mails promising live updates. Those links directed users to a "trojanized" website that triggered the downloading of pernicious malware viruses.

Some U.S. intelligence leaders assert that cybercrime may be a greater threat than terrorism. U.K. lawmakers have called such attacks a more realistic and immediate danger than nuclear war. Many IT professionals and business leaders around the globe do, indeed, believe cyberattacks represent a greater menace to their countries than a physical attack.

Washington has had difficulty in finding a solution. President Obama recently did take a firmer stance, launching a strategy focused on protecting our trade secrets, but Congress has failed to pass any major legislation dealing with what has become a serious concern.

IMPLICATIONS FOR BUSINESS: This Damocles Sword grows more dangerous every day. Hacking, digital espionage, data theft, denial of service attacks, and other electronic sabotage can trigger major business disruptions and costly liabilities. It is essential for most companies to put a cybersecurity function in place without delay. No matter how impregnable a company believes its defenses are against such an assault, it must still view itself as vulnerable. If and when such a cyberattack comes, lawsuits from customers and shareholders are sure to follow.

CHINA'S HIGH WIRE ACT: THE TIME HAS COME TO REBALANCE ITS ECONOMY

For more than three decades, the world has watched with a mixture of apprehension and awe as China's economy grew at double-digit rates—an annual average of 10.5 percent. Now the world must watch with the same mixed emotions as the Chinese confront the worrisome consequences of their phenomenal expansion.

China's emergence as the world's second largest economy depended on a combination of factors. Chief among them was the ability to attract overseas investment and manufacturing contracts based on a vast pool of cheap labor. Enormous sums went into building roads, bridges, airports, housing, even entire new cities. Beijing also spent heavily to subsidize government-owned enterprises not only to stimulate growth, but to minimize the danger that the central government fears most—mass unemployment. And despite harsh criticism from the U.S. and others, the regime kept the currency cheap to encourage exports while damping down consumer spending.

Historically speaking, there are many examples of nations transforming themselves from basket cases into world powers. Japan did it after World War II and Germany has gone from down to up three times over the past 140 years. But whenever this happens, there is always a moment of reckoning when the policies that created the expansion are no longer applicable. Like a teenager maturing into an adult, a transformation is required, and managing it correctly can be a difficult, complicated challenge. This is the point China has reached for several reasons.

First, the pool of cheap labor has pretty much dried up, which is to say there are no longer endless numbers of peasants willing to leave the countryside for rock-bottom factory wages. Simultaneously, several other nations in Asia, Africa, and Latin America are competing for the title of "Cheapest Labor Supplier." China is no longer the first choice for outsourced manufacturing.

Chinese public spending on infrastructure has reached the saturation point; investments consume more wealth than they generate. The same goes for government-subsidized businesses; their inefficiencies make them a drag on the economy. And the cheap yuan (or renminbi, if you prefer) makes it hard to generate what China needs now to keep its economy thriving—increased consumer spending.

Corruption Everywhere

On top of all these negatives are two more problems. Corruption in both the public and private sectors is widespread and popular resentment against it often reaches the boiling point. Rapid industrialization has also dangerously polluted China's air and water. As one illustration, an American businessman recently sent friends this report: "In Beijing in January and February, the PM 2.5 Index [a measure of air quality] ranged between 500 and 1000. The World Health Organization does not even have names for levels above 300. Outside my office on the sidewalk in L.A. the average is about 12."

As a final, complicating factor, the ruling Communists are struggling with the contradiction of trying to liberalize economically while refusing to liberalize politically. This puts them in conflict with progressive, upwardly mobile elements in Chinese society. In response, they have launched a quiet but determined campaign to crack down on "Western values," which they identify as practicing democracy, upholding human rights, and adhering to the constitution.

The consensus among experts is that China needs to rebalance its economy, and, in fact, the process is tentatively underway. This rebalancing involves many steps. All of them are loaded with political and social repercussions. It is far too early to judge whether the Chinese are going to get them right. We do know that Beijing is slowing the rate of growth, setting 7.5 percent as this year's target, down considerably from the past. Credit has been tightened to reduce the overbuilding, and state-owned enterprises are also being squeezed.

But many powerful groups—like the operators of those subsidized businesses, bankers and provincial officials—have coasted for years on the easy credit and predictably they are fighting against the clampdown. If steps are also taken to stimulate more consumerism, like raising wages and lifting restrictions on workers' movements, there is bound to be a backlash from employers and factory owners, bringing another powerful lobby into the infighting that is already underway in the corridors of power. While increasing the value of the yuan would help spur consumer buying, it would also hamper exports, creating yet another set of headaches.

The question, then, is whether China's rulers can steer their nation successfully through this extremely difficult rebalancing act. The world should care deeply about the outcome because China's economy is so large and Western economies are so fragile right now that its failure could send the global economy into another tailspin.

IMPLICATIONS FOR BUSINESS: The struggle to reset the Chinese economy will play out over many months and years. If a crisis is going to occur, it will probably be some time in coming. Meanwhile, companies with interests in China should watch developments closely, in particular how Beijing handles the credit issue. A return to easy money and more debt dependency may be a signal that economic reformers have lost out to the entrenched old guard and that China's credit bubble will continue to grow. Bubbles always burst and this time the shock waves would be felt around the world.

DID YOU KNOW?

A traffic jam on the Beijing-Tibet Highway in 2010 stretched for 60 miles, involved 10,000 vehicles, and took 10 days to resolve.

WHAT HAPPENED TO THE ARAB SPRING?

Less than 24 months ago enormous hope blossomed throughout the world that the Middle East was about to take on a different tenor and assume a much more pluralistic, active , and positive position in the world.

All that has changed.

Much of the region remains in turmoil, explosive, and unpredictable as the heralded Arab Spring appears to be in reverse.

Embattled Egypt, with President Morsi ousted, the senior leadership of the Muslim Brotherhood imprisoned, and the military in charge, is roiled by uncertainty. Tunisian opposition leaders have been murdered. Libya is chaotic and controlled by rival militias. Hamas owns Gaza. Al-Qaeda thrives in Yemen and Somalia. And the bloody, sectarian Syrian conflict, pitting Shiites (including President al-Assad's Alawite branch) against Sunnis, rages on—now, two-and-a-half years old. The total death toll there has eclipsed more than 100,000 with millions of Syrian refugees having already fled the war-torn country.

As this Report went to press, an encouraging new development in the Syrian chemical weapons crisis has materialized with the offer from Syria's major ally, Russia, to broker the turnover of that nation's vast stockpile of such weapons to the United Nations for eventual, total destruction. As of this writing, the Syrians appear somewhat amenable to such a negotiated settlement. The foreign secretaries of Russia and the U.S. are meeting. Obama is in telephone touch with Putin.

All this, of course, can be a game-changer. In requesting a delay for a Senate vote on military intervention, President Obama made it clear that the U.S. would remain firm and unyielding about a "credible missile strike" that would be "limited, surgical, and proportional." Should these diplomatic negotiations fail, and whatever Congress rules, Obama may still have to decide whether to go ahead unilaterally.

It's an iffy situation and probably would not influence the ultimate outcome of the Syrian civil war, which could explode into a regional religious conflict with still more casualties if the U.S. acts. But there now appears to be some light—and hope—at the end of the tunnel on the critical chemical weapons issue.

Diplomacy, leading to more negotiations, might help. What we are probably facing in Syria looking at in Syria is a protracted stand-off not unlike the prolonged civil strike in neighboring Lebanon during the past century that lasted 15 years. Some kind of balkanized Syria is a strong possibility with al-Assad retaining power in certain regions of a divided and broken nation or perhaps finding refuge in a neutral country willing to accept him.

IMPLICATIONS FOR BUSINESS: Don't count on major changes in this unstable region of the world. Count on continued turmoil and unsettled environment in the period ahead.

DID YOU KNOW?

More than 400 million Chinese are unable to speak
the national language, Mandarin,
and many more speak it badly.

IRAQ: SECTARIAN VIOLENCE CONTINUES

After almost a decade of war, Iraq is still the scene of almost daily violence. Twenty months after the final withdrawal of American troops, the ancient land is beset by what is, for all intents and purposes, a sectarian civil war between the majority, ruling Shiites and their Sunni adversaries. Thousands of Iraqis have been killed during the past five or so months—700 in July alone. Street bombings and massacres appear to be routine in this deeply troubled and violent nation. Al-Qaeda in Iraq has again emerged as a key player in an ongoing insurgency.

The refusal of the increasingly authoritarian, Shiite-led government headed by Prime Minister Nuri Kamal al-Maliki to share power with the Sunnis is driving the conflict. Some contend that the Obama administration should have kept a minimal force in Iraq following the December, 2011 pullout in order to prevent such violence. But, when such a solution was offered, al-Maliki rejected any such arrangement.

Even at the height of the American occupation, with well over 100,000 U.S. military in Iraq, Shiite-Sunni sectarian violence did not abate. The Kurds in the North of the country, who have managed to maintain their independence, are also seen as a threat to the dominant Shiite regime in Baghdad. Look for more of the same as long as al-Maliki holds on to power.

IMPLICATIONS FOR BUSINESS: Continuing violence in Iraq does not bode well for U.S. business or investment.

IRAN CHANGES LEADERSHIP

In Iran, where the nuclear project continues, small, hopeful signs have surfaced following the election of Hassan Rouhani as the nation's new president, replacing the fiercely anti-American, two-term Ahmadinejad. Most evidence suggests that Rouhani is a moderate and a pragmatist.

On more than one occasion in the past, he has said that weaponization of Iran's nuclear energy program would be a serious waste of the country's resources. He will not, however, dismantle the effort, but probably make it much more transparent (something the West has sought) turning his principal attention to urgent domestic issues.

Ayatollah Khamemei, as Iran's Supreme Leader, remains the ultimate decision-maker, but Rouhani is himself a cleric with impeccable revolutionary credentials and has always been close to the Ayatollah.

As noted, the new Iranian president is not likely to abandon the nation's nuclear energy and enrichments efforts. Be that as it may, Rouhani is still flexible and has appointed a cabinet largely comprised of technocratic types able to cope with Iran's serious internal problems. His American-educated foreign minister, Mohammad Javad, is an experienced negotiator. Also, and at a news conference in early August, the new Iranian president said he wished "to negotiate seriously" about his country's nuclear program.

Iran will continue to provide military support to its Shiite ally, Syria. However, the domestic economy, badly battered by the severe sanctions imposed by the U.S. and its allies, will top the new government's agenda. Sales of oil, Iran's No. 1 export, have declined drastically. Unemployment is rampant. Inflation is high and rising. The average Iranian is hurting and popular resentment is growing.

Rouhani will put a laser-like focus on righting the crippled economy. That can open the door to diplomacy, new talks, and perhaps nuclear concessions. Whatever ensues, U.S.-Iranian tensions and the resulting impasse about nuclear weapons have cooled somewhat. The same cannot necessarily be said for apprehensions in Israel. Although Prime Minister Netanyahu has drawn several red lines to be crossed before taking any direct action against Iran, for the time being at least, he is acting with constraint.

IMPLICATIONS FOR BUSINESS: The situation in Iran, with a new leader at the helm, offers some hope that the nuclear issue can eventually be resolved peacefully, sanctions relaxed, and commercial activities resumed with this large Middle Eastern country. One other development is apparent. The influence of the U.S. and the West, generally, in shaping Middle East destinies is steadily waning.

AFGHANISTAN: STILL IN TURMOIL AFTER A DOZEN YEARS

We have written a great deal about Afghanistan in the past, but the inconclusive war there against the Taliban goes on with a final withdrawal of most American troops now scheduled for late next year.

Our initial incursion in the wake of al-Qaeda's devastating 9/11 attack made sense. Nonetheless, the conflict has continued for nearly a dozen years with no resolution. Over 2,500 American men and women have perished in that troubled land and an estimated 18,000 have been wounded, not to mention the expenditure by the U.S. of countless billions in treasure.

America has, indeed, paid a very heavy price for the good deeds it has funded. We have built schools and hospitals, empowered Afghani women, and otherwise tried to promote democracy in what continues to be a very primitive, tribal-ruled country where warlords hold sway and are unreliable American allies despite huge cash payouts from the CIA.

At the same time, we have trained hundreds of thousands, rebuilding the Afghani military. Yet, its fighting capabilities are often found to be seriously wanting. Occasionally, some of those trained have even turned on their American mentors.

President Hamid Karzai, has demonstrated his arrogance, incompetence, hostility, and tolerance for corruption too often to be easily excused or defended. Afghanistan remains far from a Western brand of democracy while the Obama administration and a defiant Karzai scarcely appear to be on speaking terms. Nor are there any talks at the moment with moderate Taliban, if any exist.

War-Weary

The Americans have grown weary of Middle East wars and the same can be said of most Afghanis after three decades of continuous upheaval, death, and destruction within their borders.

Following 9/11 and the relatively quick defeat of the Taliban and al-Qaeda in Afghanistan, America took its eye off the ball and instead focused almost totally on Iraq. Then, in the post-Iraq War era, we never really resolved whether our involvement there was anti-insurgency or anti-terrorist.

What is increasingly evident is that once American troops leave and only a phalanx of Western advisers and trainers stay on (about Blackwater, we may never know), a still powerful Taliban will probably regain control of the Pashtun heartlands and perhaps more. What looms may be another Middle East civil war between the Karzai government and a resilient Taliban, mirroring what happened after Soviet troops departed the country in the late 1980s. Ironically, the U.S. helped arm and train what later became the Taliban, but were then fighting the Soviet invaders.

IMPLICATIONS FOR BUSINESS: Afghanistan is an ancient land that is, to a considerable extent, tribal and undeveloped. A metropolis like the capital, Kabul, is an exception, but much of the nation is poor, rudimentary, and, as noted above, ruled by tribal chiefs. Potentially, of course, the country has very rich natural resources waiting to be discovered and developed.

DID YOU KNOW?

About 6 in 10 recent mothers in their early 20s were unmarried, according to Census Bureau reports.

LEVELING THE PLAYING FIELD

New weapon systems do shape history. In the effort to drive the Russians out of Afghanistan in the mid-1980's the Stinger Surface-to-Air missile turned the tide in the war and precipitated the downfall of the Soviet Union. Similarly, the Unmanned Aerial Vehicle (UAV) has changed the often-described asymmetrical aspect of terrorism by administering lethal force at an unanticipated time and place. It has equaled the frightening dimension of IEDs and suicide bombers that gave the terrorists their edge and leveled the playing field in a way many thought was not possible in the aftermath of 9/11.

While there are many issues that arise from such a shift in tactics, we should not run away from the UAV or apologize for its use. Its expanding use is a certainty today and it will be used by a growing list of nations in intelligence collection and kinetic attacks for years to come.

For this reason, and despite the debate over "targeted killings," the UAV should and will be applied extensively as a deterrent against our militant adversaries. The question now is how best to use it as we leave the battlefields of Iraq and Afghanistan.

There should in all cases be a high bar for launching a lethal drone strike, and a rigorous system must exist to ensure we target the right people and minimize collateral damage. Moreover, a legal process should be established when specifically targeting U.S. citizens. But these measures should not derail us from deploying this weapon aggressively.

We are unlikely to be engaged in another ground war in the years ahead, despite our tensions with Iran, North Korea, and more distantly, China.

After more than ten years of conflict in Iraq and Afghanistan, the American people are tired of war. Our troops and their families have borne a heavy burden for too long, and the economic conditions can't support another conflict.

Failing an adventurous provocation by another nation, it is hard to imagine a scenario that realistically takes us to war any time soon.

Instead, our future battles will be fought covertly in Syria, Yemen, Somalia, and elsewhere in Africa, South Asia, and the Middle East, using age old tactics of providing allied indigenous forces with weapons, money and training. This support should include UAVs, which provide a war-fighting and intelligence edge and protect our national security interests abroad.

A key aspect of today's debate is who within the U.S. government should control the UAVs. A straightforward proposition is simply that the military should control the UAVs when U.S. troops are committed in an overt status and the CIA should have control when the activity has to be below-the-radar and non-attributable. Military assets should be "detailed" to CIA when necessary, as they were in the mission to kill Osama bin Laden in 2011.

Various analysts have said publicly that many at CIA would like to see the UAV program reside entirely under the Defense Department. But we need to think about how the world and the American people will view the U.S. being militarily engaged worldwide in what would in most cases be tantamount to an act of war. The prospect should also raise concerns in Congress about the expansion of the War Powers Act and the nature of the authorities that CIA and DOD have to carry out activities abroad.

Historically such activities have been best carried out below-the-radar and in ways that preserve some level of plausible deniability. There are benefits to being able to act without forcing a confrontation by deploying U.S. military assets on another nation's sovereign territory.

In the case of the CIA program in Afghanistan in the 80s, the Russians knew the U.S. was supporting the Mujahideen. But because our support involved using surrogates, not U.S. troops, our assistance did not provoke a direct Soviet military response.

Recent press reports indicate that many in the Administration, including senior CIA officials, would like have the CIA move back towards traditional espionage. But running secret agents has always been a miniscule part of what is a massive intelligence budget. Both intelligence collection and covert action can and should be done simultaneously.

Intelligence professionals realize that covert action programs have always been critically important to CIA's mission since its inception in 1947.

The CIA has been called upon not only to collect intelligence, but to fix problems and influence events around the world without its hand being seen.

IMPLICATIONS FOR BUSINESS: This is a business not without controversy, but every President since Truman, including President Obama, has drawn repeatedly on CIA to play this covert role. If the CIA is not allowed to bring its full capabilities to bear, it can be expected to shrink into a smaller and less relevant National Security force. And, most importantly, the war against terrorism will be waged less effectively. Hopefully, cooler heads will prevail and stay the course until the struggle against the terrorists is done.

PRISON BREAKS

Consider these facts:

- On July 22, al-Qaeda launched attacks on the Iraq prisons of Abu Ghraib and Taji, freeing some 800 prisoners.

- On July 27, an attack in Libya freed more than 1,000 inmates—some incarcerated for acts of terrorism.

- On July 29, the prison in the town of Dera Ismail Khan in Northwestern Pakistan saw more than 250 prisoners freed.

A half-dozen more jails have been breached and hundreds of battle-hardened al-Qaeda fighters are free.

Similar prison assaults have been going on for over a decade.

- A 2006 prison break in the Yemeni capital of Sana'a led to the creation of al-Qaeda in the Arabian Peninsula.

- The Taliban attacked the Sarposa prison in Kandahar twice—in 2008 and 2011—freeing almost 2,000.

There is a pattern to each of these attacks, and local governments are just not strong enough to address this.

What all this means is a huge boost in the morale of al-Qaeda fighters and their supporters and that we may be about to enter a new phase of terrorism aimed at Europe and the U.S.

IMPLICATIONS FOR BUSINESS: Expect more of this going forward. Great care needs to be taken in this region and around the world as high-profile businesses and their executives will be targeted.

JAPAN AND MONGOLIA: KEYS TO ASIAN STABILITY/GROWTH

No two countries could be more opposite than Japan and Mongolia. The former is associated with high-tech industries and ultra-modern urbanization; it is the world's third largest economy with a per capita GDP of $46,000. Mongolia is a relatively new democracy sandwiched between two authoritarian super powers: China and Russia; it is a nomadic hinterland with a per capita GDP of just $3,800.

But Mongolia is also one of the world's richest and fastest growing economies, with a projected growth rate of 13 percent this year. These two nations are vital pillars in Asia's growth as well as important partners and allies for the United States.

Japan is Mongolia's fourth largest export market, especially for rare earth minerals, and a source of much-needed foreign investment and aid. This month, Mongolian Prime Minister Norovyn Altankhuyag will visit Japan to sign a groundbreaking trade agreement that will bind the two economies even closer. In addition SMBC, one of Japan's largest banking groups, recently opened a branch in Mongolia's capital, Ulan Bator, to expand financing for firms engaged in resource development and infrastructure building. On a global level, the country will also host a World Economic Forum (WEF) this month in Ulan Bator at which time Foreign Minister Bold Luvsanvandan will give the crucial closing remarks to over one-hundred multinational business leaders detailing foreign direct investment incentives.

Due to its proximity and longstanding relationships with neighboring countries, Mongolia also provides Japan (and the U.S.) a unique window of market access and geo-political insight into Russia, China, South Korea, and North Korea.

Both Japan and Mongolia enjoy an increasingly important relationship with this nation. As our closest and longest-standing democratic ally in Asia, Japan is a linchpin in America's economic and political interests in the region. Mongolia is getting closer to both countries and recently hosted Khaan Quest, a multi-nation military exercise with the participation of over 1,000 peacekeepers from 14 countries, including the U.S. and Japan.

Geopolitical imperatives require the U.S. to engage Mongolia for its vast access to markets and influence in East Asia. It is already a place for our investments in alternative energy, and it has great potential for investments in infrastructure, health care, consumer goods, and small- and medium-scale manufacturing. Mongolia's consumer market will also grow as the nation's wealth increases. Finally, the U.S., like Japan, needs a stable supply of rare earths and other minerals from Mongolia. Fostering Mongolian and Japanese relations supports American interests in the region and aligns U.S. companies closer to present and future growth and stability in Asia.

IMPLICATIONS FOR BUSINESS: Business would do well by developing closer ties with Mongolia to gain access to markets not only there, but in bordering Russia and China. Right now, this once-remote nation is one of the world's best-kept investment secrets.

EUROPE: REBOUNDING, BUT SLOWLY

Some six years after the financial crisis hit Europe, the continent may be rebounding economically at a very slow, but apparently steady pace. The euro, though challenged, has survived and most economic indicators suggest a quite modest recovery with an overall growth rate next year reaching perhaps 1.5 percent.

Not long ago, Mario Draghi, the head of the European Central Bank, reported that the euro zone economy had "stabilized." On September 4, he did, however, say that he was still "very cautious" about prospects for growth. Still, another positive sign is that the high interest rates offered by some of the more challenged European economies—Portugal, Spain, Italy, Ireland—have dropped substantially. Easy money policies will probably continue, but austerity programs will be cut back in the face of rising popular resentment and anger both on the right and left. There are other positive indexes in countries like Spain, Portugal, and Italy that took especially big hits from the recession.

Recent studies find both consumer and business confidence are growing, if moderately. The German, British, and perhaps Irish economies are expected to be the pace-setting performers in 2014. Nonetheless, any rebound will be tentative.

Unemployment rates remain high—especially in Spain and among European youth, generally—and immigration issues are rife. Yet, data released at the beginning of August showed that the number of jobless individuals in the 17-nation euro zone had declined for the first time in over two years.

The specter of massive social upheaval as the disaffected take to the streets is ever-present. Severely depressed Greece, bolstered by huge loans from the IMF, the European Commission, and European Central Bank, has made some progress, but its travails remain far from over as a deeply troubled nation struggles to regain economic equilibrium. Note that turmoil in the Middle East gave a big boost to tourism in southern Europe this past summer, helping to lift the economies there. This should continue.

Serious political turmoil anywhere on the continent could, of course, derail a sustainable European recovery. In Germany, Europe's largest and strongest economy, with a balanced budget and only 5.3 percent unemployment, all indicators confirm that Angela Merkel will capture a third term in the upcoming September 22 national elections.

IMPLICATIONS FOR BUSINESS: These developments, though fragile, are all encouraging since Europe is a leading market for U.S. exports and investment dollars—most notably, institutional monies. As a strong vote of confidence in a recovery from the European sovereign debt crisis, American investors have recently poured more money into European equities than at any time since 1977.

ASSESSING OIL OPPORTUNITIES IN SOUTH SUDAN

Despite its significant oil wealth, American companies have long shied away from doing business in Sudan. Initially, because of security concerns and later in response to U.S. sanctions against the government in Khartoum. The secession of South Sudan in July 2011, during which 80 percent of the country's oil wealth went to the South, followed by an easing of sanctions in December of that year, renewed prospects for potential oil exploitation in the country.

However, the fact that South Sudanese oil must be exported through Sudan, coupled with continued political and military sparring between the two sides, make investment in South Sudanese oil a risky prospect at best.

The resumption of oil exports in April 2013 based on a negotiated agreement between the governments of Sudan and South Sudan may ease the minds of some regarding the wisdom of investing in South Sudanese oil, a market which is currently dominated by Chinese, Malaysian, and Indian firms. But there is still significant reason for hesitation. The issues that have prevented oil from flowing across the border in the past are unlikely to be resolved any time soon. Sudan and South Sudan continue to accuse the other of backing rebels in their territories. In addition, disagreements over oil transit fees and disputed territories along the border continue to complicate the relationship, making for an unstable environment for investment in oil or anything else.

The most potent source of discord since South Sudan's independence is the suspicion on each side that the other government is backing rebels operating in its territory. Sudan asserts that South Sudan is funding the Sudan People's Liberation Movement North (SPLM-N), which has violently resisted Sudanese rule of Blue Nile and South Kordofan, two volatile states in the southern part of Sudan. Though now formally separated, SPLM-N was created as an arm of the Sudanese People's Liberation Movement, a political party formed out of the Sudanese People's Liberation Army (SPLA).

The SPLA, led by the rebel commander, John Garang, led the fight for South Sudanese independence from 1983 to 2011. On the South Sudanese side, there are regular accusations that Sudan is backing the rebellion led by David YauYau, a former colonel in the South Sudanese Army in the southern province of Jonglei. South Sudan believes Sudan is using YauYau to foment unrest in the province in order to block potential efforts to build oil export pipelines through Jonglei and Ethiopia to a port in Djibouti, bypassing Sudan.

When South Sudan declared independence in 2011, a 2005 profit-sharing agreement that stipulated a 50-50 split between the two entities expired. Since that time, the two sides have been negotiating over the transport fees charged by the North for the South's use of the Great Nile pipeline, which runs from the Unity and Heglig oil fields north past Khartoum to the Red Sea, where it is shipped from Port Sudan. The South is largely dependent on oil to keep its feeble economy afloat and cannot afford to pay high fees and resists being held hostage to the North. On the other hand, Sudan is largely dependent on those fees since the loss of the bulk of its oil revenue after the South Sudan's separation. An agreement reached in Addis Ababa in March 2013, for the South to pay around $10 per barrel allowed oil to begin flowing again in April, though at a significantly reduced volume from pre-January 2012, when production ceased. Exports have continued since then despite threats from the North to cut off the pipeline if alleged support to the SPLM-N by the South does not cease.

The Heglig oil field, one of the largest fields discovered by Chevron Corporation in 1982, lies in the disputed state of South Kordofan, where the SPLM-N continues to fight against the Sudanese government. The two countries have also fought over the still disputed state of Abeyi, which is now being monitored as a demilitarized zone by the United Nations Interim Security Force for Abyei (UNIFSA). While the presence of UNIFSA is intended to dispel notions that South Sudan is supporting SPLM-N, and rob Sudan of its main leverage with regard to oil flows, many analysts believe monitoring a border that is in rebel hands is nearly impossible in practice. Should Sudan decide to level such accusations to gain concessions on oil fees, it is unclear whether the presence of UNIFSA would actually help defuse tensions.

IMPLICATIONS FOR BUSINESS: Oil from South Sudan continues to flow at levels slowly approaching those of the pre-independence period, generating revenue for both states and for the foreign companies involved in Sudan's oil industry. But keeping the pipelines open IS a delicate balance. The oil industry in South Sudan is also considered to be poorly functioning, according to Revenuewatch, an NGO that tracks transparency and performance in natural resource producing nations. The country scored poorly on transparency, safeguards and quality controls, and government oversight. Humanitarian concerns also abound on both sides of the border. While conditions in South Sudan may appear ripe for investment, U.S. companies should tread carefully when considering entering this arena.

WHAT LIES AHEAD FOR POLITICAL ISLAM?

Religion and politics have been inextricably linked throughout the history of Islam. Now, with the rise and fall of political Islam in Egypt, the conflicts inherent in combining a political agenda with religious zeal are the central issue in the future of North Africa and the Middle East.

Political Islam, or Islamism, is the general term that encompasses all factions of the religion, from radicals to liberals to moderates. It is, however, most often associated with the extreme elements and is used that way in this Report.

One of the fundamental principles in modern Western societies—based on lessons learned only after centuries of strife—is that religion should have a voice in the political sphere, but not a veto. There must be a separation of church and state with religion free to exercise its influence in governmental affairs, but not to wield power. The future of political Islam will lie in its ability, if it exists, to internalize this lesson.

British author Chris Harman describes the contradictions and challenges facing political Islam this way: "Islamism both mobilizes popular bitterness and paralyzes it; both builds up people's feelings that something must be done and directs those feelings into blind alleys; both destabilizes the state and limits the real struggle against the state."

Brotherhood Dominates

Prior to Mohammed Morsi's election last year in Egypt, the Muslim Brotherhood, founded in 1928, was at the center of political Islam throughout the Arab world. Consisting of a network of cells that combined community service with religious activism, the Brotherhood was considered the best organized of all Arab religio-political movements. This, despite the fact that it was everywhere outlawed and suppressed, often violently.

After Morsi took office, some observers predicted that the responsibilities of government would compel his party to moderate its behavior, becoming less religious and more pragmatic. But to the dismay of millions of Egyptians, Morsi appeared to be more concerned with enforcing religious law rather than creating an inclusive, effective government. True, the government he inherited was corrupt and inefficient. And there are indications that elements loyal to the old regime deliberately undermined his administration by, for example, creating gasoline shortages and keeping police off the streets despite spiraling crime. But the bottom line is that under Morsi a bad situation became far worse, which is why some of the largest demonstrations in human history turned out to demand his removal.

Morsi's supporters have staged their own counter-demonstrations. His removal from office by the Egyptian military has left the Muslim Brotherhood, in particular, and political Islam, in general, in shambles. The question now is whether the movement will embrace violent resistance as its course of action, or recognize the mistakes it has made and choose a more moderate path.

The worst possible outcome is that radical elements including al-Qaeda will become dominant and try to turn Egypt into a country of violence. That would almost certainly lead to the dismemberment of political Islam and leave no possibility for future terms in office.

The alternative is for the Brotherhood to analyze the mistakes of the past year and make the reforms that will transform it into a mainstream political party. While that would be the best outcome from everyone's perspective, the chances of its happening are slim at best. As many critics have pointed out, it is the nature of political Islam to reject modernity, including democracy. Its adherents may use democratic means to gain office, but once elected, they turn the power of government against democracy. Their unwritten slogan, as one critic expressed it, is one person, one vote—one time. If this is true, and recent events in Iran, Gaza, Algeria, and elsewhere strongly suggest it is, then political Islam is incapable of running a modern government.

That being the case, the U.S. and other Western nations must push to empower a new generation of liberal and moderate Muslim groups that reject radicalism and violence. They are great in numbers, but lacking in influence because they, too, are untrained in the democratic process of compromise and coalition-building. Their quarrelsomeness and inability to rally around popular leaders have always put them at a disadvantage against the far more determined and single-minded Islamists. The goal of the West must be not only to encourage these moderate elements, but help them become more effective politicians.

IMPLICATIONS FOR BUSINESS: Increased support for progressive elements holds the best promise for the eventual emergence of a peaceful, democratic North Africa and Middle East. Serious business opportunities can evolve from what has happened, but they need to be addressed with great care.

ISRAEL/PALESTINE PEACE: WHAT MIGHT HAPPEN?

Thanks to the determined efforts of Secretary of State John Kerry, Israeli/Palestinian talks are under way again after long intervals. Israel's continued occupation of the West Bank is, of course, critically important as it continues to fuel Arab anger and resentment across the region. The situation remains a constant grievance motivating Islamic opposition to the West. Sitting across a negotiating table once again is a start no matter how formidable the obstacles to agreement have become.

It may not have helped when Palestinian Authority President Abbas not long ago stated that no agreement would be possible unless "all" of the territory held before the 1967 war be returned. No matter. That, after all, is usually where difficult negotiations begin in this lingering conflict, waiting to be redefined.

In addition to seemingly intractable opposition from the extreme political and religious right in both Israel and the Palestinian Authority as well as Gaza, the thorny settlement question is still the overriding barrier to a workable agreement. The sensitive issue of the status of East Jerusalem, which Palestinians see as their future capital, can also be a deal-breaker. The facts on the ground right now are fairly straightforward. There are about 350,000 Jewish settlers living in the West Bank. Most will have to remain there, either under Palestinian rule or in carved-out Israeli enclaves inside the so-called "Green Line" border.

Some Essential Removal

But as many as 80,000 settlers may have to be removed—many, if not most, against their will. Will the Israeli government provide major financial incentives to such families to convince them to leave their homes willingly? Such a removal effort can prove to be a notably challenging and even violent undertaking.

Recall the forceful tactics Israeli soldiers had to employ against only a few thousand resisting Jewish settlers in Gaza after then-Israeli Prime Minister Sharon unilaterally opted to give up the Mediterranean-bordered region where Hamas soon took over. Lesser obstacles are the return of several thousand Palestinian refugees now living outside of the West Bank and the ultimate status of East Jerusalem.

That said, what are the alternatives for Israel in the absence of a final, two-state arrangement? In a single, democratic state, where the birth rate of the Arab population is substantially higher than that of the Israelis, Arabs, in time, will become the majority and presumably rule. Or, in order to continue as a Jewish state, some kind of apartheid will become the de facto reality—a development the vast majority of Israelis would surely not welcome.

So, expect the current negotiations to be especially difficult. What will be required is a new level of statesmanship from both Israeli leader Benjamin Netanyahu, and the Palestine Authority's Mahmoud Abbas. Both will face staggering resistance from internal opponents.

IMPLICATIONS FOR BUSINESS: Israeli-Arab hostility has now endured for more than six decades, including several costly wars and infidatas. An agreement creating two independent, secure, bordering states has to be a positive for stability and, in turn, business and investment opportunities across the entire region.

DID YOU KNOW?

Although Great Britain has only about one-fifth of the population of the United States, its House of Commons has 650 members compared to 435 members in the U.S. House of Representatives.

TURKEY: ONE OF THE MOST STRATEGICALLY LOCATED COUNTRIES IN THE WORLD

As a moderate Islamic nation, Turkey is critical to peace in the world. It is strategically located.   Its economy is strong. Its industrious people are committed. But without any doubt, the recent Gezi Park demonstrations and the response they received heralded a paradigm shift in Turkish democracy.

Now that the Ramadan period is over and the summer holiday is coming to an end, some expect that political developments will come to the fore and the Gezi issue will be losing its popularity. This may be so, but in the medium-to-long term its impact will be quite substantial. The youth which undertook the street protests will have a new and updated political line, calling for Turkey to be on par with fully-fledged Western democracies.

One of the reasons for the Gezi demonstrations to fade is that they had no organized structure nor leadership in political terms. That it is still the case.

Turkey is now entering a period where the nation will have local elections (March, 2014) followed by a presidential election and parliamentary elections—all within two years. As elsewhere, the local elections are based less on the political identity of the candidates and more on the services they have provided or promise to the local people. Accordingly, the percentage breakdown of votes will not necessarily be similar to the elections for the grand National Assembly.

The outcome of local elections will still have a bearing on the general elections. Even if the governing Justice and Development Party (AKP) may lose some of its support in the local elections it will perform much better in the general elections.

Another point to be underlined is that Turkey, historically, has a very sizeable "swing vote." In one instance, five political parties, which were active in the Parliament, were all kicked out by the electorate in the following elections. It is also true that six months ahead is still a long time in politics, giving room for maneuvering to all players in the race. That is another reason why the Gezi Park spirit will have an impact potential.

It is important to know that the main determining factor of any elections in Turkey is the prevailing economic conditions there. In other words, as long as the economy is doing well, it will be no surprise if Prime Minister Erdogan again receives a very high percentage of votes from the people.

AKP Will Gain

At this time, the economy is running well and the Justice and Development Party is reaping its fruits. If the same pattern holds for the future, Erdogan will have his third term, on condition that he soften up his rigid line on outside players.

On the political front, it does not seem likely that he will be able to change the present parliamentary democracy to a presidential system, which appears to be his target. Moreover, it is likely that he will refrain from changing the bylaws of his own political party, enabling a fourth term. It is probable that he will be running for the presidency within the present system, resigning from the PM position. The present structure with almost no separation between the executive and legislative branches, will allow him to run the Country as president.

Erdogan's real problem will still be solving the Kurdish issue and the relations with Turkey's neighbors. The events unfolding in Syria, which shares a 500-mile border with Turkey, and Egypt are tough nuts to crack and both will have a domestic spillover effect in Turkey.

True, the Gezi protestation messages will still carry a basic importance. It could have significant weight for the nation's “new middle class” and Turkey’s relations with the West in general and the EU in particular. The perception that Turkey is turning its back on the EU is misleading when you look at the figures. It is an integration process and not a simple cooperation exercise. No agreement has, however, as yet been recorded.

IMPLICATIONS FOR BUSINESS: Turkey remains an attractive place to invest and do business.

WHAT HAPPENED TO GREAT MEN?

In the 1840s, Scottish historian Thomas Carlyle observed: “The history of the world is but the biography of great men.”

Of course, the Great Man theory that sprang from his observation is simplistic, sexist, and not without its share of critics. Yet, it has endured to this day, and is still quite useful as a gauge of leadership in tumultuous times, and of the impact an individual can exert on historic change through sheer dent of vision, will, and charisma.

Sadly, Great Men seem to be in short supply these days in the executive suite—surpassed only, perhaps by the embittered grandstanders on Capitol Hill. In the 2013 PriceWaterhouseCoopers global survey of CEOs, when asked to name the leaders they most admire—without historical limitation—only two CEOs made the top 10: Steve Jobs and Jack Welch. Political/military leaders made up 60 percent, topped by Winston Churchill. In part, that is due to the nature of the beast. The struggles and the very personas of global and military leaders are writ on a larger stage. CEOs are forced to respond to Wall Street.

To almost all CEOs, that is their job, and it is quite enough, thank you very much—particularly in an age of dizzying technological change and corporate activism.

But a select few seem to embrace a larger role, and of those less than a handful might even be remotely considered for Great Man designation. To winnow down the current list of CEO candidates, we offer two qualifications: 1) a demonstrable record of achievement for their companies, along with a vision for and the grit to invest in businesses of the future; and 2) the courage to speak out, both in a business and societal context, on the issues of the day, regardless of the welter of criticism that inevitably follows.

Using these metrics, only four sitting CEOs come to mind as candidates: Warren Buffett, Jeff Immelt, Alan Mulally, and perhaps Jeff Bezos.

Buffett is a no-brainer. For 50 years, the Oracle of Omaha has mesmerized the business world with the returns from his no-nonsense emphasis on value investing, for his personal frugality, for his singular modesty and understatement, and for agreeing in 2006 to donate his personal fortune (he was the world's richest man in 2008) to philanthropy—inspiring a clutch of other billionaires to follow suit.

Immelt is a less obvious, but still valid possibility. He has added $23.6 billion in shareholder value since the beginning of the year. Taking the helm of General Electric just four days before 9/11/01—and under the long, long shadow of Jack Welch—he had his share of difficulties leading up to and in the early days of the financial crisis.

But he proved more than equal to the task of saving and addressing what is perhaps America's most iconic business. In the process, he managed to put GE in the forefront of any number of "businesses of the future"— including a substantial commitment to developing what he calls the Industrial Internet, which has the capacity to change the way all businesses operate.

Ford Revival

Few would argue that Alan Mulally rescued and revived the Ford Motor Company in grand fashion. Mulally said no thank you to a taxpayer bailout, while the other two-thirds of the Big Three threw shareholders and some bondholders to the wolves, ceding ownership to the government and the unions. In the wake of the bailout, many Americans cited Ford's unwillingness to take a handout as reason enough to give Ford an edge in their purchasing decision. Since the dark days of November 2008, Ford shares have rebounded more than ten-fold.

But what truly transformed Ford was Mulally's "One Ford" vision, which has changed the Ford Motor Company's entire approach to global manufacturing. Taking lessons learned at Boeing building one of man's most complex inventions, the modern jet aircraft, Mulally dramatically changed the automaker's culture and approach to the marketplace. He reduced a score of auto platforms to a mere handful, yielding enormous advantages and savings that restored Ford to profitability well ahead of historical competitors Chrysler and "Government Motors." One Ford has only just begun its transformational work. There are tremendous opportunities for further gains to be more fully realized by Mulally's successors.

Bezos remains only a possibility, but an intriguing one. As the top Internet retailer and developer of the Kindle and now owner of *The Washington Post*, he has changed the way we all shop and read. He also has a captivating way of challenging himself and all of us, such as his recent $250 million purchase of the highly influential D.C. paper. Will this "dreamer with deep pockets," as one wag put it, be able to reinvent and even save print journalism? Time will tell.

IMPLICATIONS FOR BUSINESS: The vast bulk of any CEO's legacy will be of their own doing, reflecting their wisdom, accurate decision-making, charisma, and courage. But not all. Recognition and perspective on one's accomplishments is not nearly as organic and automatic a process as most CEOs assume. Jack Welch, for one, could have taught a doctoral course in establishing and rigorously advancing a persona in the media. A strong vision is important, but the ability to motivate, care, innovate, and maintain high ethical conduct are also essential.

DID YOU KNOW?

The world's tallest skyscraper is now being erected in the Chinese city of Changsha. When completed, it will rise 202 stories or 2,746 feet, containing a hotel as well as office and residential space.

BANKING: WHAT TO EXPECT

Five years after the collapse of Lehman Brothers, one thing is clear: Reports of the death of Wall Street were greatly exaggerated.

There is no doubt that much has changed for the Masters of the Universe and the firms they call home, given the public outrage and some legislative and regulatory constraints. But from a broader standpoint, it is not the change to the global financial system since the crisis that is notable, but rather the lack thereof.

Some of that lack of change is attributable to inertia: The U.S. political system and regulatory apparatus is unwieldy and slow.

Several of the results of the reform effort may come into view in the coming year. Richard Cordray was finally confirmed as the permanent director of the new Consumer Financial Protection Bureau. Also. the banking industry will likely encounter a more aggressive watchdog in the months ahead. The watershed restructuring of the derivatives market will probably take something close to full effect in January of 2014, at which point rules requiring central clearing and exchange trading of many products will be implemented.

But most reform efforts remain a work in progress. U.S. banks have already made considerable headway in meeting new capital requirements imposed by the Basel III accords. Those requirements have caused domestic and global banks to adjust their business models by scaling back capital-intensive and risky businesses. But there is much more to be done on that front—with both additional equity raising and cost-cutting still ahead.

The industry is complaining that a new proposal to toughen capital requirements on big banks even further will stifle lending and slow the economic recovery.

Three years in, the high-profile Volcker Rule—in which the authors of Dodd-Frank sought to prohibit banks with retail deposits from engaging in speculative “proprietary” trading—is, quite frankly, a mess. While some major banks have shuttered “prop trading” desks and off-loaded private equity and other operations, regulators trying to finalize the rule seem paralyzed by arguments about how to distinguish speculative trades from essential functions like market-making and hedging. At this point, it is impossible to predict when and if the rule will take effect, and if so, whether it will have any impact.

Meanwhile, given the glacial pace at which regulators in Europe are tackling these issues, any chance of coordinated regulation at a global level seems to have slipped away.

IMPLICATIONS FOR BUSINESS: Progress in beefing up capital reserves and restructuring derivatives markets notwithstanding, most experts are skeptical that reform efforts have substantially reduced systemic risk and decreased the odds of another collapse. There is no doubt that the business models of the global banks and investment banks have been altered, reducing industry-wide profit margins and returns-on-equity. But cyclical market conditions are playing a big role, with trading levels in the equity and debt capital markets stuck in a protracted slump, M&A is starting to rebound and investor capital still sitting on the sidelines, is poised to move. As the regulatory process grinds ahead in the months to come, it will slowly begin to become apparent whether banks’ retreat from risk will be permanent or if bankers will discover new and innovative ways to enhance returns—as they have so many times in the past.

DID YOU KNOW?

Of the latest, census-estimated 8,336,697 million residents in the five boroughs of New York City, Brooklyn is the most populous. Some three million, or 36 percent of the total, are foreign-born, mostly of Hispanic and Asian origin.
As many as 800 different languages are now spoken in the city.

THE COMMON CORE AND THE FUTURE OF AMERICAN EDUCATION

Few topics in our political culture inspire as much concern and panic as the quality of American education. The panic is bipartisan. Even the party in power agrees that American education is falling behind—or, at the very least, that other nations are catching up.

Over 20 percent of high school graduates do not achieve basic reading competency, while 60 percent graduate without the ability to understand complicated texts. In the 2010 National Assessment of Educational Progress, only 23 percent of fourth graders were able to identify George Washington as our first president.

To address this crisis, the National Governors Association and the Council of Chief State School Officers have launched the Common Core State Standards Initiative, which could be the most important educational innovation in half a century.

The Common Core is not a curriculum. Rather, it is a cumulative, skills-based approach to college and career readiness, a set of guidelines for what American students at every grade levels should know about mathematics and English language arts. It names the skill, but it does not dictate how students should learn the skill.

National Benchmark

The Common Core provides a national benchmark for student attainment and achievement. To date, 45 states and the District of Columbia have adopted the standards, which should be in-effect for the 2014-15 academic year. But the controversy is just beginning. For starters, the Common Core is the first concerted effort in two decades to define "what it means to be a literate person in the 21st century."

In the early 1990s, President George Herbert Walker Bush and Congress attempted to redefine the content and methods of American education by creating standards for a range of subject areas. Their efforts stirred open "culture war" hostilities.

Suspicions over ideological bias continue to haunt most attempts at educational reform. In the current polarized political climate, President Barak Obama's steadfast support of the Common Core has been a liability as much as an asset.

Although the Common Core was conceived and developed during the administration of George W. Bush, most states signed on to the standards in 2009 and 2010, when Obama linked "Race to the Top" funding to state adoption. Critics of federal power, including Tea Party activists, continue to question Obama's vocal advocacy, his dedication of $360 million to the preparation of Common Core assessment testing, and his continued attempts to tie federal funding to states' participation in the initiative.

Critics on the left have been equally strident. They consider the Common Core a misplaced priority, pointing out that the education gap in this country mirrors the income gap, an economic divide that cannot be solved with well-intended guidelines.

Then there are concerns about potential intrigue at the highest levels of the nation's educational testing enterprise. David Coleman, the prime writer and the public face of the Common Core, has recently assumed the presidency of the College Board, the membership organization of high schools and colleges that creates the SAT and the Advancement Placement exams. This appointment gives Coleman unprecedented influence on the standardized testing industry as the Common Core, the SAT, and the AP begin to share leadership and resources.

Criticize Standards

But the most controversial aspect of the Common Core is the standards themselves. Critics say that the math standards are not high enough and that they lack the necessary rigor. Critics of the English standards say that they divert too much student attention away from classic works of literature.

According to the standards, by the end of high school, 70 percent of a student's total reading in all classes should be nonfiction. Opponents of the Common Core fear that it will reduce literary study. Some predict the end of Shakespeare in our classrooms.

As of this writing, five states have agreed to adopt the Next Generation Science Standards, a set of companion guidelines organized by the National Research Council, the National Science Teachers Association, the American Association for the Advancement of Science, and Achieve. Like the Common Core, the Science Standards are already attracting opposition as they encroach upon the politics of climate change and evolution.

The prime factor in the success or failure of all of this will be political will. Governors will face enormous pressure when the Common Core is enacted in 2014. An unlucky governor will wake up one morning, after the assessment tests are administered and graded, to find his or her state at the bottom of the national standards barrel. Several others will find their states at the low end of the achievement spectrum, far lower than they had hoped.

IMPLICATIONS FOR BUSINESS: Many constituencies are now aligned in their hope that the Common Core will fail. Whatever one feels about this issue, a better-educated workforce is a plus for business. And there is one major sector that remains optimistic and focused on success: Educational publishers are preparing for a windfall. We need to get Common Core or another similar system right—and soon. The future workforce depends on it.

DID YOU KNOW?

Among this nation's vast college population, 46 percent, or 13 million undergraduates, attend thousands of community colleges around the country. Typically, Indiana's Ivy Tech now has over 200,000 students of all ages studying at 30 different campuses across the state.

UP, UP, AND AWAY FOR CEO PAY

CEOs now earn 273 times as much, on average, than their employees. In 2012, an average chief executive officer at a publicly traded corporation earned $14.1 million, nearly a 13 percent increase over the prior year. If you thought that stockholders were finally getting through to corporate boards on the subject of reining in pay, think again.

These stratospheric pay packages—including salary, bonus, benefits, stock, and option grants—ranged from $96.2 million for Larry Ellison at Oracle to $11.1 million for Dan Akerson at General Motors.

Also, stock options have tip-toed back into pay packages under a different name—performance-based restricted stock—linked to a company's shareholder return. Investors favor shareholder return as a measurement because it gets to the heart of why they own a stock. An investment officer for the grant California State Teachers Retirement System stated: "We do like total shareholder return because that is how we pay their beneficiaries."

Public companies may be forced to disclose how much more their CEO is paid than rank-and-file workers under a new rule to be proposed by the Securities & Exchange Commission (SEC.) Many corporations may, nonetheless, oppose the ruling's pay-ratio mandate, holding that the information will be difficult to compile and not be significantly material to investors. Supporters, on the other hand will assert that the data could help investors to monitor corner office pay and employee morale.

IMPLICATIONS FOR BUSINESS: To a considerable extent, this huge pay gap represents a serious problem for corporate America, and not only with investors. During the decade from 2002 to 2012, the average annual wages of most American workers were either stagnant or declined. In an era of widely-acknowledged wealth and income inequality, plus a still stubbornly high unemployment rate, public perception (and reaction) to frequent and detailed reports about the eye-popping compensation of so many CEOs is a negative. This is especially underscored when those reports contain data—as they often do—about much lower remuneration in previous decades. Significant backlash, beyond the SEC move, may be looming.

THE AFFORDABLE CARE ACT MARKETPLACE GOES LIVE OCTOBER 1

Despite ongoing congressional opposition, on October 1, one of the signature pieces of the Patient Protection and Affordable Care Act, also known as Obamacare, is scheduled to go live.

Here is what one needs to know.

Beginning in October, some 50 million uninsured Americans, or about 20 percent of the U.S. population under 65, as well as individuals and small businesses, will be able go online to purchase health insurance among a variety of plans through largely federal, but also state and jointly-run health insurance exchanges.

How many people will enroll is open to debate and could be influenced by a variety of factors. These include the new "individual mandate," requiring all individuals to have health insurance in 2014 or be subject to financial penalties. A major political, campaign-like public education campaign is being launched to explain the exchanges and the need to enroll with Obama and Biden leading the charge.

While vigorous partisan debate continues over the Affordable Care Act, including attempts by Republicans to tie defunding the program to ongoing funding of the government and raising the debt ceiling, the exchanges will mark a major step forward toward implementation.

Already in place are prohibitions against denying coverage for pre-existing conditions, eliminating lifetime limits on coverage, maintaining children on insurance policies until the age of 26, elimination of co-pays for some preventive health services, and establishment of Medicare Accountable Care Organizations in which compensation is based on success in overall population health management versus fees for individual medical services.

Also coming in 2015 is a mandate for employers with more than 50 employees to provide coverage. The employer mandate was pushed back a year to allow businesses more time for clarification of its rules and implementation, which include fines up to $3,000 per employee if they do not offer affordable insurance.

Coming in 2018: A tax on so-called "Cadillac" plans, which actually will include not only high-benefit plans for corporate executives, but unions, public employees, and others who have plans with strong benefits.

IMPLICATIONS FOR BUSINESS: While we can expect a lot more partisan debate and political posturing over the Affordable Care Act, there are a number of important implications for business that need to be assessed.

1. How will the new marketplaces affect traditional employer-sponsored plans? The percentage of Americans who receive their health coverage from employers fell from 70 percent to 60 percent in the past decade. Ideas being looked at include employers paying a set amount of money to employees and allowing them to buy insurance through the exchanges. This may be particularly attractive to employers to offer to their retirees and part-time workers. In fact, major employers like IBM and Time Warner Cable recently have announced plans to use exchanges for retirees.

2. Companies such as Aon Hewitt have been setting up private exchanges where employees can choose from a variety of plan options. Initial research has shown this can help reduce costs.

3. Will companies near the 50 employee-limit only hire part-timers and those slightly over the limit hire more part-time workers? While several restaurant chains such as Darden, owner of Olive Garden and Red Lobster, and Papa John's, have suggested this option, they have softened their stance in the face of a widespread public backlash.

4. Employers need to start thinking now about the "Cadillac" tax set to go into effect in 2018. A 40 percent excise tax will be imposed on employer-sponsored plans that exceed outlays of $10,200 per year for individuals and $27,500 per year for families. While the limits will be adjusted for inflation, look for many employer-sponsored plans to cross the threshold.

MEDICAL ADVANCES

Incredible amounts of effort and money are going toward healthcare and extending life, and many leading figures are part of this effort.

Healthcare spending now accounts for more than 18 percent of GDP in the United States. That said, there are fewer physicians per capita in the U.S. than in most other OECD countries. In 2010, the United States had 2.4 practicing physicians per 1,000 population, below the OECD average of 3.1 On the other hand, there were 11 nurses per 1,000 population in the United State in 2010, a higher number than the average of 8.7 across OECD countries.

The number of curative care hospital beds in the United States was 2.6 per 1,000 population, lower than the OECD average of 3.4 beds. With that perspective, consider these positive developments:

Handheld Scan For Melanoma: Thousands die each year from this deadliest form of skin cancer. A new FDA-approved handheld device uses imaging technology developed by the military to analyze moles and suspicious skin areas. The device correctly identified 98 percent of melanomas in a trial of 1,300 patients.

All-In-One HIV Drug: Truvada, a mix of two antiviral medications, is now the first drug-based way to prevent infection against the virus among healthy people. Studies showed high-risk individuals lowered their chances of testing positive when taking the drug.

Lab-Grown Body Parts: Thanks to stem cells, patients in need of a new trachea can grow their own. Synthetic micro fibers and a bath of stem cells removed from the patient's bone marrow were used to seed the cells. Such procedures represent the future of regenerative medicine in which stem cells of all kinds, including those made from patients' own skin cells, can serve as the basis for generating any type of cell or tissue that needs to be replaced or repaired.

Dogs Sniff Out Low Blood Sugar: A recent study showed that 17 "glycaemia alert dogs," trained by a charity, detected early signs of low blood sugar in owners by observing changes in breath or sweat. Alerting actions included licking, pawing, jumping, starring, barking, and even fetching a blood testing kit. Dogs alerted owners when their blood sugar was straying out of target range. The dogs were correct in a notably high percentage of cases.

Amid this progress, there remain serious concerns that: a) more coordination is needed; b) some drugs which seem to counteract problems are not available around the world; c) there is too much of a watchdog focus on issues in healthcare—doctors bring bought off by "Big Pharma;" attitudes focusing on abuse rather than care; and d) increasing specializing among doctors so that the primary care physician is merely a coordinator of specialists.

IMPLICATIONS FOR BUSINESS: The U.S. has still not fully recognized the full impact of Obamacare. What is clear is that if individuals care more for themselves and do proper research, they can help relieve their suffering and possibly extend their lives. All this will affect the costs of doing business.

DID YOU KNOW?

While most Americans receive their health coverage funded by employers from a great number of private health insurers, large and small, at least one-third of those employers providing such coverage are self-insured.

WE ARE LIVING LONGER / OLDER FOLK STAYING IN THE WORKFORCE

As the longevity of Americans increases, birthrates decline, and advances are made in healthy aging, the face of the American workplace will change. Consequently, many aging Baby Boomers—particularly those who face financial challenges as they approach retirement age—are planning to stay in the workforce. Some prognosticators say Americans will be working into their 70s, 80s, and possibly 90s.

Long-term projections indicate that by 2050, 20 percent of the nation's population will be over 65, up from the current level of 13 percent of the total.

As the workforce continues to age dramatically, the number of workers over 55 has increased from 13.1 percent in 2000 to 19.5 percent in 2010 with a projected increase to 25.2 percent by 2020.

The implications of this trend are substantial. Older workers can provide valuable knowledge and work experience. Employer surveys have shown that companies view them as more reliable and loyal than their younger counterparts.

However, they are also thought to be more costly, with higher wage levels and health insurance costs. As one expert, writing in the *Harvard Business Review* described the situation: "Seniority-based pay sometimes exceeds performance at the later stages of the life cycle."

This means U.S. businesses will have to adapt. One approach is called "lateral redevelopment," whereby older workers will assume new roles in positions that require broad knowledge, maturity, and strategic thinking. Because there are fewer members of Generation X in the workforce, Baby Boomers will also be called upon to pick up the slack—at lower wage levels.

These trends are expected to provoke inter-generational squabbling as the 78 million members of the Millennial Generation try to displace Baby Boomers who are reluctant to leave the job market.

A positive benefit of an older workforce is that the federal tax contributions (Social Security, income taxes, etc.) of older workers will be an estimated $27 trillion more than previously anticipated. Additionally, government outlays to retirees could drop by as much as $600 billion because less will be taken out of the overall Medicare and Social Security funds.

In another development, many retired employees are beginning their own businesses and entering new ventures in the second half of life. An AARP survey found that half of the 76 million Americans over 50, who are approaching retirement, want new livelihoods involving entrepreneurship.

IMPLICATIONS FOR BUSINESS:

1. With increased longevity and declining birth rates, companies that are accustomed to looking for young, new talent will have to give serious consideration to retaining and recruiting older workers.

2. Companies will have to create an "age-sensitive" culture that prohibits ageism and encourages a multi-generational workforce.

3. Policies promoting mandatory retirement will come under increasing scrutiny as the face of the workforce gets older.

4. Older workers will have to be "repurposed" to meet the changing demands of business and to help fill in the gaps created by fewer members of Generation X.

DID YOU KNOW?

The Daily Show with Jon Stewart averages 1.4 million viewers in the 18-49 demographic range;
The Colbert Report, 1.1 million viewers;
The Tonight Show with Jay Leno, 1 million viewers

THE GREAT EXPERIMENT WITH AMERICAN NEWSPAPERS

Unprecedented changes are underway in the American newspaper business and the results will affect how people get and act on news and information.

It is well known that radio and television get most of the news they report from print media, which still employ hundreds of reporters and editors, and that what appears on the Internet is most often opinion and not news.

One direction being taken is to focus on local news, which is sought after by readers. If this takes off, expect significant shifts in advertising.

That said, very rich people are starting to dominate the newspaper business. Amazon founder and chief executive, Jeff Bezos, has purchased *The Washington Post* for $250 million. Bob Woodward, an associate editor at the *Post*, said recently the paper spends about $100 million a year on its news collection operation. He thought that under Bezos that figure might double or even triple.

Clearly, the decision by Bezos to purchase the *Post* from the Graham family is not the transformative transaction that Steve Case, the one-time head of America OnLine, boasted he saw in January, 2000, when his company merged with Time Warner Communications.

Merger Was Praised

Pundits were quick to buy into Case's description of the marriage between old media and new media as the wave of the future. That never happened, of course. When the subject of the merger comes up these days, more often than not Case is remembered as the father of a truly awful business deal.

It would be convenient to assert *The Washington Post* deal is much like the one Rupert Murdoch struck to purchase the assets of Dow Jones, including *The Wall Street Journal*, a property Mr. Murdoch had desired for years. His News Corp recently announced the sale of a collection of community newspapers for an undisclosed amount.

However, the differences are profound. Rupert Murdoch continues to pursue print. With the exception of his Australian newspapers, few of Murdoch's print assets are profitable. But, until recently, that did not mean much because the newspapers had access to profits generated by News Corp's other media holdings, most notably FOX, which generates more than $1 billion in profits.

Warren Buffet, another very wealthy man, owns a number of newspaper companies through Berkshire Hathaway, the conglomerate he controls. All of his papers focus on local news. Buffet was never mentioned as a potential buyer of the *Post.*

Buffet did two long stints on the *Post's* board of directors, was a close friend and advisor to Graham's mother, Katharine, and has said: "We believe that papers delivering comprehensive and reliable information to tightly-bound communities and having a sensible Internet strategy will remain viable for a long time. We do not believe that success will come from cutting either the news content or frequency of publication. Indeed, skimpy news coverage will almost certainly lead to skimpy readership.... Our goal is to keep our papers loaded with content of interest to our readers and to be paid appropriately by those who find us useful, whether the product they view is in their hands or on the Internet."

The Sulzberger family model at *The New York Times* embraced a strategy that is both national and international in scope and focus, and which could lead to the creation of online editions in other languages. Success of this strategy might require significant increases in the price of the print edition as well as a continuation of the online paywall.

Wealthy men like Ron Burkle and many more are looking at purchases of dozens of media properties. And families and chains like A.H. Belo, McClatchy, Lee, and Hearst are all now in heavy discussions about what to do next. We are in a shake-out period.

IMPLICATIONS FOR BUSINESS: Should Bezos come up with a winning formula, to the extent possible, it likely will be emulated throughout the newspaper industry. The implications for advertisers—both online and offline—of a Bezos success will be profound. Conversely, if he stumbles, the deterioration of the newspaper business will continue. Silicon Valley is most impressed with the sector's impact and influence, but its salutary effect on the economy has, arguably, been negligible. Should Bezos fail with the *Post*, the Internet's influence will likely take a hit.

WOMEN IN BOARDROOMS: IT'S GOOD FOR BUSINESS, BUT THE US LAGS BEHIND

The issue of gender diversity in the boardroom of U.S.-based companies is at a crossroads. Many CEOs get pressure from investors on the shortage of women board members. Some respond positively, but most insist it is a supply issue, claiming there are simply not enough "qualified" women to fill the seats.

The United States lags far behind countries like Norway, France and Germany which have passed legislation requiring companies to have 40 percent of board members be women.

It's hardly likely that such a law will be enacted here, however. And while about two-thirds of boards are filled through networking, most women simply do not have the same quality networks men have. So, the outlook isn't promising.

Yet the argument for companies increasing gender diversity in their boardrooms is compelling. Typically, 50 percent of the staff of American companies is female, and women make 70 percent of household purchasing decisions for big-ticket items. It seems counterproductive, therefore, for senior management to leave women out of the corporate decision-making process.

Vivian Redding, the European Union's Commissioner of Justice, has launched an effort on the continent to identify qualified women board candidates. She is working with the Forte Foundation and has created The European Business Schools/Women on Boards Task Force to focus on women who might be qualified. One of the guidelines is to avoid "the usual suspects." Look for a version of this in the U.S. to be duplicated.

IMPLICATIONS FOR BUSINESS: Diversity in corporate governance is essential for competing effectively in the 21st century and it is perfectly consistent with best management practices.

Expect progress in this area and companies that make headway to be applauded.

DID YOU KNOW?

Margaret Chase Smith, a Republican from Maine, was the first woman elected to the U.S. Senate back in 1949. Today, there are 20 U.S. woman senators.

RENEWABLE ENERGY: STILL A LONG WAY OFF

According to the latest scientific data, heat-trapping carbon dioxide in the atmosphere has reached an historic high of 400 parts per million. Whatever one's opinion may be about the causes of climate change—natural or man-made—few will dispute that major climactic events are increasingly being witnessed everywhere around the world. Destructive hurricanes, tsunamis, and tornadoes, raging wildfires, record heat waves, rising sea levels, melting Arctic glaciers and perma-frost, and much more.

Nonetheless, the use of carbon-producing fossil fuels—oil, coal, and natural gas—keeps rising, reflecting huge demand from fast-growing, developing economies in Asia and Africa, while the use of renewable, clean energy sources is comparatively small.

Natural gas, it should be noted, has, indeed, earned the approval of many pragmatic environmentalists as a stop-gap measure, generating about half the carbon dioxide coming from coal and oil.

Here in the U.S., in a move to become energy efficient, production of fossil fuels has taken off, employing a drilling technique known as fracking, opening up vast new energy sources in deeply-buried shale rock. Domestic production is now at its highest level ever.

The bottom line for the immediate, foreseeable future is that fossil fuels, now an estimated 75 percent of total usage—rather than renewables such as wind, solar, hydro, and bio fuels—will continue to be the overwhelmingly dominant energy source.

There are, to be sure, pro-nuclear greens, but despite financial support from the federal government and pressures from some business quarters, pollution-free nuclear energy seems stalled at present levels of about 19 percent of total consumption from 100 operating reactors. Two new plants are now under construction.

In addition to safety and nuclear waste disposal issues, the astronomic costs, plus long development time of new plants, continue to be formidable barriers. Though a nation like Germany announced it intends to get out of its nuclear power business, others such as China are building new reactors at a record pace.

As for renewables, their use in the U.S. is, inarguably, growing steadily, but the fact remains that, today, they represent only about 6 percent of total usage—and most of that comes from water at dams.

IMPLICATIONS FOR BUSINESS: In the short run, of course, cheaper costs of fossil fuels are a critical consideration for business, but the long-term implications of climate change for future generations must also be weighed in the balance.

THE LOSING WAR ON DRUGS

The decades-long, extremely costly, largely ineffective "war on drugs" is slowing down after huge expenditures, countless deaths, pervasive criminality, prisons bursting at the seams, and what appears to be relatively little impact on the sale and consumption of illegal drugs in this Country. A recent survey by the authoritative Rasmussen pollsters found that 82 percent of respondents across the country agreed the nation was losing the battle against these outlawed substances.

The prison population in the U.S., often close to two million—1.6 million in 2012— is overflowing with "druggies" for what many regard as minor offenses. This far eclipses the incarceration figures of other nations. Even though its crime rate has been declining steadily, the U.S., with only 5 percent of global population, still has about 25 percent of its prisoners, perhaps half of the drug-using and selling inmates in federal prisons at an annual cost of some $55 billion. Harsh "three strikes" laws and the elimination of federal parole have only compounded the problem.

Recently, however, the Justice Department announced a major change in its prison policy. Federal prosecutors will now no longer charge low-level, non-violent offenders with crimes that trigger what the Department termed "draconian," mandatory minimum sentences.

Due to budget shortfalls and seriously over-crowded conditions, states like California have begun to release inmates before their formal sentences have been completed. Some state courts are starting to substitute treatment of many drug offenders for incarceration while no less than 20 states (from Alaska to Washington) plus the District of Columbia have decriminalized the possession and use of marijuana for medical purposes. Washington State and Colorado also recently passed legislation allowing recreational use of small amounts of marijuana.

Needless to add, opposition to ending, or even curtailing, the war on drugs, remains formidable—especially from church groups and many concerned public officials. Another powerful adversary is the growing private prison industry where two large companies now dominate the sector. Estimates place the number of inmates in privately-run correction institutions at about 10 percent of the total. Nonetheless, because the war on drugs is not succeeding, the trend to alternative solutions is rapidly accelerating.

IMPLICATIONS FOR BUSINESS: Drug usage and abuse by employees has been a problem for many private companies, pushing up healthcare costs while negatively impacting productivity. Since the longtime battle against controlled substances has often only exacerbated illegal drug usage, a less punitive, treatment-focused approach could make a substantial difference in coping with the nation's drug dilemma and also help trim local, state, and federal outlays dealing with the issue. Underscoring the latter benefit, New York City spent no less than $167,000 last year for every inmate imprisoned in local jails.

"The Secret of Change

Is to Focus All of Your Energy,

Not on Fighting the Old,

But on Building the New."

- Socrates

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