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Opinion

The accepted truth is wrong: Obama has won

The deficit deal wasn't a defeat for the Democrats. They've dragged Republicans on to dangerous ground

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And the winner is... Barack Obama. America's flirtation with self-inflicted government bankruptcy may have revealed an unprecedented mutual loathing between politicians on the Left and the Right, but there is one point on which Washington's chattering classes agree: the deal was disastrous for President Obama and progressive politics.

From outside the self-referential hothouse of Washington and Wall Street, a very different conclusion can be drawn: the deal was a stroke of strategic genius creating the best possible spring-board for President Obama's 2012 re-election campaign.

Washington's descent into near anarchy has been a public relations disaster for the Republican leadership in Congress. The adjectives overwhelmingly favoured by voters in a weekend poll to describe the antics were "ridiculous" and "disgusting". While Mr Obama will suffer from being perceived as vacillating and weak, his willingness to compromise is unlikely to repel centrist voters, especially when contrasted with the asinine stubbornness of the Republican leaders, now routinely described as extremists and fanatics.

But these presentational benefits for Mr Obama are minor in comparison with the substance of the battle, which on close inspection turns out to be very different from the headlines.

Starting with the economics, the cuts have been misunderstood in four ways, all favourable to the White House. First, they are much smaller than they look.

While \$2.1 trillion sounds enormous — equivalent to some 15 per cent of GDP — it is misleading. This is because American politicians have adopted a self-serving convention of cumulating budget reductions over 10-year periods. This bizarre method of accounting makes US budget reforms sound ten times bigger than they are. Had the \$2.1 trillion of cuts mandated by Congress occurred in Britain or mainland Europe, they would have been described as \$210 billion annually, or between 1 and 1.5 per cent of GDP.

No substantial cuts at all have been agreed before the 2012 election. Of the \$917 billion in discretionary cuts firmly agreed, only a fraction occur over the next two years. The budgetary zealots in Congress have given Mr Obama \$900 billion of new borrowing authority in exchange for around \$20 billion in cuts.

The ten-year accounting gimmick allows US politicians to "back-load" unpleasant measures into the "out years" of their budget plans in the second half of the decade, while taking credit for them immediately.

The second piece of good news is that the outcome is unlikely to damage

The deal is unlikely to damage the prospects of economic recovery

the prospects of US economic recovery — which would have wrecked Mr Obama's chances of re-election. The US economy will experience nothing like the reversal of Keynesian fiscal stimulus now seen in Britain.

One of the main impediments to confidence has now been removed. The possibility of a Lehman-style nightmare must surely have caused businesses to delay decisions on investment and hiring, weakening economic performance just at the time



A step forward: only a fraction of cuts will occur before the election in 2012

when the world economy was expected to start recovering from the shock of soaring oil prices and the Japanese earthquake. The US could now benefit from some pent-up activity, as deferred hiring and investment goes ahead.

A third reason for the US Left to celebrate is that Republicans have reluctantly agreed to take half the mandated cuts from defence, while exempting many of the Democrats' welfare and medical programmes.

Moreover, Mr Obama's one truly historic accomplishment — the creation of a universal healthcare system that had eluded all Democratic Presidents from Truman to Clinton — is secure against Republican attacks. The Tea Party has spent its capital in



the default battle. Another such titanic struggle, over Republican attempts to "de-fund" or financially sabotage "Obama-care", is hard to imagine.

Finally, the Left's complaints about an "unbalanced" package, with all the fiscal retrenchment based on cuts and none from higher taxes, can easily be answered. President Bush's tax cuts, introduced "temporarily" in 2002 and repeatedly renewed for short periods, will expire in December 2012, when Mr Obama will still be President. If, as is likely, an attempt is made to extend them, he will be able to veto them and generate a bigger increase in revenues than all the cuts combined.

Which brings me back to the politics and the implications of Mr Obama's victory, which the Washington

chattering classes have largely missed. The President's image has certainly been hurt in the short-term by his seemingly passive and defensive behaviour. But Mr Obama's retreats and feints have achieved a strategic objective. They have dragged the debate on to electoral territory far more favourable to him than to any Republican rival. He has drawn the Republicans into advocating such unpopular policies as raising the retirement age and virtually abolishing public healthcare.

The Republicans have had to concede that budgets cannot be balanced simply by cutting waste and fraud. Voters have been forced to recognise, for the first time since President Reagan, that the Government must either raise taxes or drastically cut the three enormous programmes accounting for the bulk of public spending: defence, pensions and healthcare for the retired.

In short, the choice faced by voters in next year's election will not be between Democrat national bankruptcy and Republican fiscal responsibility. It will be between two different ideals of society.

Mr Obama will present a vision in which adequate pensions and public services are funded by raising taxes on corporate jets, oil companies and rich bankers, each of which the Republicans vetoed in the budget negotiations. Meanwhile, the Republican candidate will offer to cut pensions and healthcare so as to reduce taxes for millionaires. Anyone dare to predict the winner of this contest?

You, the editor

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