

THE TIMES | Wednesday November 16 2011

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Opinion

America turns its face away from extremism

While Europe stumbles from crisis to crisis, confidence and compromise are back in fashion across the Atlantic

Anatole
Kaletsky



Financial markets and business confidence around the world remain surprisingly stable, given that Europe is suffering its "toughest hour since the Second World War", in Angela Merkel's words. It may be that investors and businessmen are deluded. But there could be another explanation: while Europe tears itself apart, America has finally begun to pull itself together. Since early October the US has experienced a modest turnaround in economic statistics — and there are signs of improvement in US politics that are even more important and surprising.

After July's flirtation with the first debt default in American history, President Obama's approval rating has slowly but steadily recovered to 45 per cent — higher than that of previous presidents in comparable conditions of national distress and giving him a reasonable chance of re-election if the economy shows even a moderate improvement. And if Mr Obama loses, it will almost certainly be to Mitt Romney, a lifelong moderate with strong links to Wall Street, whose record, if not rhetoric, reveals a broadly similar approach to Mr

Obama's on most issues, including even the creation of universal healthcare systems managed by the government at state or federal level.

The Republicans now seem much less likely to nominate one of the fringe candidates with such bizarre ideas as the abolition of the Federal Reserve Board or the erection of a lethal electric fence along the entire Mexican border. Moreover, if the Republicans did pick a Tea Party favourite, opinion polls now suggest that they would probably lose not just the White House, but Congress too.

In short, US politics seems to be moving rapidly back towards the centre in response to July's near-breakdown of government and also, perhaps, to the Occupy Wall Street movement. The

The squatters on Wall Street have changed the debate about tax

squatters may have been evicted from their tents in Manhattan yesterday, but they have succeeded in drawing attention to the enormous widening of US inequality with their slogan "We are the 99 per cent".

This seems to have changed the terms of debate in America, especially about the Republican taboo on taxing the richest 1 per cent, who now receive 23 per cent of national income, a share that has trebled since the late 1970s. Since the median US household has had almost no real gains in income

over this 30-year period, the Republican strategy of always opposing all taxes, even on the richest, has been badly shaken by the spotlight on this issue.

My sense that US politics is at a turning point was strongly reinforced during a week in Washington recently, talking to mid-level operatives in the engine rooms of the White House, Capitol Hill and the lobbying firms of K-Street. Everyone I spoke to was gloomy about the economic outlook, but there was not the despair about ungovernability and polarisation that I had encountered on my previous visit, just before the summer budget stand-off. Even more strikingly there was nothing like the defeatism in Europe and Britain about the prospects for growth and political revival.

US politicians simply do not accept the view of the post-Lehman economy, taken for granted in Europe and on Wall Street, that after a great financial crisis, growth will inevitably remain subdued for years, if not decades, during which time mass unemployment and falling living standards become facts of life.

How then will America respond? In the long run, by what Franklin D. Roosevelt called "bold persistent experimentation". If printing money and running enormous deficits does not work, it will surely try other radical measures to cut unemployment, although whether these will involve more or less government intervention will depend on next year's election.

In the year between now and the next president's inauguration in

January 2013, it is fairly clear what the US will not do. Congress will not pass President Obama's \$450 billion jobs Bill or any other significant fiscal stimulus. But nor will there be any substantial spending cuts or tax increases. January 2013 is the earliest date for any of the provisions in last July's multitrillion budget deal to come into effect. It turns out that, despite all the sound and fury in the

The prospects for a bipartisan deal have now greatly improved

summer stand-off, both sides were able to ensure that nothing would happen to upset their voters before next November's election. So for 12 months the US economy will experience neither substantial stimulus nor contraction — the private sector will have to sink or swim on its own.

However, some big decisions will have to be taken before then — and they could transform political and business psychology from next week on. Next week is the deadline set in the debt deal last July for a bipartisan super-committee to reach agreement on \$1.2 trillion of budget cuts that Congress must either accept or reject in full, without scope for amendments, filibusters or any of the other ruses that normally paralyse Washington. If the super-committee cannot reach agreement, across-the-board cuts will be automatically implemented from

2013 onwards, including cuts in the Pentagon budget.

In the heat of the budget battle, a bipartisan deal seemed out of the question, because Republicans refused to contemplate tax increases while Democrats insisted on a "balanced package" that included at least a dollar of tax increases for every two or three dollars of cuts. In the past few weeks, however, the prospects for a balanced package have greatly improved as public opinion has shifted in favour of taxes, especially on the very rich.

The turning point, according to several people from both parties, was the Republican candidates' first TV debate. All the speakers agreed that controlling the budget deficit was essential for America's wellbeing. But all were reminded of their promises to the Tea Party not to raise any taxes under any conditions. The candidates were then asked if they would accept a budget deal that raised taxes by just \$1 for every \$10 of cuts. All instantly answered "no" — and the audience of Tea Party activists cheered ecstatically. That was perhaps the moment when the Tea Party lost touch with public opinion and America's political recovery began.

You, the editor

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