

November 7, 2012

Politics and Markets

David E. McClean, PhD

What Now, Mr. President?

Mr. Obama has been buffeted by his critics for having no grand plan for the next four years. This is largely because the next four years will be spent, in large part, shepherding legislation he supported and signed into law during his *first* four years. The Affordable Care Act may have been passed into law in 2010, but it had been under serious threat until the Roberts Court found a way to split the difference, finding that the individual mandate is not a violation of the Commerce Clause of the US Constitution. Still, certain Republican governors, such as **John Kasich** (OH), are making noise about not cooperating with the insurance exchange plan mandated under the Act. Opposition such as this may abate, however, now that the election results are in.

The President must also continue to shepherd to a final conclusion the federal interventions effected via the Troubled Asset Relief Program (TARP), including controlled divestment by the federal government of its equity interests in private institutions. He must also be prepared to work closely with Congress and the Fed to shape fiscal and monetary policies that are optimal, and that includes applying the brakes on **Mr. Bernanke's** "QE Infinity" program when it becomes clear – hopefully not too late – that the brakes must be applied in order to avoid a nasty period of inflation. This will be a high wire act, to say the least.

None of these housekeeping matters make for great political theater. They are a far cry from **Newt Gingrich's** moon bases, for sure. They are yeoman's work, but as such they are necessary. The reports out of Europe are that many Europeans are happy with Mr. Obama's re-election largely because there will be no policy upheaval of the sort promised by **Mitt Romney** – and certainly no moon bases.

But more than yeoman's work awaits, and it is rather unattractive work that does not make for good political stump speeches (which is why it was never a part of any). The President will need to address the so-called fiscal cliff, which in my view is no more than a theoretical threat. The election means that it is almost certain that the extremist libertarian voices on the far right will no longer be heeded, and something like the **Simpson-Bowles** plan will almost certainly be forthcoming. All the talk of going off the cliff is not much more than a way to titillate news and politics junkies who need to have something to talk about, and traders who are adept at making a buck or two from all the fear and noise. The real discussion concerns the sorts of new revenues and spending cuts that will be part of the final deal.

The country has a public debt problem and a budget deficit problem, for sure. But the real bear that Mr. Obama will have to face is the structural deficit. While there may well be a new (albeit forced) comity between Democrats and Republicans, look for a concrete plan to impose means-testing on Medicare



and Social Security, enshrouded in high rhetoric and moral language concerning the odiousness of our passing our woes to future generations. Means-testing and, perhaps, a raising of the eligibility age for certain benefits, will be the easier sell. Harder proposals as regards entitlement programs will be rolled-out toward the end of the President's second term, and will likely include proposals to directly target the public debt through the creation of new forms of revenue (a financial transactions tax, a national sales tax, and other measures will be put back on the table), and further reductions in the size of the military and security budgets will be proposed. At the same time, the President will have to work closely with the states to address the country's urgent infrastructure needs (although, this should help reduce unemployment, which in turn will generate new tax revenues to help pay for new infrastructure spending). By that time, most of the President's new political capital may well have been spent (even should unemployment fall to 7 percent or less). It will be up to his successor to implement any new policies to address the nation's structural deficit issues.

It is no accident that in his acceptance speech Mr. Obama reminded the country that democracy is self-government, and that we must begin to take our individual roles as citizens more seriously. Look for a new Kennedy-like call for each of us to "ask what you can do for your country." The country has, in many ways, been waiting for a national leader to challenge us to rise to the occasion, and make the sacrifices that are not only needed but that would bind us together as a nation and end the polarization that emerged in the decade preceding Mr. Obama's first term. Mr. Obama will get credit for a new age of cooperation and citizen-sacrifice (civic republicanism?) if he can pull off this call, but he will in fact be riding the wave of a new civic-mindedness borne largely out of necessity, rather than raw persuasion. Either way, it will be good for the country, and our allies will be relieved to see a more responsible, chastened, and civic-minded America emerge out of years of war and care-free consumption.

If Mr. Obama is successful with all of the preceding – even if only modestly so – he will most certainly go down in history as one of America's greatest presidents – one who led America into a post-consumerist, post-nativist, more civic-minded, and more frankly-pluralist and internationalist era. The key word is "if."

Yet, there remain other pressing problems that Mr. Obama must address with whatever dwindling political capital he has set aside, and some of these will require deft rhetoric and serious coalition building to resolve. The wealth gap threatens to undermine the civic ties that bind Americans into a self-consciously single political community. It is not extremist to say that the wealth gap may eventually lead to street violence (or worse – sporadic domestic terrorism), rather than calm and disciplined encampments and demonstrations such as we saw in the Occupy/99 Percent movement. The best way for the President to address this, without depleting too much capital at once, is to involve the private sector and other non-governmental institutions as partners in the effort – calling on them to step-up their assistance with job training, literacy programs, career development, corporate mentoring, and (and here I will coin a phrase) "Aggressive Action" rather than mere Affirmative Action – all of which will be designed to pull more people up economic ladders into real careers in business as well as in the not-for-profit and government sectors. Corporate/organizational mentoring and partnerships (such as that offered by **Year Up** and similar organizations) will be key, and the benefits for this will redound to the benefit of both the institutions involved as well as to the tax base.



Mr. Obama will also need to do more to directly target the disparate educational experiences of students across the country. No, the problem with the quality of K-through-12 education is not going to be solved by money alone, but neither will it be solved without it. All across the country, schools are funded by local property taxes, and there is a strong correlation between the level of funding and school success. This is well documented. But more than money will be needed. School district consolidations and different sources of revenue for underperforming schools also need to be considered, and there must be a new realization that treating failing schools often requires treating whole communities, many of which work as drags on the educational performance of the children who reside in them.

Finally, an issue that is politically difficult to touch, but which must be touched nevertheless, is the problem of the mass incarceration of American citizens. The prison population in this country has exploded, largely since the so-called "war on drugs" began in earnest some thirty years ago (although it was **Richard Nixon** who coined the phrase). The so-called war on drugs is a failure in itself, and the costs do not nearly approximate the benefits. There are now some 2.4 million Americans behind bars, and over 5 million more under "community correctional supervision." Many of these people are in the system because of drug offenses. In the early 1980s, only 350,000 Americans were in prisons across the country. As reported by journalist **Fareed Zakaria**, in *Time* magazine, "Over all, there are now more people under 'correctional supervision' in America – more than 6 million – than were in the Gulag Archipelago under Stalin at its height." And because of the new prison-industrial complex, which now includes private prison corporations, the number is only likely to get worse before it gets better.

The so-called war on drugs has corralled millions into the prison system, including many persons with first-time or minor drug offenses. These persons have been exposed to things they should not have been exposed to – not for mere or minor drug offenses. They have been branded felons, and the brand destroys, kills. It follows them for life, and it makes finding jobs and even housing extremely difficult. I concur with many who argue that the mass incarceration of American citizens is the hidden civil rights and moral catastrophe of our time, especially since many of those who have been caught up in the system are young people of color, especially young men, whose life prospects are so diminished because of their prison sentences and their felony convictions that they will be permanently marginalized by society unless something drastic is done to reclaim them, and welcome them back into full citizenship. Marginalization of millions of America's citizens is bad for the country. It breaks souls, and broken souls have no incentive to serve the interests of their communities, or the country that has broken them.

So Mr. Obama won, but the difficult policy challenges he is now facing may, at times, make him wish that it was his rival who prevailed on November 6. Still, if anyone seems up to the tasks and challenges, if for no other reason than his willingness to address those challenges without ideological biases or blinders, Mr. Obama is that person.

Let us all come together, and wish him well. And, if you are so inclined, even send up a prayer for his success. I know I have.



Copyright © David E. McClean, 2012. All Rights Reserved. "POLINITICS" is a trademark of David E. McClean. An application for trademark protection has been filed with the United States Patent and Trademark Office. "POLINITICS" has been used in trade and commerce by the owner since 2002. Visit www.polinitics.com for archived commentaries and to subscribe.