



**ADDRESS TO THE STUDENTS OF ICAM**  
**THE OBAMA ADMINISTRATION'S SECOND YEAR IN**  
**OFFICE**

**BERTRAND RIOUST DE LARGENTAYE**

Institut catholique des arts et métiers  
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**BERTRAND RIOUST DE LARGENTAYE** is Counsellor to the Permanent Delegation of the European Commission to the OECD and the UNESCO.

*The views expressed in this article are the sole responsibility of the author.*

**P**resident Obama remains far more popular abroad than he is at home where his poll ratings have fallen from 62% when he took office to 45% in September. The choice of multilateralism over unilateralism is in his nature and is part of the explanation. The award of the Nobel Peace Prize remains controversial but was probably better understood in the rest of the world than in America.

He has been seeking a bipartisan approach to the problems besetting America, but his endeavours have not met with much success: the polarisation of Congress has seldom been as great as it is today. There has been a streak of opportunistic obstructionism in the Republican Party.

The administration's agenda in 2010 was focused on implementing the main planks of candidate Obama's 2008 campaign platform, but there were also, of course, some unforeseen events to cope with. The most spectacular one was BP's oil spill in the Gulf of Mexico, the worst ever in America. The President reacted strongly and practically forced the oil company to put \$ 20 bn aside to cover the clean-up efforts. Another consequence was that all offshore oil exploration was shut down. The drilling moratorium was only recently lifted, after the relevant legislation was tightened.

We will first see how Obama's second year in office has been a year of achievements, after a slow start in his first year, which had left many of his supporters yearning for results, anxious to see him deliver. We will then turn to the reasons that have dented the President's popularity, starting with unemployment. And we will close by taking a look at foreign policy, at the way the administration has gone about re-assessing America's place in the world.

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## **1. A year of achievement**

President Obama's second year in office has been a year of accomplishments. Most of the promises made during the 2008 campaign were translated into legislation. The large majorities in both houses of Congress did not spare the administration some protracted negotiations due to the lobbying of the relevant vested interests. In the end some of the President's most prized pieces of legislation had to be seriously watered down. We will look at the flagship health care bill, and at the new financial regulation bill, or Dodd Frank Act, before considering a number of other measures which attracted less attention and gave rise to less opposition.

### **1.1 The flagship health care bill**

The main purpose of the health care bill enacted back in March was to give Americans something very close to universal health coverage which, seen from a European perspective, would seem to be pretty innocuous, pretty uncontroversial. Everyone is now required to buy health insurance, something which is known as the individual mandate. The health care reform bill planned an end to lifetime caps on insurance payouts and guaranteed that insurance must be offered to all, without discrimination on the grounds of pre-existing conditions.

But America being America, the health care bill proved controversial. For various reasons, which the medical profession and the pharmaceutical industry did little to dispel, most Americans were actually against the Administration's health care bill. The bill was depicted as the thin edge of the wedge in a process leading to socialised medicine, and socialism of any sort is not a popular cause to espouse in America. There were campaigns against «death panels», the idea that, under the proposed legislation,

panels of government officials would be meeting to decide on life-or-death matters, such as whether a patient should, or should not, be administered some expensive life-saving medication.

In the end the bill went through, though not without having lost some of its initial features. Most prominent among those was the so-called public option, the idea that medical coverage would be offered not only by private companies but also by a specific public sector entity. This is not without precedent: the Veterans' Administration extends public medical coverage to America's veterans. But this was turned down as was the extension of coverage to abortion.

What remains unclear is what the impact of the bill will be on the cost of health care in America. One of the strongest arguments used to criticise the situation of health care in America before the bill was its extravagant cost, around 16% of GDP, coupled with mediocre results. Most health indicators showed America trailing Western European countries by a wide margin in terms of life expectancy, and other relevant criteria. When you factored in the considerably lower cost of health care in Europe, typically in the 9-11% GDP range, you could not escape the conclusion that in this field at least Europe was far more efficient than America. By reaping economies of scale, and exercising greater control over pricing decisions, the new legislation was supposed to rein in costs. But this has turned out to be the weakest part of the new law: as things now stand, the reining in of costs appears to be more of a declaration of intent than a foregone conclusion.

## **1.2 The new regulatory framework for financial markets**

The Dodd Frank Act enacted in July and named after the chairmen of the financial services committees in the Senate and House respectively set out to offer a new regulatory framework for financial markets. The watering

down of what could – or of what should – have been some of its central provisions did not come as a surprise: hundreds of Wall Street lawyers and other lobbyists had descended on Washington to make sure that the new financial regulation bill, the Dodd Frank Act, did not go too far.

We will first look at the general thrust of the new law and then at the new regulatory bodies that have been set up. Finally we will take up some of the criticisms that have been levelled at the new legislation.

Following the fall of Lehman Brothers and the subsequent de facto freeze on interbank lending, many banks found themselves in dire straits. Commentators, referring to their balance sheets, were saying, only half in jest, that on the left there was nothing right, while on the right there was nothing left. Stress tests were presented as a way of determining how resilient American banks were to extreme conditions, in other words how likely they were to fail in the event of another financial crisis, or how exposed they were, though others saw them merely as a way of obscuring the banks' true condition. The administration set its eyes on the reform of banks' capital requirements and on a review of the regulatory framework in which they operated. Both the Security and Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC) won extensive powers to police the derivatives market under the Dodd Frank law. The new law has also expanded the Fed's responsibility for financial stability.

A number of new regulatory bodies have been put in place, such as the Bureau of Consumer Financial Protection, the Financial Insurance Office and the Financial Stability Oversight Council. The Office of Financial Research will help monitor systemic risk.

But the Dodd Frank Act has not brought about the structural changes in the financial markets many had hoped for. The «too big to fail» banks have not been broken up. In particular, the «Volker rule», announced by President Obama in January 2010, which was intended to prevent banks from using taxpayer backed funds to speculate on financial markets, and to give up their stakes in hedge funds and private equity funds, had been severely watered down by the time it was signed into law. Some of the legislative reform proposals have been shifted to the regulators for their consideration. In general terms, the critics point out that the banks have escaped any wide ranging regulation when many of them should have been put into receivership in the first place. James Galbraith argued that the systemically dangerous banks should have been turned over to the Federal Deposit Insurance Corporation (FDIC), which would have insured the depositors, replaced the management, fired the lobbyists, audited the books, prosecuted the frauds and restructured and downsized the institutions. Instead management stayed in place. No one was prosecuted and the Fed cut the cost of funds to zero. The banks threw a party. Reported profits soared as did bonuses. With free funds, the banks could make money with no risk, by lending back to the Treasury. Following a number of mergers, the big banks have never been as powerful as they are today.

### **1.3 The extension of tax cuts and other measures**

Turning now to a number of other measures associated with President Obama's second year in office, we should perhaps start with the fate of President George W. Bush's tax cuts. The present administration's plan was to extend those tax cuts, except to the richest 2% of Americans. If the administration had had its way, which was far from a foregone conclusion, but would have made good on a campaign pledge made by Mr. Obama in 2008, the top tax cuts – which reduced the tax rate for individuals earning more than \$ 200,000 and for couples earning more than \$ 250,000 from 39

to 35% - would have expired at the end of the year. In the end the pressure was too great. The President finally backed down after Senate Republican leader Mitch McConnell sent a letter vowing to hold not just the President but the entire government hostage by blocking all legislation until the Bush-era tax cuts were extended to the top 2 percent of American households. A two year across-the-board extension, costing some \$ 800 bn, will now be enacted and will be accompanied by a one year extension of unemployment benefits to two million out-of-work people, at a cost of \$ 60 bn, as well as by a 2% cut to employee payroll taxes in 2011, costing about \$ 120 bn. Mr. Obama also imposed a two-year freeze on civil servants' pay.

Another important measure had to do with the motor industry. General Motors and Chrysler were both rescued. General Motors was reorganised and then quickly returned to the private sector.

Supreme Court appointments can be seen as a lasting legacy of any administration since the justices are appointed for life. Two women have been appointed by the Obama administration, Ms. Sonia Sotomayor and Ms. Elena Kagan.

All in all this has been a very productive year for the Obama administration. According to the Wall Street Journal (September 8) «No Administration since LBJ's in 1965 has passed so much of its agenda in one Congress.» There are only two important items of the 2008 platform that remain in the in-tray, climate change and immigration policy. And perhaps one should add the closure of the Guantanamo detention centre.

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## 2. Yet a slow recovery has taken its toll

The Obama administration's achievements have not translated into record ratings for the President, quite the contrary. His popularity as we shall see is far from where it stood when he took office. The main reason for this is persistent high unemployment. We will turn our attention to this before looking at other expressions of American discontent. And we will close this second part of the presentation by focusing on the Tea Party.

### 2.1 The persistence of high unemployment

Unemployment has not been contained despite a record government stimulus which, we shall argue, was fully justified, and it has severely damaged the poll ratings of the President and his administration. The Great Recession officially ended more than a year ago in America, but unemployment has kept on rising because of the slow pace of recovery. The rate of unemployment in America is a much more important factor in determining who wins the next election than it is in Europe. The unemployment rate has been above 7% only four times in a presidential election year since World War II – and in three of the four the incumbent lost (Ford, Carter, the first Bush). Reagan did win in 1984 with an unemployment rate of 7.2%, but the rate was falling rapidly, from a high of 10.8% two years earlier. Because of the number of new arrivals on the labour market, the economy must grow by at least 2.5% per year just to maintain the rate of unemployment. The current growth rate of about 1.2% is not enough to stop unemployment from increasing. Since early August, Obama's approval ratings have been negative (56% disapprove of his conduct in office). 62% of Americans are worried about the future and stores are deserted.

The rise in unemployment has taken place despite an unprecedented peacetime stimulus to the economy from the government. The stimulus

package amounted to \$ 862 bn, which led Larry Summers to predict that it would keep the jobless rate below 8 %. In making that forecast, the Obama White House took the responsibility for the entire excess of joblessness above eight percent. They made it impossible to blame the ongoing disaster on George W. Bush. In fact, with unemployment at 14.6 M, the rate is now close to 10 % (9.8%) and that is not including an additional million that has stopped looking for work and the 5 M that are working part time. Almost half of the jobless have been out of work for more than six months, the highest share since the Depression. The stimulus package targeted a number of areas, including infrastructure (Eisenhower's interstate highway system, for instance).

What was the economic rationale for the stimulus? As the saving propensity of the private sector rose abruptly in the wake of the financial crisis, not least because of the intense de-leveraging taking place in the banking sector, the government had to step in to compensate by dis-saving, i.e., by increasing its spending relative to its income, in order to prevent economic activity from collapsing. Personal savings as a percentage of personal disposable income were about 1% in 2005 and are now around 6%; between 1 March 2008 and 30 June 2010, households reduced their debts by \$ 473 bn. In 2008-2009, for the first time since the 1930s Depression, consumer spending fell in real terms for two consecutive years. Americans' net worth is now about 490% of their disposable income, as against 440% in the worst months of the crisis, and yet, according to some economists, their balance sheet repairs are only half completed, as they seem to be reaching for a level of 540-550% of their income. The stimulus in any case only accounted for part of the budget deficit. The surge in the budget deficits wasn't mainly the result of deliberate efforts to stimulate the economy. Indeed, the main factors were a collapse in tax receipts as the economy slumped and secondarily a rise in automatic payments like unemployment insurance benefits. In the United States, the two year federal deficit over 2009-2010 will be around \$ 2.5 tn. The Obama stimulus plan accounts for

less than a quarter of that. And the Centre on Budget and Policy Priorities calculates that the extended Bush-era tax cuts to which we referred earlier will contribute by far the largest share to the next decade's deficits – ahead of the recession's drain on tax revenues, Iraq and Afghanistan war spending, and Obama's stimulus.

America has always been known for the flexibility of its labour market, thanks in part to the mobility of its workforce. As a consequence it has never invested heavily in active labour market policies, aimed at facilitating the match between supply and demand. America spends only 0.17% of its GDP on active labour market policies, such as training and job search, far less than the OECD average. This may have to change as labour market flexibility is no longer what it was.

Turning the economy around will of course involve more than just implementing active labour market policies. Investment and consumption will have to change gears. And the Obama administration has said it would like to double America's exports in five years.

## **2.2 Other expressions of American discontent**

Foreclosures and rising inequality, which means America's middle classes are being hard pressed, both have to do with the discontented atmospherics of present-day America. We shall look at these issues and then move on to ask an awkward question, having to do with the kind of backing Mr. Obama received two years ago and with the objective position he is in as a result of having accepted that backing.

The IMF estimates that 11 M properties in the United States are worth less than the mortgages secured on them and that 7.6 M of these are heading for foreclosure or are at risk of it. 2 M homes are already in foreclosure.

The house is worth less than the outstanding loan for \$ 800 bn worth of American properties. One in four American borrowers are under water, that is their debt is worth more than their assets. Over four million households owe at least twice as much as their home is worth. The state of the housing market (if you cannot find a buyer for your old home, you cannot move to a new one) combined with negative net worth of their houses is keeping many Americans from moving: the share of people moving house from March 2007 to March 2009 was the lowest since figures were first collected in 1947; the share moving across state borders, at 1.6%, was half that in 1999-2000. Geopolitical mobility, one of the American economy's strongest assets, has taken a hit. Foreclosures, however, could be on the brink of a major scandal. It appears that many repossessions have not been properly documented and this has led to a considerable slowing down of the process, holding up the clearing of excess inventory (sales of foreclosed homes accounted for 24% of the second quarter total, according to one estimate): foreclosures had been taking place with the help of forged documents and perjured affidavits. One can instinctively understand that the securitisation of housing loans must have made the identification of the mortgage holders much more difficult: as it turned out, the record-keeping was indeed questionable, including the recording of title.

Rising inequality together with the prospect that for the first time the standard of living of the next generation of Americans could end up falling short of the standard of living of today's Americans have both been fanning the winds of discontent. The middle class's real income has been falling for at least fifteen years.

Some people point at what they see as a major inconsistency between what the President has to say on these matters and the kind of political debt he owes to groups who are objectively on the other side of the divide on this issue. How, they ask, can you strive for progress, presumably meaning more social justice, including reduced income inequality, while at the same time

enjoying the support, not least the financial support, of America's wealthiest (Wall Street, Hollywood, lawyers...) and while knowing that these people, thanks to carefully crafted loopholes in the legislation and with the help of their lawyers, hardly pay any taxes at all? Obama spent \$ 730 M in his presidential campaign in 2008 as against McCain's \$333 M. It is true that 70% of Wall Street political contributions went to Obama in 2008 but it is also true that two years later, this year, 68% of those contributions have been going to the Republican Party. The uneasiness of the progressive wing of the Democratic Party also has to do with the closeness of the links to Wall Street of some of the senior members of the President's economic staff and with the emphasis on flooding the banks with liquidity when there are so few borrowers to on-lend to. Businesses mostly have no investment plans. And homeowners are, to an increasing degree, upside-down on their mortgages and therefore unqualified to refinance. The money, one can argue, could have been put to more productive use if it had been made directly available to those most in need, be they the unemployed, the states or local authorities. Conservatives tend to point to the lack of people with a business background in the higher ranks of the Obama administration, but the progressive critics of the President's economic policy denounce the closed circle of bank friendly economists and Bush carryovers that Mr. Obama chose. Men such as Larry Summers, Tim Geithner and Ben Bernanke, they say, had larger stakes in protecting their own past decisions and their own professional futures than in staging an early recovery or in enhancing the electoral appeal of the Democratic Party. A crisis of this magnitude, they point out, beckoned for new people who could make a difference by being able to break with the past and to override old decisions. A recently released film, «Inside Job», looks into these issues. It depicts a government beholden to an interest group, namely the financial industry. Back in 1802, Jefferson had written:

*«I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to*

*control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake up homeless on the continent their fathers conquered.»*

Jefferson, or William Jennings Bryan, or FDR for that matter, would not easily recognise the way the Democratic Party is handling the banking industry today.

### **2.3 The rise of the Tea Party**

The rise of the Tea Party is perhaps the most significant feature of the polarisation of American politics we have been witnessing in the last few years.

The Tea Party takes its name from the Boston Tea Party which served as a prelude to the American Revolution. It was a revolt against taxation by the British and, more specifically, against the idea that taxation could be decided without the consent of those who were called upon to pay the taxes: «no taxation without representation» became a battle cry of the American Revolution. Today's Tea Party is a populist, libertarian, anti-establishment movement, the bedrock of which is made up of angry, small business owners. The Tea Party is a grassroots mutiny against big government. The Tea Party has been infiltrating the Republican Party in what amounts to a takeover bid, with the backing of former Vice Presidential candidate Sarah Palin. The Tea Party has endorsed candidates to run against establishment incumbents in a number of Republican primaries.

The Tea Party sees itself fighting an excessively intrusive government. It wants to downsize the government and, to do so, it takes aim at its budget deficit and at the national debt. Federal spending as a percentage of GDP is now at 24%, up sharply from 18.2% in 2000. The percentage of Americans

living in households receiving some government benefits has risen from 29.6% in 1983 to 44.4% in 2008. Government spending on benefits as a percentage of total outlays has risen from 2% in 1945 to more than 64% today (\$ 2.4 tn). The government ran a \$ 1.26 tn deficit for the first eleven months of the fiscal year; the deficit has reached 10% of GDP, far above the previous peacetime record. The federal debt has increased by \$ 3 tn in two years. It stood at \$ 8.9 tn last August, or about 60% of GDP. If you add in the Treasury debt held by America's pension scheme, the national debt reached \$ 10 tn back in September 2008.

The President appointed an 18 member bipartisan deficit commission, co-chaired by Erskine Bowles and Alan Simpson, ten months ago to look at the problem. It reported just before Thanksgiving, that is two weeks after the mid-term elections, proposing a number of quite radical measures to turn the government's finances around. The panel's report, titled «The Moment of Truth», offers a prescription for reducing deficits by nearly \$ 4 tn by the end of the decade, which would get the federal debt down to 60% of GDP by 2023 (on present trends it would grow to close to 100%), in large part by slashing domestic and military spending. The plan also recommends raising taxes by nearly \$ 1 tn by 2020, primarily by eliminating or reducing cherished breaks such as the deduction for home mortgage interest, the tax-free treatment of employer-paid health insurance and preferred rates for capital gains and dividends. It also calls for a 15-cent-per-gallon increase in the federal gas tax. The top income tax rate for individuals and corporations would be lowered to 29% or less from 35%. Future retirees would face significant sacrifices, including higher Medicare premiums and a later retirement age. The early retirement age would rise to 64 from 62. In deference to liberal concerns, Bowles and Simpson have strengthened protections for workers in physically demanding jobs who might find it difficult to delay retirement, recommending that the Social Security Administration develop an exemption for up to 20% of new retirees. Please recall that America's Social Security, established under the New Deal, is

only responsible for pensions: its remit is not as wide as Europe's social security systems.

What was not clear before the 2 November mid-term elections was how much damage the Tea Party could be inflicting to the GOP by pulling it too far to the right. Many a working class supporter of President Obama in 2008, who had grown disappointed because he risked losing his job, or because he had actually lost it, or because his mortgage was worth more than his house, could, or so it was thought, abstain rather than vote for a Tea Party candidate. In the event very few Tea Party candidates were defeated and the Republicans did take over the House of Representatives.

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### **3. Re-assessing America's place in the world**

Let us turn now to the third and final part of this presentation, having to do with how the new administration has gone about re-assessing America's place in the world. We will look first at the issues raised by nuclear disarmament and by the arms limitations treaties. We shall then move on to conventional warfare, putting an end to America's combat mission in Iraq, and looking for ways out of the never-ending war in Afghanistan. Finally we will focus on the elusive Arab-Israeli peace settlement. So it will be a selective approach to what the present administration is doing in the outside world, with an emphasis on security matters.

#### **3.1 Non-proliferation and nuclear arms reduction**

Recent times have not proved easy going for the American President. The Asia trip met with mixed reviews and its final days were dominated by a

visible setback on the US – South Korea Free Trade Agreement and a G- 20 discord on how to handle global trade imbalances. A sudden and unprovoked artillery attack on a South Korean island, Yeonpyeong, by North Korea raised new questions about the future stability of North East Asia. Added to that there has been the exposure of the contents of American diplomatic telegrams by WikiLeaks. But in a way all this can be seen as the day-to-day events any foreign policy has to deal with. Nuclear arms and the arms limitation treaties are different and are in a category of their own. The administration has launched a serious effort to salvage the non-proliferation regime. It intends to deter nuclear proliferation as an essential stage on the way to the nuclear free world the American President said he was aspiring to in the speech he gave at Prague last year, giving rise to echoes of a meeting between Presidents Reagan and Gorbachev in Reykjavik some twenty years earlier where the complete abolition of nuclear weapons was discussed.

Let us turn our attention to START, the strategic arms reduction treaty. The latest START, or «New START», between Russia and America, builds on previous arms-cutting deals, with a proposed 30% reduction in each country's arsenal, to a maximum of 1550 warheads, and various modifications to the inspection regime used to enforce such limits.

Mr. Obama submitted New START to the Senate, which must approve all treaties by a two thirds majority, in May. The foreign relations committee held twelve hearings on it and blessed the treaty in September by a solid bipartisan majority of 14-4, including three Republicans, Richard Lugar and Bob Corker among them, before sending it to the full Senate for ratification. But after Sarah Palin asked for more consideration of the proposed treaty, the Senate majority whip announced there would not be enough time to properly consider the treaty before the end of the lame-duck session.

The Senate approved the original START treaty 93-6, and the most recent nuclear arms deal with Russia 95-0. But this time ratification is far from assured. And if the administration fails to get the New START missile treaty ratified by the Senate because of Republican opposition, Russia could well revert to its hostility towards NATO plans for missile defense.

New START is strongly supported by every NATO member in part because it is seen as a prelude to negotiations with Russia over cutting tactical nuclear weapons in Europe. NATO has already reduced its tactical nuclear weapons in the region by more than 85% since the early 1990s. It now has only 200 free-fall bombs, stationed with American and allied aircrews in five countries, compared with several thousand Russian warheads. At its recent two day Lisbon summit, where the allies endorsed a new strategic concept, NATO agreed that it would remain a nuclear alliance, but Germany is determined to get rid of the nukes it hosts, regardless of any talks with the Russians.

What to do with Iran remains the great unanswered question. Should the way forward be engagement (Mr. Obama's «extended hand») or should it be confrontation? Mr. Obama entered office promising not to let Iran build the bomb. Last June the UN Security Council adopted another sanctions resolution – the fourth – calling on Iran to stop enriching uranium, which means America succeeded in detaching China and Russia from Iran. America was somewhat unsettled when two of her traditional allies, Turkey and Brazil, did not follow its lead at the UN and opted for a more conciliatory approach towards Iran. The world was taken aback when the telegrams posted by America's embassies abroad, exposed by WikiLeaks, revealed that Israel was not the only country in the region to favour a hard line against Iraq: countries on the other side of the Gulf from Iran were just as alarmed at the prospect of a nuclear-armed neighbour. Meanwhile Iran admitted that a computer worm, presumably the mysterious Stuxnet,

had disabled some of its centrifuges, used to enrich uranium, for a while. Last week one Iranian nuclear scientist was killed and another wounded by unknown assassins.

### **3.2 Iraq, Afghanistan and Pakistan**

Bringing America's conventional wars to an end has meant and will mean dealing with Iraq and Afghanistan and probably also with Pakistan. American combat troops left Iraq at the end of last August. That month more than 20 car bombings and other attacks occurred simultaneously across Iraq. Just a month ago dozens of Christians died in a massacre in Baghdad's centre. Two days later at least fourteen car bombs exploded in mostly Shia areas of the capital, killing another 100 or so people. Yet despite such recent setbacks, the burgeoning Iraqi army and police, numbering more than 400,000 in all, have been coping better. American forces still share intelligence across the board, though they have shifted many of their best people and units to Afghanistan.

America is looking for ways out of the never-ending war in Afghanistan, which has already lasted longer than any other war in US history. The NATO led mission in Afghanistan, which involves not only Americans but 40,000 allied combat forces as well, is losing public support and is costing America \$ 100 bn a year. A first review of the military operations took place in the second half of last year. The number of US troops deployed in Afghanistan has risen from 35,000 when Obama took office to around 100,000 today. The 30,000 troop surge, offered by the President as a result of that first review, was a compromise between the 40,000 wanted by the military and the 20,000 advocated by Vice President Biden, and was presented as a quid pro quo for an exit strategy. General David Petraeus, author of the US COIN (counter-insurgency) strategy in Iraq, was appointed last June to head US and coalition forces in Afghanistan. President Obama has vowed

to begin withdrawing troops in July next year, to start implementing that exit strategy, though the pace at which they will be withdrawn has yet to be determined and remains a source of considerable contention within the administration: some, reportedly led by Vice President Joseph Biden, are arguing for a less ambitious counter-terrorism (CT) campaign aimed more narrowly at Al Qaeda. There will be another formal review this month, by the administration, of how the COIN strategy is working. The Dutch and the Canadians are withdrawing and other NATO allies are reluctant to commit more forces. At Lisbon, on 20 November, NATO nonetheless committed itself to stay the course in Afghanistan. The plan is to increasingly hand responsibility for security to Afghan national forces. The aim is for the transition to be complete by the end of 2014.

The Pashtun are a community straddling the border between Afghanistan and Pakistan. The Taliban are an Islamic group dominated by the southern Pashtuns. With Pakistani backing, they controlled most of Afghanistan between 1996 and 2001. After 9/11, the Americans invaded Afghanistan and drove them from power. They reconvened either side of Afghanistan's border with Pakistan and started a new holy war. The Taliban, well supplied with money and arms by their leaders held up in Pakistan, now control large parts of southern and eastern Afghanistan. Pakistan shows no interest in driving the Afghan militants from its territory.

### **3.3 Israel / Palestine**

Having decided to push for peace early in his presidency, Mr. Obama has recently allowed himself to be humiliated by the intransigence of Israel's Benjamin Netanyahu. President Obama won great credit for making Israeli-Palestinian peace a priority on his very first day in office, declaring it a national security interest of the US, and for appointing the elder statesman of the Northern Ireland effort, George Mitchell, as his special

envoy. The administration began by demanding that Israel cease all settlement building in the occupied West Bank before any talks could begin. But the US did not stick to its demand: it eventually compromised on a partial, temporary freeze. In March, Vice President Joe Biden was greeted with the announcement of more house building in East Jerusalem. The administration concluded that confrontation was bearing little fruit and as Mitchell's prominence waned, the veteran US mediator Dennis Ross has gained influence: his approach to Israel has been much more conciliatory, excessively so according to many observers who denounce its unreciprocated generosity. In this apparent move from sticks to carrots, the administration also smoothed the path for Israel's OECD membership earlier this year.

Meanwhile, Israel has been forfeiting the support of one of its few traditional allies in the region, namely Turkey, a development which has not been helpful from the stand point of American diplomacy. Last May, nine Turkish nationals, one of them also an American citizen, lost their lives when Israeli commandos boarded a Turkish ship, the «Mavi Marmara» to prevent it from reaching the Gaza strip.

The peace talks in Washington in September were interrupted after barely a month by the resumption of settlement building by the Israelis in the occupied territories, following a two month freeze. The talks have been criticised for not being based on anything solid: there are no terms of reference, no letter to the parties as there had been before the Madrid conference of 1991, no parameters laid out by the Americans as there had been before Camp David in 2000. The two sides are just meant to get on with it.

And Mr. Netanyahu is now insisting that the Palestinians recognise Israel as a Jewish state. The Palestinians fear that this would pre-empt their claim to a right of return of refugees and that such an acknowledgment could condemn their Arab-Israeli brethren, living in Israel, to second class

citizenship. Many Palestinians are now pushing for the UN to raise their country's status in the organisation from that of an observer to that of a fully fledged member, though such a move would probably run into an American veto.

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Team Obama is changing. A number of the President's top aides have been leaving Washington in the last few months. Larry Summers, director of the National Economic Council, and the President's chief economic co-ordinator, returned to Harvard. Rahm Emanuel, the President's chief of staff, has gone back to politics in Chicago. Christina Romer, chair of the Council of Economic Advisers, went back to teach at Berkeley. The budget director, Peter Orszag, has also left Washington, and been replaced by Jack Lew, as has General Jim Jones, the national security adviser. So the President's brain trust is no longer what it was back in January 2008.

The next two years should be mostly about cementing what has been accomplished in the first two years, and defending it against challenges in Congress and in the courts. Emboldened Congressional Republicans will doubtless oppose the Obama administration on many domestic policies, but that could leave open some opportunities for co-operation on the foreign policy front.

Looking forward to 2012 one cannot help asking whether Mr. Obama will turn out to be a one term president. Will he be able to regain his 2008 constituency? The response will depend, it seems, on the answers to the three following questions.

First, will full employment, or, at least, much higher employment, be reinstated as the undisputed, foremost policy objective of this administration? A serious overhaul of economic policy is called for, involving more far-reaching regulatory reform. President Obama needs to distance himself from the banking community, the interests of which have rarely been those of the general public. He still has to show, not only rhetorically, and not least because of the way his 2008 campaign was funded, that he can dispense with those he dubbed the fat cats. FDR, in other times, understood this better than most.

Second, will the President, on a more personal level, be able to stiffen his resolve? He needs to drive harder bargains with his political adversaries. One wonders whether Mr. Obama realises this and, if he does, whether he will really be able to lean against his conciliatory and intellectual nature, always on the outlook for bipartisan compromises, to become more of a political in-fighter. Hillary Clinton's disastrous handling of her husband's health care plan, from the White House, did show that more Congressional involvement was necessary to get the reform through, but that lesson does not necessarily apply to other issues. Right now, the Democratic Party is calling for more leadership. President Obama may have to show more of his mettle when dealing with the other party (and with Mr. Netanyahu).

The third question has to do with «Obama's Wars», the title of a recent book by Bob Woodward, the journalist. After two years, it is only natural that Afghanistan has morphed from being Bush's war to being Obama's war. The question is whether an exit strategy that will not leave the country in the hands of the Taliban is still feasible, and, if so, whether it can start to be implemented next summer.

Depending on what the answers to these questions will be, President Obama will, or will not, be able to repeat Mr. Clinton's feat in 1996, when he staged a remarkable comeback.