

WHITHER OBAMA'S AMERICA?

The president seems to have blinked so often in a year in office that it has begun to worry friends and bolster the rivals of the US, says DEEPAK LAL

Barack Obama remains an enigma, both in his domestic and foreign policies. Having fought a brilliant campaign by occupying the centre and attracting many independents to his banner, he then handed over the design of his flagship health care reform to the Democrats' left wing. The predictable effect, in a country which remains by and large moderately conservative, was to frighten off the independents who had secured his election victory. They joined the "tea party" and other Republicans in the stunning defeat of the Democrats in Teddy Kennedy's Senate seat. Through various forms of arm twisting and numerous compromises and legislative sleights of hand, the massive health care Bill was passed with Obama's direct intervention, thereby saving what was beginning to appear as a doomed presidency.

But the final Bill did not tackle the two major policy-induced distortions in the working of the American private health insurance market. The first goes back to the wage and price controls introduced by Franklin Roosevelt in the Second World War. Employers tried to get around the wage freeze by offering health benefits to employees and the Internal Security Service allowed them a tax deduction, while excluding the fringe benefits from employees' income. This has led to the most serious deficiency in the US health care where employees are terrified of losing their jobs, because their health insurance is tied to it. Moreover, with the third party status of the insurers, employees have no incentive to monitor their health expenses. The simplest way to deal with this distortion, which would also have allowed many of the uninsured to obtain health insurance, is to transfer the employer tax subsidy to individual Medical Savings Accounts (see Goodman and Musgrave: *Patient Power*, Cato Institute, 1992).

The second distortion is due to the malpractice insurance doctors have to carry to avoid punitive damages inflicted by the dysfunctional US legal system. This leads to doctors recommending numerous unnecessary tests, with a consequent rise in health costs. Tort reform to remove this distortion is resisted by the lawyers who form a core Democrat constituency.

Instead, there has been a vast addition to the already burgeoning unfunded health entitlements under Medicare and Medicaid. As noted in my column, Fin cri-



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sis IV — Geo-political consequences (February 24, 2009, *Business Standard*), this was already putting the US on an unsustainable fiscal path. The addition of at least another \$1 trillion to the US fiscal deficit will make this position much worse, without in effect curing the known defects of the US health system.

The response, as US Comptroller General David Walker predicted in 2007, is to rein back the sinews of US defence which have provided the global order so essential for peace and prosperity. But much worse, instead of being "smart" as in "smart power", Obama seems to have blinked so often in a year in office that it has begun to worry friends and bolster the rivals of the US. The first such "blink" was unilaterally withdrawing the missile shield aimed at Iran under Russian pressure without getting anything in return, and in the process letting down the East European countries which were to host the relevant bases. The hope that this "resetting" of the button would lead to Russian pressure on the Iranians on the nuclear standoff has been belied most recently as Prime Minister Vladimir Putin, instead of supporting sanctions, told Secretary of State Hillary Clinton on her Moscow visit that Russia would assist Iran in fuelling the Russian-built Bushehr nuclear reactor, which Clinton gamely accepted as being within Iran's "rights".

Nor is the much-hyped recent START-II agreement worth much. President Bush, under the 2002 Moscow treaty, had already cut the number of US warheads to just over 2,000. This is not much changed by the new treaty. But, Russia has maintained its right to withdraw from the agreement if the US pursued its missile defence programme affecting perceived strategic stability. This is, of course, what Gorbachev sought in Regan's abortive attempt to eliminate nuclear weapons. Combined with Obama's promise in his Nuclear Posture Review strategy not to modernise the US nuclear arsenal, the deterrent power of US nuclear arms which has been the best non-proliferation weapon, as many countries with the ability to develop nuclear weapons have relied on the American nuclear umbrella, will be diminished. Taken together, these two prongs of Obama's nuclear strategy have made an already dangerous world even more dangerous as more states are likely to develop and rely on their own nuclear weapons.

The most heinous mistake, however, has been Obama's dithering about the Afghan war, and his West Point speech in December authorising a troop surge. But, stating that thereafter all US troops would be out by 2011. This, as Hamid Gul, the former notorious head of Pakistan's ISI, said in a recent Al Jazeera interview, "makes clear that the Taliban are Afghanistan's future, and the Americans

are its past" (special dispatch 2895, April 7, www.memri.org). It is this perception which has given heart to the Pakistan army in its AfPak strategy against India.

Do these various seeming blunders suggest that Obama is a wide-eyed idealist and a "socialist"? I think not. Though he has clearly made some dubious judgment calls most likely due to his inexperience rather than ideology, he is responding in his domestic policies to the perceived defects of the US health system and the continuing desire of the "baby boomers" not to face up to costs of the entitlement society they have created. In foreign policy, he is responding to the growing feeling in the US to bring "our boys home", and to use its resources for domestic spending.

However, the impending US failure in Afghanistan is reminiscent of the Vietnam war. The latest sign is the attempt to undermine Karzai, echoing the end of Ngo Dinh Diem. Both reflect the failure of Americans to understand other cultures and their desire to impose their own "habits of the heart" on their imperium (see my *In Praise of Empires*). Whether the impending retreat from Afghanistan, the seemingly unavoidable deployment of an Iranian nuclear bomb, and the diminished economic reputation of the US after the Great Recession mark the end of the US imperium, and the likely lineaments of the emerging world order, will be the subject of my next few columns.