



Summary of Chartwell's Breakfast Discussion, No. 37

"The Future of America"

*A discussion held at the Royal Automobile Club between
Sir Nigel Sheinwald GCMG (UK Ambassador to the US, 2007/12) and
Justin Webb (BBC Today Programme Presenter and BBC North American Editor, 2006/09).
Wednesday 14 November 2012.*

1. The 2012 Presidential Election Result

The satirical news site The Onion (www.theonion.com) summed it up well back in 2008: "Black Man Given Nation's Worst Job". This seems even more relevant in 2012.

US Strengths in 2012:

- Cheap domestic energy
- Demographics
- Innovation base

US weaknesses in 2012:

- Divided (politically and economically)
- Lack of confidence and optimism
- Weak state of the economy

The state of the economy will set the weather for US politics for the next 4 years.

2. President Obama and 4 More Years

"The Obama way" will define how the White House processes the many problems it faces: calm, deliberative, but not so far a builder of coalitions.

Something usually comes along to frustrate Presidential second terms. Ronald Reagan had Iran Contra, Bill Clinton had the Monica Lewinsky affair, George W Bush had Iraq. Too early to know what issue might derail Obama, but it could be (i) a foreign policy issue or (ii) continued domestic economic problems and market pressure.

Whether or not it is possible to reach a consensus on how to avoid the fiscal cliff will tell us a lot about America's governability, or otherwise. If the fiscal cliff is not avoided, Obama's second term may become four years of lame duck.

3. Governability

Three factors are contributing to stasis in Washington: (i) America's divided politics (ii) the scale and sophistication of lobbyists and (iii) online scrutiny and activism – the minute-by-

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minute commentary of bloggers, activists and journalists make strategic decision-making very difficult.

4. Fiscal Cliff

It looks like there are 4 possible scenarios:

- (i) No deal, triggering spending cuts and tax hikes. This is the default position and gives Obama a tactical advantage since it would achieve one of his aims: ending tax relief for the wealthiest Americans. This strengthens the President's hand during his negotiations with Republican Leaders John Boehner (House of Representatives) and Mitch McConnell (Senate). But this outcome would be highly toxic, and if it is seen to be a consequence of Obama's refusal to compromise it would make later deals with the Republicans more difficult.
- (ii) Consensus emerges, enabling a Grand Bargain. This looks unlikely given the timeframe: between now and the end of the year.
- (iii) The can gets kicked down the road, prolonging the status quo for three or six months. In a way the easiest option, but the markets wouldn't like it.
- (iv) A two stage deal: partial agreement now involving some reduction in tax relief for the wealthiest (Obama could compromise by raising the top earners' tax threshold and/or focussing on tax exemptions like mortgage relief which help the better off), and some spending cuts, but deferring the rest (and the automatic sequester mechanism) until 2013.

5. Demographics

The rising importance of the Hispanic voter is fundamental to the future of America. The Hispanic share of the vote has massively increased in the last decade; most Hispanics currently vote Democrat.

6. Social trends

American lifestyles are changing. 5% of the electorate now identifies itself as lesbian, gay or bisexual. Religious faith is declining among young people (more bad news for Republicans).

America needs to learn to be honest about the country it is, and the gap between what it perceives itself to be (pioneering, united, optimist), and what it now is (welfare dependent, divided, fearful).

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Does the blue collar worker still believe in the American dream? America's poor is increasingly being left behind. One way of creating greater opportunity (and equality) would be to improve access to college education.

7. Republican Party

The Republican Party needs to embrace multicultural America, and moderate its social attitudes, if it is to find long-term traction in modern America. Jeb Bush and Chris Christie are both possible candidates for the 2016 Republican Presidential Nomination who might provide this sort of leadership.

8. Energy

Although it will take up to 20 years to be realised, US energy self-sufficiency is a stroke of luck, and potentially transformative. Crucially, it will provide US businesses with cheap domestic energy for the foreseeable future – a fillip for the economy.

9. Foreign Policy

However self-sufficient in energy, and even as it pivots its foreign policy towards Asia, the US will remain a Middle East power because of its desire to protect Israel and restrain Iran.

10. Iran

Iran is Obama's biggest foreign policy challenge. It is likely that during the next couple of years Iran will reach the point of having enough fissile material to build nuclear weapons. Obama will spend a great deal of time trying to prevent this happening, but he will remain reluctant to authorise military action. Expect sustained economic sanctions ("stick") and perhaps more "carrot" in an attempt to break the deadlock: for example (i) an attempt to open a backchannel to the Iranian leadership – something that was attempted unsuccessfully in 2009, (ii) reassurance that the US is not working for regime change in Tehran, and (iii) recognition of Iran's regional role and influence, in exchange for a deal on its nuclear programme.

To engage either speaker, or to find out more about Chartwell's services in London and around the world, please call me on +44(0)207 792 8001 or alexh@chartwellpartners.co.uk

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