

## "MIDDLE-CLASS ECONOMICS"

January 24, 2015

THE president's annual state-of-the-union message is a ritual with certain rules. The union, for example, is almost always "strong" (only in 1975 did Gerald Ford break this, saying that things were "not good"); the president's party always cheers him; the other party does not. But the main rule is that the president never admits that he can implement his agenda only by persuading others to go along with it. Barack Obama's sixth address, on January 20th, was no exception. Indeed, it showed more than ever the weakness of the world's most powerful man.

Mr Obama's speech was upbeat. America can now "turn the page" on the financial crisis, he said. With unemployment falling, a smaller deficit and cheaper fuel, he concluded that "we have risen from recession freer to write our own future than any other nation on Earth." Pointing to increasing graduation rates, he argued that his government is doing its bit to "prepare our kids for a more competitive world". He made a case for "middle-class economics". This, apparently, "means helping working families feel more secure in a world of constant change."

On foreign policy Mr Obama was not so much optimistic as Panglossian. "Instead of Americans patrolling the valleys of Afghanistan...we've honoured our troops' sacrifice by supporting that country's first democratic transition." In Syria and Iraq, according to the president, America is "stopping ISIL's advance" – a questionable claim. Russia is weaker than a year ago, he rightly noted. But that is more because the price of oil has collapsed than because of American diplomacy.

Yet even as Mr Obama's ambition soared, the Republican congressmen facing him were a stony-faced reminder of how little he can do. Mr Obama's only reference to his party's crushing defeat in November's mid-term elections was his promise that if Congress passes a bill to undermine his health-care reform, loosen financial regulation or tighten the screws on immigrants, "it will have earned my veto."

Few, if any, of Mr Obama's proposals seem likely to become law. His tax plan, for example, involves hiking capital-gains tax on the highest earners, slapping a new levy on big banks and closing a loophole which allows capital-gains tax to be avoided when the owner of an asset dies. Closing this loophole ought to be popular, since it benefits only the rich (see chart; most family homes, the main middle-class assets, are not subject to capital-gains tax). The proceeds would be used to pay for a tax cut for people of more modest means. Yet Republicans quickly dismissed the whole package, snorting that raising taxes will hurt investment and destroy jobs.

The speech seems to herald two more years of conflict between Congress and the president. Mr Obama's domestic programme sounded like a rallying cry for Democratic partisans rather than the basis for a deal with the other side. For example, he demanded that Congress pass a law guaranteeing women equal pay for the same work – something it actually did in 1963. He called for paid sick leave for 43m people who do not get any, free community college for

qualified students, and more investment in infrastructure. Not much of this is likely to happen.

On foreign policy, the president sounded more pragmatic. He asked both parties to give him the authority to strike trade deals with Asia and Europe; an idea which Republicans are much keener on than Democrats. He also reaffirmed his commitment to opening ties with Cuba (which some Republicans oppose). And he promised to veto any new sanctions bill which might undermine his attempts to coax Iran to give up its nuclear-weapons programme, arguing that America's allies – "including Israel" – would be made safer by the deal. That provoked a furious response from John Boehner, the Republican House speaker, who immediately invited the (hawkish) Israeli prime minister Binyamin Netanyahu to address Congress.

### **Six down, one to go**

This state-of-the-union message is best seen not so much as a statement of Mr Obama's intentions for the last two years of his presidency but as an attempt to influence the election campaign of 2016. He seems to be gambling that while Republicans in Congress will obstruct him, he can talk over them – and perhaps force them to adopt some of his ideas or else be seen fighting to protect the perks of the wealthy. "Will we accept an economy where only a few of us do spectacularly well?" asked Mr Obama, daring the Republicans to say yes.

The modern state-of-the-union speech evolved as a way to boost the president: Woodrow Wilson began the tradition of delivering it in person; Lyndon Johnson had it televised at prime time in 1965. But Mr Obama's televised address was watched by just 33m Americans, the lowest number in recent history. Cable TV means that most people have more entertaining things to goggle at. A big effort to reach new viewers on the internet seems unlikely to have made up for this. (After Mr Obama's speech, he allowed himself to be interviewed by three YouTube bloggers, including one famous for trying to swallow a ladleful of ground cinnamon.)

More likely, his speech will be forgotten: much like Bill Clinton's call in 1999 for the federal surplus – remember that? – to be used to shore up Social Security (public pensions). At best, it will add to the conversation about how to help the middle class, which all presidential aspirants are keen to join. Mitt Romney, who has suggested he wants to run for a third time, is even calling for Republicans to "lift people out of poverty". Americans have two more years of this stuff to look forward to.