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This issue of *In Depth*, Volume 12 - Issue 2, is dedicated to the memory of Professor Monroe Newman, who passed away on December 13, 2014. He contributed numerous articles in the last few years and we have chosen 12 articles for this special issue.

Remembering the Life and Times of Monroe Newman

Andreas Theophanous

Professor of Political Economy and President of the Center for European and International Affairs of the University of Nicosia

Mike Newman was a remarkable man, an exceptional academic and professional with an admirable value system, very sensitive and with a great sense of humor. I had known him for over 30 years; throughout this period our cooperation, friendship and discussions were very valuable to me and I will always cherish them. I was very heartened and privileged that we spent some time together during my visit to Washington last Fall. He will be missed and he will always be remembered.

As a student I learned a lot from him; and I do remember that when he sensed that I had doubts about an issue he would take the time to further explore it with me.

I recall our long discussions about economic, political and social issues. And of course these included an exchange of historical and philosophical content and perspectives. From these I had learned a great deal about American history and politics; about the stakes of the different perspectives from the Civil War to the Great Depression and to the Cold War. We also discussed the possibilities and the opportunities created after the end of the Cold War and the frustrated hopes.

At the same time he took an interest to discuss issues of the Eastern Mediterranean, the Middle East as well as European Politics. Not surprisingly our starting points were different. And although on several occasions we maintained different positions he had a great respect for each other and our ways of thinking. Even on issues where he had a different perspective he would show a unique understanding for the opposite view. I recall that when he visited my hometown Alona – a small village in the mountains of Troodos in Cyprus - a village with a strong Orthodox Christian background, he wanted to come to church on Sunday morning to attend mass. I told him that this was not necessary but he insisted. I found this unique, as Mike was not attached to any religious denomination. I remember we discussed extensively this experience.

Mike appreciated the European Union's role and was positive in the sense that following the end of the Second World War the policies pursued and the networks of cooperation that developed led not only to economic reconstruction and prosperity in Europe but also to a huge peace dividend. But he was disappointed and concerned with the recent record of the

European Union in relation to the Eurozone crisis. Indeed, the policies pursued currently reminded him of the policies associated with the Great Depression in the US.

Mike Newman was also known for his reliability and consistency. And he was always there for his friends. Let me share with you only two incidences. I recall that in the spring of 1997 my first son, at the time two and a half years old, became seriously ill. I was deeply concerned – and I shared this with Mike. He took the plane to visit Nicosia, Cyprus and be there with us. Mike stayed for a few days and left when my son was much better.

And at the time of the discussion of a UN peace plan which was critical for the future of Cyprus in the period 2002-2004 I took a position and campaigned against it. Mike Newman came to Cyprus to see me and took an active interest in the issues at hand. I was heartened by his support and advice.

He very well knew the constraints and the difficulties of Cyprus as well as its multidimensional challenges. He warned me repeatedly about them but his encouragement and his insistence that I persist were and are still inspirational for me.

Monroe was a remarkable, indeed a unique, man who touched a great number of people and he will thus be greatly missed. May he rest in peace.

US National Elections: 2014 [Volume 11 – Issue 6, December 2014]

Monroe Newman

Professor Emeritus of Economics, Pennsylvania State University

Historically, when U.S. national elections are held during a president's sixth year in office, his (thus far always a man) party loses seats in the Congress. That happened this year to a greater degree than average. The numerically most significant result is that his party no longer has a majority in either half of the legislature.

Three general questions are of interest – Why this happened? What it means for U.S. policy? What it means to the rest of the world? At this point, primarily conjecture is possible in addressing the latter two.

Two-thirds of eligible voters did not vote in this year's election. Not voting is unfortunately common in the U.S., particularly so in non-presidential elections. But there is an element in this that the U.S. shares with the democracies of Europe – a distrust and distaste for government. It is found among older America voters, particularly white males, and among the youth for whom government has not delivered on its promise of economic independence and well-being. The high rate of unemployment that plagues Europe's youth is not as severe a problem but in the U.S. (as elsewhere) it is compounded by stagnant real wages. This is part of the growing unequal income distribution. Average real incomes in the U.S. have been stagnant for a generation and, for example, the latest data show no change in real wages over recent years. Youth do not expect, as prior generations have, that their level of income will exceed those of their parents. President Obama promised change and this has not been felt in youth's pocketbooks despite the undoubted magnitude and pace of economic recovery, something not common in Europe.

Younger voters were an important component of Obama's winning coalition but many stayed home. So did members of other generally supportive groups – single women and Hispanics, in particular. Many voting contests had candidates within 3-5 percentage points of each other and had more of his coalition voted with the President's party, the outcome might have been notably different.

In part, their absence from the voting booth was also because of promises that were not kept. This has to be ascribed in significant part to the opposition's announced policy of blocking the president's agenda. In that,

they were remarkably successful in keeping much from enactment and demonizing what was not stopped.

Credit for what did happen has to be given to Obama's opposition in another way. They got their adherents out to vote. Leaving aside such intangibles as the quality of individual candidates and the campaigns they waged, the opposition used their enormous funding to capitalize on implicit racism, distaste for government, opposition to particular policies (such as health care insurance and environmental protection) and economic malaise to make arguments that were not well countered.

The President has two more years in office. Expectations for what may be accomplished have to be very low. The opposition has achieved its victory by a six year long policy of saying "no." Not only does that presage a continuation of the policy but many of its members are committed to being anti-government, the opposite of the president's orientation. Not surprisingly, the campaign for the presidential office in 2016 began the day after this year's election. It is not likely that those who have achieved increased power will now adopt a more conciliatory or accommodative stance.

To a much greater extent than is true of domestic policy, foreign policy is the province of the president. Moreover, the present president's opposition in this field is far from unified. Some believe that the U.S. has been too reticent, too unwilling to exercise its muscle in world affairs. This faction faults Obama for too rapid withdrawal from Iraq and Afghanistan, for insufficient and belated involvement in the Middle East, for being too critical of Israel and insufficiently inflexible toward Iran, among other faults. In contrast, other opponents have less specific policy criticisms because they espouse a vague form of isolationism while still being critical of what they too see as a decline in U.S. "standing" in the world.

It is noteworthy that all these opponents are not inclined to be critical of U.S. foreign economic policy, raising the possibility that the two major trade agreements Obama has advocated may move forward, despite the fact that they are questioned by his more liberal supporters.

It is highly unlikely that the President will alter his approach to U.S. non-economic policy toward the rest of the world and, as a result, when those policies require Congressional action (such as appropriations or ratifying international approaches to global warming, for example) they may well go unsupported. Of course, game-changers are possible but they would have to be the natural disasters or violent international events that are so regrettable and not now foreseeable.

It is likely that only those Americans who oppose any actions by government will look back on the next two years with some satisfaction.

Are Better Days Ahead? [Volume 11 – Issue 5, October 2014]

Monroe Newman

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In multiple places around the world the established order is threatened. Sometimes it survives, sometimes it peacefully concedes, sometimes wrenching, horrific bloodshed occurs. Change and its possibility appear to be the order of the day.

In some ways, this is not new. A view backwards informs that those seemingly immutable national boundaries and fixed forms of government that we've known are, in fact, historically transient. Just as the continents are mobile but far, far, far more rapidly, nations and their fixed borders and institutions are also impermanent.

From this perspective, it is change which endures. Cyprus itself is an example. Over the centuries, how many rulers has it known, how many empires claimed it permanently, how many supposedly fixed institutions were obliterated?

As can be seen today, sometimes change occurs peacefully, as may soon happen in Scotland and Catalonia and did happen in Czechoslovakia, where national institutions recognize their possible impermanence.

Regrettably, these are exceptions. More common are the bloody scenarios played out in the former Yugoslavia and in Sudan, for example. Unfortunately common too are the repression (and the violent reaction to repression) that occur when minorities seek their own authority. The Kurds in Turkey and the Uighers in China know this response all too well and know how long it sometimes endures.

Given the multitudes of minorities, those societies that welcome and capitalize on diversity may be better able to avoid divisiveness. But the ability of groups to focus on differences rather than similarities is painfully legendary. Recall the history of Christianity during its 2000 years or the Sunni-Shia divide and the further contemporary divide among the Sunni if you seek evidence of differences turned into bloodbaths.

The tendency to differentiate from others is capitalized on for good and ill – but mostly for ill. This is the opportunity for the demagogic criminal. Antipathy toward others and protection of differences are typical arguments that are created and emphasized on both sides of the divide. Ancient and recent abuses, historical power relationships, real or imagined promises and conspiracies become the raw material to further raw feelings

and acts. The less powerful are victimized by those with more – whether the more powerful are nations or ethnic groups or religions – and no matter how trivial the differences are to an outsider.

As this is written, variations on this theme are being played out notably in Africa, in the Middle East, in the Ukraine. The conjunction of these most distressing events, and in particular the rapid achievements of the Islamic State and its violence and rhetoric, lead to the uneasy query about whether we have entered a new era of upheaval.

Viewing the present state of turmoil, commentators have placed emphasis on the seeming rapidity with which dissenters can be mobilized. A prime example is the outpouring of people during the Arab Spring. The common explanation is the availability of the internet and of social media. Credence to this view has been given by authoritarians of every stripe and variety, whose attempts to control use and content are evidence of the potency they ascribe to them. This may well be a correct view though prior to the internet there have been massive demonstrations, such as those surrounding the dissolution of the Soviet Union.

However, there is a prior issue. Why are people so ready to be mobilized? What leads them to answer the call, sometimes individually (as in the case of Islamic State) or in the tens or hundreds of thousands (as in Pakistan)? Perhaps part of the answer can be found in the exposure through modern communication to the better life being lived by others. Frustration can turn to rage when that comparison is compounded by governmental repression instead of fulfilled promises and further inflamed by those who seek to capitalize upon it.

Accepting this, the economist asks the question: Is it feasible under any social arrangement to provide a comparable scale of living for all to that attained by the average person in the more prosperous societies? Given our present technologies, human and non-human resources, state of the environment and the rate of population growth, the regrettable answer is NO.

The world of the foreseeable future, therefore, may be one of enlarging populations with enlarging frustrations, providing opportunities for those who thrive on divisiveness and for whom rapid, widespread communication is a boon.

The EU: Present as Prelude
[Volume 11 – Issue 3, May 2014]

Monroe Newman

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For someone of my generation, who grew up among World War I veterans and lived through the horrors that beset Europe in the 1930s and 1940s, the very existence of the EU is a most remarkable achievement. No matter what its errors and omissions, none should diminish that signal accomplishment.

But this achievement is in serious trouble. A decade after its enlargement and as elections loom, its promise is tarnished and its realities are painful.

When an outsider looks at the EU, what is seen in various countries is a young generation thwarted and probably permanently blighted, the rise of nationalism, racism and bigotry, impoverished elders, political impotency, falling levels of living, forbidding levels of unemployment, increasing differences in income and wealth and influence among nations and classes, huge internal tensions and revived ancient animosities, and diminished significance in the world. Is it any wonder that internal Euro-scepticism is rampant and neo-fascism rising?

It would be reassuring to think that the recent large-scale economic crisis (whose major contributor was the United States) is the cause and that as its impact diminishes, the EU's problems should wane. But that is not the case. There are significant economic problems internal and external to the EU. There are compounding social and political problems as well.

The creation of the EU and adherence to it by those who joined later required the relinquishment of some sovereignty. That is what made it notable but ultimately too little was ceded, not too much as the Euro-sceptics would argue. Before the creation of the euro, the absence of a common regulatory, fiscal and monetary policy was not a serious problem because customary adjustment processes (dominantly, flows of resources, price level adjustments and exchange rate variations) could offset imbalances among member country economies. In fact, the existence of the EU facilitated those adjustments.

With the creation of the euro, a common monetary policy was instituted but regulatory and fiscal policies remained the province of each member country. In a textbook world of instantaneous adjustment, this would not have been a problem. If divergent fiscal and regulatory policies resulted in the need to equilibrate among countries, in a textbook world that would occur promptly and imbalances would be rectified. But, of course, in

actuality that does not happen promptly. Imbalances persist and countries can pursue the divergent regulatory and fiscal policies that create them for quite a time. If the actual level of their fiscal deficits can be hidden or capital inflows encouraged by various means, that time can be extended. However, ultimately countries whose policies made them non-competitive and unable to meet their obligations required aid if they were to remain in the euro regime. Others, whose situations were less dire but not fully sound, also began the painful process of revamping their regulatory and fiscal paths without seeking aid.

Aid, however, is not a free commodity as those requiring it quickly learned. Though masked in memoranda of agreement, tranches, conditions, oversight, reviews and other seeming technicalities, the national price for aid is relinquishment of sovereignty. What was not given up when the euro was adopted was now extracted and requirements were imposed. Countries receiving aid are not able to enact their preferences legislatively, establish timetables, protect their institutions and (most importantly) their citizenry from the conditions imposed by the aid-granting organizations. The youth lost their future, the aged their pensions and all lost the promise of a satisfactory level of living in a relatively tranquil setting. Whether or not this would actually have been their future, not unexpectedly they looked for someone to blame for this apparent loss.

The motivations of those granting aid became suspect as the price of aid became apparent. Old prejudices and animosities have found new apparent verification among donors and recipients. Personal lives, social institutions, national and international political alignments, all were altered and diminished. And troubling as the present is, there is the overhang that the aid is in the form of loans, not grants.

Troubling too is the internal response even in countries not receiving aid. Even there, the attitudes, emblems and language of Europe's revolting past have re-emerged. Economic pain strengthens and abets those whose motives and beliefs are divisive and the EU economy generally, and its financial aid programs in particular, are providing more than ample nourishment.

What is to be? Having suffered and accepted so much to preserve their membership in the euro zone, it is doubtful that any country receiving aid will soon leave. Having suffered from the doctrine of retrenchment (rather than expansion) as a cure for its troubled economy, it is doubtful that any country can or will execute a 180 degree turn. Yet many EU members are far from thriving. In general, the future for the EU looks grim even if it survives the forces of divisiveness within it. The institution itself is hardly the organization of equals based on mutual respect, capable of shared decision-making that was its promise.

That prospect is worsened by events outside the EU's borders. At the time of its formation, it was a force in a world that did not have strong or potential competitors in Asia, Africa and South America. Not today. Facing this competition, the EU is not positioning itself well. Rather, extended periods of slow or no growth adversely affect its competitiveness. The likelihood is that the EU has passed the point of its greatest economic prominence.

Internally and externally, the EU faces such challenges to its unity, prosperity and prominence that it is unlikely to be able to fully surmount them.

Is it Worth It?

[Volume 10 – Issue 3, July 2013]

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Whether facing everyday choices or matters of fundamental significance, thinking people ask the seemingly simple question – is it worth it?

Elaborate systems of thought have been devised by economists and others to organize and regularize the consideration of the issues involved in that question. However, in practice, the simple question raises three constituent ones. Each will be looked at here to examine the recent economic policies of the EU and more specifically, of the eurozone. Particular emphasis will be placed on the third of the three.

The first is --What is the goal? At the most fundamental level, the goal of the economic policies required of eurozone members is the preservation of the euro as a unified, multi-national currency. At least at the moment, that has not been achieved. Thanks to the penalties and restrictions required by agreements with Cyprus, a euro in Cyprus is not equivalent to a euro elsewhere in the zone. The hallmark of a unified, multi-national currency has been violated. It may be that this is a temporary situation (future events will tell) but for now there are faint reminiscences of the surgeon who says his procedure was a success even though the patient died from it.

The second is – Does more than one alternative path to the goal exist? When more than one route does exist, prudence requires that the burdens and benefits of each be considered. Recently, one of the creators of the policy, the IMF, has acknowledged that it made mistakes. Clearly, this implies that en route to the goal, there were policy alternatives that were not utilized. This is exactly what economic history and theory would argue, as did dissenting policy makers. More equitable and less burdensome routes to the goal existed, they agree, which were not taken.

The third is – What are the short and longer-term burdens of the chosen path likely to be? Everyday observation tells what the short term burdens are: recession, depression, unemployment (particularly among the young), falling incomes, falling wealth, diminished public services, sales of public assets, social distress leading to social demonstrations, loss of confidence in public and private institutions – the list could be extended. In all, it speaks to an unravelling of the fabric of society, a harbinger of longer-term consequences.

Everyone knows that in recession and depression incomes and output are below their potential, to the detriment of all. But experience tells us that when young members of the labor force experience extended unemployment, their economic contributions to society are diminished even during their later working years. The investment society made in their nurture and education has a smaller payoff, not only because of the period when they did not work but also because they are less productive when they do go to work. Their lives and society's life are scarred.

That scar becomes evident fairly quickly. Family formation and birth rates fall and so does life expectancy. One need only look at data from Russia in the 1990s to see this.

Other longer term social burdens from present policies may be harder to quantify but are no less real. Trust in the political and economic systems inevitably diminishes when guarantees are violated, values altered, incomes lessened, rights reduced, life dislocated – all with the ostensible purposes of preserving those very systems.

Europe of all places should remember what comes with widespread social frustration and dislocation. The rise of totalitarianism, fascism and nazism has repeatedly been described as stemming from the social calamities of the inter-World Wars period. Despots capitalize on social turmoil.

What we see happening in Europe – in Greece, in Italy, in France, in Scandinavia, elsewhere – is the empowering of nihilism, of racism, of fundamentally undemocratic movements. It stretches credulity to think these developments are unrelated to current economic policies.

Logically, this leads to the question – Is it worth it?

US Election: 2012

[Volume 9 – Issue 6, November 2012]

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The re-election of Barack Obama is noteworthy for what it says about the United States. It is important for both Americans and non-Americans to understand what it reveals.

Faced with a daunting array of obstacles and an opponent who had actively sought the presidency for seven years, Obama not only won but his party added to its majority in the Senate and improved its position in the House of Representatives. Merely listing the obstacles dramatizes the magnitude of the achievement.

As was the case four years earlier, Obama had to surmount the nasty racism that still exists in the country, as well as related questions about his nationality and religion.

The U.S. economy is not in good shape -- unemployment remains painfully prevalent, young people (one of his core supporting groups) have suffered disproportionately, incomes of the employed have stagnated, income inequality persists and grows, the level of public debt has markedly risen and became a political issue, and fears have been raised about the sustainability of the social safety net on which the poor and the elderly groups depend.

The signal social achievement of the President's first term -- revision of the national system of health care coverage and cost -- became the focus of such broad, loud and sustained opposition that 50% of voters were said to want it repealed.

Religious and conservative organizations mobilized opposition to his positions on immigration, contraception, abortion and support of same-sex marriage.

In several parts of the country, states and localities enacted barriers to voting that were designed to limit access to ballots by groups thought to strongly support Obama.

Thanks largely to recent judicial rulings, wealthy organizations and individuals were able to make such massive (and in some cases, secret) contributions to critics and opponents that \$1 billion was spent on just adverse TV and radio advertising.

The election campaign paid meager attention to international affairs or any achievements there. So how did he do it?

The highest priority in explanation has to be the President's four-year record and the contrast with the proposals of his opponent across the full spectrum of social, economic and governmental matters, both domestic and foreign. This enabled him to retain and augment those who had supported him four years before.

This support brought literally millions of volunteers to his campaign, individuals who gave time and effort to a multitude of individually small tasks, such as knocking on doors and making phone calls. Cumulatively, they did far more and devoted more hours than paid campaign staff ever could.

But there was also a large staff. It was supported by the developers of a highly sophisticated voter tracking system that created targets for staff and volunteers. It enabled the focus on voter registration, assessment of support, targeted messaging, and reminders to actually vote that reportedly overwhelmed opposition efforts to the same ends.

All this takes money, on top of the cost of TV and radio advertising. Reportedly, combined the two campaigns spent \$2.6 billion, divided almost equally. Each received large and multitudes of small contributions. Proportionately, far more of Obama's money arrived in smaller amounts. (Some Romney supporters made individual contributions in the \$50 - 100 million range.)

The most noteworthy aspect of the election is revealed not by these factors but by examining who voted for re-election. Obama's victory was a victory of minorities. Older white, married people largely voted for Romney. The groups that voted largely for Obama were people under 45, unmarried women, and Americans of African, Hispanic and Asian extraction -- either immigrants or their descendants. They preferred him massively. They constitute close to a third of the electorate.

These are precisely the groups that are progressively becoming larger proportions of the total American population. If Obama's opponent had received the same percentages of the votes from various demographic groups that he did AND those groups each held the same proportion of the total population that they held 20-30 years ago, Romney would have won. But in that time the composition of the U.S. voting population has changed markedly.

The U.S. has become a conglomerate of minorities. The old vision of the country as dominated by older, white, predominately Protestant, males

does not describe the America of the foreseeable future. A glimpse of that future may be the incoming U.S. Senate, until recently the domain of white males. Of the 100 members, 19 will be women, one a non-Christian of Asian extraction and another, a self-announced lesbian.

The message for Americans and for those abroad who seek to understand the country is that future U.S. policy will be driven by the beliefs and values of this new definition of who is an American.

The Sovereign Debt Crisis [Volume 7 – Issue 4, September 2010]

Monroe Newman

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With the news full of the sovereign debt crisis, with governments mustering remedies for it, and with the streets full of people objecting to its real and potential impacts, it may be useful to keep some basics in mind.

-Sovereign debt is the accumulated obligations of government, the national debt that was accumulated to cover the past shortfall of government receipts when compared to government expenditures.

-For every debt, there is an equal asset held by those who made the loans so we might speak of a sovereign asset crisis for those who count the evidence of debt, the bonds, as part of their assets.

-Every time the proceeds of an addition to national debt are spent, an equal amount of income is generated, initially equal to the amount of the new asset created as the new bondholder exchanges money assets for the bond.

-Similarly, every time the national debt is reduced there are fewer bonds outstanding, to that extent bondholder wealth is now in the form of money, and someone has less disposable income to spend to generate income.

-Customarily, the evidence of debt – a bond – has a limited period before it is scheduled to be repaid (matures) so much of the activity in sovereign debt consists of selling new assets to redeem old ones.

-In addition to the activity associated with this rolling over of existing debt, net additional debt may be accumulated if governmental outlays exceed revenues.

-Persuading investors to buy all these new assets involves, among other things, offering them a rate of return that includes a risk premium which varies with the perceived likelihood that the scheduled interest payments and redemption at maturity will not occur.

-Paying this rate of return results in income redistribution in favor of the asset holders, except in the unlikely event that they paid extra taxes of an equal amount to cover the burden of these payments.

-If the asset holders are not nationals of the issuing country, the redistribution is international, purchasing power is transferred to those outside its borders.

-An analogous income redistribution occurs if domestic sources are tapped to redeem (buy back) assets held abroad.

What then is the crisis? Again, it may be helpful to break the possibility of crisis into its basics. A crisis can arise if:

-Government is unable to meet its immediate obligation to make the periodic payments, i.e. interest payments, to the asset holders of its bonds.

-Government is thought to be unable or unwilling to make future periodic payments, particularly if to do so requires a substantial portion of its revenues.

-Government is either unable to find buyers for bonds it must issue to rollover existing debt or can only do so at interest rates that are exorbitant.

-Government's continuing deficits require sale of additional bonds for which there are insufficient buyers or buyers who can only be induced to purchase at exorbitant rates.

The present crisis has elements of the last three of these possibilities.

The most common prescription for overcoming them involves finding willing, rather short term, lenders among other governments and international organizations. They expect repayment within a few years, effectively requiring that a substantial portion of existing and new debt be redeemed or rolled over by then. In exchange for their involvement, these lenders are requiring severe restrictions on future government deficits, with emphasis on reducing outlays for personnel and government benefits, programs and services. This concentrates the initial adverse effects of adjustment within the country's borders.

It is important to note that none of the burden of this reduction is to be borne by holders of previously issued government bonds. In the language common today, interest payments to bondholders and redemption of bonds are continued because they are "obligations." However, the

denigrating designation of “entitlements” is used to describe promised benefit payments, such as those to retirees, which are being reduced.

Are there alternative approaches?

This is far from the first time that governments have confronted problems stemming from their sovereign debt. The traditional response has been to devalue the currency (or what is the same thing, issue a new monetary unit), which adversely affects all those with assets denominated in the “old” units. This is particularly true of those holding sovereign bonds and one of the reasons why a risk premium is included in the periodic interest payments they receive. A blunt instrument, devaluation has proven painful but effective, giving breathing space for revisions in government revenue and expenditure policies.

Clearly, this requires a government having control over its monetary unit. Belonging and remaining in a currency zone, such as the eurozone, precludes this remedy.

Faced with the fact that the current prescription for dealing with the crisis concentrates the initial adverse effects within its borders, a country might try an alternative. It might, for example, treat foreign holders of its bonds differently than domestic ones.

Foreign holders of debt could be told that their assets have been “renewed,” i.e. will be paid off at some future date but with no change in their interest rate, so that their annual interest receipts remain unchanged. Domestic holders could be given a different rate of return and redemption rights under certain circumstances.

Obviously, the result will be different changes in value for the bonds of each group of holders. Differential impacts characterize every policy and one of the functions of policy is to decide how each group is affected. That is one of the prerogatives of sovereignty.

If a country were to take this step, it would transfer abroad some of the downward pressure on economic activity that necessarily accompanies the conventional prescription. Requiring that existing lenders continue in that role avoids some of the onerous, depressing domestic effect of the current form of international assistance.

By doing this, the state avoids the costs and difficulties of rolling over existing foreign-held debt. However, it would still face a current deficit in a budget that included the cost of financing existing and new indebtedness in addition to the other costs of government. The size of that deficit would be limited by its ability find holders of new indebtedness.

History makes it clear that private foreign lenders might expect unacceptable risk premiums, or be unwilling to lend at all. They would be responding to the “renewal” of existing foreign-held debt, which they would see as a modified default.

How might government deal with this? Reconstituting the taxation system would obviously help, a task possibly made easier by the fact that no new international income redistribution would be necessary. In addition, tax revenues would not be as depressed as they might be by the fall in income resulting from a larger decline in government spending.

The marketing of bonds domestically would continue. Those purchases might increase, thanks both to the knowledge that all net new proceeds would go to preserve domestic programs and also to attractive loan terms.

The sum of these two – tax proceeds and other revenue plus net new bond purchases – would establish the ceiling on government outlays. To the extent that they were insufficient to cover obligations, painful choices would be unavoidable. As the process is taking hold, it might be necessary to pay some commitments with short term, interest-bearing securities and/or a secondary limited currency.

In summary, the overall effect would be a) to transfer abroad to investors some of the depressive effect of readjustments, b) investors at home and abroad would continue to be compensated fully for the anticipated risk they previously accepted, c) make manifest the need for domestic income producers to support public outlays through taxation or lending, and d) focus attention on the need for setting priorities and making changes in the pattern of public expenditures, separate from any “discipline” imposed from abroad.

Is the foregoing messy and does it have undesirable aspects? Of course. The more important question asks -- Is it less undesirable than the conventional approach, which makes principal payments to bondholders obligatory and all other government programs discretionary and which has more severe depressive effects domestically. Your answer clearly depends in part on whether you hold foreign sovereign

Lesson from Obama [Volume 7 – Issue 2, April 2010]

Monroe Newman

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For more than 100 years, American presidents have urged a variety of comprehensive alterations of the nation's health care insurance arrangements. None succeeded. From Teddy Roosevelt to Bill Clinton, including Franklin Roosevelt and Harry Truman, their proposals met everything from resistance to catastrophe. Barack Obama got the job done.

It is years too soon to discern fully the social, political and financial effects of what has just been enacted. As in all matters such as this, perfection will not have been achieved even if implementation is unexpectedly efficient and effective. However, there is a lesson to be learned about Obama from the fact of enactment.

President Obama came to office with the expressed intent of moving beyond bipartisanship to post-partisanship. He sought to achieve agreements among opponents, in a reflection of his earlier experience as a community organizer. Their role is to understand opposing views, earn trust from all parties, and help them work out compromises that are mutually beneficial.

This approach meant that the achievement of compromise denoted his success. Perversely, this also meant that failure to compromise was a failure for him. Those who sought to diminish him could do so merely by being obdurate. The approach of the community organizer induced intransigence.

As this became painfully obvious, Obama with the aid of others of skill (particularly including the Speaker of the House of Representatives, Nancy Pelosi) proved to be a wily and willing and finally winning participant in old fashioned partisanship to achieve principles.

This is a lesson about him that may well be applicable to American foreign policy.

Again, President Obama began his term in office seeking conversation, trust, understanding in a realm in which unilateralism had been the hallmark of the perception and behavior of the U.S. He sought engagement. He spoke directly to the trusting, the suspicious and the

distrustful. He acknowledged the need for a change in American policy, he exemplified the change and sought reciprocal changes.

So far, he must be disappointed by the response. In some cases, Japan and Israel are examples, national elections produced leaders whose policies were less congenial than those of their predecessors. In others, North Korea and Iran may be examples, engagement as a policy abetted their previous strategy of delay. In still others, numerous countries in the Western Hemisphere are examples, the foundation of political power is opposition to the United States so participating cheerfully in engagement is tantamount to heresy.

However, we may be witnessing the same flexibility in the conduct of foreign affairs that characterized the changed approach to health care insurance reform. Last December, Obama used his very presence, personal prestige and persuasive powers to get something from the climate change conference that was on the verge of producing less than nothing. Very recently, agreement with Russia on nuclear arms has borne fruit.

A striking demonstration of change from this has been the continuing private and public displeasure with Israel over its building of housing. Responding to the opportunity that Israel crudely provided, the U.S. has left no doubt that it questions the sincerity of promises for substantive deliberations ultimately leading to two neighboring states, the goal of Obama's policy.

As with health care insurance, the outcome is uncertain. But in both, Obama is showing that a steely resolve underpins post-partisanship and engagement.

Obama: One Year
[Volume 7 – Issue 1, February 2010]

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At the end of his first year as President of the United States, Barack Obama knew that his standing with the populous had significantly eroded, his domestic agenda was in serious trouble, and his foreign policy had recorded no notable achievements. What contributed to this? The factors are many.

Customarily, analysts dwell on unreasonably high expectations, a persistent recession, misplaced policy emphases, a determined opposition, troubling choices of advisors, inexperience, uncontrollable events at home and abroad, among others. There are elements of explanation in all of these and certainly they interact and possibly reinforce each other. None should be totally discounted.

In addition, however, there are factors unique to the American structure of government and also two universal considerations that have played a role. It is these that will be emphasized here.

On the day this is written, the news reports that the Federal government will not put the accused terrorists of 9/11 on trial in New York City because the city is not willing to pay the cost of security; that the U.S. military has stopped evacuating seriously injured Haitians to Florida because the state will not reimburse hospitals for their care; and that despite large Federal expenditures to stimulate the economy, total government spending has declined because state and local governments have retrenched as their tax revenues have fallen. The President clearly has significant limitations on his powers. The structure of the American government makes it necessary to always ask what is it that a President is able to do. That structure is part of the country's strengths and its weaknesses.

This year has already demonstrated that what is good policy may not be good politics. Almost universally it is recognized that in the face of persistent unemployment, the short period government response should be to increase spending and run deficits. President Obama has recommended a partial freeze on increased government spending to take effect before anyone could reasonably expect unemployment to no longer be a problem. Why? The answer is that the specter of deficits is a danger to the election of his party members. Perhaps avoiding those election

outcomes would produce other, even more desirable policy changes but the fact remains, good policy is not good politics in this case.

Another example: International and domestic considerations support the President's earlier announcement of the closing by now of the prison at the U.S. naval base in Cuba. It is open past its supposed closing date because politically it has not been possible to quickly locate an alternative site for the prisoners. Good policy and good politics diverge.

The excruciating process of trying to improve the U.S. system for paying for health care provides an example of yet another universal consideration. The status quo has the power to persist. Only when the status quo seriously and obviously disadvantages a major portion of the populous is its power limited. Opponents of change can call upon or engender fears among those not feeling serious disadvantages to help thwart change. Change might be to their advantage but the disadvantages of the status quo are not immediately and sufficiently pressing on the many to make them its supporters.

Change is what Obama promised his supporters. And many important changes have, in fact, occurred. The emphasis here has been on why in important dimensions it has not yet happened. It still may. To do so, good policy and good politics will have to coincide to overcome the appeal of the status quo within the structure

Constancy and Change in US Foreign Policy [Volume 6 – Issue 4, August 2009]

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The world doesn't change just because the U.S. changes administrations. And in many ways, neither does the U.S. It retains its obligations, allies, commitments, adversaries, problems and power – military, economic, social and ideological. It retains the internal forces that shape its foreign policy, though there may be a shift in relative strength among them. And it retains the legacy of its history, for most of which it is proud but some of which it might want to expunge.

It is within this framework of constancy that a new administration undertakes to place its mark on the world scene. The Obama administration has been doing that. A partial list of its acts suggests the mark it seeks to make.

In a very short period, it has separated the U.S. from its policies of the past by:

- pursuing changes in climate policy,
- scheduling the closing of Guantanamo and other prisons,
- forbidding torture,
- allowing U.S. funded agencies abroad to instruct in the full range of birth control options, highlighting the evils of human trafficking,
- expressing a willingness to speak with adversaries,
- forging alliances with China and Russia on North Korean matters,
- pressuring Israel to cease the expansion of settlements and questioning their legality, speaking directly and peaceably to the millions of Moslems in the world,
- setting a timetable for military withdrawal from Iraq,
- focusing force against adversaries in Afghanistan,
- helping Pakistan protect its citizens and government,
- altering policies toward Cuba,
- and at the time of this writing, being cautious in discussing the election turmoil in Iran.

Some of the background for just one of these actions can be instructive. Taken separately, a majority of Americans of each faith supports the existence of two states in the land made holy by centuries of bloodshed. Advocating – and going beyond that, offering plans for a two-state solution – satisfies both principles and popular will at home. Some residents of the contested area on both sides are opposed to such a

settlement and they and others may have to live and die with their objections.

What principles appear to be operative? First, recognition that being the world's superpower is not an entitlement to overweening power. Secondly, internationally (as well as domestically) that diversity is entitled to a principled welcoming. Next, accommodation and conciliation are not only respectful, they can lead to enduring resolutions. Lastly, that the country's greatest strength is in its ideology so its beacon to the world should not be shuttered by its behavior.

During these months, the world has been changing. Economic forces have stimulated protectionism, increased U.S. financial dependence on foreign investors (leading to questioning of the role of the U.S. dollar as the world's reserve currency), and worsened income inequality. There was an undesired election outcome in Israel and unexpected outcomes in Lebanon and Iran, unrelenting bellicosity from North Korea backed by actions, and a rise of intolerance in much of the world that is shown in individual attacks and demagogic politics.

The reaction to North Korea may be indicative of a willingness to adjust policy to changing circumstances. Originally offered direct conversations, the North Koreans rejected them and instead lapsed into further threats. The administration's response has been a return to measured forcefulness despite the possible peril to allies in South Korea and Japan. The administration is warning that combativeness has a limited scope before it becomes unacceptable.

There may well be a more general lesson here. Largely uncharted so far is the new administration's response to non-state adversaries and their sometimes state sponsors and supporters. Harking back to constancy, a hundred years ago an American president recommended a foreign policy of "Speak softly but carry a big stick." The indications so far are that this is what we may see.

Obama after 100 Days [Volume 6 – Issue3, May 2009]

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Ever since the epic first three months of Franklin Roosevelt's first term as President in 1933, Americans have had the practice of passing judgment on a President's first 100 days. The judgments pronounced recently have been as diverse as the voters' sentiments were last November, when Barack Obama was elected.

Those who opposed him then complain about just those items that appeal to those who view him favorably now – and likely did then. In essence, they agree. In his first days he has done what he promised and taken steps along the road he charted earlier. In that sense, there have been no policy surprises.

That, in itself, is noteworthy and a surprise to those whose cynical view is that great distance separates candidates' statements from their behavior when elected. Those same cynics are probably also surprised by the candor with which their President acknowledges mistakes.

There have been accomplishments. Torture and the secrecy surrounding it and its justification have seen the cleansing light of exposure. Science concerning such subjects as climate change and health research has been released from political control. Equality and securing individual rights have been restored to their rightful place in the society. Health insurance coverage has been extended to 11 million children. Monumental legislation affecting the operation of the economy has been passed despite almost unanimous opposition from those formerly in power. Interim aid to facilitate readjustment has been given to two of the country's three major vehicle manufacturers. A budget, actually a statement of program priorities for the next 5 years, has been proposed and received generalized Congressional approval. Attitudes of respect and understanding have begun to characterize relations with the rest of the world. Forces will be leaving Iraq. The focus of efforts to thwart organized purveyors of terror has shifted to where they actually are.

These have clearly been a busy and accomplishful 100 days that have also seen missteps. Two are probably most notable. One was the spectacle of nominees for very significant posts having to step aside because of their failure to pay their past tax obligations fully. The other was approving the payment of bonuses to employees of a recipient of very large amounts of government financial rescue money.

The domestic and international repercussions of the U.S. economic problems gives special point to the programs to stimulate the real economy and address issues in the financial industry. By the administration's calculation, there are already 150,000 more jobs than would exist without the stimulus program. That is not a small number, especially for the otherwise unemployed. But the economy has been losing 600,000 jobs a month of late so it is not a surprise that most are still anticipating feeling the program's impact. However, those who examine recent data think they see the beginning of the end of the decline. Should that be the case, there will be debate on many levels for many years concerning the role and extent of the stimulus program's contribution.

Formulating a remedial program for the financial industry was difficult and was left unresolved by the preceding administration. After abrupt changes and re-changes of direction, they left it for the newcomers to resolve. Doing so has not been easy.

After an unpromising beginning, the complex elements of a program were announced. Separate approaches were to be taken to the financial health of the companies in the industry, to mortgage debt and to various types of consumer debt. All of them were bedeviled by the same issue the preceding administration had encountered. Assistance should not reward profligacy nor provide perverse incentives. To protect the integrity of the assistance programs for financial institutions, for example, their officer and employee compensation practices were scrutinized and limited. As these institutions felt the impact of the somehow unexpected impact of accepting public funds, some became so irked that they wanted to return the money. Some succeeded but some did not. The latter were told that since they were too big to fail, their private desire to re-pay was secondary to the public's interest in their long-term stability.

Other elements of the financial recovery programs are at the earliest stages of operation and, in general, it is far too early to judge implementation or effectiveness. One judgment does seem to have been made, however. There is a paucity of public support for helping what is summarized as "Wall Street" and the administration would face a resistant Congress were it to seek further funding for the purpose.

Mightily substantial items are still to be formulated into proposed policies – health care, climate change, alternative energy sources, industrial policy and regulation, immigration, income support for the aged and infirm, education, abortion, military strategy and procurement – among others. It is said that each will be addressed, some in the next months, some in the next years. So far, the new president has retained his high standing with the public and that will be crucial for achieving success in what he has begun and has yet to begin.

Obama and US Domestic Economy Policy [Volume 6 – Issue1, February 2009]

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As the world watched from afar and 2 million did so in person, a new era began when Barack Hussein Obama became the U.S. president. In his person, he exemplified how far the country had advanced from its sorriest history. He announced that the country was returning to its principles in its foreign and domestic behavior, to the probable discomfort of his predecessor who listened from only feet away. The spirit with which he and his announcement were received is exemplified by the fact that not a single arrest was made among those in the unprecedented throng.

He knew, and those distant and present had to know, that he was taking office in the worst economic circumstance that most of those living had ever experienced. He was expected to ameliorate it. To help him, he assembled a team of experienced practitioners. Almost all had held positions of responsibility in the past. Their experience would help him decide what needed to be done now.

There is no secret about the available tools – primarily monetary and fiscal policies. Some innovative aspects of them were and are being devised but their fundamental virtues and frailties for rectifying the present distress remain.

In these circumstances, the aim of monetary policy is to so reduce the cost of borrowing and to so increase the supply of lendable funds that borrowers are willing to borrow and lenders are willing to lend. Achievement of these laudable aims is limited. Two commonly used phrases explain why: “You can lead a horse to water but you can’t make him drink” and “You can pull on a string but you can’t push on it.” They mean: first that increasing the capital of lenders may not induce lenders to lend and secondly that though increasing the cost of borrowing may restrain it, lowering its costs can’t induce borrowing in the absence of adequate demand for output. In light of this, it is not a surprise that frustration has led to growing talk about nationalizing some banks, as has already been done with some other financial organizations.

In these circumstances, the aim of fiscal policy is to restore the level of spending because deficiencies in income are the same as deficiencies in spending. Two means are available – reduce government’s tax revenues and increase government spending. Either way, the government’s

outstanding debt rises. The practical question is which approach, lowering taxes or increasing spending, will be more restorative of total spending and therefore income.

Recent experience is that a dollar decrease in individual taxes does not lead to a dollar in new spending. Some is used for saving and personal debt reduction. A dollar decrease in business taxes would only increase private investment if there were prospective needs for more and cheaper output, that is, if there was prospective demand. It is hard to realistically expect what many in and out of Congress espouse – that cutting business taxes will reflate the economy. Moreover, businesses in severe distress already pay little, if any, taxes just as this is true for individuals.

The alternative, government spending, provides the assurance that each dollar of deficit will be spent and generate income. Real issues exist about the speed with which it can occur and the utility of the fruits of the expenditure. Unfortunately, discussion in and out of Congress treats other matters as though they were as important as these issues.

Another real issue is the implications of the rising national debt. As long as the debt is held internally, its effect on income distribution can be offset in a variety of ways, if that is desired. When foreigners hold much of the debt, there are national and international implications that are presently unremarked. That is regrettable, particularly because the presently discussed level of prospective government deficit is probably substantially too small to do what is expected, restore income levels through spending and re-spending.

At least in public, Obama has behaved in the name of bipartisanship as though all policy positions might have some validity and that we've learned nothing from the recent experiences of giving money to both individuals and financial institutions. Hopefully he and his advisers know that direct spending is the most effective and efficient route and that the presently discussed amounts of increased debt are only a fraction of what may be needed. At the time of this writing, his bipartisanship has won him zero Republican votes in the House of Representatives

The 2008 US Election: Past and Prologue [Volume 5 – Issue5, November 2008]

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Go back 50 years. If someone suggested that the candidates of a major American party for the highest offices in the land would be a bi-racial African-American and a Roman Catholic, the person's sanity would have been questioned. Forecast that they would win and the questions would have been replaced by a certainty.

Yet that is what has happened, an event that gives insight into the evolving U.S. and foresight into implications for the future.

It might be said that too much should not be read into the election results. A shift in national leadership might have been preordained by a disastrous presidency, unpopular and seemingly endless wars, widening income disparities, financial catastrophe, economic weakness, international disrepute and gross disconnects between principles and actions.

Clearly, all this undoubtedly advantaged Barack Obama. But do they explain such signal successes as receiving \$150 million in voluntary contributions in a single month? (During the entire multi-month election period, no one was allowed to give more than a total of \$2,300.) Or receiving 3 million separate donations from Internet solicitations? Or 100,000 people peaceably gathering and dispersing to hear a single campaign speech? Or not only receiving a majority of all votes but also getting a higher percentage of the votes of whites than either of the two preceding Democratic candidates? I think not, particularly in view of the campaign against him.

The opposition campaign tried to build on some of the worst sentiments in American society. It tried to appeal to racism, xenophobia, anti-intellectualism, religious bias, geographic and urban-rural differences. It tried to equate policy disagreements with lack of patriotism. It besmirched the morality of those who differ on social issues. And it failed.

Implication: The old fears and ways no longer persuade. Dogmatic domestic and international ideological imperialism was defeated. Will the new administration and the country always live up to all their ambitions? Probably not. Imperfection is a human trait. But the election gives notice that aims, purposes, approaches and techniques are all likely to be markedly different.

For the rest of the world, there are two important implications. First, just as the U.S. has re-cast itself, others need to re-cast their perceptions of the country and its view of its role in the world. The old assumptions and presumptions should, at least, be examined. For some of them, modification or revision may well be necessary. Others need to be ready to change because the U.S. has changed.

Secondly, if the outcome in the U.S. is a harbinger of changing attitudes elsewhere, appeals to nasty attitudes towards others are losing their persuasiveness. Emphasizing differences of race, religion, nationality, gender, way of life may no longer be building blocks to social and political power. Inclusiveness rather than exclusiveness may be the effective route.

In 50 years the U.S. has transformed its fundamental attitudes and behaviors toward its fellow citizens. Something worth emulating?

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