

October 26, 2015

The Obama Doctrine: Moneyball America

Over the past three years, we have witnessed what appears to be a steady erosion of American power. Russia annexed the Crimea and has encouraged a rebellion in eastern Ukraine, undermining the sovereignty of a European nation. This apparent invasion was considered by Western observers to be the first hostile acquisition of territory since WWII.¹

The breakdown in the Middle East has become another problem. The U.S. allowed the Arab Spring to unfold with little interference; to some extent, the administration encouraged the developments. The U.S. took a secondary role when intervening in Libya, allowing France and Britain to lead operations. That action has devolved into a disaster; Libya stands divided as various ethnic and sectarian groups fight for control. Syria has become a major problem as well. The administration has pressed for the removal of Syrian President Assad but hasn't created conditions to foster his exit. The decision not to bomb Syria after Assad used chemical weapons, a self-proclaimed "red line" by President Obama, further gave the impression of disengagement.

Russia's recent decision to send military equipment and personnel to Syria suggests that Putin is filling a power vacuum in the

¹ Russians would dispute this characterization, arguing that the separation of Kosovo from Serbia was a similar act.

region. Sunni allies in the region are becoming increasingly concerned that the U.S. is not going to continue to play the role of outside stabilizer in the region.

Yet, the Obama administration recently announced that it would send U.S. Naval vessels within 12 miles of the artificial islands that China is building in the South China Sea. Although military advisors have been pushing for such incursions for some time, the president's decision to take this rather aggressive step is in direct contrast to the passive response seen in other areas of the world.

In this report, we will examine President Obama's foreign policy, using the construct of Ian Bremmer's recent book, *Superpower*.² After discussing President Obama's foreign policy and the potential effects, we will examine how the next president may shift from the current policy. As always, we will conclude with potential market ramifications.

The Obama Doctrine

On a return trip from Asia on Air Force One in the summer of 2014, a number of news outlets reported that President Obama was unhappy with some of the press corps' criticisms of his foreign policy and suggested that the best way to manage America's foreign interests was, "don't do

² Bremmer, Ian. (2015). *Superpower: Three Choices for America's Role in the World*. New York, NY: Penguin Publishing, Random House.

Also see: WGR, 8/24/2015, [Book Review: Superpower](#).

stupid sh*t.”³ Needless to say, the synopsis fell far short of what most foreign policy experts or political figures would deem an appropriate American foreign policy.⁴

Although the president’s flowery comments were generally panned, they were probably a clear expression of the administration’s view on foreign policy. To use Bremmer’s three models, we suspect the president believes he is operating a Moneyball America model, where the U.S. carefully selects which foreign policy goals to accept and pursues the ones that best fit America’s core interests. In a sense, this model is the most difficult to manage because the leadership must first correctly create a hierarchy of goals. Once the hierarchy is established, the hegemon must communicate clearly the areas it intends to support and the areas where it will be less involved. Once the direction of emphasis is established, the hegemon must manage the area of prominence and also seek regional hegemons to create a balance of power which will stabilize the lesser regions, with the global hegemon lurking over the horizon if a lesser region becomes unstable.

The president’s 2014 West Point speech was probably the most complete expression of the Obama doctrine. It indicated that hard power would not be used recklessly, and working with allies, rather than unilateral actions, would be more common. The position is defensible; the wars in Iraq and Afghanistan, though nominally supported by

³ Rothkopf, David. (2014, June 4). *Foreign Policy*. <http://foreignpolicy.com/2014/06/04/obamas-dont-do-stupid-shit-foreign-policy/>

⁴ Hillary Clinton, the former Secretary of State during Obama’s first term, criticized the statement as not being an “organizing principle” worthy of “great nations.” See: http://www.huffingtonpost.com/2014/08/10/hillary-clinton-obama_n_5665901.html

allies, were mostly U.S. operations. Libya was not. However, because the administration has not clearly expressed how these goals would be worked out in practice, America’s allies and enemies are both left to decipher U.S. policy on a case-by-case basis.

The Moneyball America model has a number of problems; perhaps the most difficult issue is tied to the correct signaling of policy. For regions of lesser interest, the global hegemon must pick regional hegemons carefully; like a good parent, the global hegemon must be careful not to signal overt favoritism. That is a difficult task. It is also hard not to signal that the global hegemon is weak in the areas of lesser interest. Regional hegemons will have a good deal of latitude, which might be perceived as weakness on the part of the global hegemon by powers in other areas of the world. Thus, when the global hegemon acts aggressively in the area of primary interest, the odds of an escalation rise because the powers in this area are assuming that they too can be regional hegemons. Although the global hegemon can appreciate the flexibility the Moneyball model offers, the rest of the world will struggle to know what the hegemon will do in various circumstances.

Since the foreign policy of Moneyball America is worked out over time, we can eventually figure out what events will probably trigger a president to act and what areas will not generate a strong response. The following is what we see from the current administration:

Europe: American foreign policy has tended to be Euro-centric. The U.S. has fought two major wars in the last century to prevent Germany from becoming the dominant power in the region. The U.S. was

willing to engage in a Cold War against the Soviet Union, which required a strong commitment of both military power and economic support. This entailed demilitarizing most of Europe and providing the continent's security. President Obama appears to be less willing to become aggressively involved in the area. The U.S. did not aggressively counter Russia's actions in Ukraine and the Crimea, and has mostly remained uninvolved in the financial travails of the Eurozone tier nations. Administration defenders would probably dispute this characterization of Obama's European policy, suggesting that sanctions have been effective against Russia. Although it is clear that sanctions have hurt, the sharp drop in oil prices was likely a bigger reason for the weakness of the Russian economy. In addition, the sanctions implemented could have been much tougher; forcing Russia out of the S.W.I.F.T. system would have crippled the country. It appears that the administration is signaling that Russia is mostly Europe's problem and the U.S. will only offer modest support.

Middle East: The U.S. became committed to the security of this region at the end of WWII when President Roosevelt and King Ibn Saud met on a ship in the Red Sea. The Middle East is the world's key region for oil production and stands at the crossroads of Asia, Africa and Europe. During the Cold War, the U.S. fended off the Soviet Union's attempts to gain a foothold in the region and unwound the imperialist era by maintaining security while the Europeans abandoned their former colonies. The U.S. continued to secure the region through two leadership changes in Egypt, the Iranian Revolution, the Iran-Iraq War, the Persian Gulf War, Iraqi sanctions and no-fly zones, and the ouster of Saddam Hussein.

Candidate Obama campaigned against the Iraq War, a potent issue while running against his chief rival, Hillary Clinton. He promised to pull U.S. troops out of Iraq and end America's involvement in that conflict. U.S. troops left in 2011...only to return as trainers and to man bombing missions against IS in 2015. Sectarian and ethnic divisions in Iraq, which were held in check due to the authoritarian rule of Saddam Hussein, have worsened significantly since U.S. troops have departed. Now, IS has established a proto-state and the Kurds have established a degree of autonomy that rivals statehood. Syria and Libya have devolved and Iran has strengthened as the U.S. reduces its influence.

The Iranian nuclear deal, perhaps the centerpiece of the administration's policy in the region, will probably slow Iran's nuclear weapon development. It has always been our position that the program was a bargaining chip. Iran really wants regional hegemony and it appears the administration is willing to allow that. Needless to say, this is terrifying the Sunni nations in the region, leading to proxy wars in Yemen and eastern Syria.

Into this growing void, Russian President Putin has moved military assets into place to defend its ally, Syrian President Assad. Russia is conducting air operations against groups opposed to Assad while mostly avoiding attacks against IS, in contradiction to U.S. policy goals.

The bottom line is that President Obama has downgraded America's interest in the Middle East. Due to the increase in U.S. oil production and steady improvements in energy efficiency, America is less dependent on Middle East oil. However, this isn't the case with Europe or Asia. It would appear the U.S. is not willing to maintain its degree

of superpower involvement in the Middle East and is thus creating a power vacuum. How this vacuum will be filled remains uncertain.

Asia: Perhaps the most important policy shift to come from the administration is the “pivot” to Asia. President Obama is trying to reduce America’s involvement in Europe and the Middle East to create “bandwidth” to deal with an emerging China. The recent successful negotiation of the Trans-Pacific Partnership trade agreement, encouraging Japan’s moves to normalize its constitution for military activity and the administration’s recent decision to sail Naval vessels close to China’s new man-made islands stand in rather stark contrast to the reluctance to project power elsewhere. *Simply put, the U.S. appears ready to take on China while letting Europe and the Middle East manage with less U.S. involvement.*

This policy carries the risk of an escalation of tensions in the Far East. China, after observing the relatively passive U.S. responses in the Middle East and Europe, will probably expect similar behavior in its neighborhood. This likely explains the island-building and China’s general belligerence toward other nations in the region. China’s leaders will likely recall the U.S. “red line” on Syria’s use of chemical weapons and assume threats made against their actions will lead to a similar outcome. If the U.S. takes resolute action against China’s belligerence, China’s leaders will likely be surprised by such strength and the odds of escalation could rise.

Will Policy Change after 2016?

For the most part, every candidate for president offers change. The only ones who don’t are incumbents. The confusion brought on by the Obama doctrine has been challenged not only by Republican

candidates but Democratic candidates as well. We expect there will be numerous promises to improve on America’s foreign policy. On the campaign trail, this means suggesting that the U.S. will restore order to the world.

Or not...the populists running for president, especially from the left, are mostly representing Bremmer’s Independent America model. Senator Sanders clearly adheres to that system. The populist right, infused with the Jacksonian sense of honor, abhors the current state of affairs, but seems to suggest that all this can be fixed if the next president is seen as “strong.” However, we doubt the rest of the world will be fooled by strong talk with no action. Simply put, unless the new president is prepared to raise taxes to increase defense spending and at least consider some form of national service, which could include a military draft, and support free trade agreements, it’s hard to see how Putin, Xi, Salman, Merkel, Cameron and Khamenei will view the promised change in policy as credible. Americans are worried about the current foreign policy; however, there is little evidence to suggest that there is any strong support for significant sacrifice to maintain the superpower role. Consequently, it appears the U.S. is moving down a path of declining influence.

Ramifications

To some extent, President Obama’s foreign policy reflects the mixed messages he is receiving from the American public. The U.S. appears to be tiring of military involvement in the Middle East. The financial and economic costs of free trade, necessary to provide the reserve currency, are facing growing opposition from populists on both sides and the center-left of the establishment. President Obama seems to be trying to weave a path between

continuing the hegemonic role and placating domestic opposition to that role.

Unfortunately, the Moneyball model he appears to have adopted is probably too difficult for anyone to successfully manage. A recent insight into the president's view came from his lengthy interviews with David Remnick of the *New Yorker*, during which Obama declared, "I don't really even need George Kennan right now."⁵ Actually, given what the president is trying to accomplish, he could use a sophisticated strategist or two in creating foreign policy.

The danger of 2016 is that Americans are mostly unhappy with the direction of foreign policy but don't seem to be willing to maintain the costs of hegemony. Candidates will gain favor by running against the current policy without acknowledging the difficulty of maintaining America's

⁵ George Kennan is considered to be the father of the successful policy of containment, which confronted the Soviet Union and won the Cold War. See:

<http://www.newyorker.com/magazine/2014/01/27/going-the-distance-david-remnick>

superpower role. When candidates promise simple solutions to complex problems and intimate that other nations will pay the cost of our policy, it certainly sounds appealing. Although such simple solutions make attractive sound bites, they rarely become a base for successful policy.

Most likely, the next president will need to run against President Obama's foreign policy, much like Candidate Obama ran against the foreign policy of George W. Bush. However, given the current constraints on policy (e.g., lack of domestic support, high costs of hegemony), the next president's policy may not be significantly different. If there is any lesson to be learned from President Obama's foreign policy struggles, it is that the Moneyball model may not be viable. If so, then the next president may have to choose either the Independent America or Indispensable America model. Our position is that Independent America, essentially isolationism, is the most likely choice.

Bill O'Grady
October 26, 2015

This report was prepared by Bill O'Grady of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.