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"Honey vs. Vinegar"

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The other day I came across an online article published by *Entrepreneur* magazine a couple of years ago entitled "5 Steps to Master the Art of Negotiation."[i] The author outlines what he deems the necessary steps to a successful negotiation. To summarize, he suggests that a wise negotiator establishes a relationship built on trust, avoids being disingenuous, avoids ad hominem attacks, appreciates the rhythm of the process and pursues a win-win versus win-lose strategy. This approach, part of the principled negotiation style, is known to a generation of business school graduates having read the much familiar *Getting to Yes*.

This article caught my attention for a couple of reasons. First, it seems apropos given the current state of U.S. politics as policy-making takes on an increasingly transactional character, especially with a President who styles himself as a "Master of the Deal." These five steps could improve what appears to be a broken process in Washington. Second, and more thought-provoking, the author writes "You'll do better with honey than with vinegar." This passage reflects the win-win sentiment which he sees as key to any negotiation. And, yet, this approach means that while both sides experience the sweetness of winning something ("the honey") they must experience the bitterness ("the vinegar") of giving up something. This raises an important point, one evidenced by much of the policy-making going on today—everyone wants the honey without the vinegar.

In the area of financial policy, we failed to regulate the rapid credit boom that led to the financial crisis. We refused to take our medicine. Rather, we engaged in reckless central bank policies designed to lower interest rates, boost asset prices and defer the day of reckoning. It was all honey and no vinegar.

Now as we approach the limits of these policies, we are engaged in a desperate search for fiscal stimulus to pick up the slack. The markets have priced in the probability of massive tax cuts and infrastructure spending to justify equity valuations. Tax and spend policies are effective when debt levels are low and economic conditions are at their worst. Despite one of the longest expansions in history, debt levels remain elevated and economic growth, while anemic, is still expanding.

The desire to manage economic cycles through unsustainable levels of debt has burdened society. In the United States, the national debt per citizen is now at $61,000. The burden on each taxpayer is over $165,000. Yet, median income is just over $30,000. It was just over $29,000 in 2000. It now takes over $4 of debt to create a $1 worth of GDP. No wonder productivity is down. The national debt is approaching $20 trillion and is likely to climb under the proposed tax cuts and infrastructure plans of the administration. It was just $6 trillion in 2000.

The reliance on debt is a global problem. The overhang of debt is the major impediment to implementing an aggressive agenda to solve many of the problems facing the developed world. Ned Davis Research has concluded that global debt increased to $103.5 trillion in 2016 from $37.5 trillion in 2000. Arguably, this is an unsustainable level of debt growth. Increasingly, global economic growth is driven by debt creation. Underlying the leveraged growth is adverse trends in demographics, productivity and technology. The consequence of the secular trend is the lagging shadow of deflation. It is the inability to service debt that leads to deflation and ultimately default.

Central banks have managed to avert the collapse, in the short run, through lowering the cost of servicing the debt. However, a sudden rise in real interest rates would quickly undermine their efforts. They need to keep a lid on inflationary expectations. This will be difficult considering the potential for fiscal folly.

Accordingly, the decision by the Federal Reserve to gradually raise interest rates is prudent. The European and Japanese banks are likely to follow given the opportunity. Obtaining self-sustaining economic growth has proven elusive despite a very stimulative monetary policy. Admittedly, higher debt levels have proven to constrain policymakers. Fiscal policies have a chance to be more effective in the short run if inflation is contained. The central banks intend on walking the tightrope between limiting the rise in inflation and short-circuiting the expansion.

While central bankers may be ready for their spoonful of vinegar, given a lack of alternatives, for many political leaders it's still all about the honey. Donald Trump, for one, does not feel constrained. Making America great again is all about the sugar rush of winning without any bitterness of compromise. Indeed, his recent tax proposal epitomizes this attitude, dubbed the "candy for everyone" option, with cuts for all without explicit revenue increases to offset their costs. His spending plans call for increased military spending, no cuts to Social Security or Medicare, *fabulous* medical insurance for all and a *tremendous* border wall. In sum, lots of honey. However, his tax and spend priorities will, and have, quickly run into political resistance from conservative members of Congress. The United States Treasury can finance a build-up in debt only to the extent that interest rates remain low. A rise in rates today would be far more punitive to economic growth than when debt levels were lower.

Donald Trump certainly has developed a great deal of negotiating skills in building his real estate empire. His style stands in stark contrast to that suggested by the *Entrepreneur* article, however. In negotiating with Congress on health care, he was threatening. He has a very manipulative style when dealing with the press. His strategy in dealing with the Mexican government has been a winner-take-all. Negotiations are forced with no natural rhythm, imposing artificial and unnecessary deadlines. Of course, global events, like Syria and North Korea, disrupted the rhythm. In pursuing an aggressive agenda, he has been unable to maintain focus and balance.

It's hardly surprising that this style of negotiation has not translated into effective governing. The 100-days milestone went by with several signature campaign promises unfulfilled, delayed or abandoned. Of course, the aggressive agenda, covering health care, taxes, infrastructure, immigration and trade, was ambitious given the administration's lack of Washington connections and the organizational capabilities to implement policy.

Yet, in recognizing the complexity of the problems the administration is facing, there are signs that it may be adapting. Trying to find simple solutions is usually futile, and, often more problems arise due to prior attempts to implement quick-fix solutions. Moreover, the problems themselves are often interrelated such as health care costs and tax cuts or labeling China a currency manipulator while needing their assistance with North Korea.

In the field of foreign policy, let's hope that in dealing with the Chinese and North Koreans, President Trump provides enough time and space to work things out. Forcing these issues offers few good outcomes. As to economic policies, he will ultimately have to compromise – although it will not occur without tweeting some honey with the vinegar.

The mandate was granted through the electoral process. On inauguration day, power and control were established. It's no longer necessary to gain acceptance as a leader. The problems are many, the solutions are few and the choices are not easy. It's time to lead. Let the negotiations begin.

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[i] Mamas, Michael. "5 Steps to Master the Art of Negotiation." Entrepreneur. December 11, 2015. Accessed April 19, 2017. https://www.entrepreneur.com/article/253074.