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ECONOMIC NEWS UPDATE

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They say that economic forecasters were invented to make weather forecasters look good. To that I might add that political forecasters were invented to make economic forecasters look good. So it is with considerable trepidation that I build this week's column on a political forecast: when the polls close today Americans will have given the Democrats the 15 net seats they need to control the House of Representatives. If that does happen, and the only thing that can prevent it is a massive turnout by the hard-core Republican "base", the changes in the political and economic environment will be far from trivial.

President Bush's approval rating on his handling of the economy has gone from 39% in June to 46% now. But the Iraq war still tops voters' concerns, and by 52% to 37% they express a preference for a Democratic-controlled congress, according to a Wall Street Journal/NBC poll.

Businessmen, who have hedged their bets by contributing to both parties, will notice the difference when Democrats assume the chairs of the

powerful congressional committees -- far more powerful than their Parliamentary counterparts, because they can issue subpoenas, compel testimony under oath (creating the danger of perjury indictments), and conduct the sort of public hearings that make it onto the evening television news. Investors who have been pouring money into shares might find it disconcerting if the indexes turn down because John Conyers, due to take over the House Judiciary Committee, launches the impeachment proceedings he has been promising are in George Bush's future. True, Nancy Pelosi, the far-left San Francisco Democrat who will become Speaker of the House (and third in line for the presidency) has said she won't approve of such a move, but she is not exactly the sort to stand between an insistent Conyers and his heart's desire.

Then there is Charlie Rangel, the elegantly-tailored, smooth-talking congressman who has represented the black constituency of Harlem for 36 years. Rangel is an engaging sort -- it is almost impossible not to like him -- who

will use the chairmanship of the House Ways and Means Committee to see to it that the Bush tax cuts are unraveled as rapidly as possible, and that any tax breaks available are funneled to low-earners. Whether he will make good on Democratic promises to introduce some restraint into congressional spending remains to be seen, but it is certain that he will look far less favorably on requests from the Pentagon for money to fund the war in Iraq, and to upgrade America's military.

His let's-spend-less-in-Iraq attitude will be buttressed by Henry Waxman, the California congressman who will get the chair the Government Reform Committee as a reward for his 32 years in the House. Waxman plans extensive hearings on what he sees as excessive profiteering by contractors engaged in rebuilding efforts in Iraq and the area hit by Hurricane Katrina. In addition, anyone holding shares in oil or pharmaceutical companies will have a new risk: Waxman promises to go after what he considers to be the obscene profits made by these companies. Note: love him or hate him, everyone concedes that Waxman is very good at what he does. He is the business community's nightmare.

John Dingell, dubbed "Dean of the House" because of over 50 years of service there, will take over the Energy and Commerce Committee. Declaration of interest: he is an old friend and a colleague in some past legislative battles. Dingell knows the oil and utility industries better than most of those industries' executives, is an old-line regulator but no lefty rabble-rouser, and has over the years protected the automobile industry in his native Michigan from the most dangerous onslaughts of the environmental lobby. If

you worry that the reaction to the Stern report on global warming is more than slightly hysterical, Dingell is your man: he might, just might, prove a useful brake on some of the more hare-brained efforts to force uneconomic change on the auto manufacturers.

Of greatest interest to investors in Britain is the fact that Massachusetts congressman Barney Frank will inherit the Financial Services committee. The good news is that Frank understands that the regulators have to ease up on their application of Sarbanes-Oxley (SOX) if New York is to compete successfully as a financial centre. The bad news is that he is attracted by the notion of a supra-national financial regulator to bring uniformity to the regulatory regimes governing the global markets for securities and financial services.

A word about an even more important change than those due in Congress. Eliot Spitzer will move from the state attorney general's office into the New York governor's mansion in Albany. No one in the financial community needs any reminding that Spitzer is the man who forced leading investment banks and insurers to revamp their governance structures and pay huge fines for practices, some of which can only be described as indefensible. Unfortunately, he trampled due process and individual rights in the process.

Spitzer wants to follow his hero Theodore Roosevelt, the scourge of "malefactors of great wealth", from the governor's mansion to the White House by gathering support from millions of small shareholders, a group he considers the modern-day equivalent of the workingmen and women who once formed the backbone of the Democratic

Party. That bodes ill for investment bankers and corporate “fat cats”. It also means that two New York politicians for whom publicity is as necessary as the air they breathe, Senators Chuck Schumer and Hillary Clinton, will now have a new competitor for the best slots on the evening news.

So much for political prognostication. Unlike long-term economic forecasts, these will be proved right or wrong only a few days from now.



THE SUNDAY TIMES

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