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## ECONOMIC NEWS UPDATE

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Elections are a distraction. Necessary to a democracy, but a distraction nevertheless. At least, that has been the case in America in recent months. Instead of debating important questions such as how to extricate the nation from Iraq without leaving chaos in our wake, or how to finance the entitlements of the baby boomers, the candidates focused on their opponents attendance at a Playboy Club convention (Tennessee), use of racy language when writing a novel, or failure to obtain a fishing license many years ago (Virginia), and gay escapades (Florida).

So say one bunch of pundits. Another takes a kinder view of the election process, and pronounces them a decision by serious voters that the Bush administration has gotten its comeuppance for its combination of colossal incompetence in Iraq and New Orleans, with profligacy that would turn Lyndon Johnson green with envy. Elections are a tool for turning the rascals out, and Americans have shown they now how and when to wield that tool.

As they say at the shell games on the streets of New York, you pays your money and you takes your choice -- of pundit. Whichever you choose, you can sigh with relief now that the politicians are made silent by their strained vocal chords, their foot soldiers are catching up on lost sleep, and the cleaners (most likely illegal immigrants) are sweeping the confetti from the floors of campaign headquarters. And the serious business of governing the nation can resume. Perhaps the several composers of Ballad For Americans had it right when they wrote, albeit not in reference to the recent campaign, "Out of the cheating, out of the shouting, Our song of hope is here again."

Or not, depending on the willingness of a Republican president and a Democratic-controlled congress to work together. The early signs are not promising. Yes, President Bush did call to congratulate Democrat Nancy Pelosi, the San Francisco congresswoman who will become Speaker of the House of Representatives. He even offered to give the stylish millionairess tips on decorators to use in choosing new

curtains for the Speakers' office. And, yes, Pelosi and other Democrats say they willing to work with the White House on important issues.

But the political atmosphere is poisonous. Add to the bitter differences over Iraq lingering Democratic anger over the impeachment of Bill Clinton, and over the "stolen election" of 2000, and you don't have a prescription for harmonious rule.

Democratic control of all congressional committees means an endless round of investigations by subpoena-wielding Democratic chairman into everything from reconstruction contracts in Iraq through the planning for and execution of the war itself. Pelosi has promised to rein in the nastiest of the attack dogs, but it is not certain that she will be able to do so. I am told that Pelosi will indeed make every effort to produce a record of legislative achievement, as she is eager to avoid the charge that the first-ever woman Speaker of the House presided so incompetently over the Democratic majority that her party went down to defeat in 2008, and she had to take her curtains back to the less spacious office of minority leader.

So there is reason to hope that some good might come out of divided government, as the stock market is betting. The politicians face the electorate again in 2008, and that campaign for the presidency, all of the seats in the House, and about one-third of the seats in the Senate is already underway. That's why both the president and Pelosi feel they have to make bipartisan noises: the country is thought to be sick of divisiveness. The president would like to leave office with more to his legacy than Iraq and Katrina, and the Democrats for the first time in a very

long time have the burden of the responsibility that goes with power. They are familiar with the old Washington saying that it is easier to lob grenades than to catch them. Old warhorses like Michigan's John Dingell are preparing to try to educate their colleagues that a two-year period of revenge-taking, no matter how sweet, will shorten their hold on the congress.

Areas for compromise are readily at hand. The Democrats will use their power to push through an increase in the minimum wage, from its current level of \$5.15 per hour, set in 1997, to \$7.25. My guess is that the president will not uncap his veto pen to kill a move so popular that several states have already raised the minimum wage for workers in their states. But make no mistake about the impact: a leading restaurateur tells me that the jump in the minimum wage in several states in which he operates has already led him to increase his automation budget preparatory to paring his workforce.

That done, the hard work will begin. The White House has given Treasury Secretary Hank Paulson the lead role in working with congress on some of the issues that might, just might, be candidates for compromise. One of Paulson's first chores will be to ensure the future viability of the social security system. That won't be easy. Conservative Republicans are already making noises about being unwilling to cut the sort of deal that the president's father arranged with a commission headed by Alan Greenspan, since that compromise involved raising payroll taxes. And Democrats say they will insist on just such a tax increase. But a compromise is within reach. Republicans are hinting they can live with an increase in the social security

taxes paid by high earners, even if that means an increase in the marginal tax rate that so importantly affects the willingness to work and take risks, and a slight reduction in the benefits going to the well-off. In return, Democrats might be willing to give the president a prize that has so far eluded him: an expansion of personal retirement accounts, which allow citizens to divert part of their social security taxes to investments of their choosing.

There might also be movement on trade. Democrats might be willing to hold back on legislation aimed at China to give Paulson a chance to see if he can persuade Beijing to revalue its currency. And they might approve the few minor trade agreements that have been negotiated if the Republicans can find some way to go along with the new majority's demand that such deals contain some language protecting US labor standards. Never mind that if labor standards all over the world were equal, there would be little need for world trade. With squabbling to be reserved for more important issues, the White House and Democrats might just be able to satisfy their respective constituencies and agree on a few trade-opening measures.

There is some possibility, too, that a Democratic congress and the President will find common ground on immigration reform, a presidential program that was shot down by members of his own party.

There is less chance of any significant progress on energy policy. Everyone favors more R&D to find alternatives to gasoline made from imported oil, and there is a growing constituency to have America begin talking to other nations about reducing carbon emissions, despite that fact that

American voters do not seem as disturbed as their counterparts in other countries by recent claims that the globe is warming at such a rate that catastrophe lurks. There might also be a coming together on removing some of the administrative barriers to the licensing of nuclear plants, but any real progress towards getting new plants built is likely to prove elusive. All marginal stuff. The real battle over reducing oil imports will settle down into a fight over whether mandatory fuel-efficiency standards for automobiles should be tightened. The Republicans who oppose such a move will have a powerful Democratic ally in Dingell, who is sensitive to the economic plight of America's auto companies. The result is likely to be no action, or at most action that allows the Democrats to claim victory, but is of little real consequence.

As for Iraq, the heated debate obscures the fact that both parties want to restore a semblance of order before claiming victory and withdrawing before the 2008 elections. The Republicans don't want to face the voters with Americans still dying in Baghdad, and the Democrats don't want to be charged with forcing a premature retreat.

After all, it is in 2008 that there will be all to play for. Which is why the big winners last week were Arizona Senator John McCain and, paradoxically, his leading opponent for the Republican nomination, former Massachusetts governor Mitt Romney. McCain's above-the-partisan-fray stance makes him an attractive presidential candidate in a country likely to have a good deal of partisan bickering in its near-term future. Romney, who will attack McCain from the right, no longer has to worry about a rival challenge from George Allen, who somehow

managed to lose his bid for reelection in Virginia -- no easy chore, given his early lead.



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