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Upset may put Wall Street back on firing line

Presented by

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NEW YORK -- Barack Obama's ambitious plan to overhaul the United States' health-care system won't be the only item on the President's domestic agenda to get derailed by the stunning election of little-known Republican Scott Brown to the U.S. Senate seat long held by the late Ted Kennedy.

A bill aimed at addressing global warming with cap-and-trade regulations and another massive economic stimulus package now probably don't stand a chance of getting passed, political pundits said.

But Wall Street, which looked as though it was going to get let off easy in the wake of the financial crisis, could come under renewed attack as Democrats and Republicans look to score political points with the voting public by proposing sweeping financial reforms.

Wall Street reform, which has tremendous resonance with many Americans, is the one area in which Democrats and Republicans could find common ground, policy experts said.

There is a danger, however, that Democrats could push too far, said Isabel Sawhill, a Brookings Institution economist who served as a senior official in the Clinton White House budget office. "They could bash Wall Street and use it as a whipping boy, which isn't conducive to making the policy changes that are badly needed."

Finding compromise on other proposed legislation probably won't prove as easy.

Despite the Senate defeat in Massachusetts, policy experts don't expect Mr. Obama to reach for the reset button as former U.S. president Bill Clinton did when he shook up his agenda and team and shifted to the centre in 1994 after the Democrats lost control of the U.S. Congress.

"I think Obama has for the most part been a moderate Democrat in most of the positions he had taken, so his ability to move further to the centre is somewhat limited," said Ms. Sawhill, who describes herself as "a very militant moderate." "Republican policy positions have been so unclear and have been so rhetorical in their criticisms that it is hard to see where he could find compromise."

The Republican victory in the race for a U.S. Senate seat in Massachusetts means Democrats are now short of the 60 votes they needed to overcome a Republican filibuster and pass health

legislation.

The defeat is seen by many political pundits as a vote against the Obama administration's move to make revamping healthcare the country's No. 1 priority, rather than fixing the ailing economy and creating jobs.

The upset could embolden some Democrats, especially those up for re-election in conservative states, and Republicans to put tackling the ballooning U.S. deficit on the front burner.

U.S. stock markets surged on Tuesday in anticipation of little known Republican Scott Brown's victory for Ted Kennedy's vacant Senate seat, as investors bet Democrats would be forced to start paying down the deficit and not raise taxes. Wednesday, the markets lost much of those gains.

"I think they need a bigger upset to really change the minds of policymakers," said Chris Edwards, director of tax policy at the Cato Institute.

But the development could sway the Obama administration's attitude toward the deficit.

Two recent blue-ribbon budget commissions, Pew-Peterson and the National Academy of Sciences, recommended to restrain the federal public debt to 60% of U.S. Gross Domestic Product.

"The Obama mid-session review from August had debt rising above 70% by 2011 and higher after that," said Mr. Edwards, who sat on the second panel. "I favour a spending cap, rather than a debt cap, but it will be interesting to see whether the administration will at least give a nod to these two centrist budget commissions and try to restrain debt - especially since the flood of federal red ink is clearly on the minds of voters."

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