

Impact of US 2010 Elections

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Shift in Washington's Political Power Balance

The November congressional elections brought a big shift in the Washington political balance. Republicans took 63 seats away from Democrats, assuming a dominant 242 to 192 majority control of the House of Representatives. Although remaining in a 47 to 53 seat minority in the Senate, Republicans gained enough seats to enable them under Senate rules to stop any action whenever they wish. In effect, President Barack Obama lost political control over the entire Congress.

President Obama's personal influence was damaged as results were interpreted by politicians in both parties as voter discontent with him personally as well as with his Democratic Party leaders. As 2011 has set in, a prevailing question in Washington is whether the president will adjust to a more "centrist" stance, seeking compromises with Republicans, or whether he will instead become more confrontational to appease his dwindling Democratic Party constituencies.

Republicans also gained a number of governorships and control of additional state legislatures. State governors and legislatures have authority to redesign congressional districts consistent with demographic changes reported in the 2010 national census. Restructuring of House districts in 2011 and 2012 will therefore be biased in favor of Republicans.

The shift to Republican majority control of the House of Representatives will result in major changes in how that body functions. Republicans will take over direction of all key committees and subcommittees, replacing most staff members. While committee staffers are not so visible in daily news and media reports, they have a powerful role not only in congressional decision-making but in daily interaction with Executive Branch officials behind the curtain. The committees and subcommittees will have the power of subpoena, allowing Republicans to demand access to most Obama administration internal deliberations. Republicans will be able to use investigations to influence or paralyze administration agencies. Republicans will be able to block budget allocations for programs with which they do not agree and wish to nullify. Republican staff members will be able to assert direct influence on regulatory rule-making through both public hearings and private interaction with regulators.

In the outgoing House of Representatives, there were about 70 "centrist" or conservative Democrats elected from districts in which voters tend to favor candidates who are business-friendly and who support low taxes, limitations on federal authority and freer trade. Many of these centrist or conservative Democrats lost their seats in the 2010 election. Consequently, the 2010 election shifted the center

of gravity among House Democrats further to the left, further away from possible areas of compromise with Republicans. This will complicate efforts to find common ground between the two parties on both domestic and international issues.

In the Senate, the political dynamics are somewhat different. To begin with, almost all 100 senators view themselves as the senior political figures in Congress. Most of them privately believe they could function as president more effectively than any sitting president. They tend to be jealous of the power of any president who had been a senator prior to election as president, viewing such a president as having jumped the queue before his turn. Elected for six years, senators often feel safe to engage in informal cooperation across party lines, often enabling cross-party compromises without presidential involvement. It is likely that much of the power and authority held by President Obama in his first two years in office will now gravitate to maneuvering behind the curtain among Senate Republicans and Democrats.

Political Limits on Economic Growth Policies

The elections revealed widespread voter worries about growing federal government spending and debt, and most members of the new Congress will take into account this voter resistance to new spending and borrowing. What voters want is spending cuts. This leaves the Federal Reserve as the only agency with flexibility in dealing with continued high unemployment and slow economic growth. In this context, President Obama will have little flexibility in managing macroeconomic policy.

The new Congress will feel pressure to cut future budget deficits. This will likely encourage broad tax reform as a way towards fiscal reform. Major tax reform will likely take much of the working time of the next session of Congress, leaving little time for other legislation. It is possible that lengthy discussion of budget reform and tax reform will ultimately fail to bring consensus and that key issues will be passed on to the next session of Congress after 2012 national elections. At that time, Republicans hope to have greater control, and may decide to postpone hard decisions until the next round of elections.

The new Congress will face major domestic challenges. State and local governments will have growing fiscal crises and will likely need to cut employment as well as cutting spending and raising taxes. As 2012 elections come closer, continuing unemployment will likely call forth new initiatives focused on job creation, but there are few options that would not require unpopular spending increases. Republicans will likely require changes in energy policy, altering

alternative energy incentives and deregulating exploitation of North American-based energy sources. They will most likely block new laws or regulations on carbon emissions, especially “cap and trade.” Thus, President Obama will have much less political latitude in addressing climate change initiatives internationally.

Presidential Shift to World Affairs – With Asia as New Priority

Historically, when American presidents suffer domestic political defeats, they turn attention to world affairs. President Obama will likely follow this same path.

Even before the November elections, public opinion polls indicated damage to the president’s Democratic power base in Congress. Knowing his domestic policy flexibility would be curtailed, he recently embarked upon a major effort in the G-20 to achieve agreement by key governments to “rebalance” world trade accounts and currency relationships. Unfortunately, only India supported President Obama’s initiative. The November G-20 Summit ended in acrimony and sharp criticism of American economic policy, led by Germany and China.

The world economy has not yet fully recovered from the most severe economic recession and the deepest contraction in world trade since the 1930s. In this context, most national leaders are preoccupied with domestic political survival. In just one year, the 2009 spirit of multilateral cooperation of the G-20 was replaced with growing economic nationalism and increased protectionist sentiment. In this context, President Obama’s international ambitions may be limited by the diverging objectives of other national leaders.

Most, although not all, Republicans support trade liberalization. The next chairman of the Ways and Means Committee, David Camp, is a committed supporter of “free trade.” Trade policy was not a significant voter issue in the recent elections. However, some Republicans and most newly elected “Tea Party” members are skeptical about more open trade, with some believing that free trade encourages “outsourcing” of American jobs to other nations. These free trade skeptics instead tend to focus on what they perceive to be “unfairness” in Chinese trade and economic policies. There is considerable risk that these free trade skeptics will join forces with a significant protectionist segment among congressional Democrats to resist new trade liberalization initiatives and seek legislative action to confront China’s perceived unwillingness to “play fair.”

In the first two years of Obama’s presidency, low priority was given to pending FTA agreements. Instead, political attention was focused on domestic issues as the president sought to avoid controversy with protectionist segments of his party. More recently, he has shown interest in pending FTAs and in the Trans-Pacific Partnership



US President Barack Obama speaks during a press conference in the East Room of the White House in Washington November 3, 2010.

(TPP). Now, President Obama is personally confronted with a historic challenge, whether to use his remaining influence to promote more open trade or instead to remain passive, avoiding confrontation with key elements of his own party.

For the time being, the USTR’s primary focus remains on “enforcement” of existing trade legislation rather than on diplomatic cultivation of new liberalization initiatives. Under present circumstances, with key House and Senate committees likely to be tied up with tax reform, action to revive the Doha Round is politically unlikely. New Ways and Means Committee Chairman Camp will likely stand in the way of new protectionist initiatives. In this context, the TPP could be a more promising alternative path to trade liberalization, but it is unclear how far President Obama would be willing to pursue the TPP.

On the other hand, it is increasingly evident to US officials and to much of the American industrial and financial community that Asia is the primary area of global economic growth. US relations with Western Europe remain important, given a long history of commonality of economic, social and security interests. But Europe is a mature economy characterized by aging societies, heavy fiscal burdens and slow growth. Asia, on the other hand, continues to demonstrate robust growth as its technology capabilities and its domestic consumption and investment continue to advance. President Obama’s lengthy visit to India after the US elections demonstrates that strengthening economic and security relations across the Pacific represent his new priorities.

With the elections behind and as a new year begins, the United States will most likely demonstrate growing attention to enhancement of American relations with Asia. This poses a historic opportunity for Japan and other Asia-Pacific nations, if they seize the opportunity. **JS**

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