

# Wallace's Daily Policy Debrief

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## Today:

- 1) Fiscal – Kim Wallace
- 2) Policy Calendar

### Fiscal: Ghosts of Policy Graves Past?

Projecting Washington behavior in advance of results can create seasonally appropriate fright, but **it's likely this three-week nightmare marks the end of fiscal stalemate masquerading as crisis**. Actual policy disagreements, bad negotiating tactics, or both certainly could come back to haunt us. However, we believe this week will help close the casket on a three-year run of politically self-inflicted fiscal chaos.

**Public statements from leaders and followers on the Hill indicate the Senate is close to an agreement that would push fiscal conflict into next January. If that's correct, a few observations flow from this development.**

- First, Leaders Reid and McConnell would not pen a deal for which they did not have the votes to pass with majorities of their conferences and squash delaying tactics.
- Second, they must be working within the parameters of a package the President would support.
- Third, the Speaker must have signaled to McConnell that he believes a majority of the House of Representatives would favor the agreement.

If we are nearing a close to this most recent fiscal drama, our sense is the next one will be less disruptive to markets as the last two progressively have been. **2011 was the apex of modern budget dysfunction, we would argue.** The 2013 January Giveaway culminated a period in which policy deadlines and media hype created anxiety longer in duration than summer 2011, but default and government shutdown weren't serious risks. Inaction this month led to perverse nicks to economic activity and a ghoulish psychology, but the shutdown's teeth were nothing like 1995-96 and it appears, again, Washington will renounce default.

The two-party system which has dominated Washington for more than a century has often relied on subjects such as international commerce, macroeconomics, and national security as the basis of friction. Since the end of the last World War, social issues including an array of civil rights matters, environmental stewardship, and the demographic basket of health care and retirement policies have provided opportunities for partisan differentiation.

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Traditional issues simply offer fewer real cleavages sufficient to divide voter loyalties, certainly not to the degree they did before the big wars and recessions of last century. (The Great Recession provided bipartisan policy unity in its initial stages.) We doubt a near-term repeat of standoff as a viable tactic in fiscal policy. The time Washington seems poised to buy itself could well produce real policy intransigence over spending or taxes, and such a disagreement would be a constructive replacement for the fake ones.

But strategic toying with markets and the economy over trumped-up fights that have little bearing on real fiscal challenges seems to be going the way of the zombie (not that we'd completely rule out sequels and franchises). Such tactics have morphed from surprising (March 2010) to frightening (2011 and 2012) to something as ineffectual as most neighborhood haunted houses.

- *Kim Wallace*

## **Policy Calendar**

### **Tuesday**

- 3am EDT, Eurogroup meeting continues to discuss plans for spur small and medium business lending, and implementation of banking union regimes
- 8am, South Korea's central bank governor, Choongsoo Kim, speaks at the Economic Club of New York
- 10am, New York Fed Bank's Dudley speaks at Bank of Mexico conference
- 11am, San Francisco Fed Bank's Williams
- 7:15pm, Dallas Fed Bank's Fisher discusses the economy, and monetary policy, New York
- Cyprus finance minister, Harris Georgiades, discusses economic revitalization and progress on fulfilling Troika agreements
- UNSC and Iran negotiators continue talks
- Obama meets Italian PM Letta

### **Wednesday**

- ECB's Draghi and Mersch speak in Frankfurt and Luxembourg, respectively
- Fed speakers: Pinalto, George, Fisher

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