



September 24, 2008

Letter from Washington

In the month since the last letter there have been many developments in the presidential race, perhaps too many to assimilate in just a couple of pages.

The main event, of course, was McCain's selection of Sarah Palin as his running mate. The Palin selection electrified the Republican conservative base and changed the dynamic of the race overnight. Suddenly Obama, running on the theme of "change", seemed conventional and cautious by selecting Senator Joe Biden (D-DE), a totally establishment figure who has been in the Senate longer than most of the furniture.

McCain had been stuck in the polling around 5-7 points behind Obama and obviously thought he needed a game-changing choice. Sources close to McCain indicated that his desired game-changer was Senator Joe Lieberman (ID-CT), but that he was informed that the selection of the Democrat Lieberman (Al Gore's running mate in 2004) would cause the Republican base to desert en masse.

Palin's reception by the public has been unusual. Her total experience has consisted of running a small town in Alaska, and then winning the governorship of the state. To give her her due, she did win the state house by running against her own party and unseating a Republican incumbent, which does give her rights to the "maverick" title.

Her acceptance speech at the convention, which was well-crafted for her by the McCain speech-writing corps, overshadowed McCain's own address the next night. She managed to unload some potent zingers on Obama without sounding shrill or too bitchy, and sky-rocketed into popularity over night. Polling in the immediate week after the convention showed Palin beating Obama by a wide margin if she were fronting the Republican ticket. Many Democratic women, still smarting from the supposed dissing of Hillary Clinton by the Obama forces, adopted Palin as their own, at least for the moment.

Palin's popularity seems to be holding, in part because of some initial heavy handed Democrat attempts to paint her as an unfit mother, a moose-hunting weirdo, and small-town trailer trash. She has so far held her own in some carefully managed encounters with the press, and has successfully

committed the talking points to memory. The McCain campaign figured out quickly that she is the main draw on the trail, and she has almost exclusively campaigned with McCain instead of splitting up to cover more territory.

The campaign will largely come down to the televised debates. McCain and Obama are supposed to meet this Friday, and Palin and Biden the week after. Obama has demonstrated that he has skills as an orator, but McCain has been the better on-the-feet debater throughout the campaign. Neither candidate will likely score a clear win, but either can lose the debate --- McCain by coming across as a cranky geezer or Obama as an aloof quiche-eater. The Vice-Presidential debate will be fun to watch but probably not affect the outcome of the election.

Meanwhile, back in the real world, the financial crisis has displaced the FY-2009 appropriation process as the focus of the Congress's attention. At this point not one of the 09 appropriations bills has been passed by either house, largely as Democrat strategy to defer the negotiations until there is a change of administration, presumably to an Obama White House. The likely scenario will roll a Continuing Resolution (CR) that will fund the government until next March through the Congress before October 1st, assuming that the President will sign it, in order to avert a government shutdown.

The appropriations discussion and strategy has largely been supplanted by the financial crisis. The administration has requested US\$700B of spending authority to buy up the bad paper that has paralyzed the financial industry and frozen credit transactions. Treasury Secretary Paulson and Fed Chair Bernanke both testified yesterday that urgent action is required to prevent a collapse and meltdown of the US financial system. As recently as last week the President, echoed by McCain, assured the public and the world that the "fundamentals of the economy are strong". Most members of Congress appear unwilling to succumb to the breathless "the-sky-is-falling" message, and have stated a requirement that some controls be built in to the bailout that would provide some accountability for the money and some Congressional oversight.

The political imperative for both sides is that some legislation must be passed before the pre-election recess, but the Democratic leadership is unwilling to jump off the cliff alone, and will require that the administration whip the Republicans into line so they all jump together. This appears to be a very heavy lift for the President just before the election, and he is facing widespread mutiny from his own party.

In an effort to build support for the bailout package, the President used the only thing available to him and addressed the nation in a primetime television speech from the bully pulpit of the White House. McCain has announced that he will suspend his campaign and return to Washington to participate in an economic summit hastily convened by the White House, and asked that the Friday debate be postponed. Obama, challenged to do the

same, has thus far declined to agree to a postponement, saying in effect "I can do more than one thing a time". How this standoff plays out will be interesting since one of the two candidates is going to have to back down.

It is clear that there will be some sort of bailout and that it will be massive, whether granted incrementally or in a lump sum by the Congress. The net result will be that the 09 appropriation, which will be in limbo until after the new year, will have to reflect the new fiscal reality imposed by the credit crisis. All federal agency budgets will be cut, and all major defense programs are at risk.