

TRENDMACRO LIVE!

## On the Judicial Nominations Pact

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Over the last month several clients have asked us if we have regarded the potential change to **Senate** rules with respect to filibustering judicial nominations to be an important political risk overhanging the markets. To be sure, a worst-case outcome in which Senate **Republicans** exercised the "nuclear option" and **Democrats** made good on their threat of a retaliatory legislative "meltdown" could have had dangerous wildcard effects on any of the political risks we have been tracking -- extending the **2003 tax cuts**, **Social Security** reform, and **protectionist** measures against **China**. And memories of 1995 and 1996, when **Newt Gingrich** permitted several government shutdowns as part of a rancorous budget deadlock with **Bill Clinton**, suggest that Republicans could be scapegoated by the media today just as they were then -- and the Republican pro-growth alliance is already fragile enough without taking such damage. But we haven't written about it because we've strongly assumed that it would resolve just as it, in fact, has -- and we saw no reason not to think that markets were assuming pretty much the same thing. After all, a Republican majority that can't even get its act together sufficiently to have made the 2003 tax cuts permanent by now wasn't likely to have the courage to do anything so bold as to exercise the "nuclear option." Indeed, the **stock market's** reaction yesterday to the resolution of the situation Monday night -- which is to say no reaction at all -- suggests that it was correct not to treat this risk as priced.

At this time we aren't worried about Republican **Lindsey Graham's** grandstanding as a member of the group of 14 so-called **centrists** who engineered the bipartisan pact that defused the potential crisis. Graham's bloody fingerprints are all over the two of the worst political risks we are tracking -- lifting the cap on wages subject to the **payroll tax** as part of Social Security reform, and imposing across-the-board tariffs on China (see "[Ducked Bullets](#)" May 20, 2005). It's troubling to see Graham's prestige increased, but it's a vast exaggeration for him to crow that his coalition is "the model for the future" and now has the "momentum to do some things that were maybe unachievable otherwise, like Social Security." The game-theoretic structure of what his coalition has accomplished here is limited in its use to similar situations in which a small cartel of swing voters mutually blockade both of two otherwise straight party line votes. It hardly makes Lindsey's vision of a tax-hike solution to Social Security "achievable" -- if anything, it's likely to be employed to blockade such a solution in exchange for blockading **personal accounts**. We only wish it could be used to blockade Lindsey's and Democrat **Chuck Schumer's** amendment calling for a 27-1/2% tariff on all goods entering this country from China -- but sadly, that particular nuclear option enjoys too much bipartisan support for it to work. Centrists in China are going to have to defuse *that* crisis. **TM**