
TRENDMACRO LIVE!

On the Super-Committee Failure

Tuesday, November 22, 2011

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We're shocked... shocked! ...to find failure going on in this congress.

It's been a terrible several sessions for stocks, with the dominant narrative being the pending failure of the Joint Select Committee on Deficit Reduction -- the so-called "super-committee." [The failure is now official.](#)

We can't see why this ought to matter. If anything, it's *good* news. If this is really all that's been spooking stocks -- rather than Europe's intensifying crisis (see ["Europe Gets MAD"](#) November 15, 2011) -- then this is a buying opportunity.

- Only surprises should move markets. The failure of the super-committee was no surprise. It was preordained when it was populated by ideologues on both sides, people incapable of anything but completely polarized debate.
- No one should have expected any kind of "grand bargain" along the lines of the [Simpson/Bowles proposals](#). It was never going to happen.
- There was the risk that in reaching for a grand bargain, Republicans foolishly would accede to growth-killing tax hikes today in exchange for Democrats' promises of spending cuts tomorrow, which would never materialize. That wasn't much a risk. But at least now it's off the table -- which is why we say that, if anything, the super-committee's failure is good news.
- The fallback automatic budget sequesters in the wake of the super-committee's failure are a substantive down-payment on spending reduction (see ["Debt Ceiling Crisis Over -- Now What?"](#) August 2, 2011). Deficit-hawks should be reasonably pleased.
- The sequesters don't start to take effect until 2013, so those worried about "fiscal drag" on the economy don't have to contemplate an immediate threat. In any event, in our view, any fiscal drag ought to be offset dollar-for-dollar by relief from "crowding out," because the Treasury will have to borrow less.
- The super-committee's failure does not mean that there will be another confidence-shattering battle over raising the debt ceiling, as that becomes necessary again over the coming months. The [Budget Control Act of 2011](#) allows the president to request two increases -- of \$500 million and \$1.2 trillion -- subject only to congressional *disapproval* (which, if received, the president could

Update to strategic view

US STOCKS: The last week's sharp decline in stocks has been associated with worries about the failure of the deficit super-committee, which became official yesterday. The failure was totally expected, and without consequence with respect to further ratings downgrades or further debt ceiling increases. If stocks have indeed been reacting to this event factor -- and not the intensifying crisis in Europe -- then this is a buying opportunity.

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veto). Everybody's happy -- the debt ceiling gets raised, yet Republicans can go on the record as having voted against it.

- The two top rating agencies have [said](#) that the super-committee's failure does not imply further downgrading of US debt. That could change if Congress seeks to undo the fallback mandatory sequesters.

Bottom line

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