The initial post-election talk is understandably about whether the shift to a Republican controlled Senate makes it easier or harder to make progress on central economic challenges facing the United States, including energy, immigration, social spending, and infrastructure. There is understandable concern that this next Congress will face the same gridlock that we have now. But even before that, there is the mundane issue of what we borrow and spend. Partly out of fear of being seen as crying wolf one too many times, I have been wary to advertise my concern that we are facing a new series of economic cliffs. First up is a likely standoff on the budget (in December, and likely again in the spring of 2015). Then comes the debt limit, which will be reset on March 15, but given the usual and not-terribly-extraordinary “extraordinary measures” that are at the disposal of Treasury, they can likely pay the nation’s bills until perhaps the fall of 2015 before cash balances fall to zero. Of course, in the past deals have been done, often at the last minute, and we have not, with the exception of the 2013 government shutdown, gone off the cliff (though there have been a few unnecessary fender benders along the way). But with the Senate as polarized as ever, it is easy to see getting to deals on these issues will be difficult and potentially unsettling to markets.

I am concerned that one cost of this focus on fiscal cliffs will be failure to deal with the long list of international economic issues that are in front of the Congress. Notably, there is a great deal of optimism that the Senate will now provide the President with trade promotion authority (TPA), which likely is essential to have any chance of meaningful agreements on the trade negotiations
now underway, including the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). This optimism seems to come from the historical Republican support for free trade, and recognition that it was Senate Democrats that were the primary hurdle to its passage till now. Perhaps such optimism is justified, and there is previously proposed legislation that should be able to garner bipartisan support. But do not underestimate the risk that negotiations could go off track. In the past, there has been pressure from both parties for tough language requiring any trade deal to address exchange rate misalignments, and that pressure is likely to mount if dollar strength becomes seen as a risk for the economy. Such exchange rate language could be a killer here. The debate over border policies and distrust between the parties also may complicate these negotiations. This is far from a done deal.

The administration should also take the opportunity to reintroduce the proposed IMF reform package, which would slightly increase the resources available to the IMF and, far more importantly, increase the voice given to rising emerging market powers at the institution. Failure to do so will have substantial geopolitical consequences if it pushes those countries to attempt to operate outside of global institutions such as the IMF and World Bank. We are already seeing the effects of Congressional inaction on this issue with the Chinese launch of an Asian Infrastructure Investment Bank. The IMF also has signaled that it will develop new plans for addressing the demands of rising powers for a bigger say if we do not act by end year. (For example, there are proposals to proceed with a reform without full U.S. participation, but that would likely eliminate the U.S. veto over changes in the Fund’s articles, a major concession.) The end result if we don’t act will be a dilution of U.S. economic leadership and influence on global economic governance issues, something even Congressional critics of the IMF presumably do not want to see.

A battle also is shaping up on the reauthorization of the Export-Import Bank, with temporary reauthorization set to expire in June 2015. I would not be surprised to see action blocked by a small, but passionate opposition to any governmental role in trade finance. There further will be a lot of debate over international financial regulatory agenda, as part of a debate over Dodd-Frank legislation, but whether that leads to legislation is uncertain. There does seem to be bipartisan support to take a new look at the impact of the global post-crisis reform effort on areas of strength and comparative advantage for the U.S. financial system, including insurance and asset management rules. Finally, I expect to see new sanctions legislation proposed relating to
both Iran and Russia. On Russia, I have been opposed to legislation, concerned that it would make sanctions too sticky and hard to remove should there be a future agreement easing the crisis. But many in Congress want an even tougher approach than we have seen from the Obama Administration.

Altogether, a long to do list, and not a great deal of reason for optimism that there will be substantial progress achieved. I hope I am wrong.