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**Obama's "Trickle-Down Democrats" & 2010 Mid-Terms**

The White House is quiet about its strategy for tax reform negotiations in 2010, but the outlook cannot improve so long as President Obama continues to promote short-term Keynesian ideas straight from Larry Summers' playbook. Last week's Jobs Summit delivered few ideas that represented positive initiative at the margin. The best item that Obama offered was a gimmicky, one-year cap gains tax exemption on investments in small businesses.

Politically, the Obama Administration finds itself on the defensive with the electorate as opinion polls continue to point to rising GOP momentum. Recent polls show a generic lead for Congressional Republicans heading into 2010 elections and trouble for Obama come 2012. (A survey last week showed that President Obama was leading Mike Huckabee by only one point in a potential 2012 matchup, and Romney and Palin by 5 and 6 points respectively.)

In order to stem this slide, Democrats must change course in 2010 and propose legislation that spurs real wealth creation. Yet so far, Obama and Emanuel fail to appreciate the liability that Larry Summers and his shopworn, Keynesian ideas are for the Democrats and the economy. The White House is therefore likely to offer mostly negative input to the 2010 fiscal discussion. Summers' thinking is predominant among Obama's most influential economic policymakers, most of whom, like Summers were former protégés of former Clinton Treasury Secretary and deficit hawk, Bob Rubin.

Gonzo journalist and gadfly of the Washington establishment, Matt Taibbi, made waves last week with a 6,000+ story detailing the utter domination of the "Rubinites" over economic policy in Obama's White House (where even Austin Goolsbee has found himself relegated to a clerical 'Siberia' on economic matters) and how it would unlikely present strong change on regulatory policy. Steve Clemons, director of the American Strategy Program at the New America Foundation tells Taibbi, "Rather than having a team of rivals, they've got a team of Rubins." And the group-think among the Rubinites is that they "share the same fundamental political philosophy carefully articulated for years by the Hamilton Project: Expand the safety net to protect the poor, but let Wall Street do whatever it wants." Yet, given their preference for deficit reduction over pro-growth fiscal policy and Keynesian stimulus over long-term structural improvements to the nation's capital tax structure, they offer no quick path to reviving risk-appetites via fiscal policy. We might call these Rubinites, Obama's "Trickle-Down Democrats." Their stolid resistance to any positive improvements to tax policy must be bewildering to marginally pro-business, pro-growth Democrats.

Last week, House Ways & Means Chairman Rangel -- who would still like to reduce the corporate tax rate to 28.5% next year -- said that he wanted to speak with Secretary Geithner to get a good sense of the White House's tax-related priorities as they are shockingly unclear given the economic environment. They are likely also contingent upon what the tax overhaul panel led by Paul Volcker will propose during the next couple months. In all likelihood, the panel will propose ideas similar to previous presidential panels, such as President Bush's 2005 panel led by Connie Mack and John Breaux, which recommended limiting deductions for mortgage interest and employer-sponsored healthcare plans in exchange for eliminating the AMT. In other words, no great tax reforms and nothing necessarily toxic either. But the more steadfast the Obama administration remains with its Keynesian approach, the less likely Rangel will be able to introduce meaningful corporate tax reduction.

With trillions already spent in Keynesian 'stimulus' during 2008 and 2009 and growing concerns with the widening budget deficit among the likes of Summers, Rubin and even Volcker, one risk is that the White House may ultimately produce Rangel's "mother of all tax reforms" next year with an austerian, 1994 Bob Rubin strategy of tax hikes and spending cuts that will do nothing for growth while backfiring for the Democrats (as it did in '94) and threaten Democratic control of Congress going into mid-term elections.

Should the White House pursue such an austerian agenda, the Democratic leadership may be confronted with a vigorous intra-party fight (similar to the healthcare debate) that would enlist Blue Dogs and Democrats standing for reelection. This could soften anxieties in the market over fiscal policy next year. Certainly, as these dissenting Democrats align with GOP resistance to Rubinesque tax hike plans, their electoral prospects will improve.

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