

## The Politics of Change

**As power shifts on Capitol Hill, business faces a new reality**

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By historical standards, the Democratic landslide of 2006 was well within the norm: In the sixth year of an Administration, the average loss for a President's party in midterm elections is about 29 House seats, and 6 Senate seats. But for a shell-shocked White House and a business community that bet heavily on the Republicans, the GOP reversal of fortune on Nov. 7 was anything but normal.

Having forged close ties with Republicans on Capitol Hill and funneled about two-thirds of corporate campaign contributions to the GOP, business faces a rude awakening after Democrats swept to victory in the House of Representatives and drew within striking distance in the Senate. As *BusinessWeek* went to press on Nov. 8, Democrats had captured at least 27 Republican House seats, far more than the 15 they needed to regain control for the first time in 12 years and make liberal Representative Nancy Pelosi of California the first female Speaker of the House. (Five were still too close to call, and two appeared headed to runoffs.) Democrats also took back the Senate by the narrowest of margins, 51 to 49, as challenger Jim Webb eked out a razor-thin victory in Virginia over Republican Senator George F. Allen, once talked of as a possible Presidential candidate.

The anti-Bush tide swept away several close allies of business. Among them: Representative Jim Leach of Iowa, former chairman of the panel then known as the House Banking Committee; 12-term House Ways & Means Committee stalwart Nancy L. Johnson of Connecticut; and House Resources Committee Chairman Richard W. Pombo of California, the scourge of the environmental movement. In the Senate, moderate Lincoln Chafee of Rhode Island, who prevailed in a bitterly contested GOP primary with strong business support, was toppled by Democrat Sheldon Whitehouse, the state's former Attorney General.

Business has little choice but to adapt to a reshaped Washington. "If I were the ultimate decision-maker for American industry," says Democratic business lobbyist Ben Barnes, "I would call Nancy Pelosi and say, 'I want to help you be a good Speaker.' Business leaders would be shocked at how much influence they could have by talking to Democrats about jobs in their districts and the Little League teams they are sponsoring."

### **BACK TO THE CENTER**

There's no doubt that the party's over for business. But it's not simply because the days of corporate lobbyists writing Republican legislative proposals have come to an end with the ascendancy of such left-leaning committee chairs as Charles B. Rangel of New York (Ways & Means), Barney Frank of Massachusetts (Financial Services), and John D. Dingell of Michigan (Energy & Commerce). Partisan affiliation itself will matter less in a Washington where the chambers of Congress are narrowly divided between the parties and President George W. Bush maintains veto power over anything he considers runaway liberalism on Capitol Hill. Senator Hillary Clinton (D-N.Y.) declared in her Nov. 7 victory speech that the election would propel policy "back to the vital, dynamic center."

Centrist players from both parties who are likely to build coalitions that supersede partisan agendas could emerge as new power brokers--and targets for business lobbying. Among the newly empowered centrists are Senator Tom Carper (D-Del.) and Senators Olympia J. Snowe and Susan M. Collins, both Republicans from Maine; Representative Christopher Shays (R-Conn.); and Representative Ellen O. Tauscher (D-Calif.), chair of the moderate New Democrat Coalition, who worked on Wall Street for 14 years and was one of the first women to hold a seat

on the New York Stock Exchange. While several Republican moderates went down to defeat, the ranks of bipartisan centrists expanded with victories by about a dozen business-backed Democrats, including Representative-elect Gabrielle Giffords (D-Ariz.), the managing partner of a property management firm, and Tim Mahoney (D-Fla.), co-founder and chairman of vFinance Inc., a venture-capital firm.

But just because a lawmaker is labeled a moderate doesn't mean he's an economic moderate. Senator-elect Bob Casey Jr. (D-Pa.), for example, is considered a centrist because he is a social conservative, but he is a liberal populist on economic issues. Still, in a narrowly divided Democratic House, Tauscher's band of about 40 economic moderates could wield extraordinary power to influence tax, trade, and budget policy. "There are a lot of pro-business Democrats," says Tauscher. She says her group is willing to work with the White House, but it has been ignored for years. "They don't call," she complains. "They don't write. They don't send flowers."

That could change. One former Bush Cabinet member, ex-Secretary of Homeland Security Tom Ridge, predicts that the President will work across party lines to avoid two years of complete gridlock on economic issues from deficit reduction to taxes. "He has no choice," says Ridge. "He'll have to reach out if he wants to get anything done."

Even in the middle of the harsh partisanship of recent years, certain committees on Capitol Hill have maintained good bipartisan working relationships. Among them are the House Financial Services Committee, the House Energy & Commerce Committee, and the Senate Banking Committee. On the Senate Finance Committee top Democrat Max Baucus (D-Mont.) and senior Republican Charles E. Grassley (R-Iowa) are close friends and political collaborators.

That bipartisanship is expected to continue even with Democrats in charge. The committees could make progress in the next two years on such issues as raising the minimum wage, reforming immigration law, and protecting retailers and consumers from identity theft. On the Senate Health, Education, Labor & Pensions Committee, Democrat Edward M. Kennedy (Mass.) and Republican Michael B. Enzi (Wyo.) are working on bipartisan legislation that would allow smaller companies to lower pension costs.

To break through to the new Democratic leaders, companies will be rushing to stock up on lobbyists with Democratic credentials. But not all Democrats are created equal. In the influence-peddling world, the most important thing is personal relationships with key players on Capitol Hill. That could make Nancy Pelosi's former chief of staff, George Crawford, a K Street superstar. In recent months, he has added Exxon Mobil Corp. ([XOM](#)) and Amgen Inc. ([AMGN](#)) to his client roster.

There's also a ready source of well-connected talent in the roster of former Democratic lawmakers with close ties to the leadership, including ex-Representatives Thomas J. Downey of New York and [Marty Russo of Illinois](#). But savvy businesses won't ditch Republican lobbyists altogether. Some, like former House Appropriations Committee Chairman Robert L. Livingston Jr. (R-La.), have close ties to suddenly powerful Democrats, too.

#### **AWAY FROM THE HILL**

Business advocates point out that there's yet another way to connect with newly minted Democratic leaders: get involved with a lawmaker's favorite charity or pet project. The Financial Services Committee's Frank is interested in creating incentives for building affordable housing. Ways & Means' Rangel, whose district includes Harlem, is devoted to trade with Africa and urban development in the U.S.

On the Senate side, Democratic Leader Harry Reid of Nevada has a deep interest in suicide prevention. A group of lobbyists and industry organizations helped raise money for the 2005 Suicide Prevention Action Network dinner on Capitol Hill, which honored Reid, whose father killed himself in 1972. The potential payoff from such gestures, says one Republican lobbyist familiar

with the event, is that "you can get a member of Congress to say, 'Oh, that guy really cares about me.' It won't get your bill passed, but it helps on the margins."

Companies that are on the ball politically will also turn away from Capitol Hill to get certain things accomplished. With Congress closely divided and likely to deadlock on many key issues, business will focus more attention on federal regulatory agencies and state governments. One prime example: litigation restrictions. Incoming House Judiciary Committee Chairman John Conyers (D-Mich.) is unlikely to allow any additional limits on lawsuits to emerge from his panel. So business groups will redouble their tort-reform efforts in state legislatures.

In the telecommunications industry, the Baby Bells have come to the conclusion that a Democratic House will stymie their attempts to win the ability to provide pay-per-view video services without certain regulations that they strongly oppose. Instead of fighting a losing battle in Washington, one industry representative says the telephone companies will target major states for a new lobbying push. "It's not easy going state-by-state, but it makes sense if it's the only way to get what you want," says a lobbyist working on the issue.

Even in Washington, there will be more action away from the Capitol. Seeking to curb the more onerous reporting requirements imposed by the Sarbanes-Oxley law, some businesses may head for the Securities & Exchange Commission and the Public Company Accounting Oversight Board (PCAOB), instead of congressional committees. "It can all be done with the stroke of a pen at the sec or pcaob," says one financial services lobbyist, "and we don't even have to go to the Capitol."