

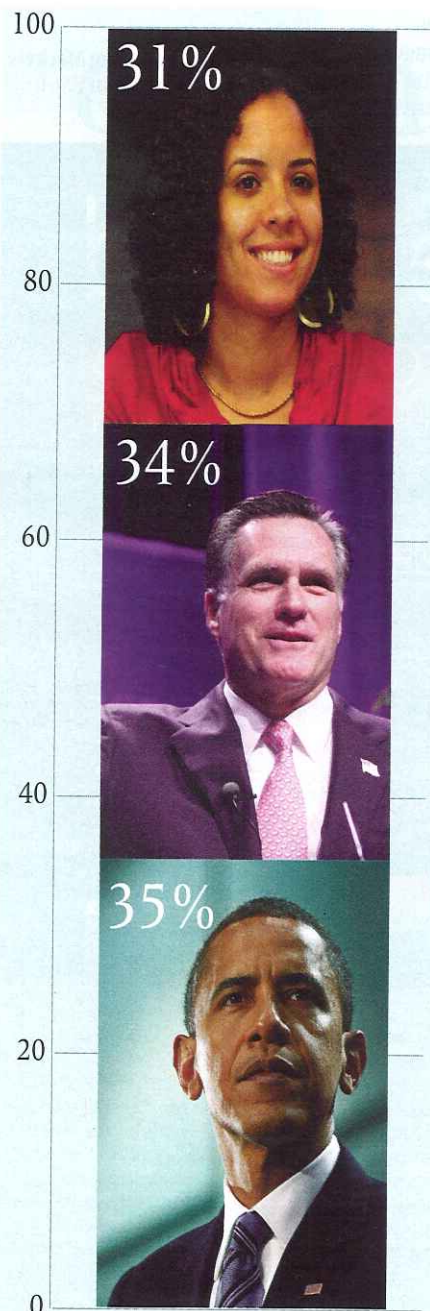
Obama re-election will not prevent stalemate

US gridlock warning for post-election period

BY LAWRENCE GOSLING

The US economy risks being in a state of gridlock for the crucial last few weeks of the year, irrespective of who wins the November election, according to a leading independent American political analyst.

Washington-based Andy Friedman said even if President Obama is re-elected on 6 November he will not take up his second term of office until mid-January 2013, and this interim seven-week period will be 'the mother of all lame-duck sessions'.



According to the most recent analysis of the US electorate, 35% of Americans consider themselves Democrats, 34% Republicans and 31% Independent. Friedman believes it is this latter group who will be crucial in deciding the outcome of the election.

Friedman said if Obama does win he may face a Congress where both separate chambers, the Senate and the House of Representatives, could be controlled by the Republican Party. Currently, the House has a 50-seat Republican majority, with all 435 seats up for election, while the Democrats have a six-seat majority in the Senate and there are 33 seats up for election. This could lead to a repeat of last year's major cross-party squabbling over the budget.

Friedman said: "When the dust settled the parties only agreed to cut the deficit by \$2.1trn over ten years. The fact is it did not do anything at all."

"I am reminded of a quote by Winston Churchill who said: 'Americans always do the right thing - after they have tried everything else'."

He said the deficit reduction agreement in 2011 included defence cuts of \$1trn, but no changes to medicare, social security or Medicaid benefits, or crucially any tax increases.

The 2011 budget deficit stood at \$1.3trn, or 8.7% of GDP, down slightly from 9% of GDP in 2010, but as recently as 2008 the deficit was only \$455bn or 3.2% of GDP.

Two thirds of all spending is mandatory on areas such as welfare, while a third is on discretionary spending including defence and domestic budgets.

The deficit in 2011 was the second highest in US history and it was the first time since World War II it reached 100% of GDP.

Friedman believes there are a number of further threats to the deficit, which include lower economic growth and higher unemployment, which are exacerbated by the drag of deficit reduction efforts. Although the Federal Reserve has committed to keeping interest rates at their current level until the end of 2014, over the long-term rates are likely to rise, he added.

Friedman is a political adviser to US asset manager Eaton Vance and runs the political website The Washington Update.

For more see www.thewashingtonupdate.com

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