

The Romney-Ryan Achilles Heel

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When Mitt Romney chose Rep. Paul Ryan as his running mate he guaranteed that the 2012 presidential race will be about two opposing economic philosophies.

Not even 1980 had such a clear choice. The economy was in recession with double-digit inflation – people demanded change. It's true that Reagan spoke about getting government off our backs, but President Carter had cut the capital gains tax rate and deregulated both trucking and airlines. Senate Democrats, who ran the Joint Economic Committee, published a report called "Plugging Into the Supply-Side." Reagan altered the course of America, but he did it with bi-partisan support.

This year, President Obama wants to raise tax rates on the rich and massively expand the government's role in health care. Senate and House Democrats agree. President Obama has been clear; he believes government's role in the economy should be larger than it has ever been.

The Romney-Ryan team wants to reform Medicare, Medicaid and President Obama's health care law. They believe tax rates should be reduced. Vice Presidential candidate Ryan says "Our rights come from nature and God, not government."

It will be clear to voters which side the candidates are on and, as a result, this election could determine the direction of the American economy for decades to come.

What will make this even more interesting is that Republicans have an Achilles Heel and it is certain that it will be attacked. Back in 2008, during the financial crisis, many Republicans supported TARP – a massive interference in the free market. It was sold as protection against a collapse in the economy caused by toxic assets and greedy bankers.

We think TARP was a mistake. As former Wells Fargo CEO Richard Kovacevich has said, "TARP was one of the greatest economic mistakes ever made in the history of the US. It...caused our citizens to question our entire free market system." We could not have said it better.

The problem is that by voting for TARP, Republicans admitted that they think we need the government to rescue us from "market failure." So, Democrats can ask Paul Ryan (who voted for TARP) why he thinks bailing out banks is OK, but why he's against fixing "market failures" in health care and other sectors.

In Ryan's defense, at that time he was a member of the minority party. Nancy Pelosi was Speaker of the House and she decided what came up for a vote. Moreover, there was a bipartisan consensus of "too big to fail." Congress was told that big banks might fail and, in that situation, not giving them aid would have broken an implicit promise to the markets.

The better free market approach would have been ending overly strict mark to market accounting rules. That was eventually done in March 2009, and the stock market and economy started rebounding almost immediately.

But that wasn't Ryan's choice to make in late 2008. Most Republicans ignored the accounting rule and pushed forward in support of a big government bailout.

That bailout (TARP), and what it signifies, is a problem for Republicans. They will have to explain it somehow and still fight for free markets. It's a headwind they created for themselves, a black mark on their free market credentials. Nonetheless, the differing philosophies of government's role in the economy are still very clear. 2012 is a huge election.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-14 / 7:30 am	PPI – Jul	+0.2%	+0.1%		+0.1%
7:30 am	"Core" PPI - Jul	+0.2%	+0.2%		+0.2%
7:30 am	Retail Sales – Jul	+0.3%	+0.3%		-0.5%
7:30 am	Retail Sales Ex-Auto – Jul	+0.3%	+0.5%		-0.4%
9:00 am	Business Inventories – Jul	+0.2%	+0.1%		+0.3%
8-15 / 7:30 am	CPI – Jul	+0.2%	+0.1%		+0.0%
7:30 am	"Core" CPI – Jul	+0.2%	+0.2%		+0.2%
7:30 am	Empire State Mfg Index – Jul	7.0	8.0		7.4
8:15 am	Industrial Production – Jul	+0.5%	+0.5%		+0.4%
8-16 / 7:30 am	Initial Claims – Aug 11	365K	363K		361K
7:30 am	Housing Starts – Jul	0.758 Mil	0.750 Mil		0.760 Mil
9:00 am	Philly Fed Survey - Aug	-5.0	-6.2		-12.9