

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

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Friday, November 1, 2002

A REPRINT FROM A PIECE PUBLISHED FEBRUARY 26, 1992

Does The Market Care Who Wins In November?

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I was recently asked by a reporter from a major newspaper why I thought the stock market didn't react negatively to President Bush's recent poor showing in the New Hampshire primary. I said I thought it was because the market continues to believe that Bush will win, despite his current troubles. The implication of this answer was, of course, that the market could be in for a shock if it were to become widely believed that Bush might lose.

On reflection, I now think there is another, much more likely reason for the market's indifference to New Hampshire, namely that the financial community simply doesn't care who wins in November. This isn't because the market likes Bush and the front-running Democrats equally well. It is because it dislikes them equally.

If this is true, then a continued poor showing by Bush is unlikely to hurt the market, no small matter given the likelihood that the president is in for a difficult period. So this week I thought it would be worthwhile to see if a reasonable case could be made for the "it doesn't matter" theory.

I'll begin by acknowledging that it is certainly true that the United States faces a crucial decade of change, during which U.S. leadership will be of utmost importance not only to the future of the nation, but to the future of the world. But I think it could be argued that, from the standpoint of the financial markets, there isn't a nickel's worth of difference between Bush and any of the likely Democratic winners.

Yes, the various candidates, including Bush, disagree somewhat over the nuances of such things as national health insurance and taxes, or the emphasis to be placed on various environmental issues, and on the speed with which the nation should disarm. And each has his own "ideas" on such issues as education, drug abuse, crime, civil rights, gay rights, women's rights, affirmative action, federal regulation, and the roll the United States should play in the post cold war world.

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But it is also true that whoever occupies the White House in January 1993, will find that, to a remarkable degree, many of his most important decisions will be determined by circumstances that will be largely beyond his control.

I am referring here to both macro and micro circumstances. On the macro level, I think the sweep of history will engulf all U.S. presidents in the 1990s to a much greater degree than it has in prior administrations.

On a micro basis, I would call attention to the fact that the victor will have had to satisfy an immense appetite for campaign funds by making promises to a myriad of special interest groups, who will be waiting outside the door after the inauguration parade with a due bill in hand.

This has always been a problem. But it has become more insidious each year as campaign costs rise, and as the nation's large political contributors have learned to support both sides, thereby assuring themselves a sympathetic audience regardless of party. Lest the importance of this point be lost, let me state it another way: the winner in November will have fed at most of the same troughs as the loser, and this considerably dulls the edges of difference, regardless of campaign rhetoric.

Finally, the fiscal area presents probably the best example of the leveling effects that will be at work on the new president. I am speaking, of course, of the following.

- o Well over \$1 trillion of additional deficits will accumulate during the 1993-1996 term, even without any new spending programs and no matter who occupies the White House.

- o The winner will inherit a staggering government debt of \$4.5 trillion, which will require an annual interest outlay that is close to 20% of all government revenues.

- o Total federal, state and local taxes will already be at all-time post World War II highs, and thus the public will be resistant to additional hefty increases, no matter how enthusiastic the president is for additional funds.

In fact, one might say that regardless of who is president next January, his chief financial advisor throughout his term will be the bond market.

Bush is, of course, much more of a free trader than some of the Democratic candidates. But I believe what I referred to earlier as the "sweep of history" will have more influence on this area than the president, again regardless of party.

Specifically, I think Democratic protectionists are riding a dead horse; that even if someone like super protectionist Tom Harkin were elected, economic realities would still dictate an open trade policy for the United States in the 1990s, as manufacturing becomes increasingly globalized and as underdeveloped nations slowly enter the capitalist world.

Defense policy is another area where the sweep of history will impose itself. Barring some unforeseen military crisis, the shrinking of the defense budget will have little to do with the

whims of the president, but will be a function of Congress's willingness to absorb the resultant unemployment both in disbanded military personnel and in the defense plants.

Finally, as regards such domestic problems as crime, drug abuse, poverty and education, Bush is, like all the Democratic candidates, a strong proponent of federal solutions through expanded bureaucracy and increased taxes.

Yes, there are shades of difference between his approach and those of the Democratic candidates, just as there are shades of difference among the Democrats themselves. But when the dust settles, the new president, Bush or whoever, will endorse whatever "twist de jour" happens to captivate the nation's social engineers at the moment, e.g., workfare, vouchers, enterprise zones, etc. And, in any case, as Bush said in his inaugural speech, "our funds are low."

I am not trying to say here that I believe U.S. history is predestined, that no person could change the course of the nation in the next four years. In fact, I think one could argue convincingly that if a true conservative were elected, he or she could, despite the leveling influences at work, make a considerable difference in the extent to which government is involved in the economy and in the type of role government takes in addressing the nation's social problems.

But Bush is, as I said earlier, basically a middle of the road Democrat, making any discussion of what a true conservative might accomplish a mute point. If this sounds untrue, listen.

- o The conservative Cato Institute argued last summer that President Bush is the "greatest champion of new domestic spending since Franklin Roosevelt"

- o The Center for the Study of American Business last July noted that whether measured in current dollars or "real terms," federal governmental spending on regulation under Bush has risen to its highest level in history and is rising rapidly.

- o As we all know from Bush's broken "read my lips" promise, he is less than enthusiastic about conservative anti-tax orthodoxy.

- o And he is as strong a proponent of government solutions to national ills as any president in recent memory. Take a look at his recent budget if you doubt this.

Yes, he bleats occasionally, especially in front of conservative audiences, about the evils of "Great Society" programs. But he has never proposed the elimination of a single one, and has aggressively advocated increased spending levels on many.

The fact is that a look at Bush's record begs the question of how any Democrat could possibly outspend, outregulate or outtax him.

So why are the markets doing well, faced with such a choice? As I said earlier, I think it reflects the belief that the United States is entering a remarkably prosperous decade, and the further belief that neither Bush nor any of the democrats could screw it up no matter how hard they try.

What the markets are seeing, what is being overlooked by the doomsayers, from the so-called

conservatives, such as political pundit Kevin Phillips, to the Democratic candidates themselves, is the fact that the United States has for the past 47 years grown and prospered as no other nation in the history of the world, while spending trillions of dollars on defense.

Right or wrong, since the end of World War II the United States has fought three hot wars, in Vietnam, Korea and the Middle East, and an enormously expensive cold war throughout the world, while Japan and Europe have prospered under this military umbrella.

Well get ready world, America is about to play by new rules. And it won't need protectionism to succeed either, despite the cries of a dying breed of labor goons and their cronies. During the 1990s vast amounts of funds will be redirected from sterile defense spending toward one of the most powerful, innovative and aggressive economic machines that the world has ever seen.

Yes, the United States has unemployment. It is considerably lower than when Jimmy Carter was president, but there is unemployment nevertheless. But at least some of this unemployment can be attributed to events that are setting the stage for a major competitive expansion worldwide sometime in the 1990s. I am referring to a shift from defense spending to other industries, a broad and hopefully permanent cutback in the bloated payrolls of state and local governments, and the streamlining of some of the nation's largest industries. I think the financial markets see this and see the following also.

- o A major increase in U.S. savings rates during the 1990s, as the baby boomers prepare for their kids' college and their own retirements.

- o A growing and increasingly prosperous economic alliance with Japan, despite current anti-American bashing by their troglodytes and anti-Japanese bashing by ours.

- o The most aggressive expansion of United States industry around the world than has ever been witnessed, beginning in Mexico and continuing southward into Latin America and westward into the Pacific Basin.

- o A Europe in trouble as it fights off the effects of years and years of socialist economic nonsense, growing protectionism, weak central governments, and enormous costs connected with controlling the chaos that will plague the newly freed Soviet Republics.

Yes, I believe the financial markets would welcome the prospects of a United States president with the vision to understand the vast opportunities available in the post-cold-war 1990s and the leadership skills to take full advantage of them. But I think investors are confident that the nation can still prosper during the coming decade, even if such a person doesn't materialize, which unfortunately appears to be the case.

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