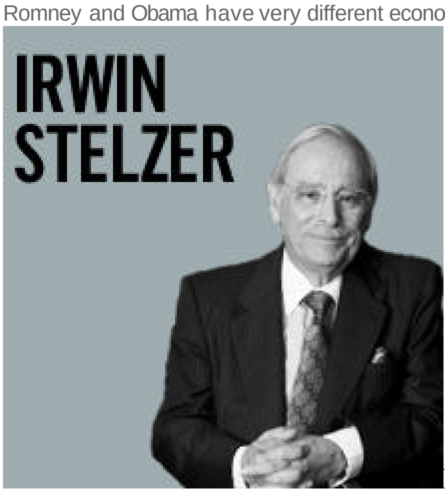
THE SUNDAY TIMES

American Account: Two visions but investors can’t see where to go

Irwin Stelzer Published: 21 October 2012

Romney and Obama have very different economic views (David Goldman)



Barack Obama and Mitt Romney agree on one thing: they have very different views of where they want to take the American economy. Neither concedes that reality will constrain his pursuit of that vision, but confrontation with reality is a post-election chore, to be considered at a later date. The looming reality of the fiscal cliff — the impending cuts in spending and increases in taxes that will probably produce a recession — was not even mentioned by the candidates in their debates. Obama reserved that topic for the safety of a campaign rally.

After the debate he announced that he would take America over the cliff into recession if the Republicans refuse to raise taxes on "millionaires and billionaires", in practice anyone earning more than $200,000 a year ($250,000 in the case of families). He would also raise taxes on dividends and capital gains, the latter even if the rise reduces total revenues to the Treasury. Romney would do none of these, lest entrepreneurs' incentives to grow small businesses be reduced.

The candidates also have differences on the three Gs: God, guns and gays. On God, the president would require many Catholic institutions to make contraceptive services and abortion available to their employees, Romney would not. Obama would ban the sale of automatic assault weapons, Romney would not. Obama favours gay marriage, Romney does not. An economist can't shed light on these.

On the economy, however, there is much that can be said about the competing visions. Broadly, Obama would grow the government, Romney would try to grow the private sector. Obama's tax policies would be guided by a pursuit of fairness, which in his case means raising taxes on the wealthy, while Romney's would be guided by an effort to increase incentives for private-sector investment and job creation. Both want to eliminate tax loopholes, but one man's loophole is another man's tax incentive, and neither candidate is prepared to be specific about just which current advantage he intends to snatch from which constituents.

They are, however, quite specific about their differences in many areas of economic policy. Romney has made it clear that he does not approve of Federal Reserve board chairman Ben Bernanke's latest round of quantitative easing, QE3 as it is known, and will when the time comes (January 31, 2014) appoint as chairman someone with a different view of the role of monetary policy. He fears that successive quantitative easings distort investment by keeping interest rates at close to zero, and that all the money being printed by the Fed will end up fuelling inflation.

If Obama has any such qualms, he is keeping them to himself, and quietly counting the blessing of any boost to the sluggish recovery provided by Bernanke's easy-money policy. Rumour has it that Bernanke is exhausted and eager to return to the quiet life of the academy, so even if Obama were to offer reappointment, Bernanke would probably turn it down.

In sum, the best guess is that a Romney appointee would be less likely to continue pumping money into the economy than an Obama appointee, and that interest rates would begin moving up if Romney wins.

*Befuddled investors have to guess which candidate is more likely to cut a deal with Congress to avoid the fiscal cliff*The candidates also differ on energy policy, although both profess to be in pursuit of "energy independence", defined by Romney as North American energy independence to include the tapping of Canadian and Mexican oil and gas resources.
Although both say they favour "all of the above", it is clear that Obama plans to rely more heavily on solar, wind and other renewables, subsidising them generously with taxpayers' money, and to restrain the use of fossil fuels. Romney has a different plan: let solar and wind rely on private-sector funding, and remove the constraints that Obama has placed on the development of domestic oil, gas and coal resources.

Production of oil and gas in the US is rising, but this is despite the government's huge cuts in the issuance of permits for drilling on federal lands. From a peak of about 7,000 in 2003, the number of federal drilling permits issued has fallen to a bit more than 4,000; production of oil and gas on federal lands fell by 14% and 9%, respectively, this year; and the Department of the Interior has just banned drilling on about half of the 23.5m acres of the National Petroleum Reserve in Alaska.

The differences between the president and Romney extend to coal. “We’re not supporting clean coal . . . No coal plants here in America. Build ’em over there [in China],” said Vice-President Joe Biden, the self-styled candour-in-chief. Utility executives with whom I talked have closed down about 10% of their coal-fired generating capacity, in part because natural gas is so cheap, in part because of regulations on emissions. Few if any coal plants will be built in Obama’s America.

Then there is tax policy. Both candidates admit the US corporate tax rate of 35%, among the highest in the world, must be lowered to closer to 25% if American firms are to compete in a globalised economy. But Obama would raise taxes on firms investing abroad, Romney would not.

There are other differences of economic consequence. Obama would encourage the growth of trade union power, Romney would not. Romney would increase spending on defence, Obama would cut it. Romney would label China a currency manipulator, Obama would not.

Befuddled investors are left to wonder whether Obama’s choice for Fed chairman, and continued easy money beyond 2014, will drive up share prices more than his plan to raise taxes on dividends would drive them down. And whether the greater economic growth resulting from Romney’s encouragement of oil and gas development and private-sector entrepreneurs will drive up share prices faster than the fiscal austerity he promises would drive them down. More important, they have to guess which candidate is more likely to cut a deal with Congress to avoid roiling markets by careering off the fiscal cliff.

There is much to play for in 16 days.

¦ *Irwin Stelzer is a business adviser and director of economic policy studies at the Hudson Institute; stelzer@aol.com*