



August 6, 2012

### **Letter from Washington**

With under ninety days left to go before the Presidential election in November a couple of things have become clear. The first is that most Americans, barraged by an incessant stream of negative advertising from both sides, especially in the battleground states, can't wait for the whole thing to be over. The second thing is that the focus of the two campaigns is entirely different. The Romney campaign is centered on the struggling economy and the President's inept handling of the policy tools at his disposal. The Obama campaign is laser-locked on Romney himself, trying to destroy him personally before the campaign starts in earnest after the September Labor Day holiday.

Even though the Obama strategy has been clear for some time, Romney has cooperated in it by not providing any clear rationale for his election other than he is not Barack Obama. In many ways this election will boil down to voting for Obama or against him, not voting for Mitt Romney.

The irony of course is that Obama ran in 2008 as the candidate who would change the level of political discourse in Washington (as well as making the earth begin to cool and the seas recede). Recall that he was the one that could bring everyone together by the sheer gravitational force of his personality. Fast forward four years and it is clear that the President cannot run on his record of stewardship of the economy, so the only campaign strategy left is the demonization and personal destruction of Romney as a reasonable alternative.

This election is a reprise of past themes, and depending on which side you favor there is recent precedent.

In 1980 Jimmy Carter was an incumbent President presiding over a failing economy, but Ronald Reagan was viewed as too far out of the mainstream until the Presidential debate just weeks before the election, after which he was viewed as an acceptable alternative, winning in a landslide.

In 2004 George Bush was an unpopular President seeking a second term. During the summer of 2004 the Bush campaign systematically deconstructed John Kerry and his Vietnam service to the point that he could not recover, and the unpopular President prevailed.

The vilification of Romney actually started in the primary season and was initially carried out by fellow Republicans. Branding Romney a "vulture capitalist", both Newt Gingrich and Rick Perry made his successful business career a negative factor. In all of this, Romney has yet to make a case for capitalism, the role of the free market and for his role in the successes of many more companies than failures. He has also yet to make a compelling personal narrative that would humanize his image and make him seem less programmed and inauthentic. Perhaps because his personal story cannot be told without reference to his Mormon religion, he has declined to open up that side of his life and as a result, allowed the Obama campaign to define him in the most negative terms by default.

Romney's time to reverse the negative perceptions is growing short, but the one thing that continues to work for him is that the economy shows no signs of turnaround, and may actually be becoming worse heading into the election. The mid-July consumer confidence numbers represented the fourth month of decline in a row, with consumers the most pessimistic that they have been all year. More importantly, retail sales also took a dive in July, continuing their downward trend for the third month. These are alarming signs for any incumbent, and the numbers may even point toward another recession.

Romney and Obama are alike in one respect, in that they both seem uncomfortable with retail politics. In public settings Obama does not seem to draw energy from the crowds like most successful politicians. Instead he acts detached and appears to be going through the motions as a necessary evil. Romney, on the other hand, seems to be operating on autopilot, but with a knack for saying inappropriate things that later come back to haunt him.

Meanwhile, the Congress remains in gridlock, with the Senate having resigned itself to not resolving the fiscal crises that await, and unable to pass the necessary appropriations bills for 2013. The Senate will just this week start the mark up process for the Defense Appropriation, but given the fact that the body will be in recess for most of August, has not left itself enough time to pass the necessary appropriations bills before the end of the fiscal year in September.

Unusually, both Democrats and Republicans seem to agree that a government shutdown just before the election will damage both sides, so there is high likelihood that there will be agreement on a Continuing Resolution to fund government operations well into 2013. The benefit to the Republicans is that they will extricate themselves from the position of later having to accede to tax increases or be blamed for continuing the shutdown. The benefit to the Democrats is that the base budget for 2013 would not be at the House-passed \$1.028T level, but at a higher rate that would preserve entitlement spending, at least until after the election. In any case, the Senate is unlikely to go along with the House budget number and will push

for the \$1.047T budget cap that was agreed to last summer.

Passing a six-month Continuing Resolution removes the threat of a government shutdown before the election, but does nothing about the sequestration problem. That is still on schedule to take effect on January 2, with the Office of Management and Budget curtailing \$1.3T in 2013 spending across the federal budget, and with half of that amount coming from defense.

What many people have lost sight of is that the other half of the sequestered funds will come from the non-defense agencies of the government. The language of the Budget Control Act specifically exempts military manpower from sequestration equation. The DoD can find the \$50B required to meet the sequestration target without having to reduce manpower. Other government agencies without large acquisition accounts, the FAA for example, cannot, and will have to start laying off and furloughing employees on January 3rd. There will be massive disruptions in essential government services, even if the sequestration is in effect for a short time.

This will undoubtedly be a very close election. The only safe bet at this point is that the Republicans will retain control of the House, with the Senate and the White House as toss ups right now. If the indicators are accurate and the economy continues to worsen, more people will be seized by the pessimism already growing and be more willing to vote for change. At this point Obama holds a slight edge in the polling in the battleground states, but the early polls are taken among registered voters rather than those most likely to vote, and maybe skewed to favor the President.

Regardless of which candidate wins in November, neither campaign will have established the rationale for a governing mandate. Romney is running on bad economic news and mismanagement by Obama, while the President is running against a caricature of Romney as the evil capitalist, bent on taking granny's social security check. Both continue to poison the atmosphere, and will find it difficult-to-impossible to achieve any kind of bipartisan consensus for governing after the inauguration. The same critical issues of debt and deficit reduction, entitlement reform and revenue still remain unsolved, but the next President will get no honeymoon period, and any kind of meaningful progress on these issues seems even farther away.