

February 13, 2013

State of the Union & the GOP Responses

SOTU: President Obama's State of the Union address didn't have many surprises last night. Of course, he called for a combination of tax increases and spending cuts to reach a fiscal compromise with Republicans. He also urged for an increase in the minimum wage, more infrastructure spending, climate change initiatives, and new gun control laws. Then he outlined his realist foreign policy agenda to reduce troop levels in Afghanistan and preventing a nuclear weapon in Tehran, while emphasizing that America's leadership in the world must fall within a proper legal framework.

GOP Responses – Rubio, Ryan & Paul: The most revealing events last night were the Republican responses as the Party attempts to revitalize itself after the terrible 2012 election cycle. Marco Rubio is undoubtedly relatable to both conservatives and moderates, although his policy proposals last night were generally boilerplate Republican Establishment ideas: a lower corporate tax rate, targeted tax breaks for education and small businesses, spending cuts, and entitlement reforms. Unfortunately for Rubio, his endorsement of a balanced budget amendment and Medicare and Social Security reform will place him squarely within the currently conventional Republican mold, which is not politically attractive.

On CNN, Newt Gingrich applauded Rubio's speech and called him a rising star in the party. He argued that it's important to remember that if Mitt Romney won 36% of the Latino vote last November (instead of 29%), then he would be in the White House. This kind of thinking in the GOP highlights the sad state of affairs it finds itself. Rubio's ethnicity won't push Republicans over the hump.

Paul Ryan's post-SOTU interview confirmed where the Party stands intellectually today. The former VP nominee stated that the United States is suffering from a Debt Crisis. This isn't true, of course. It suffers from a Growth Crisis. A sustained 3.5% GDP growth would enable the federal government to easily balance the budget and afford existing entitlement programs. And once that growth is achieved, the American electorate will then allow a gradual unwinding of the social safety net (e.g. Bill Clinton's welfare reforms in 1996).

This misunderstanding in the GOP has led its representatives wildly astray, emphasizing pessimistic austere values and issues that don't win elections. The GOP wins elections when it puts forth the credible, optimistic growth platforms that made Reagan and Kemp legend.

To his credit, Rubio made clear last night that if the United States grew at 4% annually, then it would increase jobs and reduce the deficit. Unfortunately, though, he said that

BRETTON WOODS RESEARCH, LLC

one of the best ways to achieve this is through energy deregulation and then tax code simplification. Those are good ideas, but they do not create rapid, long-term non-inflationary growth. To us, Rubio is sticking too closely to the conventional Party wisdom, which will limit the enthusiasm for him as a national candidate. Nonetheless, he is still one of the brightest hopefuls in the Republican 2016 field.

The next most important event last night was Rand Paul's post-SOTU response. He was completely uninspiring, focusing mostly on the national debt and demanding even more than the \$1.2 trillion in sequestration cuts that will automatically take effect starting March 1.

To be sure, the growth wing of the Republican Party is virtually non-existent today on the national stage. But why does this matter? It matters because the conversation and debate in Washington will not lead to any meaningful pro-growth reforms during the near-term that will dramatically improve our country's national standard of living.

P.S. We've received a number of questions about Karl Rove's new PAC, the Conservative Victory Project. Clearly, the PAC is the result of the dismay by the Republican Establishment over the loss of important and relatively easy election races, such as Richard Mourdock in Indiana and Todd Akin in Missouri. One could easily surmise that Rove's PAC will compete directly against the Koch Brothers' Tea Party candidates. This is not necessarily inevitable, though. Both Rove and the Koch Brothers are open to the fundamental features of a pro-growth agenda: sound money, low taxes, and limited regulation. Any viable national candidate with such a platform will reunite the Party. To us, the prospect of Republican money centers fighting with each other over which candidate is most politically attractive reflects the confusion and disarray within the Party.

Bretton Woods Research

BRETTON WOODS RESEARCH, LLC

© 2006-2013 Bretton Woods Research, LLC. All rights reserved. No portion of this report may be reproduced in any form without prior written consent. The information has been compiled from sources we believe to be reliable but we do not hold ourselves responsible for its correctness. Opinions are presented without guarantee.

Domestic Reports, Global Reports, and Supply-Side Portfolio (collectively referred to hereafter as "Bretton Woods Research"), is published as an investment newsletter for subscribers, and it includes opinions as to buying, selling and holding various securities. However, the publishers of Bretton Woods Research are not broker/dealers or investment advisers, and they do not provide investment advice or recommendations directed to any particular subscriber or in view of the particular circumstances of any particular person. The information provided by Bretton Woods Research is obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness. Subscribers to Bretton Woods Research or any other persons who buy, sell or hold securities should do so with caution and consult with a broker or investment adviser before doing so. Bretton Woods Research does NOT receive compensation from any of the companies featured in our newsletters.

The publishers, owner, agents, and employees of Bretton Woods Research, LLC, may own, buy or sell the exchange traded funds and other securities or financial products discussed in Domestic Reports, Global Reports, and Supply-Side Portfolio ("Bretton Woods Research"). Bretton Woods Research and its publishers, owners and agents, are not liable for any losses or damages, monetary or otherwise, that result from the content of Bretton Woods Research. Disclosure: The publisher and owner of Bretton Woods Research, LLC, may own, buy or sell the exchange traded funds currently listed in Supply-Side Portfolio's current list of recommendations and may purchase or sell some of the shares of the companies held by these ETFs. Bretton Woods Research and its publishers, owners and agents, are not liable for any losses or damages, monetary or otherwise, that result from the content of Bretton Woods Research.

Past results are not necessarily indicative of future performance. Performance figures are based on actual recommendations made by Bretton Woods Research. Due to the time critical nature of stock trading, brokerage fees, and the activity of other subscribers, Bretton Woods Research cannot guarantee that subscribers will mirror the performance stated on our track records or promotions. Performance numbers shown are based on trades subscribers could enter. The trade results posted for Bretton Woods Research are hypothetical but reflect changes and positions with the last available prices. Investors may receive greater or lesser returns based on their trading experience and market price fluctuations.