

Can the Republicans Survive the Nomination Process To Win the Election? The Different Roles of Extremists and Moderates

As of this writing, three Republican candidates have each won a state primary. In Iowa, the choice was Rick Santorum. In New Hampshire, Mitt Romney was the victor, while South Carolina gave the nod to Newt Gingrich. The next state to decide will be Florida on January 31.

What is often overlooked is the turnout of these contests. South Carolina had a total of about 500,000 votes, less than the population of greater Charleston. Iowa was settled by caucuses that numbered in the hundreds. New Hampshire's turnout was on par with South Carolina.

These low turnouts identify an increasing fallacy in American politics. The number motivated to vote in the primaries is shrinking, resulting in the choice of candidates that appeal to the most motivated party participants who often hold the most extreme views. The general election, with its greater turnout of moderates, tends to rebel at the choices presented by both parties.

At this time, about 40 percent of the electorate identifies itself as independent. The remaining 60 percent are split between Republicans and Democrats. While the exact split of Republicans and Democrats shifts from time to time, neither party can win a national election without attracting a fair share of independents to the ticket.

Among independents, Mitt Romney is considered the most viable Republican candidate. His organizational experience in the private sector as leader of both the Winter Olympics in Utah and Governor of Massachusetts makes for a striking contrast to the current President, who entered the White House with precious little in the way of management credentials. With both the Olympics and the Commonwealth of Massachusetts, Romney took organizations running deficits and generated surpluses by the end of his tenure. For fiscal Conservatives it doesn't get any better than this.

Romney's problem is that in order to get elected he must first be nominated. Many members of the Republican Party see him as their second choice to someone whom they can relate to on a personal level. Thus, Santorum draws delegates with his views on marriage, religion and abortion; Gingrich attracts those who feel America should protect Israel against the creation of Palestine at all costs and Paul advocates for an isolationist foreign policy and a return to the "Austrian" gold standard which would effectively eliminate the growth of money and credit.

Based on his record, Romney would be more pragmatic and less ideological than any of his party competitors for the nomination. The problem is that pragmatism does not count for a lot at this stage of the nominating process, where people are more motivated by ideology than by pragmatism.

An example of the lack of respect pragmatism gets is the Massachusetts health care reform. The plan of making participation compulsory to reduce average rates was first proposed by the Heritage Foundation, a conservative Washington think tank. The basis of the plan was adopted by Obama in his own national overhaul of health care. Yet, all Republicans run against health care reform, to the exclusion of advancing an alternative. Romney has been forced to disavow the very plan that a free-market organization originated.

On the Democratic side, the nomination will be President Obama. By using his office to raise re-election funds for the past four years, Obama has sucked the financial oxygen out of any Democratic campaign to challenge him. Like so much of what he has done, this is a tactic in search of a strategy.

Obama is not without his achievements. On his watch, Bin Laden was killed, troops have been withdrawn from Iraq and Afghanistan, and the economy has been dealing with a slow recovery instead of rigor mortis. Still, government spending and the deficit have increased, regulation has advanced, and reforms, especially in the financial area, have been watered down. A decision-making style that his supporters describe as Zen-like and his detractors call procrastination has not helped.

Moderates, as a group, are clearly disappointed in Obama's performance as President, driving his job approval rating down to the 40 percent range. Whether they are disappointed enough to vote for someone else depends on who and what that "someone else" represents. Republicans, who are aiming for a trifecta of taking over the Senate and Presidency along with the House, should keep this in mind in choosing their nominee.

On the other hand, motivated ideologues may form a third party if they do not get what they want. Think of the damage Ross Perot did to Republican chances in 1992. Democracy might be messy, but it is never dull.

The Economy

Economic activity scored a strong finish in 2011. With reduced government spending and a weaker export market, the issue is whether the economy is strong enough to come off government support and continue to move forward.

So far, the results have been promising. Employment numbers have continued to rise, especially in the critical area of factory employment. In areas such as auto production, a larger fraction of sales are of domestic production, even among foreign brands.

The next piece of the puzzle to fall in place is housing. Remodeling demand is already rebounding. If housing inventory can continue to shrink, at some point demand for new homes will be a factor driving the economy along. Already, rental housing construction is up double-digits from a year ago.

Interest Rates

The latest pronouncement from the Federal Reserve is that housing prices will stay down for a prolonged period of time. The low rates are encouraging consumption and investment at the expense of savers, who are receiving a pittance on their money.

Republican candidates (with the exception of Mr. Romney) are universal in their condemnation of the Fed. Thus, it is assumed that there is a better-than-even chance that leadership of the Fed will be changed in 2013. For this reason, any long-term forecasts by the Fed should be read in the context that the author may not be around to implement them. The next change in interest rates will be up, perhaps driven by the elections.

Inflation

Inflation continues dormant, save for energy prices and fresh food. The effective expelling of migrant workers from the US is resulting in the incapacity of farmers to harvest crops. This, in turn, is leading farmers to switch to crops that do not require manual harvesting, making the country more reliant on imported foods.

Energy is hostage to the Middle East. Libya, in time, will be able to replace most of Iran's exports of oil, but it will need time to repair its infrastructure. Domestic drilling success is helping the US to be more insulated from foreign disruption. Eventually, this could give domestic manufacturing an edge over foreign sourcing as well.

The Stock Market

Stocks have shown a nice advance so far in 2012, with the Standard & Poor's Index up almost five percent. This is a continuation of a rally that began in late November.

There are some signs of a pause. Stocks are not responding well to earnings disappointments. There continues to be evidence that public participation in stocks is still at a low level. Nevertheless, with interest rates continuing to be suppressed, expect stocks to continue to perform well in 2012, subject to the usual bouts of volatility.

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