

## Elections Matter

Many, us included, see parallels between today’s big issues and those of the 1960s and 1970s. Mistakes in both geopolitical and fiscal policies compound overtime, often leading to more mistakes. After Vietnam ended badly, US weakness likely encouraged terrorism. The 1972 Munich Massacre of Israel Olympic Athletes, Entebbe in 1976, and finally US hostages held in Iran from 1979 to 1981.

At the same time both fiscal and monetary policy became unhinged. The result was stagflation, with inflation hitting and unemployment approaching double digits. We don’t have room for a complete historical explanation, but Presidents Johnson, Nixon, Ford, and Carter each made mistakes in either foreign or fiscal policy that led to these problems.

Then, Ronald Reagan was elected, and while his opponents claimed he would cause nuclear war, the exact opposite happened. Stagflation was ended, the Berlin wall fell, and the world entered a mostly peaceful era. Elections matter.

With Iran attacking Israel over the weekend, and unsustainable budget deficits eroding the US fiscal situation, we are reminded of the 1970s. In fact, there were two decisions made under President Carter almost fifty years ago that have helped create both of these issues.

We focus on policy, not personality. We are not attacking President Carter himself. He appears to be a very good and decent man. His great charitable work after leaving the presidency speaks for itself and sets a great standard for other former officeholders. In addition, President Carter bucked his party and deregulated both the trucking and airline industries.

However, Carter also made some serious blunders. On the geopolitical front, it was Carter who decided (1) not to back the Shah of Iran in 1978 and after that (2) not to pursue regime change in Iran after the seizure of American hostages and a coup d’état against the duly-elected Iranian President Banisadr (who had to flee for his life back to France).

Now the Islamic Republic of Iran effectively controls Syria, much of Iraq, Lebanon, Gaza, some of Yemen, and in the meantime is aligning with rivals of the US, such as China and Russia. With every passing decade it has become more difficult to dislodge the regime in Iran and now, in the absence of a change in the near future, it may only be a matter of time before Iran is able to acquire a nuclear weapon.

On the fiscal side, President Carter also championed an arcane but incredibly important change to Social Security enacted in 1977. This change virtually guaranteed the long-term insolvency of the old-age pension portion of the Social Security system unless future policymakers agree to some combination of tax hikes or benefit cuts.

Before these changes were made, Social Security payments were adjusted by inflation, what we call the cost-of-living adjustment (COLA). Until the mid-1970s, Congress had to vote to make this adjustment and politicians took credit every time they did. But, as inflation became more of a problem, the annual COLA was tied directly to the Consumer Price Index.

The COLA adjustment automatically increased both current and future benefits. But Carter added a wrinkle. Current recipients would receive the COLA adjustment, but future benefits would rise by both the COLA plus an estimate of real wage gains. At first this made little difference, but through the magic of compounding, this adjustment for real wages adds up and the current trajectory of payments is unsustainable.

Carter and other policymakers were warned about this problem at the time, but didn’t pay it heed. No wonder people see similarities between today and the 1970s. Current policies and past policies are colliding to create the very same problems. As November approaches, voters would do well to remember this history. Their decisions are not just about the next few years, but will resonate for decades to come. Solid US leadership can change the entire world.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-15 / 7:30 am	Retail Sales – Mar	+0.4%	<b>+0.4%</b>	<b>+0.7%</b>	+0.6%
7:30 am	Retail Sales Ex-Auto – Mar	+0.5%	<b>+0.9%</b>	<b>+1.1%</b>	+0.3%
7:30 am	Empire State Mfg Survey – Apr	-5.2	<b>-12.8</b>	<b>-14.3</b>	-20.9
9:00 am	Business Inventories – Feb	+0.3%	<b>+0.4%</b>	<b>+0.4%</b>	0.0%
4-16 / 7:30 am	Housing Starts – Mar	1.484 Mil	<b>1.485 Mil</b>		1.521 Mil
8:15 am	Industrial Production – Mar	+0.4%	<b>+0.4%</b>		+0.1%
8:15 am	Capacity Utilization – Mar	78.5%	<b>78.5%</b>		78.3%
4-18 / 7:30 am	Initial Claims – Apr 13	215K	<b>213K</b>		211K
7:30 am	Philly Fed Survey – Apr	2.3	<b>-5.8</b>		3.2
9:00 am	Existing Home Sales – Mar	4.200 Mil	<b>4.070 Mil</b>		4.380 Mil