Tea Party Presidential Election Primer: Paul v. Cain on Economics

With the recent decline in the polls of the candidacies of Rick Perry and Michele Bachmann, Tea Party members have two top-tier candidates to consider as an alternative to the liberal Massachusetts Republican Mitt Romney: Herman Cain and Ron Paul.

But how do these two Tea Party favorites stack up on economic issues? Here's a quick survey on their differences:

TARP Bailout

One of the biggest issues leading to the formation of the Tea Party movement was -— after the burgeoning deficit -— reaction against the $700 billion Troubled Asset Relief Program (TARP) law. Many Americans joined the Tea Party to stop what was obviously political favoritism being sold by fear-mongering government leaders, and it resulted in a number of pro-TARP Republican veterans losing their primaries and anti-TARP Republicans winning the November 2010 general election.

During the housing bubble, profits were privatized. But once "too big to fail" Wall Street banks saw major losses on risky bets made in the real estate market, they came crying to Washington and demanded taxpayers pick up the shortfall. Establishment politicians in Washington obliged, selling the bailout package with a heaping helping of fear. Mitt Romney said "all the jobs" in America would be gone if the trust funds of the super-rich were not bailed out using the tips of cab drivers and waitresses.

Herman Cain: Cain called TARP a "win-win for the taxpayer" in an October 20, 2008 column. "Unprecedented problems require unprecedented solutions. The actions by the Treasury are a win-win for the taxpayer." After Congress passed the TARP bailout, Cain complained about how the money was doled out, but not about the principle of crony-capitalism where profits are privatized and losses are socialized. Cain said in the October 11 Bloomberg/*Washington Post* debate, "They were discretionary in which institutions they were going to save, rather than apply it equitably, which is what most of us thought was going to be done. The implementation of it is where they got off-track." Cain has never made it clear who he believes should have gotten a bailout that didn't, or even if he believed that every failing institution should have been bailed out by taxpayers, but it's clear from that statement that he believed that the taxpayer bailouts didn't go far enough.

Ron Paul: Congressman Paul publicly opposed the TARP bailout and voted against the bill as

Congressman. He charged that the bailout was the antithesis of the free market. Instead, Paul asserted, "What we've had is cronyism, it's interventionism and inflationism, and corporatism. That's what is wrong. What we need is more freedom, not more government."

Federal Reserve Audit/$16 Trillion Secret Bailout

If the TARP bailout using taxpayer dollars was bad, the Federal Reserve bailout was much worse. The Federal Reserve secretly lent at least $16 trillion in funds funneled through various Federal Reserve emergency facilities -— more than the entire size of the U.S. economy, and 22 times the size of the TARP bailout -— to favored banks and corporations from 2008 through 2010. And the Federal Reserve Bank steadfastly refused to release the bailout information even to the U.S. Government Accountability Office (GAO) until Bloomberg won a Freedom of Information lawsuit in December 2010.

After Bloomberg won partial access to the bailout information, the GAO was able to come up with the $16 trillion figure as the bailout total. What came out of the GAO partial audit was that the Federal Reserve highly favored elite Wall Street banks with the following funds: $2.5 trillion for Citigroup, $2.0 trillion for Morgan Stanley, $1.9 trillion for Merrill Lynch and $1.3 trillion for Bank of America.

Cain: Herman Cain — a former chairman of the Kansas City branch of the Federal Reserve Bank — was an opponent of a GAO audit of the Fed until 2011, telling Neil Boortz's radio audience in December 2010: "There's no hidden secrets going on in the Federal Reserve to my knowledge. And I tell people, we've got 12 Federal Reserve Banks. Find out which district you are in, call them up and go from there. We don't need to waste money with another commission or an audit." Cain now says (in the Bloomberg debate) that he never opposed an audit, but that he doesn't care if one is done. "I have also said, to be precise, I do not object to the Federal Reserve being audited. I simply said, if someone wants to initiate that action, go right ahead. It doesn't bother me. So you — I've been misrepresented in that regard. I don't have a problem with the Federal Reserve being audited. It's simply not my top priority."

Paul: Ron Paul has been a longtime critic of the Federal Reserve, and has for years sponsored a bill called "The Federal Reserve Transparency Act," which calls for a full GAO audit of the Fed. Paul's bill won the support of every House Republican and a third of the Democrats in the last Congress, and a watered-down version of it was passed into law in 2010. In the current Congress, as Chairman of the House Financial Services Subcommittee that oversees the Fed, Paul has held frequent hearings on the Fed and called for more transparency in its operations.

Housing Bubble/Economic Crash Avoidance

A healthy economy is a key goal of the Tea Party movement. While low taxes and regulations are key to producing a healthy economy, a President who can foresee and avoid an economic bubble and bust cycle that results in demands for bailouts is essential. Governments create financial bubbles, such as the NASDAQ bubble of the late 1990s and the housing bubble of the early 2000s. Where do Cain and Paul rate on diagnosing the problem in the last bubble and calling for a cure?

Cain: Herman Cain has recently admitted he had no clue that the economy wasn't on sound footing throughout the housing bubble (and as late as his column of September 1, 2008, just two weeks before Wall Street giant Lehman Brothers filed for bankruptcy). But he at least partially diagnosed the housing bubble after the bubble blew up. "What I missed in 2005 was just how bad Fannie Mae and Freddie Mac had distorted the housing market," Cain told MSNBC's Chuck Todd on October 12, 2011. "I honestly did not realize just how bad it was, just how bad the whole bundling and derivatives thing was, and that we were on the brink of a total financial meltdown. So I learned later on by looking into it deeper that the situation was a lot worse than I thought in 2005."

Paul: Ron Paul began attacking the housing bubble as early as September 6, 2001 and fully diagnosed the problem as including an artificial incentive to borrow from the Federal Reserve Bank as well as the GSEs and the Community Reinvestment Act: "The Federal Reserve credit created during the last eight months has not stimulated economic growth in technology or in the industrial section. But a lot of it ended up in the expanding real estate bubble, churned by the $3.2 trillion of debt maintained by the GSEs, the Government Sponsored Enterprises. The GSEs, made up of Fannie Mae, Freddie Mac and the Federal Home Loan Bank have managed to keep the housing market afloat in contrast to the more logical slowdown in hotel and office construction.... Instead of the newly-inflated money being directed towards the stock market, it now finds its way into the rapidly expanding real estate bubble. This too will burst as all bubbles do. The Fed, the Congress, or even foreign investors can't prevent the collapse of this bubble."

Economic Advisors

Most Presidents are not expected to be economic geniuses; they can sometimes substitute solid economic advice for actual economic knowledge. Herman Cain noted this in his October 12 interview on MSNBC. “Well, it's real simple, Chuck,” Cain replied to a question about why Americans should trust his economic agenda after failing to see the biggest bubble of his lifetime. “I have economic advisors working with me now who spend time studying these various analyses.” This is a valid point. A President who has solid economic advisors, and who defers to them, can compensate for lack of economic knowledge without the public suffering unnecessary economic crashes.

Cain: Herman Cain has only publicly named one economic advisor, Rich Lowrie of the metro Cleveland, Ohio area. Lowrie is a Managing Director of a Wells Fargo branch. Wells Fargo is a giant bank that received among the largest bailout funds through the TARP program — $25 billion — in addition to another $169 billion in secret loans from the Federal Reserve Bank during the economic crisis. Liberals have sneered that Lowrie doesn't have "credentials," i.e., a degree in economics. But neither does Ron Paul's chief economic advisor (see below), and most of the accredited economists missed the housing bubble/bust anyway. Nevertheless, it's unclear what Lowrie's ability to diagnose the economy is from his scant published record.

Cain gave some indication of the kind of advisor he might hire in the October 11 Bloomberg/*Washington Post* debate when he was asked who was the best Federal Reserve Chairman over the past 40 years. Cain named Alan Greenspan — the Fed Chairman from 1987-2006 who blew up the housing bubble by suppressing interest rates to then-record lows — as the man Cain thought did the best job.

Paul: By way of contrast, Ron Paul's top economic advisor since his 2008 presidential campaign has been EuroPacific Capital CEO Peter Schiff. Schiff has a long public record on economic prognostications. And he was laughed at regularly on national television shows from 2005-07 for claiming a housing and financial crisis was looming. But his predictions were so accurate in calling the housing bubble/bust that fans built a YouTube video "Peter Schiff was right" that has garnered millions of views. He even famously told a conference of the Mortgage Bankers Association in 2005 and 2006 that the housing bubble was about to pop.

Paul, asked who did the best job as Fed Chairman in the Bloomberg debate, said none would be acceptable to him. But he added that Paul Volker, the Fed Chairman from 1979-87, was at least successful in taming runaway inflation at the end of the Carter administration and laying the groundwork for the Reagan-era economic growth.

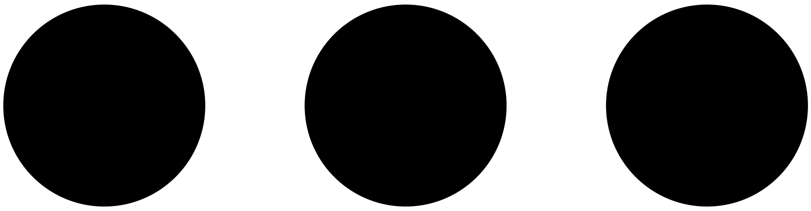

Photo: Republican presidential candidates Rep. Ron Paul (R-Texas) right, speaks as businessman Herman Cain listens during the Iowa GOP/Fox News Debate in Ames, Iowa, Aug. 11, 2011: AP Images

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