

## BBVA Research Flash

U.S.

### State of the Union: The Populist Rebuttal

- **The State of the Union provided a platform for president Obama to respond to Republican criticisms**
- **The populist approach reborn, as Obama appeals to 99% and rebukes Capitol hill**
- **Regulatory push was partisan-neutral at times but could come at the cost of environmental regulation**
- **The pro-growth, pro-employment tone suggests a White House spending push**

The State of the Union began with a strong appeal to the troops and their sacrifice in Iraq, and included foreign policy rhetoric that countered Republican primary candidate's attacks on Obama's foreign policy management. The domestic discourse ran parallel to military fundamentals of unity and trust and the idea that Americans must seek to regain the unified spirit of the post WWII generation. Although, Obama had previously appealed to an ambiguous partisan stance, this speech was clearly a push to the 99%. In appealing to the 99%, he rebuked Washington's insider trading practices and their aloof policy stance while also targeting millionaires and billionaires whom, he believed, have enjoyed favorable tax treatment for too long. The censured remarks were tempered by a broad appeal to economic prosperity through domestic investment, energy independence, retraining of Americans, stronger trade enforcement standards and export growth, immigration reform, and favorable tax treatment for entrepreneurs and domestic corporations that promote growth in depressed areas. On trade, his remarks were critical of unfair Chinese practices, while also mentioning the comparative disadvantages of foreign government subsidization. Surprisingly, Obama did not mention healthcare, but in the counterfactual the move appears to be prudent in that it does not blur the line between politics and jurisprudence. The pro-growth policy position appeared to teeter on the partisan edge receiving applause from both parties. However, his "above-of-the-all" energy independence approach to 2012, appears to neglect near-term environmental consequences, possibly alienating internal-party support.

Given the pro-energy position of last night's speech, the disdain for drilling operators, following the BP oil spill has subsided and shifted to large banks which were called upon to "repay" their debt. Much of the regulatory rhetoric focused on bank regulation, which ranged from boilerplate Dodd-Frank passage to enactment of a refinancing policy that would be cross-subsidized by banks. The cross-subsidization was proposed as a fee imposed upon the "largest financial institutions." In addition, the president stated that he would implore the attorney general to bring charges against wrongdoers in the mortgage crisis. Given the populist tone of the president's speech, and the fact that he has promoted this position since taking office without action, it is unlikely these threats will have substance. Rather, this was an appeal to the target independent electorate—young educated middle class voters who are demanding an end to increasing income-disparity.

On balance, last night's speech was a measured attempt to gain vital swing-voter support while promoting job creation and growth in 2012. The allusion to Lincoln's belief that the government should do only what the citizens—and thus states—cannot do for themselves suggests his campaign will target structural reform through government investment insofar as it does not deter private investment. As such, it is clear the president will not shy away from spending in 2012, challenging congress to present bills that invest in American manufacturing and hi-technology training. Furthermore, the strong appeal to structural reform suggests that he believes short-term political gains and long-term competitiveness will not be mutually exclusive in the upcoming election. Nevertheless, the speech put banks and the 1% on watch suggesting the democratic platform will target populist policies.

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