

# The Political Forum

*A review of social and political trends and events  
impacting the world's financial markets*

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## THEY SAID IT

“When the horse dies in the street, the oats no longer pass through to the sparrows.”

*1929, The Great Crash, John Kenneth Galbraith*

**IMPEACH BUSH?** It is hard for me to believe, but I cannot ignore the possibility that you, gentle reader, might have neglected to check [www.democrats.com](http://www.democrats.com) for the latest, up-to-the-minute news on what is happening in the world of politics. So I thought I should alert you to the petition drive that this site is sponsoring to muster support for the impeachment of President George Bush, who, the site claims, “has run the most scandal-ridden administration since Richard Nixon produced Watergate.”

Now I know what you’re thinking. You’re thinking that the Internet is full of sites that claim to be associated with legitimate organizations and causes but are actually little more than outlets for the rants of a bunch of nut cases and crackpots, and that [www.democrats.com](http://www.democrats.com) is clearly one of those. But if you are thinking this, you are wrong. The people who are responsible for this site may indeed be nut cases and crackpots, but they happen to be nut cases and crackpots who, I believe it is fair to say, are in the mainstream of the Democratic Party establishment.

The site’s co-founders are David Lytel, who was co-developer and managing editor of the Clinton White House website, and Bob Fertik, a Democratic campaign consultant who has been involved in numerous mainstream Democratic causes as well as the 1998 Senate race of Geraldine Ferraro. The site’s advisory board includes former Clinton pollster, Stanley Greenberg, a partner with James Carville in [www.democracycorps.com](http://www.democracycorps.com) (see *The Political Forum*, July 1, 2002, “Troubling Times for the Democratic Party”); Greg Simon, former chief domestic policy adviser to Al Gore; and Jock Gill, former Director of Special Projects in the Office of Media Affairs in the Clinton White House.

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Now I am not mentioning this “impeachment drive” because I think it has a chance of becoming a national issue. As Gertrude Stein said about Oakland, “There is no there there.” I am bringing it up because I think it demonstrates that something quite new, highly interesting, and potentially disturbing is going on in American politics and, by extension, in American society.

On the surface, the day-to-day affairs between Republicans and Democrats on Capitol Hill and between Capitol Hill and the White House appear to be quite normal right now. There are the routine political fights over routine matters. And there is the occasional intemperate remark or even action. But civility generally prevails and the work of politics is getting done as expeditiously as can be expected given that the system contains numerous checks and balances specifically designed to prevent speedy action. In fact, as I have said many times over the years, I think a good argument can be made that there is too much agreement between the two parties on too many issues, especially those that involve spending vast sums of money.

This cordial situation is, I think, reflective of several things, the most important of which is that the American public is evenly split between the two parties, as evidenced by the closeness of the last presidential election and the narrowness of the majorities in the House and the Senate. This leaves politicians little choice but to hug the center and work together.

A second reason is that many of the issues that divided the two parties for much of the 20<sup>th</sup> century have either disappeared or, for a variety of reasons, become significantly less important. These include the tension between labor and capital (their interests have merged), the tension between hawks and doves (we’re all hawks now), the civil rights movement (the good guys won), and the importance of fiscal responsibility (the good guys not only lost, but were hunted down and liquidated by a lethal, bi-partisan, vigilante force of both politicians and voters).

Nevertheless, beneath this relatively tranquil surface the tectonic plates of politics are shifting about noisily in what amounts to a sort of political version of the San Andreas Fault. One has to listen carefully to hear it right now, or take the time to visit any one of a number of web sites similar to [www.democrats.com](http://www.democrats.com) where it is manifest. But the noise is there, and the movement causing the noise is there, and both are growing in intensity every day.

The force behind the movement is a large, unstable chasm between the two parties over some of the most fundamental issues in modern politics, issues that trace their contemporary origins to Enlightenment arguments over the nature of such abstractions as right and wrong, truth and justice, guilt and punishment.

As usually happens in public wars over metaphysical issues such as these, the combat is waged on temporal battlefields, and this one is no exception. The current such battlefield is the issue of whether Bill Clinton was treated fairly while in office.

One glance at [www.democrats.com](http://www.democrats.com), and other sites such as [www.americanfamilyvoices.com](http://www.americanfamilyvoices.com), [www.democracycorps.com](http://www.democracycorps.com), and [www.thedailyenron.com](http://www.thedailyenron.com), reveals that the anger over this issue among a large and important contingent of the Democratic Party is more than just a simple case of transient sour grapes. It appears to be extremely deep seated and red hot. It is equally apparent that these guys sincerely believe that Bill was an innocent victim of, as Hillary put it, a

“vast right-wing conspiracy,” and that George and Dick actually have “run the most scandal-ridden administration since Richard Nixon produced Watergate.” And finally, it would appear that they believe that the treatment that Bill received at the hands of Republicans justifies whatever means they employ to discredit George Bush and his administration.

This web site is a veritable circus of bright red, white and blue banners and headlines hawking stories of corruption, deceit, and greed. “Bush Inc.” reads one. “Democracy Under Attack” reads another. There are petitions to sign, including one to, get this, “complain loudly about ABC’s hard right turn.” And then there are lengthy stories blaming Bush for everything from September 11 to corporate corruption, and one with the conspiratorial tag line: “If Iraq Allows Arms Inspectors In, Bush’s War Motives for Oil and Profiteering Will Be Exposed.”

Now I am aware that some of this is just politics as usual; that I may be giving this crowd too much credit; that I would be wise to compare them to Burke’s description of the vocal Dr. Price and his fellow English supporters of the French revolution.

The vanity, restlessness, petulance, and spirit of intrigue of several petty cabals, who attempt to hide their total want of consequence in bustle and noise, and puffing, and mutual quotation of each other, makes you imagine that our contemptuous neglect of their abilities is a mark of general acquiescence in their opinions. No such thing, I assure you. Because half a dozen grasshoppers under a fern make the field ring with their importunate chink, whilst thousands of great cattle, reposed beneath the shadow of the British oak, chew the cud and are silent, pray do not imagine that those who make the noise are the only inhabitants of the field; that of course, they are many in number; or that, after all, they are other than the little shrivelled, meager, hopping, though loud and troublesome insects of the hour.

It would, of course, be comforting and appealing to make this comparison. But the fact remains that the individuals behind the attacks on Bush, including the movement to have him impeached, would appear to be highly respected functionaries in the hierarchy of what is arguably the largest political party in the United States.

And lest you think I am wrong when I say that philosophical rather than political differences lie at the heart of their complaints, read the words of Paul Begala, a former senior Clinton advisor and undeniably one of the Democratic Party’s leading public figures, as he explains in an interview on another of the virulently anti-Bush websites, [www.buzzflash.com](http://www.buzzflash.com), why he believes that Republicans don’t like Bill Clinton.

You know what I’m thinking it is? I’ve thought about this a lot. My latest pet theory is projection -- the psychological theory that says you take things you hate most about yourself, project them onto somebody else and attack them for that. So in other words, I think this is self-hatred projected on an innocent man. That’s what I believe.

I believe these people hate themselves. I believe they hate our country. I believe they hate our culture. And they can’t deal with that. They can’t accept the level of self-loathing that they have, and so they project it onto someone else. I mean, for all of his

faults and the troubles in his marriage, Bill Clinton is still married to a girl he met in the library 25 years ago at school. Can we say that about many of our other leaders today in America, including on the right wing? I don't think so. For all of his many faults, he is a man who, until he became the President of the United States of America, never earned more than \$35,000 a year because he put service first. He is a man who, despite all of his many flaws and sins, has raised a good kid in as difficult a circumstance as you can possibly imagine. I mean, by any standard of measure, he is a good man. He is a decent man. He is a successful man. And yet they heap this hatred on him. I believe it is because they hate themselves. And for that, I'll continue to pray for them.

Now if you assume that Begala means what he says, and that his views are both respected by and representative of the Democratic Party's upper echelon, then you must conclude that the differences between Republicans and Democrats, or at least between Republicans and the political leaders of the Democratic Party, are vast and elemental, and have to do not with politics in a narrow sense but with vastly different definitions of what criteria should be used to measure such things as decency, honor, and truth.

I, of course, cannot speak for all Republicans, but I think it is reasonable to assume that very few would agree that Bill Clinton is either a "good" or a "decent" man, or that he is, as Begala also said in that interview, a "model parent." Furthermore, I doubt that many Republicans would agree with another of Begala's remarks, namely that "it turns out we were the most ethical administration in history." In fact, I think the reaction of the vast majority of Republicans to the Clinton years was best described by Father John Neuhaus when he said that it was a case of "watching with fascinated horror as the toilet backed up and overflowed into the living room."

I also think that most Republicans believe that George Bush is basically a decent, honest man, whose moral, ethical and legal transgressions fall well within the bell curve of the average imperfect citizen, and most certainly within the bell curve of the average politician, or even the average modern day president.

If there is one thing with which I agree with Begala it is his statement that "they," meaning Republicans, "hate our culture," if one assumes that when he says "our culture," he is referring to "his" culture, which honors Bill Clinton as a good and decent man, as well as a model parent; which recognizes the Clinton administration as "the most ethical in history;" and which views the Bush administration so far as "the most scandal ridden" since the Nixon years.

In short, as I said earlier, we are not talking about mundane politics here, but serious differences in the definitions of words that are fundamental to the workings of an orderly society. And I think Begala would agree with me when I say that the bottom line on these differences is that despite the relative peace between the two parties on a day to day basis, there is a very hot war going on between them, the outcome of which will determine the fundamental nature of American society in the 21<sup>st</sup> century.

**A NEW AND TROUBLING PHENOMENON.** A few years ago when the bulls were marauding down Wall Street, I used to wax eloquent about how Washington would have to be

sensitive to the equity market in the future because so many voters now own equities. There was nothing wrong with this observation, but in retrospect, I guess it didn't mean much. The market has tanked. Washington cares. So what? I know I had an answer to this question at one time, but I'm not sure what it was, or whether I would want to repeat it if I did know.

What I missed back then, when discussing the new sympathetic relationship between Wall Street and Washington, was that another and arguably much more important reason for politicians to warily watch the markets was just beginning to develop. I am speaking, of course, about the phenomenon described recently [in broken English] by OMB Director Mitch Daniels as follows:

“Nonetheless, revenues, tax payments to the federal government, which generally rise and fall, historically have risen and fallen with the economy and with economic growth, have been weaker than we expected. And this is due, apparently, almost entirely to what I will call stock market related income: capital gains, and to lesser extents, income from mutual fund distributions, options, perhaps bonuses tied to stock performance.

And this is a new, I think, important phenomenon we're all going to have to understand much better. No one, as far as I know, really saw this coming. And as I say, it has produced a new paradox in which we were too cautious about recovery from the recession, about economic growth. But, still, receipts to the federal government trailed significantly below what we saw even a few months ago. Wage and payroll taxes are running close to our federal – our February estimates—sorry – and above last year. But overall revenues down very significantly.

*It's now very clear that the explosion in revenue to the federal government between '95 and 2000, which the federal government tax receipts grew by \$600 billion -- more than 40 percent in five years -- it's very clear that was more closely tied to the stock market run-up than perhaps was thought at the time. And now we're seeing the mirror image effect. So, as I say, this is a new phenomenon we all have got to understand better. . . .*

[T]he budget always produces a sensitivity table, in which the model projects the effect of various changes, an extra percent of GDP of 1 percent more or less of inflation, unemployment and so forth on the budget. A factor which has never been there, but one day may need to be, is some measurement of stock market movement. We have no model at this time, and it will be very difficult, I know, to produce one, but we need to try to understand this phenomenon earlier.

So there you go. For numerous reasons, not the least of which is a very progressive tax system, it is not good enough anymore for politicians just to have a good economy, they must have a healthy stock market too. A one percent rise in GDP no longer produces a predictable increase in revenues, or any increase in revenues for that matter, if the market is tanking.

Thus liberal politicians have met the same fate as Duffy in *All The King's Men*. They have “come face to face with the margin of mystery where all calculations collapse, where the stream of time dwindles into the sands of eternity, where the formula fails in the test tube, where chaos and old night hold sway and we hear laughter in the ether dream.” Or, to put it another way, they

have learned what one of their own, John Galbraith, recognized many years ago, namely that “when the horse dies in the street, the oats no longer pass through to the sparrows.”

From one perspective, this is a good thing. Lots of big, powerful people now have a strongly vested personal interest in a healthy stock market. What could be better? They are on our side now, right? They will protect and care for us, right?

Well, maybe. But there’s a reason that strangely gifted children in horror novels, like those written by Stephen King, don’t go around telling adults that they can see someone’s future by touching them, or can start something on fire by staring at it. There’s a reason that dolphins didn’t talk to the Navy scientists and tell them how they knew where the Russian submarines were and could actually swim right up to them. It’s called “fear of exploitation.”

Or, to put this thought another way, sometimes it is, as the undertaker sensed in *The Godfather*, not so good to have powerful “friends,” especially if these friends are not only ruthless, greedy and corrupt, but stupid as well.

But, for better or for worse, Wall Street now has a big “friend” in Washington; one who “cares;” one who will do all it can to make markets rise; one who is going to be angry if its new found “friend” doesn’t produce the money necessary to keep them in power. This is, as Mitch Daniels put it, “a new phenomenon we all have got to understand better.” As the old saying goes, “Out of the mouths of inarticulate, economically ignorant babes comes wisdom.”

**A FORMULA FOR DOW 20,000.** When historians look back on George W. Bush’s first term in the White House, they will, I fear, conclude that it was a period of expansion in the size and power of the federal government matched in modern times by only two other presidents, Franklin Roosevelt and Lyndon Johnson. Like Bush, these two presided over a huge wartime expansion in the military. But more importantly, like Bush, both were strong believers that all problems should be met with a giant new bureaucracy and vast sums of new federal money.

Some time ago I wrote that one of the less attractive consequences of the September 11 terrorist attack would be a massive expansion of the federal bureaucracy. Specifically, I said the attack would verify “an ancient truth first revealed in a papyrus scroll, written in Aramaic, and found in a cave near Minneapolis. It reads as follows: “*Wars and other national crises are to executive power what Miracle-Grow is to houseplants.*”

Since then, true to form, Washington has developed plans for a new “Department of Homeland Security” that will, when it is full grown, absorb money and power like a sponge long after anyone alive remembers why it was formed in the first place. And, miracle of miracles, several more new “national crises” have appeared on the scene demanding equally vast sums of federal power and money. The first is the recent corporate corruption curfuffle. My guess is that the new federal bureaucratic Frankenstein that springs from this laboratory will ultimately make the financial markets yearn for the good old days when all they had to worry about were a few crooked corporate toffs.

And it won't be long, believe it or not, as I indicated in the prior piece, before the big government advocates, led by President Bush himself, will be suggesting the "need" to "establish new federal mechanisms to protect investors" from the possibility of "losing their life's savings" in the "stock market."

When asked by an advocate of "let no risk go unprotected against" what I thought of the idea, I replied that if a televised arrest, staged by the Justice Department, of John Rigas and his two sons could make the equity market jump almost 500 points, on the theory that the Feds are finally going after corporate scofflaws, then Washington ought to sell Rubin down the river and we'd have Dow 20,000 in no time. Happy times would be here again. But then, what do I know?

**A FUN LOOK BACK AT HAPPIER, IF NOT SAFER, TIMES.** In these troubled times, when investors everywhere are wary of crooks, I thought readers might enjoy the following anecdote about Wall Street in the 1860s, when the markets were truly treacherous. The quote concerns financier Jacob Little. It is from a favorite old book of mine, written by Wm. Worthington Fowler, and published in 1871 by Worthington, Dustin & Co. It is dedicated to Salmon P. Chase, "who organized and conducted the finances of the nation in war;" George S. Boutwell, "the Treasurer of the nation at peace;" and Cornelius Vanderbilt, "who has aided so powerfully to foster the steam industries of the nation on land and water." The title page reads:

**Ten Years In Wall Street; or, Revelations of Inside Life and Experience on 'Change.** Including the histories, mysteries, and men of the "street" - the stock exchange - the gold room - the speculations in stocks, gold, governments, pork, petroleum, grain, etc. - sketches from life of the noted speculators and money kings, with anecdotes and incidents of their careers - the women who speculate - the great rises and panics, and how they are produced - the personal experiences of the author - the famous pools, rings, cliques, and corners, and how and by whom they were formed - a description of the battles of the giants, and of the great gold ring of 1869, etc., etc., etc.

As indicated, this book is an eye witness account of the financial adventures of such larger-than-life characters as Cornelius Vanderbilt, Daniel Drew, Leonard Jerome, Henry Keep, Addison Jerome, Jay Gould, James Fisk, Jr., and, of course, Jacob Little. Fowler describes the latter as:

"Wall Street banker, broker, operator in stocks, exchanges and cotton, he ran through the whole scale, sounding all the heavy notes, from high to low. He would reign the king of the market, fight a dozen pitched battles, suffer defeat, abdicate, and then once more ascend the throne, all in the space of six months. Master of every kind of game played in stocks, rings, corners, sleight-of-hand, beggar your neighbor, bluff, lock-up and bar-out, straddling two horses going different ways, he had the skill as well as the nerve to play them all, and for the most part came out the winner."

"Of course his numerous bear operations made him fair game for a corner, and sometimes he found himself surrounded by an army of bulls, whereupon he would retreat to his last fortress, and after making terms with his besiegers would surrender, and then proceed to re-organize his shattered forces. But he was generally a hard man

to corner, and occasionally, when his antagonists thought they had accomplished their purpose, he would turn on them and rout them with great slaughter. Once he sold an enormous quantity of Erie Stock on sellers' options; the bulls quietly took it, and having bought up the loose stock floating in the market proceeded to put on the screws, bidding the stock up, and holding it for the day when Mr. Little would have to deliver the stock which he owed. No flaw could be seen in the scheme. The stock was held in a firm grip—the great bear must come to the conspirators and beg for mercy. The eventful day for the completion of his contracts was now come. Before twelve a notification was sent to the parties to whom the stock was due, that the stock would be delivered immediately, and a few moments after, in marched Mr. Little himself, bearing a huge bundle of fresh certificates of Erie Railroad Stock. The bull party were in consternation. They found themselves loaded with a burden on which they had not calculated. A panic took place, the market fell twenty per cent, and Mr. Little had won the day. How was this? It appears that the Erie Railroad Company had sometime previously issued a large number of certificates of indebtedness, convertible into stock, (a fact unknown to the bull party,) - these certificates had been bought up by Mr. Little, and converted into stock the morning of the day when they were delivered."

**END NOTES: Your Tax Money At Work:** *The Washington Times* reports that a house committee has been trying to send a number of inquires, via e-mail, to the CDC in Atlanta requesting information about some of the agency's HIV/AIDS prevention programs, but has had trouble because the requests couldn't get past the CDC's computer block on "obscene" materials.

The questions were about the \$225,000 agency sponsorship of something called the "Great Sex" workshop, which is advertised as follows: "Great Sex 2: Intimacy and Mr. Right—Get ready for some fun interactive intimacy games to help you keep sex safe and hot! Then, share your techniques for finding Mr. Right in this man-eat-man world."

**More Your Tax Money At Work:** *The Washington Times* also reports that "the federal government has a \$1 billion stash of milk powder buried in caves beneath Kansas City" and is spending \$20 million a year to keep it there. This stockpile, which is equivalent to 1.3 billion gallons of skim milk, is a layover from the old farm subsidy programs that were suppose to be phased out under the 1996 Freedom to Farm Act. But the newspaper notes that the dairy subsidy was put back in place by the \$170 billion Farm Bill that President Bush just signed into law. What a guy! Indeed, what a government!

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