

# 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

*“They did it by refusing to take clear, strong, unapologetic positions on issues, to spell out how they were different from the other guys on the economy and national defense.”*

Anna Quindlen, Explaining in *Newsweek* why the Democrats lost so badly in the November elections.)

## TWENTY YEARS ON THE HIGH ROAD

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Since the early November elections, we have read and heard countless explanations for why the Democrats lost so badly. Anna Quindlen thinks they didn't deliver a clear message. Other commentators believe the Democrats were tactically outmaneuvered, while still others think the Republicans were just lucky: They held the presidency, with the sitting President, George Bush, made popular by his handling of 9/11, showing enormous energy in the last days of the campaign season and, in the process, energizing the Republican faithful more effectively than the unions could turn out the Democratic faithful.

Without doubt, there is some truth to these standard explanations for the Republicans' election successes. At the same time, they are flawed. The Democrats spent several hundred million dollars getting their message out, which came through loud and clear. Yes, the Republicans were tactically outstanding and, yes, they had a popular and energetic president who was an undeniable asset. But fundamentally, this election was not lost by the Democrats, it was won by the Republicans. *And, it was won by the Republicans' long-term strategic superiority, not short-term tactical effectiveness.*

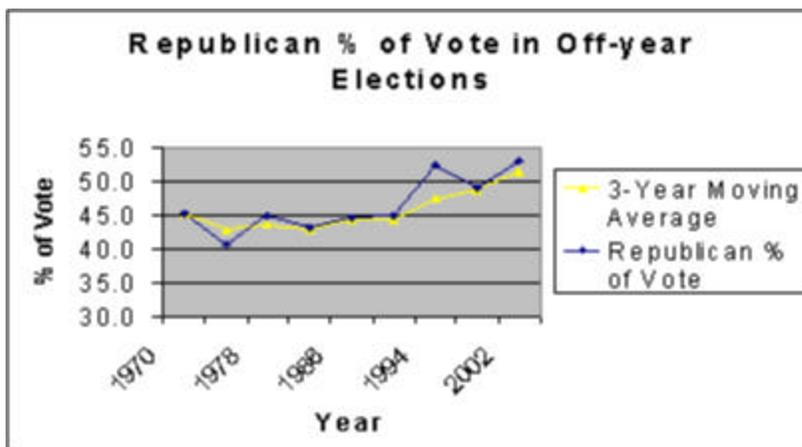
The strategic basis for the latest Republican victory was, of course, established in the early 1980s by Ronald Reagan. He set forth a short list of key issues that not only separated Republicans from Democrats, but detailed the hopes and fears of most Americans. The strategic goal of the party from that point forward was to address these issues in ways that effectively enhanced the lives of most Americans. Reagan's list included

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- ? Keeping the country safe from external aggression;
- ? Providing a supportive environment for family security and welfare;
- ? Making sure that government and taxes, regulations, and bureaucracies were no bigger obstacles to growth than they had to be;
- ? Providing assistance to those truly in need (but removing assistance from those whose need existed solely because they belonged to a particular ethnic or religious group); and
- ? Assuring that society's opportunities were open to all citizens (even though this could mean removing programs that clogged up the channels of opportunity for all by focusing on the advancement of members of groups defined to be disadvantaged even if many of those members were not).

By developing this strategic political agenda to the party's purpose, the Republicans were able to identify the issues they wanted to address, and establish standards of success where they could be held accountable by voters who could approve or disapprove of their actions. Clearly, in the last election, the voters approved of what they had been seeing for the past 20 years. In fact, the success ratio has been steadily improving for two decades now. There have been setbacks, but the graph below shows how the Republican vote for Congress has changed over the past 20 years. As can be seen, the Republican share of the vote for Congress in off-year elections has increased dramatically since the 1970s. On average, Republicans received only 43.5% of the votes cast for Congress during the 1970s. Over the past three off-year elections, however, Republicans, on average, received 51.4% of the votes cast, an increase of 18%. This is a change of enormous proportions in voter preferences.



What the Republicans promised beginning in the early 1980s was that if they were elected, they would keep Americans safe from foreign attack, and they would improve the lives of all citizens. They would not focus on improving the lives of only those who were members of specified groups. Everyone would be equally important in the race to increase living standards. This created a positive, forward-looking agenda that established both criteria and standards for success. And those standards have been met, both objectively, and now, through election outcomes, subjectively.

Understandably, Democrats have for more than two decades attempted to cultivate the myth of economic retrogression. However, Michael Cox, an economist at the Federal Reserve Bank in Dallas, and Richard Alm, a business reporter for the Dallas Morning News, have assembled a small library of data that undermines the retrogression mythology on just about every count. For example, they note

- ? The vast array of technological improvements, one of the more dramatic being in computers (and the computerization of practically everything);
- ? The explosive growth in home ownership and the near-50 percent increase in the size of the average house;
- ? The nine-fold growth in air travel;
- ? The expansion of time devoted to leisure activities (along with a substantial growth in sports equipment sales); and
- ? The 50 percent increase in the count of annual doctor's visits.

Contrary to themes promoted by Democratic analysts, Cox and Alm have found that between the mid-1970s and the mid-1990s, there were substantial real average income gains for the poor and rich alike, with the vast majority of people in the lowest income quintile in the mid-1970s moving up the income distribution by the mid-1990s.<sup>1</sup> In short, the Republicans said Americans' lives would be improved, and the data show they were.

This strategic approach has helped the Republicans develop a positive, inclusive strategy that allows the party to win when citizens win. If living standards improve, then voters at some level recognize that the Republican Party's intention was for that to happen and the party receives both credit and votes. In contrast, the Democratic Party has developed a strategy that appears to have evolved by default. In the Democratic strategy, citizens who experience an increased standard of living will have less need for government support and be less likely to vote Democratic. Consequently, increasing standards of living are actually negative for the Democratic Party when they occur throughout the population without regard to membership in selected groups. This exclusive Democratic strategy focuses on improving only the lives of members of specified groups -- groups that traditionally vote Democratic.

Strategically, this means the Democratic Party is committed to using the government's power to tax, regulate, and distribute resources as reward mechanisms for those groups that support this agenda. Since this strategy requires taking from some to give to others, it can only be successful if the groups providing the resources are kept small, and the groups receiving the resources are encouraged to grow. As soon as voters perceive they might be moving from the receiving group to the giving group, they start fearing the consequences of their success and begin to move toward the inclusive strategy of the Republicans. As the above data on the increases in standards of living show, when citizens begin to perceive they are or can be successful, their voting tendencies begin to be driven more by the fear of being extracted from than by the greed of being a recipient of government largesse.

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<sup>1</sup>W. Michael Cox and Richard Alm, Myths of Rich and Poor: Why We're Better Off Than We Think (New York: Basic Books, 1999). See also Richard B. McKenzie, What Went Right in the 1980s (San Francisco: Pacific Research Institute, 1994); and The Paradox of Progress (New York: Oxford University Press, 1997).

Since the Democratic strategy is focused on identified domestic groups, there is little room for a positive view of either military or intelligence activities. The military and intelligence agencies, therefore, are seen simply as a drain on resources that might more usefully go to a Democratic voting bloc -- unlike the Republicans who see military and affiliated activities as critical in the process of keeping *all* Americans safe from foreign threats.

There is literally no room in the Democratic strategic approach for a strong, expensive military. In times of peace – like the once-in-a-lifetime interlude between the fall of communism in the late 1980s and the fall of the Twin Towers last year – the military and associated agencies become, as they became during the Clinton years, a budgetary well spring that can be tapped to provide funds for domestic purposes, and identified groups.

This belief that the military and intelligence agencies could be decimated with no domestic consequences reinforced the importance of the Republican strategic goal of keeping all Americans safe. Over the past year, this contrast in strategic goals regarding the process of keeping Americans safe was reflected in the question asked subconsciously by even the most liberal of citizens, “Exactly how do the Democrats plan to keep America safe from foreign aggression, when that aggression can employ stealth and religious martyrdom?”

The difference in the Democrats’ strategic approach sometimes produces surprising consequences for the two parties. The Democrats have always believed that their core constituency was comprised of the poor and downtrodden. Since the standard of living data mentioned earlier suggest that the number of poor and downtrodden as a percentage of the population is decreasing, the Democrats have in recent decades begun to believe that part of their electoral problem is that voter turnout is too low. Since a disproportionate share of the nonvoters are supposedly poor and liberal, and members of disenfranchised groups – that is, members of the Democrats’ core constituencies – party leaders have assumed that their path to electoral success should be paved with measures to ease voting, which would lead to a disproportionate election-day turnout of the poor and downtrodden, meaning Democrats.

The Democrats failed to realize the flaw in their theory, which is elementary: Any reduction in the difficulty or cost of voting could easily lead to a disproportionately greater turnout among right-leaning Republicans than left-leaning Democrats, mainly because measures to ease the difficulty of voting can reduce the cost of voting more among higher-wage groups than lower- (and no-) wage groups. One of the authors found in an econometric study a number of years ago that measures that led to easier voting could be expected (apart from other political and economic forces) to make governments more fiscally conservative, which is more in tune with Republicans’ long-term strategic values and policy goals.<sup>2</sup>

The Republicans’ strategy of keeping Americans safe and creating an environment that maximizes each individual’s potential for advancement has an unheralded advantage for the Party’s long-term success: Economic growth can, as it has throughout history, expand the count of taxpayers at the same time it constricts the count of welfare beneficiaries. Democrats, on the other hand, are normally self-defined by their historical voting patterns, and their party is pretty

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<sup>2</sup>See Robert C. McCormick and Richard B. McKenzie, “The Cost of Voting: Its Fiscal Impact on Government,” *Public Choice*, vol. 34 (1979), pp. 271-284.

well stuck with the same groups it has supported for decades. But, many of these groups are being relentlessly narrowed by individual successes and national growth.

Not surprisingly, the ever-expanding count of successful members of any set of identified groups becomes more attracted to the Republicans' inclusive strategy and fearful of the Democrats' exclusive strategy. Also not surprisingly, Democrats welcome whatever evidence they can produce to "prove" that the American economy is "deindustrializing" (as Democratic analysts chanted in the early 1980s) or that the American "middle class" is evaporating (as they chanted throughout the 1980s and into the 1990s). The attractiveness of the Democrats' political agenda is clearly counter-cyclical. However, just as clearly, the upward long-term economic trends are hardly favorable to the Democrats' political success.

The Democratic Party has evolved over the decades into the principle political home of African Americans. This is an ethnic group with a stable percentage of the population, and one whose demographic trends indicate this percentage is more likely to go down than up. Bill Clinton exemplifies the relationship between African Americans and the Democratic Party. The party clearly has identified public policy issues that both resonate with the African-American community and are seen as benefiting this particular group. The relationship is now so close, however, it goes well beyond economic and social issues. As Cedric the Entertainer said in trying to explain why African Americans liked Bill Clinton so much, "He did Black stuff."

The Republican Party, on the other hand, is beginning to resonate increasingly with Hispanics. Not because they are promoting public policy positions that specifically benefit this one group. Hispanic Americans have a different economic agenda than do African Americans. In fact, in some areas the two are strongly opposed. Since, philosophically, the Republicans are not group focused, they can promote an agenda that may appeal to a few African Americans, but which is increasingly attractive to a substantial proportion of Hispanics, a population of Americans that is growing both absolutely and relatively.

The Republican appeal includes their focus on families, on the need for better educational options, and particularly on the recognition that many Hispanics are quickly becoming more givers of resources than receivers. Hispanics are clearly the demographic winners in many Southwestern and Southeastern states, and it appears the Republican strategic agenda should be increasingly attractive to them.

Americans across the political spectrum are beginning to understand the roadmap to poverty is as clear, if not clearer, than the roadmap to riches. Among the key avenues to a short and nonproductive life are several roads that Hispanic children are beginning to increasingly recognize. If you want to be poor, all you need to do is: 1) don't work hard in school, 2) do drugs, and 3) have kids early and often (and especially without the benefit of marriage).

The Republican strategy has been to appeal to the young Americans who reject this well-worn roadmap to poverty and who understand that the roadmap to being reasonably well off, if not to riches, is a matter of following a few rules: 1) work hard at school and at work, 2) take care of yourself, 3) deny yourself some immediate gratifications and save and invest with the future in mind, 4) take a few risks and count on the power of compound interest, and 5) leave room for balance in your life.<sup>3</sup>

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<sup>3</sup>See Dwight R. Lee and Richard B. McKenzie, Getting Rich in America: 8 Simple Rules for Building a Fortune and a Satisfying Life (Boston: Harper Collins, 1999).

Understandably, hardcore Democrats loathe Ronald Reagan. He articulated a positive political agenda in the early 1980s that focused on these key rules and that, covertly, insisted that many of the problems faced by the Democrats' hardcore constituencies were of their own making, both in terms of the personal, and ultimately destructive, values they held dear and the public policies that encouraged budding Democrats to follow, and become ensnared by, the Sirens along the road to poverty.

The Democratic Party got trapped in the 1960s and 70s. They don't realize the civil rights war was won, and is long over. Anna Quindlen is still criticizing Richard Nixon as though he or his legacy was still powerful. They haven't yet come to grips with the fact that the poor and downtrodden, while still with us, are decreasing in percentage terms. They don't yet understand that the government must protect its citizens from foreign threats, and a strategy that incorporates that reality must be developed. The Democrats haven't yet figured out that they must create a strategy that appeals to all Americans, not just groups with individual agendas. If they don't, they will simply keep losing the successful members of all their constituent groups and become a true (small) minority party.

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