

# 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

How will he win support of Democratic Party leaders, given his frequent criticism of them, a reporter asked [Presidential hopeful, Howard] Dean at a small morning news conference.

Not a problem, Dean responded. They'll come around once they get to know me.

"It is a bit of a club down there," he continued. "The Democratic Party, all the candidates from Washington, they all know each other, they all move in the same circles, and what I'm doing is breaking into the country club."

Jaws dropped.

Dean's 17-year-old son, Paul, was cited last week for aiding a break-in at the Burlington Country Club. Paul Dean allegedly drove the car while three friends broke into an outbuilding to steal beer.

Dean then asked a press aide: "Why do I say these things?"

From the *Burlington (Vt.) Free Press*, in a story concerning Howard Dean's official announcement of his presidential candidacy yesterday:

**THE ROOTS OF GERMANY'S ECONOMIC DISORDER.** I have recently read numerous newspaper and magazine articles about Germany's on-going economic problems, including a lengthy account on the front page of the June 23 *Wall Street Journal*, which began with the headline, "Already Stumbling, Germany Now Faces Threat of Deflation."

A common claim in many of these stories is that Germany's economic problems stem from a deep-seated fear of inflation, which can be traced to the disastrous consequences of the hyperinflation that occurred in the nation between World Wars I and II. The *Journal* put it this way.

"Since World War II, one key economic lesson has been ingrained in the mind of every German policy maker and pundit alike: avoid inflation. Hyperinflation helped do in Germany's last democracy, the Weimar Republic, which ended in 1933 with the Nazis'

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rise to power . . . Germany's historic fear of inflation also led it to insist that the European Union adopt strict budget rules for countries that join the euro.”

Now all of this is, of course, true, as far as it goes. But it has occurred to me that if indeed it is necessary to give readers some historic information as to the roots of Germany's economic disorder, then it would seem to be important to debunk the idea that this disorder began in the 1920s, and that everything would be hunky dory if the Germans could just rid themselves of this eccentric phobia over inflation.

To say that German's economic troubles stem from the Weimar Republic is like saying that Bill Clinton's problems began when he dribbled on Monica's dress. I mean, from whence sprang Germany's hyper-inflation during the 1920s? Was it a natural phenomenon like Lisbon's earthquake in 1755? Or might it have been just one of many indications over the past 132 years or so that, with the exception of a brief period in the immediate aftermath of World War II, the Germany economy has been directed by an astonishingly ignorant group of economic dunderheads ever since Bismarck united that nation in 1871.

Needless to say, I support the second thesis. So this week, I thought I would offer a short course on the history of German economic thought. For obvious reasons, this can't be a comprehensive outline. But it will, I hope, provide a little more insight into the current economic troubles of that important nation than can be gained by sophomoric allusions to the inflation that gripped the ill-fated Weimar Republic.

As is well known, economics as an academic discipline began with the publication of Adam Smith's two major works identifying and explaining the principles of capitalism, *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1759 and 1776 respectively.

It took a while, but the revolutionary ideas contained within these two remarkable books eventually spawned a new intellectual discipline aimed at understanding the forces that are responsible for the production, distribution and consumption of goods and services. The first prominent practitioners of this new “science,” as it was called, were David Ricardo and Thomas Malthus, who captured the attention of the English public in the opening years of the 19<sup>th</sup> century with their heated arguments about the theories that they were developing on the foundations laid for them by Smith.

According to Robert Heilbroner's informative but far from comprehensive history of economics, *The Worldly Philosophers*, the urbane and wealthy Ricardo made the topic of “political economy” so popular in England that “ladies who hired governesses inquired whether they could teach its principles to their children.”

By the middle of the 19<sup>th</sup> century, there were economists all over Europe, exchanging ideas, developing new ones, melding their thoughts with other branches of the soft-sciences, such as philosophy, sociology and politics, and offering theories as to how these relationships might be manipulated in such a way as to benefit society.

Not surprisingly, these developments attracted the attention of another large group of enthusiasts, who were, like the economists, gaining influence and attention all over Europe at the very same time. These were the revolutionaries, whose wont it was to translate the economic thoughts and theories of the day into elaborate social hypotheses and political slogans designed to rally the masses to rise up against their “oppressors.”

After all, weren't these “brilliant” practitioners of the new science of economics saying much the same thing as they were, namely that being poor and miserable was not an act of God, or the result of some unfathomable force, such as those that cause floods, hurricanes, and plagues, but the result of the actions of men, and that it followed from this that men could change things for the better if they chose?

As might be expected, Germany had more than its share of both economists and revolutionaries. Unfortunately for that nation, this mix included some of the period's most persuasive and energetic revolutionaries, men like Ferdinand Lassalle and Karl Marx, and, without question, some of the worst economists to ever practice what Carlyle described as the “dismal science.” As I indicated earlier, this regrettable circumstance still haunts that benighted nation today.

The first German economist of note was Friedrich List. He was a brilliant man, who offered many useful insights into the emerging world of economics. He was, however, a strong advocate of government intervention into economic matters, and he was a critic of the free trade doctrines of Smith, Ricardo and Say. These positions laid the groundwork for the errors of his successors.

The best known of these was Wilhelm Roscher, who was for nearly 50 years a professor of economics at Leipzig University. He is generally regarded as the founder of what is today referred to as the German Historical School of economics. The other two most prominent members of this “school” were Bruno Hildebrand and Karl Knies.

What distinguished the members of this “school” from their counterparts elsewhere was that they denied the existence of universal theoretical economic truths, such as those that had been, and were being developed in England and France by such ground breaking early economists as Smith, Ricardo, Malthus, Jean Baptist Say, Nassau Senior, John Stuart Mill, John Cairnes, and my favorite, Frederic Bastiat.

These German economists believed that abstract deductions from ideal postulates were of little use; that economic actions were unique from society to society; that indeed, even within a given society, the people of any historical period would have operated under their own peculiar economic realities. Thus, they proposed that economics be studied not for the purpose of finding universal “laws,” but from the perspective of the history of the society in question.

None of these three men actually did anything to turn these ideas into practical action. This was left to Gustav Schmoller, who is today referred to as the founder of the *Younger* German Historical School of economics.

Schmoller taught at the University of Berlin. He was the leading economist of Imperial Germany. In his day, he controlled virtually every important academic appointment in economics in that nation. He was a supremely egotistical Prussian, who referred to himself and

his colleagues as the “intellectual bodyguard of the House of Hohenzollern” (e.g., the royal family of Prussia). Needless to say, he had the ear of Bismarck.

Schmoller’s contribution to the discipline of economics was the accumulation, organization, study, and publication of vast amounts of historic/economic data. He conducted exhaustive studies of the history of the weavers guild of Strassburg, the guilds in 17<sup>th</sup> and 18<sup>th</sup> century Brandenburg and Prussia, the Prussian silk industry in the 18th century, Prussian financial policy, German towns in general, and Stassburg in particular. He studied the history and formation of social classes, as well as the history of mercantilism.

The idea was that an intense study of the past, taking into account sociological, political, demographic, and geographical realities and trends, would reveal the unique motives behind the economic activities of the day, and eventually lead to a significantly better and more nuanced understanding of the economic forces at work in the world than could be provided by the so-called “universal laws” of economics that were being sought by economists in other countries. The absolute volume of Schmoller’s output was stunning, if largely meaningless.

His impact on German society, however, was anything but meaningless. For starters, as a devotee of Hegel, he believed in the omnipotence of the state; or in Hegel’s words: it is “the course of God through the world that constitutes the State,” and when dealing with the State, one must contemplate “the Idea, God as actual on earth.”

As might be expected from a man with this Hegelian background, Schmoller was an ardent advocate of the intervention of government into economic affairs. And while he despised and feared the revolutionary socialism of Marx and Lassalle, both early devotees of Hegel, he was, in fact, a socialist himself, albeit a “monarchical socialist,” or what the Germans of the day called *Kathedersozialisten*, or “socialists of the chair.”

It was in this capacity that Schmoller provided powerful intellectual support for Bismarck’s steady and fateful march toward the creation of a deeply socialistic society in Germany. The immediate impetus for Bismarck’s much heralded social programs was widespread unrest among Germany’s laboring class, which had been effectively united years earlier by the fiery Lassalle. But the guiding intellectual force behind the Sickness Insurance Law of 1883, the Accident Insurance Law of 1884 and the Old Age and Disability Insurance Law of 1889 was Schmoller, the quintessential, paternalistic social engineer, filled with good intentions and lacking even a rudimentary knowledge of human nature and practical economics.

But Schmoller’s contribution to German society didn’t stop at giving bad advice to Bismarck. Indeed, his historically most significant action as the leading economist in Germany involved his determination to keep that nation in the dark about the economic truths that were emerging at the time from universities throughout Europe.

This antagonism toward other “schools” of economic thought manifested itself in what is today known as the *Methodenstreit*, or the “struggle of methods” between Schmoller and Carl Menger, the illustrious founder of the now famous Austrian School of Economics, which subsequently produced some of history’s most innovative economists, including Friedrich von Wieser, Eugen von Bohm-Bawerk, Ludwig von Mises, and Frederich Hayek.

This dispute began in 1871 when Menger published his *Principles of Economics*, which set forth a general theory of value, which was designed to explain all prices, including interest rates, wages, and rents, by the same principle. He dedicated the book to Wilhelm Roscher, and concluded his preface with a flattering greeting to German economists, to whose debate on “value” he hoped to make a major contribution.

Schmoller snubbed the book, prompting Menger to write another entitled *Investigations into the Method of the Social Sciences with Special Reference to Economics*, the first two sections of which, as explained in the dust jacket of my English translation, “constitute a polemic against the claims of the historical school to an exclusive right to treat economic problems and a positive exposition of the nature of theoretical economic analysis.”

Schmoller fired back with a condescending and rankling review, and Menger countered with a polemic diatribe entitled *The Errors of Historicism in German Economics*. This was published in 1884, 13 years after the publication of Menger’s first book set the famous quarrel in motion.

While no one knew it at the time, this dispute turned out to be disastrous for Germany’s future. Indeed, there is no shortage of students of that period who maintain that Schmoller’s adamant refusal to allow any theories that conflicted with those of the Historical School to be considered in the German academy, joined with his intense Prussian nationalism and his insistence that national planning be based on the unique characteristics of individual societies to pave the way for National Socialism.

This may be too harsh. But it is not too harsh to argue that Schmoller’s vehement attacks on all economic theories having to do with what he called “monetarism” played a major part in the nation’s inability to deal with the above-mentioned hyperinflation of the early 1920s.

In any case, there can be no dispute about the conclusion drawn in a recent essay on Schmoller, published by German University of Marburg, which put it as follows.

“Schmoller’s influence on the development of the economic sciences in Germany was rather unfortunate: it contributed to the neglect of economic theory in Germany for a full half century.”

Nor, I think it is safe to say, can one argue with Jurg Niehans’ even more critical assessment in his authoritative *History of Economic Theory*, published in 1990 by the Johns Hopkins University Press.

“The closing of the German academic market to adherents of Carl Menger by Gustav Schmoller . . . set back German economics for seventy years, indirectly perhaps to the present day.”

It is worth noting that marking off 70 years from the opening shot in the *Methodenstreit* would bring us to 1941, the year that America entered the war against Germany. This was 22 years after the formation of the Weimar Republic and eight years after it disintegrated.

**THE DEMOCRATS' DESCENT INTO MADNESS (PARTII).** Two weeks ago, in Part I of this on-going story, I cited some recent comments by PBS journalist and former LBJ aide Bill Moyers, who, at a progressive conference in Washington, ranted that Bush and the “right wing wrecking crews” were intent on bankrupting America and dismantling “every last brick of the social contract.” Immediately after the piece ran, Mark and I began discussing the possibility that we had, perhaps, been a bit unfair in citing Moyers. Yes, he is a former aide to a Democratic president; and yes, he is an avowed liberal; and yes, my case focused on “the left” in general, and not on Democrats in particular.

Nevertheless, neither of us could shake the feeling that perhaps Moyers is out of touch with his own party and maybe his is not a fair representation of the current opinion on the political left. After all, he did say that Bush appears intentionally to be bankrupting the government so as to dismantle the New Deal, the Great Society, and other liberal constructs. And anyone who would think something so wacky would have to be just plain nuts. Right? Right.

Enter David Broder.

Now, if Moyers is a worn out old hack whose views represent those of a Democratic party long ago left behind, Broder is just the opposite. Broder, the lead liberal columnist for *The Washington Post*, is the quintessence of the elite, liberal, establishment commentator. He is, for lack of a better comparison, the George Will of the left. One can be sure that if Broder is thinking it, and writing it, others in the Democratic establishment are thinking it too.

And two weeks ago, he thought and wrote quite a bit.

Citing an op-end piece, also published in *The Washington Post*, by our old friend Grover Norquist, who is the President of Americans for Tax Reform, Broder announced that he had discovered the Republicans' formerly secret and “well-advanced” plan to destroy the liberal “safety net.” Though Grover's piece focused only on the long-term goal of continuing to cut taxes (estate taxes, capital gains taxes, income taxes) and eventually instituting a flat tax (the tax cutters' Holy Grail), Broder claimed the he had figured out the unscrupulous hidden message concealed in the text. He wrote:

“The consequence of this – *not spelled out in his [Grover's] essay but clearly in his mind* [emphasis added] – is a massive rollback in federal revenue and what he regards as a desirable shrinkage of federal services and benefits. In short, the goal is a system of government wiped clean, on both the revenue and spending side, of almost a century's accumulation of social programs designed to provide a safety net beneath the private economy.”

Now, in order not to be accused of imputing the ideas of one activist to the entire Republican party, Broder followed up with Grover and asked him about the White House's reaction to his [Grover's] *Post* piece. He quotes Grover as saying, “They [The White House] didn't ask me to do it, but they certainly didn't complain about what I did. I have exchanged several e-mails with Karl Rove since then, and it's never come up.”

So let me get this straight: An activist (an admittedly influential one) writes a piece that reveals the scandalous strategy that Republicans want to cut taxes. Broder, apparently an expert in the hermeneutic art of text interpretation, infers from this that Republicans want to destroy the “century’s accumulation of social programs designed to provide a safety net”; and furthermore, the ever intrepid Broder discovers that The White House is on this nefarious plot, because Norquist and Karl Rove *have never discussed it*.

And lest you think that I am actually repeating Broder’s blunder and attributing the wacky theories of one advocate to the Democratic party as a whole, Broder himself concedes that he is not the only one to have put two and two together, noting that “several Democratic operatives had discussed it [with him] in phone interviews.” Moreover, he concludes that:

“The amount of talk [Grover’s] essay has engendered makes it clear it was as much an alarm bell to the Democrats as a rallying cry for the Republicans.

“A wide variety of Democratic groups are gearing up for what they describe as ‘long-term strategies’ for their party’s comeback. Norquist clearly has told them that the Republicans already are well-advanced on such a plan.”

Forgive me for being discourteous, but, once again, has the entire Democratic Party lost its mind? Or is it only a handful of radicals (who have somehow co-opted the erstwhile more moderate Broder) who have gone off their meds?

(Well, Steve, since you asked....) Enter former Vermont Governor and rising Democratic presidential wannabe Howard Dean.

Now, there was a time not so long ago that Dean could be dismissed as an extremist with no hope of ever winning the nomination. But all that has changed over the last several months. Dean has made himself into a legitimate contender for the nomination. Indeed, he even has folks like the editors of *The Wall Street Journal* speculating that the primary race just might be his to lose. As *The Weekly Standard’s* Fred Barnes put it last week, “Dean has firmly established himself as a top tier candidate for the Democratic nomination.”

And what, you ask, does Howard Dean think about the GOP’s dastardly plans? Well, last Sunday, he told NBC’s Tim Russert that:

“These tax cuts are incredibly bad for the economy. I believe their purpose is essentially to defund the federal government so that Medicare and Social Security, the icons of the New Deal, will be undone. Karl Rove and others have talked about going back to the McKinley era before there was any kind of social safety net in this country.”

Now, even if one sets aside Dean’s faulty grasp of American history (i.e., that Medicare was not enacted until two decades after Franklin Roosevelt’s death), this statement is patently loopy. Correct me if I’m wrong, but isn’t President Bush pushing an *expansion* of Medicare, an expansion that would constitute the largest increase in entitlement spending in nearly four decades? And even if he were not, do any sane people believe that the actual goal of all of this is to “defund” the federal government? Does anyone actually think that’s possible?

Unfortunately for the vast majority of Democratic voters, who, we believe, retain their sanity, it appears that this bit of lunacy is one of the themes their party's leaders have settled on in their attempt to unseat George W. Bush. I'll concede that Moyers alone probably does not represent a trend, but, it would appear that Moyers is anything but alone. Indeed, he actually seems to have quite a bit of company, and important company at that.

And the news gets even worse, for Democrats. In fact, their leaders' shrieking about the "secret plan" to defund the government is but one small part of their continued slide into the delusional. The following is but a partial list of the rantings of various Democrats over the past few weeks, compiled by David Brooks, senior editor of *The Weekly Standard*, for a piece entitled, unsurprisingly enough, "Democrats Go Off the Cliff." Brooks writes:

"This republic is at its greatest danger in its history because of this administration," says Democratic senator Robert Byrd . . .

George Bush's economic policy is the "most radical and dangerous economic theory to hit our shores since socialism," says Senator John Edwards.

"The Most Dangerous President Ever" is the title of an essay in the *American Prospect* by Harold Meyerson, in which it is argued that the president Bush most closely resembles is Jefferson Davis.

Tom Daschle condemns the "dictatorial approach" of this administration. John Kerry says Bush "deliberately misled" America into the Iraq war. Asked what Democrats can do about the Republicans, Janet Reno recalls her visit to the Dachau concentration camp, and points out that the Holocaust happened because many Germans just stood by. "And don't you just stand by," she exhorts her Democratic audience.

And while all of this is, indeed, quite goofy and hysterical, the most truly bizarre stuff was uttered and written just last week and revolved around issues of race.

First, there was the Jesse Jackson's Rainbow/Push annual convention. And neither Jackson, nor his guests, which included seven of the nine Democratic presidential hopefuls, disappointed in their tirades against the dastardly Republicans. Jackson himself attacked everything from the Electoral College to President Bush, finally condemning the President for having "moved to re-segregate the nation against its will."

Democratic Congresswoman Barbara Lee (CA) did him one better, though, accusing the Bush administration of pushing "white supremacist" policies, and of pursuing a racially segregationist agenda similar to that platform pursued by then-segregation candidate Strom Thurmond in 1948. "Believe me," Lee inveighed, "its [the Bush administration's] policies are taking us back to those days nonetheless." Lee also reportedly brought the crowd to its feet when she shouted that the Supreme Court had "rejected the Bush administration's efforts to reject affirmative action as we know it. It rejected it!"

Now, we don't mean for reality to intrude on the good Congresswoman's harangue, but the Supreme Court decisions handed down last Monday had absolutely nothing to do with the Bush administration. Both cases involved suits brought by would-be students at the University of Michigan who believed that they were adversely affected by the University's diversity policies. And, at the risk of repeating myself, *the Bush administration had nothing to do with either suit.*

The only reason the administration's name was even remotely associated with the two cases was because it filed an *amicus* brief with the court, suggesting that the affirmative action policy should be altered. Indeed, as *The Wall Street Journal* noted last week, the White House, in the person of White House counsel Alberto Gonzales, actually "helped to overrule those at the Justice Department" who wanted to push more forcefully for an end to affirmative action.

That said, even in her delusional state, the Honorable Ms. Lee was downright coherent compared to two of her fellow Democratic House members, who, while participating in Sunday's forum for the Democratic presidential candidates, declared that regardless of what the Court decided, they would, if elected, use their super-magical omnipotence to overrule the Supremes.

Both Dennis Kucinich and former Minority Leader Dick Gephardt told their audience that if the Court disallowed the "diversity" argument, they would just "fix" things with the wave of their executive order pens. Gephardt said, "When I'm president, we'll do executive orders to overcome any wrong thing the Supreme Court does tomorrow or any other day."

Again, not to ruin the Congressman's day with a reality check, but that's not quite how things work, a fact that even Gephardt's staff appeared to realize on Tuesday, when spokesman Erik Smith did his best to cover his boss's backside, writing:

Dick Gephardt knows the law. The president can not overturn a Supreme Court decision. That's not what he said. He was simply expressing his commitment to diversity and his willingness to use the tools of his office to promote affirmative action programs to the fullest extent possible.

Now, this piece could, like the original "Descent Into Darkness," run on for another several pages. There is, after all, plenty of material to support this claim. But I think you get the picture.

The bottom line is that, from all appearances, the left has allowed its hatred of President Bush to get completely out of control, and has allowed its rage to cloud its judgment. Thus, as I maintained in the first piece, the Democrats are in serious jeopardy of going so completely batty that they ensure their own relegation to semi-permanent minority status for decades to come, confirming once again Euripides' famous assertion that, "Those whom god wishes to destroy, he first makes mad."

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