

The Political Forum

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

Mark L. Melcher
Publisher
melcher@thepoliticalforum.com

Stephen R. Soukup
Senior Editor
soukup@thepoliticalforum.com

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THEY SAID IT

“Even a RINO - Republican In Name Only - can drive Democrats crazy, and, in desperation to find an attack angle, Dem operatives are currently testing three themes:

1. Arnold is a Nazi.

Okay, Arnold's not a Nazi. He was born in the Austrian town of Thal, but not until 1947, and thus was technically unable to join the Nazi Party no matter how much he may have wanted to. But he certainly has family ties to the Nazis. His wife's grandfather, Joe Kennedy, was one of America's most prominent Nazi sympathisers.

Oh, wait. That's not the Nazi family ties the Dems had in mind?”

--Columnist Mark Steyn, in “The Gubernator.”

THE CATHOLIC MIGRATION CONTINUES (PART II). Two weeks ago, I suggested that the current stalemate in the Senate over President Bush's appointment of William Pryor, a devout and unapologetic Catholic, to the federal bench could end badly for Democrats. Specifically, I wrote:

The bottom line is that many Catholics, particularly many Catholic leaders, believe, based in large part on what they witnessed in the Pryor case, that the Democrats have established a litmus test that denies Catholics *who entirely embrace the beliefs of their Church* the opportunity to participate fully in American public life . . .

How much, if at all, this will affect Catholic voters' affinity for Democrats is, of course, impossible to tell at this point. But if I were a Democratic politician, I think I would be more than a little concerned. As I said earlier, the Catholic voting bloc has been migrating right for several decades, but appears in no great hurry to reach its inevitable destination. The last thing the Democrats want to do is give devout Catholic voters that final push that lands them permanently within the folds of the GOP, particularly given

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The Political Forum

8563 Senedo Rd., Mt. Jackson, Virginia 22842
Tel 540-477-9762, Fax 540-477-3359, Email melcher@thepoliticalforum.com,
or visit us at www.thepoliticalforum.com

that the fastest growing and largest ethnic minority group, Hispanics, is also overwhelmingly and devoutly Catholic.

In the several days since I wrote those words, Democrats may well have done additional, possibly even irreparable, damage to their standing with Catholic voters via their position on the recent high profile flap over gay marriage.

This latest falling out began on July 31 when, in response to press leaks about its existence, the Vatican released to the public a document drafted last spring and ratified earlier this summer concerning gay marriage. The manuscript, entitled “Considerations Regarding Proposals to Give Legal Recognition to Unions Between Homosexual Persons,” contained no new expression of Church teaching and merely reemphasized existing guidelines. But this emphasis was clear, and aimed specifically at the “Catholic lawmaker,” who the Vatican said, “has a moral duty to express his opposition [to homosexual marriage] clearly and publicly and to vote against it. To vote in favour of a law so harmful to the common good is gravely immoral.”

Needless to say, this raised the hackles of both gay activists and their political champions worldwide. In the United States, where gay rights issue have taken on greater political importance and a higher profile this summer for a variety of reasons (e.g. Lawrence and Garner v. Texas; the pending Massachusetts Supreme Court ruling on gay marriage; the ordination of Episcopal Bishop Eugene Robinson), the document had the net effect of placing many prominent Democratic politicians in the awkward position of being forced to choose between their Church and one of their party’s most vocal advocacy groups. And some of the more prominent chose not simply to rebuke their Church, but to do so very publicly.

On August 1, for example, Massachusetts Senator and presidential wannabe John Kerry became the first to speak out, denouncing the Vatican for crossing what he apparently believes to be an inviolable line between the private beliefs and the public duties of American Catholic legislators. “I believe in the church and I care about it enormously,” Kerry declared by way of prefacing his rebuke, “but I think that it’s important to not have the church instructing politicians. That is an inappropriate crossing of the line in America.”

The next week, an arguably bigger fish, Congressman Patrick Kennedy, followed in Kerry’s footsteps, but took the criticism one step further, actually accusing the Vatican, and therefore the Pope himself, of bigotry. “I see the policy of opposing same-sex marriages or unions, whatever you call it,” Kennedy proclaimed, “as bigotry or discrimination.”

Now, it is not everyday that a Congressman who is unfamiliar to most people is called a “bigger fish” than a prominent Senator and one of the three “top tier” candidates for the Democratic presidential nomination. But when it comes to Catholic Democrats, that is, almost certainly, what Patrick Kennedy is.

First, he is a former member of the Democratic House leadership, having served as the Chairman of the Democratic Congressional Campaign Committee (DCCC), the party’s campaign and political arm in the House, from 1999 to 2001. More importantly, of course, he is a Kennedy, and as such is a member of what is quite possibly the best known and most celebrated Catholic family in the history of the nation. He is the nephew of the first, and thus far only Catholic

president; the nephew of the late Attorney General of the United States; and the son of the senior senator from Massachusetts. He is, for all intents, the very personification of the term “Catholic Democrat.”

And he called the Pope a bigot.

Does this mean that heretofore reliably Democratic Catholics are going to abandon the party *en masse*? Of course not. Many Catholic voters will almost certainly choose to side with Kennedy and Kerry, undoubtedly agreeing that the Vatican overstepped its bounds. Many others will almost certainly never know anything about this latest episode of intra-Catholic squabbling.

That said, there are many, many other Catholic voters who will, indeed, react disapprovingly. They will take Kennedy’s and Kerry’s comments, and they will add them to the festering Church-Party split on abortion, to the filibuster of William Pryor, and to a host of other issues driving them further and further to the right, not the least of which is the American left’s growing disdain for and fear of traditional religion. And they will, eventually, come to the same inescapable conclusion as did Ronald Reagan, namely that they did not leave the Democratic Party, but the Democratic Party left them.

Two weeks ago, in a piece that echoed our own, Hugo Gurdon, editor-in-chief of *The Hill* newspaper, proclaimed the United States to be on the cusp of a historic realignment, writing that, “Catholics, who for historical reasons have largely voted Democrat, will abandon the party in droves.” Gurdon continued:

We are at the point, where the mutual exclusivity of the Catholic and Democratic views has become impossible for intellectually honest people to ignore. Many people of good conscience are therefore leaving the Church, and many people of good conscience will leave the Democrats.

I concluded my last piece on this subject noting that “if I were a Democratic politician, I think I would be more than a little concerned.” This week, I think it might be appropriate to say that if I were a Democratic politician, I’d be flat out worried.

FADE TO GRAY (PART II). There is no question that the biggest political story over the past couple of weeks has been the effort to recall California Governor Gray Davis and the surprise entrance into the race to replace, or displace him as the case may be, of global megastar Arnold Schwarzenegger. Until the blackout pushed it off the front burner last Thursday, the story of California, its impending historic election, and the Austrian immigrant who would be king had been topic number one on talk radio and cable news, and in much of the print media as well for better than two weeks solid.

And it’s easy to see why, for this story has more than its share of interesting and engaging elements.

? It is, as noted above, historic.

- ? It contains considerable political intrigue, pitting Republican against Democrat, Republican against Republican, Democrat against Democrat, and stirring political acrimony reminiscent of the great Florida debacle of 2000.
- ? It involves the fall from grace of a very powerful man, who was, at one time, considered a possible candidate for President of the United States.
- ? It has great entertainment value, starring as it does one of the most successful and sought after movie stars of the last quarter century.
- ? And perhaps most important, for cable news at least, it holds the potential for salacious revelations about some of its key players.

It is, in short, one of the most fascinating political stories in some time. Nevertheless, one could be forgiven for asking, “So what?” Sure, it’s kind of a neat story, but why do I care? Is there anything important that can be drawn from this mess?

And the answer is, you bet. Though the mainstream media has spent the bulk of its time on the former Mr. Universe, who married into arguably the most powerful political family in the country, and on the sheer spectacle of the nation’s most important governor being driven from power, there is, in fact, much more to this story.

First, California matters because it is the fifth largest economy in the world. That’s right, the top five in order are: the United States, Japan, Germany, the United Kingdom, and, if broken out, California. As such, the management, or more accurately, mismanagement of the state’s economy matters, both nationally and globally. California continues, according to survey after survey, to lead the nation in jobs lost. So while the U.S. economy is in recovery, it is a largely a jobless recovery. And California is one of the most important reasons why this is so.

Second, California matters because it offers an excellent insight into the overwhelming success of the anti-tax movement, which began in California a quarter century ago with Proposition 13, but which has attained great importance via the concerted efforts of, among others, President Reagan and a dedicated cadre of national conservative groups, such as Grover Norquist’s Americans for Tax Reform and Steve Moore’s Club for Growth. And this in turn provides an important consideration for anyone, economist or political analyst, who might be attempting to ascertain how the federal government and some of the states are going to cope with the huge debts they have been accumulating in recent decades.

For the story of California is, more than anything else, a story of the tax revolt, writ large. Yes, it is true that Gray Davis is in the mess he’s in because throughout the 1990s, he, like nearly all of his fellow governors throughout the nation, including the former governor of Texas, George W. Bush, spent taxpayer money like it was going out of style, expanding the size and scope of California’s government well beyond what was prudent.

And yes, Davis compounded his and his state’s problems by letting his intense political ambition get the best of him, in at least a couple of different ways. First, in the summer of 2001, when the energy crisis hit the Golden State and Californians needed their governor to provide leadership,

Davis panicked. With his political future appearing to hang in the balance, Davis lost his cool and decided to do whatever he had to in order to make the problem disappear.

And what he did was negotiate \$43 billion in long term electricity supply contracts at the height of the power crisis, when spot prices were at their highest. So when the crisis abated, and the price of electricity plummeted, Davis and California taxpayers were left holding the tab for electricity costing, according to some estimates, 33% more, on average, than it was worth. Davis did manage later to renegotiate many of those contracts, but much of the damage was done. In a panic, Davis screwed up, and his screw up cost his state dearly.

But in the end, his real problem was that he failed to understand the intensity and scope of the anti-tax revolt. Though it is almost never discussed by the mainstream media, one of the foremost reasons that Davis nearly lost his re-election bid last year was the fact that he tried to raise taxes by nearly \$2 billion.

Naturally, when the opposition grew like Godzilla, he succumbed to the anti-tax pressure, relented, signed a budget with no tax hike, and went on narrowly to win reelection. Unfortunately for him, Davis did not learn the lesson well, and made the same mistake again this year, initially offering a budget with multi-billion dollar tax increases to cover a portion of the financial mess that he helped create. And as before, when things got really hot, and after the recall petition had been certified, he relented and again signed a budget with no tax increases, making himself look not only indecisive but stupid.

A final reason that the California recall matters is that state is, without question, the biggest and most coveted prize in electoral politics, and the recall means that it is unexpectedly back in play.

Last summer, when Davis had proposed raising taxes in the middle of a re-election year, I wrote a piece for Lehman Brothers in which I predicted a Davis loss, and enumerated the reasons why that would be a huge deal in American politics. What I could not foresee at the time, of course, was that Davis would be blessed with an opponent, Bill Simon, whom the *Washington Times* editorial page editor Tony Blankley recently called “the most incompetent major party candidate in living memory.”

So while I was wrong about the time frame Californians had in mind for ditching Davis, I was not wrong about what a Davis loss could mean. And the potential significance of a change in Sacramento applies equally with regard to the recall effort. To wit:

This is no trivial matter. George W. Bush was crushed in California (54%–42%) in 2000, and this dismal showing was actually better than many Republicans expected . . . California was (and is) considered a lost cause to Republicans.

A Simon upset would change that. With a Republican, and a conservative nonetheless, in Sacramento in 2004, things would likely be much different. At a very minimum, a Simon victory would provide a certain amount of GOP momentum and the political infrastructure necessary to raise funds and entice voter turnout on Bush’s behalf. And while this would hardly ensure a Bush victory in California, it would certainly make the state more competitive.

Such a result alone would be cause for celebration in Republican precincts. In 2000, George W. became the first president to be elected without winning New York *or* California since California was admitted to the Union in 1850 . . . Republicans declared that this would be the first of many such GOP victories, as the shifting demographic map would favor their candidates over the next several presidential election cycles. The so-called red states (won by Bush) would take on greater importance after the 2000 census reapportionment, while blue states (won by Gore), including California and New York, would take on less. By extension, therefore, a Republican who could hold the red states *and* steal New York or California would, according to this premise, be virtually unbeatable.

Now, things have changed some since last summer, and Republicans, particularly those close to President Bush, are worried that the election of a Republican in the recall might actually backfire on them in '04. As things stand today, Davis is nearly universally despised in California, having just scored the lowest popularity score of *any governor ever* in the 50 year history of the Field Poll, and Karl Rove et al. believe that they might be able to exploit that hatred of Davis to engineer their own victory next November. At the same time, they worry that a Republican governor who is as ineffectual as Davis at solving the state's massive problems would sour California voters on the GOP.

In any case, the California recall election holds exceptional potential to affect the race for the White House in 2004. How, exactly, no one can say for sure, but to say that it bears watching is a pretty dramatic understatement.

One thing to consider in this regard is that the apparent frontrunner, Arnold Schwarzenegger, should be very careful about the advice he chooses to heed as he builds a platform for his run. He should, for example, immediately reject any suggestion that tax hikes are part of the solution to California's problems. Last week, his newest economic policy advisor, Warren Buffett, suggested that already overtaxed Californians could perhaps stand to pay higher property taxes. And while Arnold himself appears not to agree with Buffett, he should make much more of an effort to publicize that fact, for even the suggestion that he is seriously considering such an idea, which would incidentally require the repeal of Proposition 13, could irreparably damage his campaign.

Time will tell, of course. In the meantime, there is, without question, more riding on this race than is indicated by the celebrity conscious news hounds and media punditry. Indeed, the outcome could dramatically influence not just American politics in the coming decades but the U.S. economy as well.

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