

# 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

That democratic socialism, the great utopia of the last few generations, is not only unachievable, but that to strive for it produces something so utterly different that few of those who now wish it would be prepared to accept the consequences, many will not believe until the connection has been laid bare in all its aspects.

-- *The Road to Serfdom*, F.A. Hayek.

**A SPECTER IS HAUNTING EUROPE, PART II.** In May 1998, I wrote an article entitled "A Specter Is Haunting Europe—The Specter of 'Planning'" in which I predicted that the grand European experiment in unification would be a failure. In fact, I said specifically that the adoption of the Euro, the crown jewel in the project, would be "to 21st century Europe, what the killing of the Archduke Ferdinand was to 20<sup>th</sup> century Europe, i.e., that point in time when history will record that the unraveling began in earnest."

To say that this was a minority opinion at the time is to engage in gross understatement. In fact, optimism about the coming "United States of Europe" was at a very high point during that month, for it was then that 11 of the largest and most important European nations agreed, amid much jubilation, to join the first stage of the European Monetary Union in anticipation of fixing their exchange rates against the "euro" the following January.

Today, almost six years later, pessimism about Europe's future has become commonplace, although, as far as I can tell, few observers, besides myself, have yet begun to think the unthinkable, or at least discuss it in public. I won't spend a lot of time detailing the nature of the pessimism that appears to be growing across Europe, since one can get a heavy dose of it with even a cursory reading of the European press. But the following paragraphs from a recent article in the *International Herald Tribune* about a three-way "summit" meeting that was taking place at the time between Jacques Chirac, Gerhard Schröder, and Tony Blair are instructive.

Hours before the meeting began in Berlin, drive-time listeners to Europe 1 radio, a national, mass-market broadcaster, were told matter-of-factly that the summit meeting's backdrop was a French-German partnership that had "neither the energy nor the

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credibility” to lift Europe from its miseries and was now turning toward Blair, “the indispensable hyphen between ‘old’ and ‘new’ Europe.”

Hardly suspect of Eurosceptic gloating, the leftist newspaper *Liberation* was drawing roughly the same conclusions. “The French-German axis no longer has the weight to hope to conserve its European role,” it said in an editorial.

Across the Rhine in Frankfurt, the conservative *Frankfurter Allgemeine Zeitung* was on much the same page. The newspaper wrote, “It will no longer be accepted that Paris and Berlin alone share the imprimatur on plans for shaping Europe.”

These new realities, taken for the first time as givens in mainstream political discourse in France and Germany, accept that the two countries’ attempt at joint European political and economic leadership became a train wreck in 2003.

The fact that Chirac and Schröder were, in effect, representing the entire European Union at this meeting with Blair recalls the following contention from my above-mentioned 1998 article.

You see, the problem isn’t, as most critics claim, simply that the “policy makers” from the various “regions,” will fight over economic and monetary policy, and that the economic ignoramuses might win. The problem is that economic ignoramuses are likely to be the only ones at the table.

I realize today that this contention of mine that no individual prospective leader of the EU would be dumber than any other has, unfortunately, turned out to be untrue. Given the frightening incompetence of the confused and buffoonish Messrs. Chirac and Schröder, it seems highly likely that any Spaniard, Italian, East European, or even a Basque goatherd would be brighter.

But the basic point that I was trying to make at the time is, I think, still valid, namely that all potential leaders of the EU are devotees of “planning,” which, as I put it, “is just a nice word for socialism, and socialism doesn’t work.” And this is especially true, I argued, in this particular case when a “vast new socialist experiment [is being] built on the rubble of the old, smaller ones that blight the European economic landscape today.”

Anyway, with that as background, I think it is now time to move beyond the question of whether this effort to turn Europe into one big happy family will fail, and begin to consider how the process of failure might evolve, what signs might indicate that this process is beginning, and what the results might look like.

The initial step in addressing this task is to follow Dr. Johnson’s famous admonition and “First, free your mind of cant.” Or more specifically, disregard considerations concerning the economic palliatives being proposed and implemented by the Messrs. Chirac, Schröder, and the “planners” in Brussels, which occupy the minds of most of the “experts” who “study” Europe today. Instead, it is important to understand that the least of Europe’s problems is a troubled economy. Far more important is the fact that its society and culture are in an advanced state of rot.

Besides being devastated by two World Wars and a century and a half of socialism, European society has recently become the object of a grand utopian adventure, which involves the artificial creation of an enormously powerful central government charged with the mission of forming a union of culturally diverse societies on the basis of a promise of material abundance and an end to the intense social conflict that has haunted Europe since the French Revolution. As an integral part of this scheme, this state has deliberately disparaged the two traditional unifying features of all successful societies since the beginning of time, namely the belief in a supreme being and the patriotic love of one's country and culture.

Much has been written about this strange experiment, including several articles by yours truly, so I won't elaborate here on the problems inherent in such a scheme, except to make the following brief observations.

I will begin by noting that material abundance is a difficult promise for any government to keep. Being a relative term, abundance continuously stays one step ahead of its seeker and constantly begs comparisons between and among classes. But it is even more difficult to achieve in a socialist state that has numerous built-in obstacles to both a strong work ethic among its citizens and easy mobility between classes. The leaders of the Soviet Union and Communist China understood this implicitly and used the alleged threat of enemies everywhere as a constant excuse for economic failure and police state tactics to help keep order, both of which, if employed in Europe, would threaten the promise of an end to social conflict.

My second observation is that a government that is aggressively secular is more likely to encourage the creation of dangerous, quasi-religious movements than one that openly supports and encourages mainstream religious beliefs and customs. And finally, while excess nationalism within a union of culturally diverse states can be the cause of a great deal of trouble, a government that deliberately seeks to suppress regional patriotism will find that the natural urge for citizens to feel proud of their heritage is likely to be channeled toward radical political agendas and other mass movements.

I recognize that this is a complex and controversial subject. So I will turn the platform over now to the thoughts and observations of someone far wiser than I, someone who, in the final days of World War II, described with surprising accuracy in his classic little book, *The Road to Serfdom*, the process by which socialism devastates healthy cultures, robs citizens of their freedom, and sets the stage for the imposition of the kind of authoritarian government that seems to be in the process of evolving in Europe today.

I am speaking, of course, of the great Austrian economist, F.A. Hayek. These paragraphs did not appear in this order in the book and are not intended to be read as a narrative, but to be viewed as a sort of collage of ideas which, when taken together, form a very distinct picture of what has happened in Europe during the decades since they were published in 1944.

The process through which certain kinds of measures can destroy the bases of an economy based on the market and gradually smother the creative powers of a free civilization seems now of the greatest importance. Only if we understand why and how certain kinds of economic controls tend to paralyze the driving forces of a free society,

and which kinds of measures are particularly dangerous in this respect, can we hope that social experimentation will not lead us into situations none of us want.

That in this sphere of individual conduct the effect of collectivism has been almost entirely destructive is both inevitable and undeniable. A movement whose main promise is the relief from responsibility cannot but be antimoral in its effect, however lofty the ideals to which it owes its birth.

Now we'll turn to a few thoughts of Hayek's that might provide some insights into where the steadily eroding cultural wasteland of Europe might be headed.

Is there a greater tragedy imaginable than that, in our endeavor consciously to shape our future in accordance with high ideals, we should in fact unwittingly produce the very opposite of what we have been striving for?

The most important change which extensive government control produces is a psychological change, an alteration in the character of the people . . . The political ideals of a people and its attitude toward authority are as much the effect as the cause of the political institutions under which it lives. This means, among other things, that even a strong tradition of political liberty is no safeguard if the danger is precisely that new institutions and policies will gradually undermine and destroy that spirit.

There is one aspect of the change in moral values brought about by the advance of collectivism which at the present time provides special food for thought. It is that the virtues which are held less and less in esteem and which consequently become rarer are precisely those on which Anglo-Saxons justly prided themselves and in which they were generally recognized to excel. The virtues these people possessed – in a higher degree than most people, excepting only a few of the smaller nations, like the Swiss and the Dutch – were independence and self-reliance, individual initiative and local responsibility, the successful reliance on voluntary activity, noninterference with one's neighbor and tolerance of the different and queer, respect for custom and tradition, and a healthy suspicion of power and authority. Almost all the traditions and institutions in which democratic moral genius has found its most characteristic expression, and which in turn have molded the national character and the whole moral climate of England and America, are those which the progress of collectivism and its inherently centralistic tendencies are progressively destroying.

Few are ready to recognize that the rise of fascism and nazism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies. This is a truth which most people were unwilling to see even when the similarities of many of the repellent features of the internal regimes in communist Russia and National Socialist Germany were widely recognized. As a result, many who think themselves infinitely superior to the aberrations of maziism, and sincerely hate all its manifestations, work at the same time for ideals whose realization would lead straight to the abhorred tyranny.

Now I am not predicting here that the European Union is going to turn into an “abhorred tyranny” any time soon. But as I said earlier, I think it is worthwhile to consider what signs might appear at some future date that would indicate that the “United States of Europe” is mutating into something resembling the kind of government against which Hayek warned.

One sign might be a wave of anti-Semitism, which is a traditional signal that Europe is troubled. One might read, for example, of burgeoning concerns among European Jewry and high government officials, possibly even of a “major conference” sponsored by the central government to address the problem and to talk of passing new laws to deal with it. One might also read of rabbis in Brussels who need bodyguards to ensure their safety when going to the synagogue, or of Nobel Prize laureates, such as Elie Wiesel, saying publicly that “The monster is here with us one more time” and that “Jewish communities in Europe live in fear.”

Another sign might be that the road to a sacrifice of individual liberties is being paved by the creation and expansion of large internal security apparatuses throughout the continent in response to a perceived threat from the growing numbers of poor and disenfranchised foreign workers that populate the crime-ridden urban ghettos of the major cities. One might read, for example, that the most popular politician in France is one Nicolas Sarkozy, the ambitious interior minister who, according to the *International Herald Tribune* “has made his name synonymous with a pervasive and tough police presence.” Or one might read about the routine use by these agencies of the kind of sophisticated internal intelligence operations that “Americans are reluctant to accept.”

And yet another sign of trouble might be that the “united” states of Europe become engaged in intense squabbling over issues that should have been decided when the union was formed but which were put off until later because they were considered “unsolvable” at the time.

Such issues might involve purely symbolic issues such as whether the preamble to the nation’s constitution should mention Christianity as being the driving force behind its cultural heritage and its historical greatness.

Or they might also involve highly practical matters such as the voting strength of Spain and Poland versus Germany and France, or whether the latter two nations can, due to their size and importance, simply choose to ignore the deficit and debt limits that gave substance to the Stability and Growth Pact that underlies the entire economic and monetary policy of the union.

Should such disagreements arise, the principal danger would not be the dissolution of the union. In the case of symbolic disputes, it would be that these would, as they have in the past, give rise to intense feelings of racial, ethnic and nationalistic antagonisms, which in turn would promote the formation of radical political organizations and sects.

In the case of political and economic disputes, the danger would be that these would eventually be decided by granting considerably more power to the central government, giving citizens a further feeling of isolation from participation in the governing process and strengthening the base from which an “abhorred tyranny” might arise.

Now I should say here, that I sincerely hope that the European Union succeeds and prospers, and carefully guards the rights and freedoms of all Europeans. But I don't think one can ignore the possibility that Europe is headed toward yet another rendezvous with totalitarian thugs.

These thugs could arise from within the labyrinthine mechanism of the current powerful central European government. Or they could emerge from atomized masses of individuals disaffected by the rapid changes that are going on around them, led by a charismatic leader who offers them a more exciting vision of the future than the one emanating from Brussels.

To be more specific, such a leader might promise something more fulfilling than the shabby and shallow materialism that constitutes their current government's self-proclaimed goal, something to fill the void created by their waning patriotism and lack of transcendental comforts.

Such a leader might also tap into the growing resentment that many Europeans feel toward the hordes of foreign workers who compete with them for jobs and threaten their once cherished feelings of personal safety. He might perhaps use the "threat" from these foreigners to convince native Europeans that a "short" hiatus from democratic processes might be necessary if their dreams of material abundance and quietude are to be realized. And in doing so, he might use the "large internal security apparatuses" mentioned above, as a means to gain and retain power.

Something similar has happened before.

**GAY MARRIAGE, GREENSPAN, AND SOCIAL SECURITY.** Without question, the two biggest stories coming out of Washington last week were Fed Chairman Alan Greenspan's statement that Social Security as it is currently constituted presents serious future fiscal problems and President Bush's declaration that he will support a constitutional amendment banning gay marriages.

One of these issues is a strictly fiscal matter, a plea to political leaders to address the problems created by the impending demographic anomaly of the Baby Boomers' retirement by reducing benefits for future retirees. The other is a purely cultural issue, pitting liberals against conservatives in a battle that holds the potential to be the greatest such clash in the culture war since *Roe v. Wade* put a match to the abortion debate some 30 years ago.

Two more seemingly disparate stories one could not imagine. But what if they are not as unrelated as they might appear to be at first blush? What if there is, in fact, something that connects the two in a stroke of potential political genius, something that both encapsulates an ideological approach and seeks to assuage cultural wounds and alleviate fiscal concerns?

Far-fetched? Well, maybe. But this is an election year, and as experience has demonstrated, almost anything is possible in this town when votes are at stake. Consider the following.

With regard to Social Security, the story is pretty well known. Soon after the Boomers begin to retire later this decade, the number of retirees will begin to increase dramatically and, inversely, the ratio of workers to retirees will decline. Eventually, the system, as it is constituted today, will be unable to support the change.

The two accepted responses to the problem, both of which came up last week, are also well known. As Greenspan suggested, one solution is to cut benefits, thereby keeping expenditures under control despite the mushrooming retiree population. The other is to raise taxes, which was, naturally, suggested by Congressional Democrats, who shudder at the thought of cutting any federal expenditure and who have spent much of the last three years looking for any possible excuse to reverse the Bush tax cuts.

Of course, there is a third solution. It involves the premise that if the roughly 2% annual returns Social Security produces are not sufficient to make the system work, then change the assumptions. Put some of the money into the financial markets and substitute the 2% with 7%, 8% or even 10%. That would change the picture dramatically.

The problem is that no one in a position of influence has had the political fortitude even to discuss putting some Social Security money into the financial markets since the beginning of the dreadful three-year bear market that followed the Roaring '90s . . . until just recently. Though it went largely unnoticed, one other major Washington story last week was President Bush's unofficial launch of his reelection campaign, which took the form of a speech to the Republican Governors' Association in which the President placed far greater emphasis on private savings accounts under Social Security than almost anyone expected. Specifically, he said:

My administration understands the importance of ownership in our society. We've set a great goal: We want every worker in America to become a saver and an owner. And we have an agenda to meet this goal . . . We want younger workers to own and manage their own retirement under Social Security, so that one day, every worker can have the security of a personal account. When people have solid assets to call their own, they gain independence and security and dignity, and more control over their future. I believe in private property so much, I want everyone in America to have some.

I don't think this was just a happy coincidence. While President Bush almost certainly believes that the privatization of a portion of Social Security is good policy, given the timing of this newfound emphasis on the project, I suspect he believes it is good politics as well.

First, President Bush and his advisors know that they must offer some ideas on Social Security or they run the risk of continuing the perception that they are fiscally profligate, and therefore run the even greater risk of roiling the bond market, which is on alert after Greenspan's comments. Solutions A and B (cut benefits or raise taxes) are both ideologically and politically unacceptable to the President, particularly during an election year. But with the equity markets in the midst of the second year of what appears to be a robust rebound, the "scheme" that is solution C no longer appears quite as "risky" as it once did, and the push to privatize makes perfect sense.

Second, and, in my opinion, equally important, by offering to allow individuals to own some of their own Social Security money, the President is living up to the label of "compassionate conservative," promising to improve the financial situation and property ownership of all future retirees, particularly those drawn from certain segments of the population.

You see, though it is rarely mentioned in the course of the debate, Social Security has quite a bit to do with the push for gay marriage. Yes, for many this is strictly a matter of love and

recognition of that love, but for the activists, this is a rights issue. It is about “fairness” and “equality.” It is about having the same rights as every other committed couple, including, most importantly, the rights to share health insurance and other such benefits, to hospital visitation, and to the same treatment of inheritance as is afforded married couples. But Social Security, and specifically Social Security survivor benefits, is often the proverbial elephant in the room, the “right” rarely mentioned, but often considered.

Health insurance and other employer-sponsored benefits are already available to “domestic partners” in a considerable and growing number of companies, and the hospital and inheritance issues could and most likely would be resolved by voters and their elected representatives without completely redefining the most ancient of social institutions. But the one issue that cannot be resolved thusly is that involving survivor benefits, which, can be permitted only to family members, in most cases widows or dependant children. And to many gay couples, this is a very big deal.

Both gay men and gay women have notably shorter life expectancies than heterosexuals, and this is irrespective of AIDS. Thus, many who have paid into the system all their lives do not live long enough to collect their benefits, and without the legal sanction of marriage, their long-term partners are, unlike married partners, unable to collect either. And with more and more gay couples raising children, thereby making it possible that one of the partners will not work outside the home, and thus will not pay into the system, this problem is exacerbated greatly. Consider, for example, how Cheryl Jacques, President and Executive Director of the Human Rights Campaign, described her appeal for gay marriage last week:

I’m raising two sons. I want them to be in love with a committed partner. I want them to have a family. I want grandchildren. I want them to take care of each other. I want them to share each other’s health insurance. I want, when one of them dies, the other one to be able to receive Social Security survivor benefits, because they’ll pay into it, as I do.

And this is where Social Security privatization can become an important cultural tool for President Bush. Ever since the President announced that he would support a constitutional amendment banning gay marriage, he has been knocked mercilessly for being callous and even hateful. The potential damage here is not necessarily to the President’s standing among gays, who tend to vote overwhelmingly for Democrats, but among potential swing voters who might agree that supporting an amendment is needlessly hurtful and therefore constitutes a contravention of the President’s claim on a new, “compassionate,” conservatism.

But the President can and may try to counter that image by offering the gay community a benefit that far surpasses the one which they could claim under the current Social Security system, regardless of marital status. You see, with personal savings accounts, ownership belongs to the beneficiary, not the government, and so therefore does the bequest of that account. Individuals – gay, straight, white, black, Hispanic, or otherwise – would be able to leave their personal accounts to whomever they wished: spouses, partners, children, their favorite charity, you name it. The government would have very little say in this matter (particularly if the inheritance tax is permanently repealed) and no one would need state sanction to leave their *private property* to whomever they saw fit.

Granted, the President's primary motivations for taking on the subject of Social Security privatization almost certainly have nothing or next to nothing to do with concern for the fiscal condition of the survivors of gay relationships. But that does not mean that he can't present it as such to that specific community, both to build their support for the undertaking and to lessen their natural antipathy to him. He will almost certainly do so with other communities, pushing privatization to minorities, most especially blacks, as a way to create substantial sums of personal wealth that can be passed on to children, even those who are no longer dependants.

Of course, I have no knowledge of the Bush administration's plans for promoting their Social Security plan, and so I have no idea if I am, in fact, correct that they will push it to the gay community as something that can alleviate one of their greatest concerns without having to offer the sanction of gay marriage. But I can say that the folks running this re-election campaign are far smarter than I when it comes to this kind of thing, and I suspect that if I saw a connection between privatization and the gay community's concerns about survivor's benefits, that they did as well.

In any case, if the Bush administration is, indeed, serious about making this a theme of the campaign, a privatization debate will follow. And in this debate, the President will have the opportunity not just to paint himself as a "compassionate conservative," but to show that that label is unnecessary. In offering a "conservative" solution to the looming Social Security crisis detailed last week by Alan Greenspan, and in stressing the benefits of that solution to those who might otherwise not see its utility, he can show that it, like many other conservative solutions, is inherently compassionate.

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