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

"Rich men without convictions are more dangerous in modern society than poor women without chastity."

Preface to *Plays, Pleasant and Unpleasant*, George Bernard Shaw, 1898.

THE VIRTUOUS DEMOCRATIC RICH. One of the most enduring myths in American politics is that the Republican Party is the champion of wealthy citizens and "corporate interests," while the Democratic Party's role is to protect the poor, the disadvantaged, and the entire nation in general from the avarice of the "robber barons" of the GOP.

An important corollary to this thesis is that while the Democratic Party has many fabulously wealthy individuals and powerful corporate chieftains within its ranks, these particular people are different from the Republican rich and powerful, in that they are more virtuous, selflessly committed to "mankind" at the expense of their own interests. Indeed, even the tendency of some rich and powerful Democrats to flirt with socialist ideas and to express admiration for even the most brutal socialist dictators is generally not viewed as a refutation of democratic principles, but an example of their superior virtue.

Now one need not be a student of Jeremy Bentham's theories on the relationship between individual benevolence and utilitarian feelings of pleasure to understand that not all acts of kindness and generosity on the part of rich and powerful Democrats are selfless. For example, one need only listen to Miss Hillary wax eloquent in public about her special "love for children" to understand Bentham's observation in his well-known work, *An Introduction to the Principles of Morals and Legislation*, that "After good-will, the motive of which the dictates seem to have the next best chance for coinciding with those of utility, is that of the love of reputation."

But, of course, it isn't solely the quest for an honorable reputation or the thrill of feeling virtuous that inspires benevolent acts, although in the case of rich and powerful Democrats it is sometimes difficult to get through the fog of self-congratulatory rhetoric to discover the true motive lurking in the background.

An interesting example of this is Teresa Heinz-Kerry's much touted concern about *the environment*, a phrase that, in liberal circles, is usually uttered only in soft, reverent and carefully enunciated tones, just as one does when discussing Miss Hillary's deep interest in *the children*.

But unlike Ms. Clinton, who is not known for generous financial contributions to charitable causes, beyond the occasional donation of a used pair of Bill's drawers to the Salvation Army in exchange for a tax break, Ms. Heinz-Kerry does indeed put money on the line as evidence of her dedication to *the environment*. In fact, just as her husband favors the adjective "Vietnam Veteran" before his name, Ms. Heinz-Kerry likes to be referred to as an "environmental activist."

Yet, there are some interesting aspects to her environmentally related contributions, which raise questions as to whether her generosity is primarily intended to save whales and smite those who club baby seals or to conserve the careers of a host of liberal politicians and provide funding to a variety of radical left-wing causes.

For example, one of the "environmental" groups that Ms. Heinz-Kerry favors with her generosity is the League of Conservation Voters, which describes itself as "the political voice of the national environmental movement and the only organization devoted full-time to shaping a pro-environment Congress and White House." To be precise, LCV is a "527 Group" (under Section 527 (h) of the Tax Code), which means that it can make independent expenditures on behalf of political candidates. It is listed on the Federal Election Commission's website as the nation's 41st largest Political Action Committee, with assets of $2.1 million.

Needless to say, the LCV crowd doesn't spend a lot of time buying up rain forests or sitting in trees to thwart the loggers, but concentrates instead on helping to fund the political campaigns of some of the most radical members of Congress. Recently, for example, LCV's website touted its endorsement of Rep. Barbara Lee (D., Calif.). Her write-up in the 2004 edition of the *Almanac of American Politics* describes her as standing at the "far left of the ideological spectrum" and discusses her war against military spending as well as her opposition to the use of force in response to the terrorist attacks of 9/11. But it makes no mention of her having any particular interest in environmental matters.

One thing the LCV does not mention on its website is the fact that it had given $18,528 directly to the Kerry campaign by late January of 2004, and had spent "six figures" on TV ads promoting Kerry's candidacy by the end of February. This was according to an article in the April 12 issue of *Human Events*, which also quoted LCV political director Mark Longabaugh as saying that the group received $57,300 from the Heinz Family Foundation from 1993 to 2001, including a $2,500 personal contribution from Teresa herself in 2000.

Cleary, however, the most favored among Ms. Heinz-Kerry's "environmental" charities is the Tides Center of Pennsylvania, which received $800,000 in 2003 and $900,000 in 2002 from the Howard Heinz Endowment. The Tides Center of Pennsylvania is a creation of the Tides Foundation and Center, headquartered in San Francisco, and two Pennsylvania-based foundations, namely the Vira Heinz Endowment and the aforementioned Howard Heinz Endowment. The *Pittsburg Tribune-Review* had this to say about the Tides-Heinz connection.

> What makes the pairing with Tides troubling is that organization's secretive funneling of cash from private foundations – such as Heinz, the Pew Charitable Trusts and many others – to extreme left-wing activist groups whose interests include exclusion of humans from both public and private lands, anti-war protests, opposition to free trade, banning of firearms, abolition of the death penalty, unlimited abortion rights, gay, lesbian, bisexual and transgender advocacy, as well as environmental extremism . . .
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> Since its founding, the relatively little-known foundation has made over $300 million in grants. In 2002 it amassed assets of $139 million and had an income of $59.3 million. Between 1995 and 2001, $4.3 million of that money came from the Howard Heinz Endowment. In 2002, it and the Vira Heinz Endowment blessed The Tides Center, a San Francisco spin-off of the Tides Foundation, with another $190,000 while the two endowments gave $1.6 million to the new Tides Center for Western Pennsylvania.

The unique thing about the Tides organization is that it allows foundations to give money to projects with which they would prefer not to be identified publicly. Or as the founder of the Tides organization, Drummond Pike puts it, "Anonymity is very important to most of the people we work with (sic)."

Pike got his start in politics as an anti-war activist, just as John Kerry did. Needless to say, he still plays in that sandbox from time to time, most recently by sponsoring a "project" called "Peaceful Tomorrows," a radical anti-war group that made the news recently by organizing rallies to protest President Bush's purported "offensive exploitation" of September 11 in one of his reelection ads. The group claims to represent the interests of 120 of the 3,000 families of victims of the 9/11 tragedies, but its backing reaches deeply into the most extreme left wing elements of the Democratic Party.

A second wealthy Democratic Party "philanthropist" who gains a lot of attention for his large financial donations on behalf of mankind is George Soros. Indeed, Soros has gone well beyond Ms. Heinz-Kerry's efforts to merely protect *the environment*. His *cause du jour*, which he says he has made the "central focus of his life" is nothing less than saving the entire planet.

Beyond devoting his time to this noble pursuit, Soros has committed the expenditure of millions of dollars of his own money. So far, he has reportedly pledged $20 million to the Center for American Progress, $10 million to Americas Coming Together, and $5 million to MoveOn.Org, all left-wing political activist organizations. In addition, he has promised to raise an additional $75 million for "the cause."

The "cause" in this case is, of course, the defeat of George Bush in November, the President being, in Soros' view, the man who made the United States a "danger to the world." He knows this, he says, because his "experiences under Nazi and Soviet rule have sensitized" him to the menace presented by the "supremacist ideology" that guides the Bush White House. Indeed, defeating Bush is, he says dramatically, a matter of "life and death."

But just as is the case with Ms. Heinz-Kerry's generosity toward "environmental" causes, one could be forgiven for suspecting that there may be at least one ulterior and highly personal motive for Soros' high-minded commitment to the defeat the President.

John Berlau makes this case in the April 27 – May 10 issue of *Insight on the News*, the excellent bi-weekly magazine of *The Washington Times*. Berlau put it this way in an article entitled "Superrich Stand to Profit From Kerry."

> In his book *George Soros on Globalization*, the international speculator criticized an IMF/World Bank reform commission headed by noted conservative economist Allan Meltzer that called for sharply limiting bailouts. Soros wrote that this was too strong a medicine and the proposal for a restructured agency was too restricted . . .
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> But critics of these institutions note that their taxpayer-subsidized lending and bailout practices tend to benefit allegedly piratical speculators such as Soros more than the people of the Third World by giving the big boys the opportunity for a huge return with taxpayers holding the risk. "Bailouts are a great way for rich people to make lots of money," [Tim] Carney [author of a forthcoming book *Regulatory Robber Barons*] says. "They'll put money where no one else wants to, because it's a bad investment and then get big government to help them out." Carney adds that "bailouts are as likely, if not more so, under Democratic administrations."
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> Much more likely, says former hedge-fund manger Andy Kessler. He points to the Clinton administration's bailout of Mexico during the peso crisis in the mid-1990s, for which Wall Street banks lobbied, and contrasts that to the Bush administration's refusal to bail out an Enron teetering on bankruptcy in 2001. Robert Rubin, the former Clinton administration Treasury secretary, who engineered the Mexico bailout, actually called the Bush Treasury Department to ask it to help Enron.
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> "The Bush people are more free market and [John] Kerry is more likely to appoint a more interventionist Treasury secretary like [Robert] Rubin," Kessler say. He thinks this is not unimportant to Soros because, Kessler speculates, Soros is "probably long and wrong in [his investments in] the entire Easter bloc."

Berlau also quotes Carney as noting that Soros has vast holdings in unstable financial markets, and has taken a beating in the last few years on his position in the Russian ruble. Berlau then observes that "coincidently or not," Soros advocates "global taxes" to strengthen institutions such as the IMF and the World Bank to bail out unstable governments facing currency crises.

Finally, there is a investor extraordinaire Warren Buffett, a third interesting Democratically aligned billionaire who is prone to support high profile "beneficent" programs for the benefit of mankind. Buffett has, in the past, been a thorn in the side of supply siders, who argue that the investment community generally favors the low-tax, high-growth policies of the GOP. This year, however, Buffett has taken his activism one step further, signing on as an unofficial advisor on economic matters to Democratic candidate John Kerry. But like Heinz-Kerry and Soros, Buffettt appears to be just another billionaire "philanthropist" whose most recent high profile "moral" political crusade seems to be tinged with a healthy dose of self-interest.

I am speaking, of course, of Buffett's involvement in an organization called Responsible Wealth. The group's website, which is filled with a great deal of absolute nonsense about escalating poverty and the concept that larger government expenditures will help to stop the "unraveling of the social fabric," notes that it's membership consists of "leaders" who are among the "wealthiest 5% of Americans." These rich guys are, the website notes, committed to "putting a spotlight on the dangers of excessive inequality of income and wealth in the United States."

Now, before you, gentle reader, become excited over the prospect of gaining lucre from the distribution by these wealthy individuals of some of their own money to the 95% of Americans who are less financially fortunate, calm down. Their plan to address the problem of inequality is somewhat less ambitious than that, involving as it does a liberal menu of wacky economic nostrums, including the curtailment of tax cuts for themselves and others whom they in their wisdom deem to have accumulated too much money; increases in the minimum wage; and, most importantly, the preservation of the death tax. Relative to this last item, the group claims that this tax is beneficial not only because it is "our most progressive tax and an important source of revenue," but because it is also an "incentive to recycle wealth through the non-profit sector."

Now as Bentham noted, the relationship between utility and benevolence is not always easy to ascertain. Yet, Buffett is a very public man, so fortunately, in his case, there are clues available. First and foremost, he is not stupid. Nor does anything in his life or life style indicate that he is deeply troubled by guilt over his great wealth. On the contrary, he would appear to be much more concerned about demonstrating that he can continue to "outperform" year after year. In short, we know that despite his wealth, he still takes the business of accumulating additional wealth very seriously. As part of this pursuit, he is known to pay very close attention to every detail involving his investments, and to take advantage of every opportunity to increase his "edge," no matter how small or seemingly insignificant.

Thus, we can assume that he is aware that the death tax provides a considerable amount of business for insurance companies, such as SAFECO Life, which Buffett and his friend Jack Byrne, chairman of White Mountain Insurance Group, recently bought for $1.35 billion. Indeed, it is hard to believe that the great "Sage of Omaha" would fail to understand that the return on his investment in a large, ailing life insurance business would be considerably higher if he could win his political battle to keep the government in the business of denying the children of recently deceased small business operators the right that Burke thought was fundamental to a just society, namely the "right to the acquisitions of their parents."

Nor is it likely that Buffett has failed to grasp the synergy between the death tax and his forte of buying up medium size businesses cheaply. Space does not allow a comprehensive examination of this synergy. But the following example might suffice.

In the February 2001 edition of Buffett's much-heralded annual letter to the shareholders of Berkshire Hathaway, he wrote glowingly of several acquisitions made during the year, including Ben Bridge Jewelers. Here's how he described this happy purchase.

> [This was] another purchase we made by phone, prior to any face-to-face meeting between me and the management (sic). Ed Bridge, who with his cousin, Jon, manages this 65-store West Coast retailer, is a friend of Barnett Helzberg, from whom we bought Helzberg Diamonds in 1995. Upon learning that the Bridge family proposed to sell its company, Barnett gave Berkshire a strong recommendation. Ed then called and

> explained his business to me, also sending some figures, and we made a deal, again half for cash and half for stock.
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> Ed and Jon are fourth generation owner-managers of a business started 89 years ago in Seattle. Both the business and the family ? including Herb and Bob, the fathers of Jon and Ed ? enjoy extraordinary reputations. Same-store sales have increased by 9%, 11%, 13%, 10%, 12%, 21% and 7% over the past seven years, a truly remarkable record. It was vital to the family that the company operate in the future as in the past. No one wanted another jewelry chain to come in and decimate the organization with ideas about synergy and cost saving (which, though they would never work, were certain to be tried). I told Ed and Jon that they would be in charge, and they knew I could be believed.

What Buffett failed to mention is why these “fourth generation owner-managers” would want to sell a business that was doing quite well financially, and with which they wanted to stay affiliated. For that, we need to go to another source, say an article entitled “Death Tax Afterlife” in the June 16, 2003 issue of the *Washington Times* by Art Linkletter and Charles Jarvis, National Chairman and Chief Executive respectively of the United Senior Association.

> Too many American families today face a triple-tragedy when the senior member in a family business dies. Not only does the family lose a loved one and a leader, but surviving family members suddenly find they have to pony up as much as 55 percent of the family's assets -- in cash -- to pay federal death or inheritance taxes.
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> This literally forces many families to sell the family business in advance simply to avoid the agony of a fire sale . . . Similarly, Seattle's Bridge family had to sell their 63-store jewelry chain to Berkshire Hathaway, the global conglomerate run by investor Warren Buffettt. No wonder Mr. Buffett, the billionaire liberal, wants to keep American families under the weight of the "death tax" that forces many of the family-owned companies he gobbles up onto the block. Company founder Herb Bridge, who is near retirement age, told a Seattle newspaper that the federal death tax was a "very strong factor" in the decision to sell.
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> This sad story repeats itself countless times every year, as farms and small-to-medium sized businesses go on the block. Sometimes, as with Ben Bridge Jewelers, the process is orderly. Often, however, it's a race against IRS grave robbers.
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> The sad fact is that few such companies can survive a 55 percent tax levy against their value. *Many small business families spend a great deal of money on life insurance in order to cover the tax liability they know looms just around the corner.* (emphasis added) But as the *Seattle Times* puts it: "They'd better buy a lot. And they had better not be too successful: The smarter they work, the more they plow back into the family business, the more jobs they create, the more they create a bomb that goes off at their death." This is one counterproductive tax.

To Warren Buffett, however, this ‘counterproductive tax” is what road kill is to a vulture.

A SPECTER IS HAUNTING PENNSYLVANIA – FOLLOW UP. As we are sure you know by know, Pat Toomy, the conservative Republican Congressman from Pennsylvania lost his bid to unseat four-term incumbent, moderate/liberal Republican Arlen Specter in last week's primary contest. This was contrary to our prediction in last week's issue of this newsletter, and much more importantly, it occurred despite a Herculean effort on behalf of Toomey by our friend Steve Moore's organization, The Club for Growth.

We have been big boosters of The Club for Growth since our days at Prudential. It is a great organization that is becoming increasingly important in the effort to convince Republican lawmakers to cut spending and cut taxes as the best means available for Washington to help assure continued economic prosperity.

With this in mind, we would like to remind each reader that if you would like to help make a difference in Washington, one sure way would be to support The Club for Growth. Even when The Club loses one, which is not often, it makes a strong statement to big government Republicans that their days may be numbered. The following is a copy of Steve's e-mail to Club members following the Toomey defeat. We thought you might find it interesting.

> Now I know what ABC's Jim McKay meant when he talked about the agony of defeat!
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> As you have probably heard by now, Pat Toomey lost his heroic bid to unseat Arlen Specter in the Pennsylvania Republican Senate primary by the narrowest of margins: 50.8% - 49.2%.
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> Needless to say, this was an excruciatingly disappointing result, especially to come so close, to be able to sniff victory, and still lose. We almost pulled off what the *Wall Street Journal* said would have been the "biggest Senate upset in a generation." We did almost everything conceivable that we could do. You and all our members were stars, donating more than $1 million to Toomey – an astonishingly generous sum. I can't prove this for a fact, but I would bet that this is the most money any single group has ever raised for a candidate other than a presidential contender. People gave and gave and gave.
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> Thanks also to the many Club members that gave to the Club's PAC. This enabled us to run $400,000 of TV ads during the last week urging people to defeat Specter and elect Toomey. The Club also played an enormously valuable role in educating Pennsylvanians about Specter's wasteful spending with $1 million in TV ads that ran in February and March.
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> We knew going into this race that we were facing long odds. We were up against a 24-year incumbent, who happened to be the chairman of one of the powerful Senate Appropriations subcommittees. We were up against a Senator who is a prodigious fundraiser. Specter outspent Toomey more than 3 to 1 in this race: $14 million to $4 million. And we were up against a Republican machine, in which virtually every Republican elected official from local dogcatcher to the Vice President and President of the United States.
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> As I have said many times, when David takes on Goliath, Goliath usually wins – but not

always. Also, often in politics you win when you lose and ultimately, I think, that will be the impact of this race. Hopefully Republicans in Congress and the White House will get the message about how angry pro-growth conservatives are over the out-of-control federal spending binge. As noted in this morning's *Philadelphia Daily News*: "To the very few moderate Republicans left in Congress, the message this morning couldn't be clearer: This could happen to you."

And editor Chuck Todd of *The Hotline* (the leading daily news briefing on American politics) had this to say: "Finally, we'd be remiss if we didn't tip our cap to Club for Growth. Stephen Moore's group may lose more primary battles than it wins, but this narrow loss was on a very big stage. Don't think the remaining liberal and moderate Republicans in the Club's crosshairs shouldn't see a very serious threat sometime in their future. (George Voinovich, Olympia Snowe, Lincoln Chafee, we mean you.)"

So, are we disappointed? Absolutely. But disheartened? Hell no. We proved in this race that we're now the most potent force in the Republican Party and, believe me, that has the Republicans In Name Only (RINOs) trembling. More importantly, we are widely respected by friends and foes alike because we unwaveringly stand for principle, and for principled candidates. Such a campaign was unthinkable for the Club just two years ago. As we continue to grow our ability to have an impact will only grow larger.

I'm proud of our members for joining this fight with us even though the odds were stacked against us. Thank you. I'm proud of our board of directors for prodding us to keep going in this race and never giving up. I'm proud of Pat Toomey for running a brilliant and exhilarating race (he started 35 points down!) and for extolling the virtues of free markets and economic growth policies in such a compelling fashion. However, despite our support for Pat Toomey, now is the time for Republicans in Pennsylvania and around the nation to come together and support Arlen Specter.

It's an honor to be associated with every one of you. Now, onward to the next fight. There is not a minute to lose.

Best,
Steve

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