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## THEY SAID IT

“Mr. Bush has few peers among American presidents in his willingness to let Congress spend as freely as it always wants to do. And the Republican Congress has few peers in history in its willingness to take advantage of the president’s generosity....

“[T]here are few examples to be found in economic history where a government spent a country into prosperity. The reverse has largely been the case, contrary to the common, and usually inaccurate, political interpretations of Keynesian economics. Taxing productive people to support wasteful enterprises like Amtrak destroys economic efficiency, the source of economic wealth.”

--George Melloan, “The Dangers of Washington’s Spending Spree,” *Wall Street Journal*, July 12, 2005.

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## SOME THOUGHTS ON ISLAMIC TERRORISM.

I have read and heard a great many forecasts during the past several weeks about the future course of terrorism in light of the recent attacks in London and Cairo. Having written dozens of such pieces myself over the last decade or so, I am well aware that it is hard to be comfortable about making such predictions. There are simply too many unknowns and too many important variables.

So I thought I would let the “talking heads” tackle this difficult subject this week, since they seem to relish it. And I will ruminate a little on the environment in which this terrorist phenomenon is taking place, concentrating on two important global trends that I think are worth considering as one listens to the above-mentioned forecasts.

For openers, in what is arguably an historically more significant trend than terrorism, people all over the world are increasingly demanding more individual freedom, less oppressive government, greater respect for their “fundamental rights,” more control over their lives, increased participation in the process of government, and improvement in their material well-being.

In Russia and the former central Asian satellites of the Soviet Union, the Marxist notion that the individual is subordinate to the state is in the process of being relegated to the dustbin of history and democratic-style reforms are being adopted to fill the void. In China, the communist government is grudgingly giving some

ground to democratic notions in response to demands by citizens of all ranks and classes. In the Muslim states of the Middle East and Africa citizens are in various stages of revolt against their totalitarian rulers. Among the teeming masses of South East Asia, where individual lives have not traditionally been considered of great importance by the elites in charge, ordinary people are demanding that the *demos* have a greater say in the institutions of government. The intensity, goals, and, of course, the responses to these movements differ widely from place to place. But the fundamental message from the public at large is remarkably similar everywhere. More freedom now!

There are many engines driving this trend. One of the most important is the flow of information and goods across borders, which has been made possible by the end of the Cold War, the wonders of modern communications technology, and the extraordinary reach and persuasive powers of the world's giant consumer marketing organizations. Among other things, this "globalization" of information and commerce has made people in even the most remote regions of the world aware of the material, physical, and spiritual benefits of a free and open society. Also contributing strongly to this trend is the attractiveness of the global consumer culture, with its cornucopia of delights, ranging from the Internet to McDonald's hamburgers to hard rock videos.

While this is a decidedly secular trend, it originated in the Christian belief that each human being is made in the image of God and is, as such, equal in the eyes of God. In the 18<sup>th</sup> century, this concept gave rise in Europe and in the American colonies to the powerful notion that every person, no matter what his or her station in life, has a God-given right to be free, to pursue happiness, to own property, and to determine one's own course in life. In his classic book *From Hegel to Nietzsche*, Karl Löwith quotes Hegel on this subject as follows:

Whole continents, Africa and the Orient, have never shared this idea, nor do they share it now; the Greeks and Romans, Plato and Aristotle, even the Stoics did not share

it; on the contrary, they knew only that man becomes truly free through his birth . . . or through strength of character, education, philosophy. This idea came into the world through Christianity, according to which the individual as such is of infinite value as an object and end of the love of God, and is thus intended to have an absolute relationship to God as spirit, having this spirit dwelling within."

Marx, who was a student of Hegelian philosophy and an ardent anti-Christian, built the deadly ideology that bears his name around his revulsion for this concept. He argued that individual liberty as understood and practiced by the bourgeois societies of Europe and America did nothing more than forge new chains with which to debase and enslave mankind. He had feverish dreams of a different and better society, the centerpiece of which would be a "new man," who would be dedicated to the success of the state rather than to his own selfish ends. He would not be greedy, lazy, aggressive, envious, malicious, fearful, or hateful. This man would be healthy, intelligent, industrious, tolerant, generous, and highly talented. In effect, Marx secularized the Christian eschaton, turning it into a glorious, utopian endpoint that would occur in the here-and-now as a result of the communal efforts of men working through the state rather than in the hereafter in accordance with God's will.

As history records, the true believers in this Marxist dream concluded that while it may or may not be worth dying for, it was certainly worth killing for. And they quite literally killed millions of people before the dream was finally recognized by all but its most fanatical followers as nothing more than the nightmare of a crazed fool.

Today, militant Islam has picked up the fight where the Marxists left off, and not surprisingly, proponents of this radical quasi-religious ideology have much in common with their Marxist predecessors.

Like Marx, the Islamists hate the free societies of the modern world. Marx felt that these societies suppressed the worker. Islamists feel that they are evil impediments to the spread of fundamentalist Islam. Whereas Marxists dreamed of a “workers’ paradise” on earth, Islamists have romantic visions of recreating the mythical “golden period” of Islam, which supposedly occurred during the 8th century and when, as one website describes it, “Islam indeed reached the status of perfection and immaculate glory as promised” to Muhammad by Allah himself.

Like the Marxists, Islamists are more than willing to kill millions of innocent people if that is what it takes to achieve their fantastic goal of creating a utopia on earth. And like the Marxists, Islamists will ultimately see their dream fade and die when all but the most fanatical among them begin to realize that, like Marxism, it is nothing more than the nightmare of a crazed fool.

Ultimately, Marx’s vision of life in a world where everyone is equal, where one’s material rewards are determined by one’s “needs,” could not compete with the real world, the world that God designed, the world where men strive to make the best of their God-given talents and to enjoy the rewards of their efforts, both material and spiritual.

Ultimately, this will be the fate of militant Islam, which will find that its promise of life in a medieval society under a legal system presided over by a band of uneducated, religious fanatics is not easy to peddle in a world where one of the most glaring trends of the age is a demand for freedom and access to the global consumer market. And this is especially true, when the sales technique of choice is the ultimate “hard sell,” i.e., killing people who won’t buy.

Needless to say, the utopian dream of the Muslim fanatics will not die gently. Like Marxism, it will burn and rave and rage against the dying of the light. The timing of this eventuality will depend a great deal on the commitment of its enemies, resting mostly on whether America and its allies actively pursue militant

Islam or wait for each new terrorist outrage before escalating its response to a new level of intensity. In either case, the process is likely to last for a very long time.

And this brings up the subject of another important trend that is sweeping across the globe today, which has been intensified by terrorism but is not the direct result of that threat. I am referring to the mushrooming efforts by governments around the world to monitor the day-to-day activities of their citizens. For lack of a better term, I will call this the global surveillance movement.

Many forces are driving this trend. One is the simple, relentless advance in technological innovation, which makes it possible to scan thousands of surveillance cameras on a real time basis, to scan tens of thousands of phone conversations for key words, to monitor a seemingly impossible number of e-mails and web sites for suspicious activity, to trace phone calls to cell phones anywhere in the world, to listen in on conversations in office buildings by focusing on the vibrations of the windows, to trace the identity of an individual by the spittle left on a licked envelope, to take photographs and videos from far above the earth that are clear enough to read the numbers of license plates and which can be viewed on a real time basis, and to perform other tasks of a similar nature that are beyond the imagination of a novice such as I.

Even in tranquil times, police, military and intelligence agencies are constantly looking for new ways to improve the security of the nation they are charged with protecting. This assures that new technological innovations that will help them keep track of potential lawbreakers and threats to society will inevitably be deployed. If Robert Oppenheimer’s most important gift to modernity was the atomic bomb, his second most important was the phrase he offered for doing it, which has become a slogan for technological “progress” in the world today, i.e., “when you see something that is technically sweet, you go ahead and do it.”

If you take this technological explosion of surveillance capability along with an embedded demand for it, and add a rapid increase in ordinary crime in cities around the world as a result of growing populations concentrated in metropolitan areas, increasing numbers of immigrants, and the decay of traditional cultures in the face of the advance of the aforementioned global consumer culture, you have an interesting development.

If you add to this the global threat of terrorism and the aforementioned explosion in demands for freedom by ordinary citizens living under the rule of oppressive governments, you have more than an interesting development, you have an historically important global trend that is likely to change the world in myriad ways.

What are Americans and Europeans and the citizens of other nations that are targeted by militant Islam to do in the face of the threat of terrorism, which is being waged in the name of a malignant ideology whose leaders not only condone but encourage their followers to blow themselves to bits in order to kill as many innocent bystanders as possible? What are the leaders of oppressive regimes to do when the citizens over whom they rule demand more freedom and organize movements to achieve this goal? The answer to both questions is to rapidly accelerate the adoption of greater and more technically "sweet" surveillance mechanisms.

Hence, Americans have witnessed in just under four years, the most extraordinary expansion in governmental involvement in matters related to the defense and security of the nation since the buildup of the U.S. military in the wake of Pearl Harbor.

Centered around the new Department of Homeland Security, the federal government has spent billions of dollars, hired thousands of people, added layer upon layer of new departments, offices, branches, and divisions, and has significantly expanded the departments, offices, branches and divisions that were already in the business of protecting national security. And an overwhelmingly large portion of this activity has been aimed directly at surreptitiously monitoring

the routine activities of organizations and individuals thought to be a threat to national security: harassing, arresting, jailing, and deporting individuals; seizing, freezing and monitoring financial assets; recruiting and working with informants in cities across the nation and around the world; and all the time listening, reading, and watching everything and everybody for signs of trouble.

But this is almost certainly small potatoes when compared to similar efforts on the part of nations such as China, Russia, and many Muslim states, whose leaders are desperately attempting to hold back the tide of freedom and are not restrained by any laws or even traditions from adopting even the most draconian measures to accomplish this purpose.

A discussion of the extent and reach of these operations is far beyond the capability of this newsletter, but the following paragraphs from the website of Stanford University provides some insight into the nature of what might be considered a representative effort, namely China's so-called "Golden Shield" project.

Using a massive surveillance system, the Golden Shield's aim is to integrate a gigantic online database with comprehensive surveillance network - incorporating speech and face recognition, closed-circuit television, smart cards, credit records, and Internet surveillance technologies. The Golden Shield offers immediate access to records on every citizen in China, while linking to vast networks of cameras designed to increase police efficiency . . . When the project is finally completed, these technologies will have far reaching consequences not only for the people of China but also for the rest of the democratic world as other countries begin to adopt these technologies.

Now, if I am right to be skeptical about the long-term success of a venture that uses lethal explosions to sell a dreary Islamic dream of a return to a medieval social order at a time when everyone, everywhere around

the world seems to be demanding more individual freedom and greater access to the global consumer market, then a related proposition is that this sales job is even more iffy in a world where it is increasingly difficult to skulk around and plan these explosions.

It is important when considering this to understand that while there may be considerable tension between and among the United States, Europe, Russia, China, the Muslim nations of the Middle East, Africa and Asia, and everyone in between, there are very few nations in the world that are actively supporting the cause of the Islamic terrorists. Even among those that are antagonistic to the United States, the prospect of having the American economy destroyed by terrorist strikes is not attractive. Nor is the idea of having a bunch of wacko Islamic terrorists taking over a nation such as Saudi Arabia and threatening the entire world's oil supply.

Thus, while competition and rivalries may become intense at times between and among America and the other nations of the world, international commerce in information about the terrorists who threaten everyone is likely to increase dramatically in the years ahead, even as tensions rise over other matters.

So in closing, I would just say that when considering the many forecasts by the terrorism "experts" on the tube and in the newspapers concerning the future of this horrible phenomenon, keep in mind that while the modern world is indeed very vulnerable to Islamic terrorism right now, it is also likely to become an increasingly hostile environment to the terrorists themselves, as the demand for freedom, the global consumer marketplace, and government surveillance activities grow in lockstep around the world.

## THE DOWN-SIDE OF SUPPLY-SIDE: *NIHIL EST AB OMNI PARTE BEATUM*

Between the nomination of Judge John Roberts to the Supreme Court and the obsessive effort to fulfill Ambassador Joseph Wilson's deepest desires and have Karl Rove "frog marched" from the White House, a number of important political developments have been more or less ignored by the mainstream media over the past couple of weeks. One of the most important of these, which most readers of *Politics, Et Cetera* are certainly aware, but about which the public at large remains blissfully ignorant, is the fairly rapid shrinking of the federal budget deficit.

For nearly the entirety of the first half of the Bush presidency, the press and Democratic critics fixated neurotically on the return of and then the ballooning of this deficit. Despite assurances from both public and private economists that the deficit was not outrageously high, when measured as a percentage of GDP, Democrats insisted that the President had been reckless with "the government's money," doling out irresponsible and unnecessary tax cuts to his rich friends at the expense of current and future generations of middle class and poor Americans. And the media was, by and large, complicit in leveling and reiterating these charges, rarely if ever mentioning the fact that both of the Bush tax cuts together represented a mere fraction of the deficit.

Now that the deficit has begun to shrink, however, the press has more important stories to cover and Democrats have moved on to different, equally trifling obsessions. That the size of the deficit has suddenly become such a low-priority item should hardly come as a surprise. President Bush's policies have not changed over the first six months of his second term; his tax cuts have not been repealed; yet the deficit has, according to official estimates, shrunk by some \$100 billion in less than a year. In fact, it currently hovers at or just below the historical average for the last 40 years. And it is expected to contract even more over the course of the next several years, perhaps decreasing by half in time for the next presidential election. And all of this presents Democrats and

media types with a conundrum the likes of which dwarves that faced by Alan Greenspan in trying to explain the current flattening of the yield curve.

Needless to say, President Bush, his advisors, and his allies among the pundit class find vindication in the recent deficit numbers, which they believe bolster both the President's immediate political position and the greater cause of supply-side economic theory as well. Last month our old friend Steve Moore, who is now the economics editor for the *Wall Street Journal* and a member of the *Journal's* editorial board, summed up the supply-side argument found in the most recent budget numbers. Writing specifically about the Laffer Curve, Steve put it thusly:

Earlier this month the Congressional Budget Office released its latest report on tax revenue collections. The numbers are an eye-popping vindication of the Laffer Curve and the Bush tax cut's real economic value. Federal tax revenues surged in the first eight months of this fiscal year by \$187 billion. This represents a 15.4% rise in federal tax receipts over 2004. Individual and corporate income tax receipts have exploded like a cap let off a geyser, up 30% in the two years since the tax cut. Once again, tax rate cuts have created a virtuous chain reaction of higher economic growth, more jobs, higher corporate profits, and finally more tax receipts.

This Laffer Curve effect has also created a revenue windfall for states and cities. As the economic expansion has plowed forward, and in some regions of the country accelerated, state tax receipts have climbed 7.5% this year already. Perhaps the most remarkable story from around the nation comes from the perpetually indebted New York City, which suddenly finds itself more than \$3 billion in surplus thanks to an unexpected gush in revenues. Many of President Bush's critics foolishly predicted that states and localities would be victims of the Bush tax cut gamble . . .

On the private-sector side of the ledger, what we are now witnessing is a broad-based investment boom. The lower capital gains and dividends taxes have been capitalized into higher stock values, and that in part explains why the Dow is up 24% since May 2003 while the Nasdaq has risen 39%. Dan Clifton of the American Shareholder Association estimates that this rise in stock values has translated into roughly \$3 trillion in added wealth holdings of American households. The severe slump in business capital spending in 2001 and 2002 has now taken the shape of a U-turn, with spending on capital purchases up an enormous 22% since 2003. Because higher wages and new job creation are highly dependent on business capital investment, the mislabeled "Bush tax cut for the rich" has in reality enormously benefited middle-income workers.

Naturally, not everyone agrees with the supply-siders that the surge in federal receipts is a byproduct of President Bush's tax cuts. Some of the President's more reactionary critics, many of whom would sooner concede that Bush is right on foreign policy than on tax policy, insist that the up-tick in revenues is a one-off fluke driven by factors entirely unrelated to the 2003 tax cut or the subsequent robust economic expansion.

But such die-hard antagonists are generally rare, and more reasonable supply-side skeptics contend instead that the increase in federal receipts is simply part of the natural course of events at "the current stage in the business cycle," which is just another way of saying that receipts go up when the economy expands and go down when it contracts. And while this might seem to be an entirely innocuous assertion on the part of the anti-supply-siders, it is, in fact, actually pretty significant, signaling as it does a concession that in the post-Cold War era, recessions cause deficits, while recoveries reduce them. If nothing else, this concession undermines the default position of Democrats and the mainstream press over the

last four-plus years that the “Bush tax cuts” were the culprits behind the reemergence of the federal budget deficit and were therefore “irresponsible.”

In sum, then, the reduction in the deficit appears to be pure, unadulterated good news. The deficit is shrinking dramatically and is perfectly in line with historical norms; supply-side advocates have what appears to many to be concrete evidence that, as the *Wall Street Journal* put it, “the best way to grow tax revenues is to grow the tax base,” and marginal tax cuts have been shown to grow the base; and even skeptics have to concede that, at the very least, the nation’s fiscal picture appears to be related directly to its economic health, a concession which largely undermines the Democrats’ most effective current weapon in the fight against tax reform. What could be better? All is right with the world. Right?

Actually, no. In spite of all of the good news that can be found in the recent deficit numbers and projections, they also contain the seeds of at least one very significant problem that should not be overlooked, namely federal spending.

The same Congressional Budget Office (CBO) numbers that showed the deficit shrinking also showed that federal spending continues to rise precipitously, or as Steve Moore put it, the “congressional Republican spending spree rolls on.” Federal expenditures are up \$110 billion (7.2%) so far this year, and that’s not even the worst part of it. Total federal outlays between 2001 and 2005 were up more than 25%. According to the Heritage Foundation’s Veronique de Rugy, in terms of real discretionary spending, the increases in fiscal years 2002, 2003, and 2004 were “three of the five biggest increases in the last 40 years.”

Some of this spending is, of course, related to defense, homeland security, and the conduct of the “War on Terror.” In addition to revamping basic military pay and procurement after nearly a decade of benign neglect and having to pick up the tab for an entire new cabinet department, the two active theaters of operation, Iraq and Afghanistan, obviously sap considerable funds. That said, defense and security

spending in no way account for all of the increase in federal outlays since 2000. Over the course of fiscal years ’02, ’03, and ’04 (President Bush’s first three budgets), non-defense, non-homeland security discretionary spending increased by a total of 39%; and the totals thus far make President Bush’s the freest spending administration since Lyndon Johnson’s. Needless to say, the prediction we made during the 2000 presidential campaign that George W. Bush would likely be remembered as a new breed of Republican, a “tax-cut and spend Republican” has proved remarkably prescient.

The point of all of this is that while the reduction in the deficit is certainly a plus, it also creates a whole new set of problems related to the scope and size of government. There was a time not so long ago, when the GOP was the party of small government. But those days are long gone now, as the Republican Congress has, in its first decade in power, evolved into a far more profligate spending machine than the Democratic Congress it replaced. The increased spending detailed above took place against the backdrop of soaring federal budget deficits and all the political pressure that these deficits entail. With the deficit now shrinking and the pressure off, there’s no telling what these guys are capable of doing.

Though most Congressional Republicans would almost certainly proudly proclaim their support for tax cuts and would likely also profess to be adherents of Laffer, Mundell, and the rest of the supply-side gurus, it is unlikely that many of them have given any serious thought to the greater fiscal implications of supply-side economics or to the relationship between budget deficits and the business cycle. And now, they are being told in effect that despite their spendthrift ways, the deficit is beginning to narrow simply because they cut taxes.

Many in Congress will almost certainly see this as a license to spend as much as they want and on whatever they want as long as they keep tax rates relatively low. For them, this is legislative Nirvana; the chance to spend freely without fear of repercussion; to raid the Treasury, secure in the belief that supply-

side tax incentives will keep tax revenues pouring in and keep the Treasury replenished. As the Heritage Foundation's Brian Riedl and Rea Hederman recently predicted, "The danger is that lawmakers may use the reduced budget deficit as an excuse to continue expanding the federal government."

There is no guarantee, of course, but the reduction in the deficit raises the possibility that members of Congress, and Republican members especially, will discover the dirty little secret that smart economists in Washington and elsewhere have kept for the past quarter century or so, namely that budget deficits really don't matter all that much, at least as long as they remain below a certain percentage of GDP. Riedl and Hederman call the deficit "the most overrated government statistic," and they are almost certainly correct, though it's apparent that no one has notified anyone in the press corps or the vast majority of politicians in both parties, all of whom spend an inordinate amount of time fretting over deficit numbers that mean very little. With all due respect to former Senator Phil Gramm and the conservative budget hawks of the 1980s and former Treasury Secretary Robert Rubin and his band of disciples, the last twenty-five years serve largely as empirical refutation of the economic assumptions that has fed the fear and veneration of deficits.

What Phil Gramm almost certainly knew but Robert Rubin almost certainly did not is that the fight over deficits was never really a fight over deficits at all; it was a proxy for the fight over the size and scope of government. While deficits are occasionally irritating, they are hardly pernicious. Big government, in contrast, is. In addition to the potential serious economic drawbacks of bigger and bigger government (e.g. diversion of resources from the private sector, inefficient uses of capital, increased regulation, government involvement in picking winners and losers), big government tends to destroy the fabric of a society. I put it thusly in a September, 2003 piece in on the subject:

The state, while a vital component of civilized society, is not the only component, far from it. The state is also a great usurper, and as it grows, it appropriates those functions that once were the preserve of other vital components of civil society, including the Church, the community, and most notably, the family. What the "big government conservatives" fail to grasp is that big government is inimical to those institutions and traditions that they purport to cherish. Big government is, indeed, wholly hostile to that which conservatives should want to conserve.

In that article, I used the tragic deaths of roughly 15,000 elderly French during a European heat wave that summer to illustrate my point about the insidiousness of big government and turned, as I do so often, to the great Mark Steyn, who summed things up far better than I ever could. He wrote:

In Paris this spring, a government official explained to me how Europeans had created a more civilised society than America - socialised healthcare, shorter work weeks, more holidays. We've just seen where that leads: gran'ma turned away from the hospital to die in an airless apartment because junior's *sur la plage*. M. Chirac's somewhat tetchy suggestion that his people should rethink their attitude to the elderly was well taken. But Big Government inevitably diminishes its citizens' capacity to take responsibility, to the point where even your dead mum is just one more inconvenience the state should do something about.

The problem that conservatives have faced is that selling the idea of big government as an antagonistic force is not particularly easy. As Mark and I have both noted several times over the past few years, the push toward bigger and bigger government "is demand driven." And most Americans simply are unwilling

to believe that government, which can and does provide so many wonderful things and which promises boundless happiness, can actually be quite dangerous and destructive if allowed to grow beyond reasonable limits. So rather than fight a difficult battle over a reasonably popular yet esoteric concept like “Big Government,” many conservatives chose instead to fight against deficits, believing them to be a reasonable enough proxy.

But now the deficit is shrinking even in the face of reckless spending, and too few conservative legislators have developed a healthy enough fear of the Leviathan to compel them to put the brakes on this profligacy irrespective of the fiscal picture. And this poses quite a problem.

In the late ‘90s, when the deficits were replaced by surpluses, many in Washington, Mark and I included, worried that without the spending constraints traditionally supplied by enormous deficits Congress

would go on an unparalleled spending binge. We were, of course, right. Unfortunately, the return of deficits did little to curb Congressional binging, and now with the cycle starting to repeat itself, there is a very real risk that legislators will presently set out on the next bender.

Don’t get me wrong. The shrinking of the deficit and the boost it gives to supply-side adherents is, by and large, a positive development. But whether Republicans in Washington will be able to muster the political strength to ensure that there is no serious down side to the supply-side sensation remains to be seen. Given their recent track record, I think it fair to call me more than just a little skeptical. As Horace might have put it, *“Nihil est ab omni parte beatum.”*

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