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## THEY SAID IT

It may be the unanimously expressed will of the people that its parliament should prepare a comprehensive economic plan, yet neither the people nor its representatives need therefore be able to agree on any particular plan. The inability of democratic assemblies to carry out what seems to be a clear mandate of the people will inevitably cause dissatisfaction with democratic institutions. Parliaments come to be regarded as ineffective "talking shops," unable or incompetent to carry out the tasks for which they have been chosen. The conviction grows that if efficient planning is to be done, the direction must be "taken out of politics" and placed in the hands of experts--permanent officials or independent autonomous bodies....

*The Road To Serfdom*, Friedrich Hayek, 1944.

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## Le PLAN C'EST MOI.

This week, we thought that we would analyze and explain the current state of the entire world. Needless to say, since we must do this in a just a few pages, we will have to take some shortcuts and possibly even a few liberties with the facts. But no more so than the nation's "newspaper of record" routinely takes in much longer and less ambitious works.

We will begin with the assertion that while all of the major nations of the world today and most of the smaller ones spend an enormous amount of time and money predicting and planning for the future, and all profess to operate according to some governing philosophy, it is becoming increasingly difficult to detect the presence of all this predicting and planning in the actual actions of the nations involved, or to discern any meaningful pattern based on their professed ideology.

Now we know that this seems counterintuitive, given that virtually all the nations of the world today are run on a day-to-day basis by bureaucrats, or as Friedrich Hayek described them, "planners," who fill great buildings in all of the capitals of the world to overflowing and are constantly demanding the construction of ever more such buildings.

But the fact of the matter is that no "planners" anywhere in the world appear able to anticipate future events with even a modest degree of accuracy, and this means that most of their planning is useless. There are a great many reasons for this. Most involve the extraordinary pace of change that has swept across the globe in the past several decades and continues unchecked today. This rapid change, in turn, has been

driven by a variety of factors, including the collapse of communism, the resultant phenomenon we call “globalization,” the subsequent rise of China as a global economic powerhouse, and the emergence of militant Islam as a threat to global stability. But none of these factors rival the importance of the many extraordinary technological advances that have taken place over the past several decades, which have, single handedly, so to speak, rendered all meaningful planning for the future extremely difficult, if not impossible.

Karl Popper was one of the first philosophers to recognize and comment on this problem. *The Stanford Encyclopedia of Philosophy* explains his views on the subject as follows.

Moreover, he argues, it is logically demonstrable by a consideration of the implications of the fact that no scientific predictor, human or otherwise, can possibly predict, by scientific methods, its own future results. From this it follows, he holds, that ‘no society can predict, scientifically, its own future states of knowledge.’ Thus, while the future evolution of human history is extremely likely to be influenced by new developments in human knowledge, as it always has in the past, we cannot now scientifically determine what such knowledge will be. From this it follows that if the future holds any new discoveries or any new developments in the growth of our knowledge (and given the fallible nature of the latter, it is inconceivable that it does not), then it is impossible for us to predict them now, and it is therefore impossible for us to predict the future development of human history now, given that the latter will, at least in part, be determined by the future growth of our knowledge.

With the advent of great computers and advances in chaos theory, one would think that the process by which governments plan for the future would improve every day. But one would be wrong. Part

of this problem, as Popper also noted, is that the models upon which the overwhelming majority of all of this planning is done are, for the most part, based on assumptions about the course of history that are patently absurd, or more specifically on the mistaken belief that history “develops inexorably and necessarily according to certain principles or rules towards a determinate end,” to borrow once again from the write up on Popper in the *Stanford Encyclopedia*.

Some nations, for example, are wedded to the Marxist theory that history is moving inevitably toward the betterment of all mankind on the vehicle of collectivism. Others believe that their country, or the particular religious or racial group that makes up the bulk of its population, is predestined to achieve and hold a dominant position within mankind. Still others believe that mankind itself is on an unstoppable journey toward the time when every individual on Earth will be free and living in a democratic society. Not surprisingly, the planners in these nations tend to incorporate these befuddled notions into their plans, rendering them not just useless, but often foolish.

Moreover, not only are these plans based on unfounded prejudices directly associated with the particular nation involved, but also on preconceived prejudices concerning the future of other nations, even though the planners in these other nations cannot perform this task themselves with even a modicum of accuracy. Thus, we see the United States making plans based on some vision that the planners have of where China and Russia are headed, while the planners in these two nations do the same concerning each other and the United States. Garbage in, garbage out, as the saying goes.

The result is that most of the nations of the world are today constantly moving from one short-term economic, social, or military opportunity or crisis to another, sans map, blueprint, or ideological framework, frantically seeking some sort of permanence and stability that the long history of mankind would seem to prove not just unattainable but would indicate that the near attainment of which would actually create the conditions of its eventual downfall. Each, then,

is in a perpetual state of movement between decision, indecision, optimism, pessimism, ambition, and fear, careening around the world like billiard balls, crashing into and bouncing off one another, and thus starting another round of careening. In this process, they collectively pose an insurmountable challenge to anyone who is attempting to get some accurate notion about the future. Indeed, it seems likely that even Laplace's famous Demon would find the task daunting.

Needless to say, this leads to problems. One of these is that the governmental solution to failures in planning is virtually always to increase the intensity of the botched effort. This is why government planners generally don't view failure with the same trepidation that individuals associated with profit-making enterprises do. In fact, more often than not, failure is to bureaucracies what Miracle-Gro is to houseplants.

Anyway, whether the planners know it or not, their efforts always have the effect of placing an ever growing amount of power in the hands of a few individuals whose job is to direct the central government in the task of adopting ambitious, large scale plans for promoting or retarding various aspects of the aforementioned faulty predictions about the future. In fact, both Popper and Hayek wrote extensively about the tendency of central planning to promote totalitarianism. Hayek explained it as follows.

Where the precise effects of government policy on particular people are known, where the government aims directly at such particular effects, it cannot help knowing these effects, and therefore it cannot be impartial. It must, of necessity, take sides, impose its valuations upon people and, instead of assisting them in the advancement of their own ends, choose the ends for them. As soon as the particular effects are foreseen at the time a law is made, it ceases to be a mere instrument to be used by the people and becomes instead an instrument used by the lawgiver upon the people and for his ends. The state ceases to be a piece of utilitarian machinery intended to help

individuals in the fullest development of their individual personality and becomes a "moral" institution--where "moral" is not used in contrast to immoral but describes an institution which imposes on its members its views on all moral questions, whether these views be moral or highly immoral. In this sense the Nazi or any other collectivist state is "moral", while the liberal state is not . . .

More to the immediate point, this growing concentration of power within the central authority, coupled with the increasingly uselessness of the planning itself, makes it ever more possible and likely that the individuals in charge will ignore both the plans and the philosophy that underlie them, and "wing it," when dealing with all sorts of problems, big and small. Sometimes this is done with no regard whatsoever for the planners. Other times, these individuals go through the trouble of selecting only those plans that fit their needs, or demanding that such plans be formulated. In either case the result is, as we indicated in the second paragraph of this piece, that virtually all nations of the world today are increasingly run "ad hocly," to coin a phrase.

Now we recognize that this thesis is vulnerable to the question, "what's new?" To which, we would argue that the extraordinarily rapid pace of change is new, that therefore the planning that goes into determining a response to this change is more unreliable today than it ever was, and consequently, that the actions that governments across the globe are likely to take in the future are growing increasingly unpredictable.

To put this another way, political leaders all over the globe today are largely in the dark when it comes to understanding or anticipating what is going on in the world around them. And to make matters worse, they are equally handicapped when it comes to understanding or anticipating the secondary and tertiary consequences of what they decide to do in reaction to what they think is going on in the world around them. And we're back to the billiard balls, careening around, crashing into and bouncing off one another, and thus starting another round of careening.

Consider Russia. In case you hadn't noticed, the American press and pundit community, and presumably all the planners at the White House, the State Department, the Defense Department, the Department of Homeland Security, et al., have been spending a great deal of time of late speculating on what Comrade Putin has in mind for his benighted land. Is he restarting the Cold War? Is he rearming in order in to prepare to challenge U.S. interests all around the globe? Is he teaming up with China in some nefarious venture? In short, what is his plan? Well, thank you for asking. His plan is as follows.

As a former senior bureaucrat in the law enforcement community of one of the two largest, most oppressive, and most bureaucratized planned communities in the world, and one who witnessed the collapse of the Soviet Union from a front row seat, Putin knows as well as anyone could the uselessness of grand plans for achieving greatness, concocted by state "planners" on the foundations of ideological nonsense.

So our guess is that he has cast aside the Marxist drivel, the capitalist drivel, and the bureaucratic drivel, along with all of the grand and glorious dreams of being "on the right side of history" and of building Mother Russia into a global colossus, in favor of a less formalized, more spontaneous, more personalized, and infinitely more satisfying ambition. To put this another way, he has, against all odds, somehow found himself in possession of the keys to Kremlin, and its toga party time.

For a self-absorbed, highly cynical, amoral thug, who believes that death brings only darkness, life is too short for elaborate plans based on the cock-eyed dreams and theories of a bunch of faceless bureaucrats and dead philosophers. In short, Putin's "plan" is that there is no plan. If he thought about, he would probably put it this way: "*Le Plan, c'est moi.*"

Russia today is all about a former, mid-level functionary in a dead-end job at a fading bureaucracy in a dying state suddenly finding himself with a chance to be a major player at the highest stakes game in the

world, on the largest field of play in the world, against the most powerful adversary in the world, with the entire world watching. And he is going to enjoy the moment. That's "the plan," and, as we said earlier, our guess is that that "plan" is fast becoming the prototype for most of the "plans" for most of the major nation's in the world, from China, to Europe, to the United States, and to all the nations in between. Not because it is a good plan, but because no other plan is any better in a world where the billiard balls never stop banging against one another.

And in case you hadn't realized it yet, this is the kind of plan that all the nations of the world used to follow before planning came into vogue, along with the birth socialism, in early 19th century Europe. Our advice is to get used to it.

## THE RETURN OF THE FIXER.

In politics, as in the markets, August is generally a month in which little happens that would be considered dramatic or even particularly interesting. Yet the past couple of weeks have been unusual in that they have been filled with considerable political commotion. Adding to the oddity of events, for the first time in as long as anyone can remember, the particular political drama connected with these events is not partisan in nature and does not feature anybody, anywhere attacking, belittling, or mocking President Bush. In fact, this drama is contained entirely on the left-hand side of the political aisle and pits Democrat against Democrat in a battle of wills.

You see, over the last couple of presidential election cycles, the primary calendar has been collapsing, with more and more states moving their primaries up on the schedule in the hope of attracting more attention from the candidates and the media and thus playing a greater role in the nomination process. Five years ago, the Democratic National Committee (DNC) made it the official policy of the party to squeeze the calendar, in the hope of deciding quickly on a nominee. But the entire process swiftly got out of hand and has been developing into a state of near chaos ever since.

This year, state parties have continued their attempts to alter the traditional primary schedule, despite the national party's plea for discretion and prudence. Over the last couple of weeks, the entire calendar-setting process has broken down, precipitating an inevitable clash between the states and the DNC.

That clash finally arrived over the weekend, when the DNC's Rules and Bylaws Committee sanctioned Florida Democrats and threatened to take away the state's convention delegates, unless state party officials change the date of their primary. The DNC has declared that only the states of Iowa, New Hampshire, Nevada, and South Carolina may hold their primaries before February 5, 2008, which means that Florida's January 29 primary would be a violation of the rules. Florida's refusal to comply with the DNC's demand forced the Rules Committee to take punitive action against the state party.

To make matters worse, the confrontation between the national party and its state affiliates is likely to grow even more intense over the next couple of weeks if Michigan Democrats fulfill their pledge to move their primary up to January 15. Such a decision would not only invite the DNC to sanction Michigan as well, but would set up a personal clash between powerful Democratic leaders, pitting Michigan Senator Carl Levin, the driving force behind his state's accelerated primary schedule, against the DNC chairman and titular party head Howard Dean.

To date, most, if not all of the reporting on this story has played it straight, treating the conflict as the result of competing priorities, with the state parties vying to increase their exposure and influence and the national party simply trying to keep control of its calendar. That's all well and good, of course, and certainly there is some basis of fact in this storyline. Nevertheless, the mainstream coverage of this political drama has overlooked a handful of key facts that, when taken together, change the storyline considerably and raise the possibility of an even greater and more crucial struggle for power within the Democratic Party.

In order to get at the underlying conflict involved in this battle over state primary scheduling, we think it's important to consider two critical and heretofore overlooked questions. The first of these is: who stands to benefit most from the condensed political calendar?

The obvious answer is that the states that are moving their primaries forward will benefit, usurping some of the prestige and influence normally held by such places as Iowa and New Hampshire, which clearly play an exaggerated role in the primary process, given their relatively undersized populations and their oversized ability to affect the course of the nomination. But there is another beneficiary as well.

Most analysts agree that the condensed schedule quite clearly favors the "establishment" candidates, those candidates who can afford to organize and advertise in a large number of states and not just the first two or three. Traditionally, an underdog candidate could win in Iowa or New Hampshire and then theoretically build momentum (and the fund-raising leaps that come with that momentum), leading up to the bigger state primaries and to Super Tuesday. And if a lesser-known candidate lost one or both of the early primaries, he would still have the time to revamp his message and to re-launch his campaign, much as the then largely unknown Bill Clinton did in 1992 after losing both Iowa and New Hampshire.

Under the condensed schedule, by contrast, insurgent candidates would be forced to pin all of their hopes on an early victory. And if they lose, they'll be done. Even if they manage to win one of the early ones, the odds still will be heavily stacked against them, given their better-funded and better-known opponents' ability to fund and run campaigns in several states simultaneously. The underdogs will have no opportunity to build momentum or to build their campaign war chests. And they will thus have little chance to challenge the big boys, or girls, as the case may be.

In practical terms, what this means is that the condensed primary schedule favors Mrs. William Jefferson Rodham-Clinton, who, unlike her husband, is the establishment's choice and the best-funded and best-organized non-incumbent candidate from either party in many election cycles. If, for example, former Senator and current shampoo model John Edwards manages to win next January in Iowa, where he has invested all of his time and his relatively paltry campaign funds, he'll still be a serious underdog, likely unable to compete with Mrs. Bill Clinton in any of the upcoming primaries – most especially Florida and Michigan, which carry considerably more delegates than Iowa or New Hampshire. And if Edwards loses in Iowa, then he'll have a lot more free time to spend trying to figure out how to feed the hungry from the comfort of his 29,000 square foot "house" in North Carolina. In either case, the condensed schedule will be yet another advantage to add to Mrs. Clinton's already long list of advantages.

The second critical question to consider regarding the primary schedule is: how did the schedule come to be condensed, to the marked advantage of the establishment's candidate?

As we noted at the top of this piece, the DNC itself created this problem back in January of 2002, when it decided to condense its calendar by encouraging state parties to push forward their primary dates. The reasoning given at the time was that by collapsing the calendar, the party could increase the "diversity" of the population deciding the nominee (South Carolina and Michigan having far more minority voters than Iowa and New Hampshire) and could also accelerate the nomination process, hopefully deciding on a challenger to face President Bush by the middle of March. DNC officials declared that their intention was simply to bring a handful of other states into the process early. But in so doing, they opened the proverbial floodgates, prompting nearly every large state to make an attempt to increase its prominence and to challenge Iowa and New Hampshire as "kingmakers" by moving forward its primary date.

Of course, it's important to remember here that the current head of the Democratic National Committee, former Vermont Governor Howard Dean, was not the chairman of the party back in 2002. Instead, he was at that time a candidate for president. Moreover, as a candidate, Dean was hardly shy about expressing his displeasure with the man who was chairman of the party at the time. Dean's priorities in running the party today are quite different from those of his predecessor, which explains in part why he is less enthusiastic about the accelerated nomination process and about the advantages it is likely to confer upon the establishment candidates.

And who, you ask, was Dean's predecessor at the DNC? And what were his priorities in running the party?

Well, Dean's predecessor as chairman of the Democratic National Committee was Terrence McAuliffe, a businessman, a longtime Democratic fundraiser, and a seasoned Democratic Party political operative. Of course, above and beyond everything else, McAuliffe was, is, and ever shall be Bill and Hillary Clinton's "fixer." McAuliffe was the guy who figured out how to fund Bill's 1996 re-election campaign. He was the guy who figured out the scheme by which the Teamsters union would "swap" funds with the DNC, thus allowing the party to use union donations as hard money. He was the guy who arranged the unusual (to put it mildly) financing of the home in Chappaqua, New York that Bill and Hillary couldn't afford, but which they needed in order for Hillary to qualify as a resident of the state and thus run for the Senate. He is, in short, the key guy who "makes it happen" for Bill and Hill. Back in March, 2001, not long after Bill ensured that his fixer pal McAuliffe would get to run the DNC, the left-wing *New Republic* had this to say about the party's new chairman:

More than almost anyone else, McAuliffe personifies Clinton era sleaze. It was McAuliffe who, as Democratic finance chair,

dreamed up the idea of parlaying White House hospitality into campaign cash. It was McAuliffe who broke down the barrier between hard money contributions, which are regulated and go directly to candidates, and soft money contributions, which are not limited but are supposed to be restricted to party-building activities. And it was McAuliffe who presided over Democratic fund-raising while the party surreptitiously sought illegal money from foreign donors – the scandal, you’ll remember, that probably kept the Democrats from retaking the House in 1996.

Time and space do not permit us to recount McAuliffe’s entire resume (or rap sheet, if you prefer), but it should suffice to say that the guy is about as dirty as an out-house rat. And more to the point, by many accounts, his job while at the DNC was to ensure that the Democratic Party remained the Clintons’ party, which he managed spectacularly to do.

We don’t want to get too caught up in Clinton-induced paranoia/conspiracy mongering (there will plenty of time for that when Hillary is president). But all of this is just a little too convenient. We noted back in January that Hillary would win the Democratic nomination in a walk, and not just because she has better fund-raising and organization teams than her opponents, but because she, like her husband, is unafraid to bend the rules to make them work to her advantage. We wouldn’t want to say that “the fix is in” with regard to the Democratic nomination, but that’s likely not because McAuliffe didn’t try. After all, that’s who he is. That’s what he does.

The tension between Terry McAuliffe and Howard Dean, his successor at the DNC, is, in many ways, reflective of the broader tension within the

Democratic Party as a whole. McAuliffe was Clinton’s guy. And, as we’ve noted, his job was to make sure the party stayed the Clintons’ party. Dean, by contrast, was the darling of the newly empowered “netroots.” And he and his supporters see his job as wresting control of the party away from the Clintons and like-minded DLC centrists. Dean is a creature of the left, a man concerned principally with ideology. McAuliffe is a creature of the Clintons, a man, like his masters, concerned principally with power.

It is little wonder then that Dean’s DNC is openly hostile to the plans set in motion by McAuliffe some five-and-a-half years ago. Whether by design or merely by fortune, those plans have the net effect of favoring the already incredibly advantaged Clintons. And that pleases neither Dean, nor the netroots lefties.

Though we’ll concede that it’s possible that neither McAuliffe nor the Clintons intended to condense the primary schedule strictly to gain political advantage, we wouldn’t rule it out either. When it comes to the Clintons, we’ve learned that the best advice was offered to us years ago by our good friend (and onetime banking analyst) Bob Feinberg, who lamented that just when he was thought he’d become too cynical, he learned that he was, in fact, not cynical enough.

It seems to us that the political drama taking place among the Democrats these days is, in part, the story the media tells us it is, a battle of wills between the national party and its state affiliates over who gets to have the greatest influence in the nomination process. At the same time, though, we can’t help but think that most people who are paying attention to this story are forgetting or ignoring crucial facts. They are, in short, not cynical enough. And with the Clintons back in the game, that’s always a mistake.

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