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## THEY SAID IT

After having thus successively taken each member of the community in its powerful grasp, and fashioned him at will, the supreme power then extends its arm over the whole community. It covers the surface of society with a network of small, complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate to rise above the crowd. The will of man is not shattered but softened, bent and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrial animals, of which government is the shepherd.

Alexis de Tocqueville, *Democracy in America*, Part II, Book IV, chap. vi.

## WHITHER CONSERVATISM? REDUX.

In the run-up to last November's mid-term election, a handful of "conservative" Republicans fretted openly about the defeat their party was going to suffer and about the damage that would be inflicted on their fellow partisans because they had "lost their way." The GOP, they argued, had become the party of big spending and big government that could only be differentiated from the Democratic Party in its general (if unenthusiastic) aversion to higher taxes and its general (if unenthusiastic) support of the war on terror. And this was all but certain to repel voters.

After the election, these conservative Cassandra's saw their ranks swell, as the Sunday Morning Saints came back to the fold, confessed their sins, and vowed to repent. "If only we had behaved more like Republicans, we'd still be the big shots around here," the chastened members of the new Congressional minority lamented. "Our problem was that we spent too much and grew too accustomed to the trappings of power." Wisconsin Congressman Paul Ryan summed up the party's day-after remorse, declaring "The Republicans lost the election because we deviated from our core principles; deviated from our core principles on spending [and] corruption."

Ah, would that it were true.

The sincerity of the Republicans' remorse and the intensity of their efforts at rehabilitation have, in some cases, been rather charming. These guys seem so incredibly earnest and dedicated. We actually feel badly about having to note that they're also incredibly clueless.

Anyone who tells you that the Republicans lost last year's midterm election because they were too liberal and too free spending for the more conservative and more fiscally responsible electorate is either lying or ignorant of the actual sentiments of that electorate. Yes, it's possible that some traditional Republican voters stayed

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home to protest the GOP Congress's profligacy. But in the grand scheme of things, those voters (or non-voters) were few and far between. If forced to do so, we could list at least a dozen good reasons why Republicans got smacked around in last year's election, and "deviating from core principles on spending" would not be one of them.

The fact of the matter is that this complaint about Congressional Republicans being too liberal for voters is precisely backward. If anything, voters are becoming more and more liberal on a host of economic issues, ranging from taxes to health care to the broader economy.

A poll taken earlier this year by GOP pollster Tony Fabrizio, which was a follow-up to a similar poll taken a decade ago, showed that the number of self-identified Republicans who are concerned principally about economic issues (i.e. "economic conservatives") has fallen from roughly one-in-two in 1997 to one-in-six this year. While social issues still dominate Republican voters' list of concerns, national security has (understandably) replaced economic issues as the second most often cited concern.

While the Republicans in Congress have a renewed concern for profligacy and budget deficits, both Republican voters and the electorate as a whole appear to be far more concerned about other economic issues. In a post published on "Contentions," the group blog of *Commentary* magazine, Fred Siegel, the brains behind the Clintonian Democratic Leadership Council, wrote the following:

Another excuse Republicans are likely to make is that America is still, largely, a center-Right country. That's true—but the center has shifted towards the Left. On a range of key issues, from trade to health care to economic inequality, the number of Americans who share some classic Democratic concerns has risen, notes the *Wall Street Journal*. A recent Pew poll found that "Three-quarters of the population is worried about growing

income inequality. Pew also showed that two-thirds of those polled favor government-funded health care for all." At the same time, Pew reports that "Support for a government safety net for the poor is at its highest level since 1987."

Republicans have long been the party of de-regulation in the name of freer markets. Yet, a recent *Wall Street Journal*-NBC News poll finds a dramatic shift by Republican voters against our current free trade policies. Sixty percent "agreed with a statement that free trade has been bad for the U.S. and said they would agree with a Republican candidate who favored tougher regulations to limit foreign imports." Indeed, faced with growing competition from inexpensive Chinese imports that don't have to incorporate the costs of American safety requirements, some U.S. manufacturers are receptive to new regulations that, as they see it, could level the playing field.

Two days later, our friend Steve Moore, who is the senior economics writer for *The Wall Street Journal* and a member of the *Journal's* editorial board, noted that the broad unpopularity of the Republican economic message extends even to taxes. Steve put it this way:

What has party tacticians especially spooked is that these independents are apparently not much attracted to what the Republicans are saying about taxes. That's a bitter pill for party leaders to swallow, because for 25 years the anti-tax banner has been a political trump card for conservative candidates. A top strategist at the Republican National Committee who attended the meeting told me: "Our tax message has worn thin."...

Most voters are unpersuaded by the Republican message that the Bush tax cuts were a resounding success that pumped

the economy back to life. Worse, the key independent voters are actually repelled by that message. “It crashes like the Hindenburg,” says Richard Thau, who has been monitoring swing voter sentiments across the nation. Why? Because politicians who boast about the rosy economy seem out of touch, even delusional, given the rising costs of gasoline, health insurance and college tuition....

There is more deflating news. Unlike in the 1980s and ‘90s, voters are today less attracted to talk of new tax cuts, which they think are pie-in-the-sky, given the current war costs and budget-deficit. Nor are they averse to raising taxes on “the wealthy,” a group they are persuaded is taking advantage of tax loopholes to avoid paying their fair share. That the richest 10% already pay two-thirds of the income taxes isn’t well understood.

Steve, as is his wont, is hopeful that the GOP can turn things around and that the party can “makeover” its tax message and win back some of the voters “who abandoned the GOP in droves in 2006....” We’re not so optimistic. Indeed, we see three broad trends that work against the idea of economic conservatism making a sizeable comeback anytime in the near future.

The first of these deals specifically with Republican politicians themselves. We can’t say whether this is the net effect of the collapse of the educational system at the time when these men and women were in school, or of the increasingly cultural nature of political debate, or what precisely the cause is, but Republican politicians as a whole seem utterly incapable not only of selling conservatism to voters but of even understanding it themselves. Conservative policy positions are, almost by nature, “unpopular” and easily mischaracterized as “mean” and callous. And if Republicans want these positions to resonate with voters, they have to make the case for them; they have to convince voters of the mischaracterizations and

explain why it is that these seemingly heartless policy positions are, in reality, far more compassionate and far more practical and constructive over the long term.

And the sad truth is that one would be hard-pressed to find more than a handful of Republican politicians who are up to this task. Republican politicians are generally pretty good at mouthing the precepts, i.e. enumerating conservative ideas and being “for” the right things. But they are remarkably bad at explaining why, exactly, they are for what they are for, which is to say that they can’t explain why conservative policy positions matter.

Take, for example, the Republican presidential candidates, all of whom want to claim for themselves the tradition of Ronald Reagan and the title of “true conservative.” Yet none is fit even to aspire to be Reagan’s heir, in that none has come even remotely close to explaining why his version of “conservatism” is relevant.

Former New York Mayor Rudy Giuliani, who is generally considered to be the most “conservative” of all the candidates on economic matters (taxes, regulation, etc.) recently discussed his tax plans at a breakfast hosted by the Northern Virginia Technology Council. Giuliani disputed the idea that he would need to raise taxes or cut spending to make up the lost revenue from his proposal to cut (or eliminate) the Alternative Minimum Tax (AMT) and declared that he could replace that revenue with revenue generated by another tax cut. His spokesperson later clarified that what the Mayor meant was that the revenues could be replaced by the growth in the economy that would derive from further tax cuts. Either way, if this is the best Republicans can do on taxes, revenues, and the like, then they are indeed in big, big trouble.

Giuliani could have said that he didn’t want to replace the lost revenue. He could have said that he would cut spending. He could have said almost anything other than what he did and it would have been a better answer. But by declaring that he could make up nearly a *trillion dollars* in lost tax revenue by simply

cutting other taxes, this “conservative” demonstrated both a severe misunderstanding of the lessons taught by economic conservatives such as Art Laffer and an ignorance of the moral and practical cases for cutting taxes.

True conservatives do not advocate cutting taxes for the purpose of creating more revenue, and thus making the government larger. True conservatives cut taxes because they believe that citizens can decide how to spend their own money better than the government can, or because they believe that capital is used more efficiently by the private sector than the public sector, or because they want to starve the government Leviathan. As Laffer, and many, many others have noted, incentives do affect behavior, and thus cutting taxes does spur economic activity, which, in turn means that the lost revenues of the cuts are never as severe as static models predict. But even most Lafferite supply-siders would likely agree that with a few exceptions (e.g. capital gains taxes, corporate taxes), the concept of cutting taxes for the sole purpose of raising revenues is, generally speaking, a bit of a stretch.

But Giuliani is hardly alone in misunderstanding the fundamental ideas that sustain conservative policy positions. Congressional Republicans who profess faith in lower spending and smaller government seem rarely to understand why these are admirable goals. Smaller government is a benefit to society not because it means less debt to pass on to future generations or because it means that taxes don't need to be raised, although both are nice fringe benefits.

As we have noted many times in these pages, in a variety of contexts, the problem with big government is that it encroaches upon and eventually destroys the other, civic institutions that have historically ordered and enlightened society. Big government is bad not because it costs too much, but because it is innately oppressive and certain to grow more oppressive as it grows in size. As F.A. Hayek put it:

The most important change which extensive government control produces is a psychological change, an alteration in the

character of the people. This is necessarily a slow affair, a process which extends not over a few years but perhaps over one or two generations. The important point is that 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.

But, good luck getting Rudy, or Fred, or John, or Mitt, or Huck, or any other Republican to say as much, much less to try to sell a statement such as that to voters.

The second trend working against the rebirth of economic conservatism is, as we have noted repeatedly in these pages over the years, the absolute indestructibility of the bureaucracy, once it is built. In other words, the beast, once born, must be continuously fed and grows ever larger and ever hungrier, never smaller and never less needy.

Max Weber predicted that the increasingly technical nature of modern society would necessitate an increasingly large class of bureaucrats, technocrats, and “experts” to understand, interpret, and regulate technological advances. As Weber put it:

Bureaucracy inevitably accompanies modern mass democracy....Once it is fully established, bureaucracy is among those social structures which are the hardest to destroy....The ruled, for their part, cannot dispense with or replace the bureaucratic apparatus of authority once it exists. For this bureaucracy rests upon expert training, a functional specialization of work, and an attitude set for habitual and virtuoso-like mastery of single yet methodically integrated functions. If the official stops working, or if his work is forcefully interrupted, chaos results, and it is difficult to improvise replacements

from among the governed who are fit to master such chaos . . . More and more the material fate of the masses depends upon the steady and correct function of the increasingly bureaucratic organizations of private capitalism. The idea of eliminating these organizations becomes more and more utopian....

It is, we believe, an understatement to call Weber prescient. He, better than any political theorist before or after him, understood that there is a third class between Marx's capitalists and laborers, the indispensable bureaucrats, whose power has only grown since Weber issued his predictions and will all but certainly grow further as technology continues to advance and to dictate governmental action.

Finally, there is a trend working against conservatism that we have not discussed much, but to which others have at least alluded. Roughly a quarter century ago, our friends (and former colleagues) Greg Smith and Ed Yardeni forwarded "the greatest financial story ever told" and predicted that the broader financial markets would expand as Baby Boomers came of age and began investing. The basic theory behind this story was that the Baby Boom generation was so extraordinarily large that it could dominate economic and financial trends. A good rule of thumb, these "storytellers" noted, was to figure out what the Boomers wanted and then to anticipate that the markets would follow. And of course they were right.

A corollary to this theory posits that the same principle can be applied to politics. Therefore, if one can figure out what the Baby Boomers want, then one can also anticipate that government will follow. Boomers are, in general, politically active. They are, at the very least, voters, and a massive bloc of them at that. And they are also on the verge of retirement. Indeed, the "first" Baby Boomer (Kathleen Casey-Kirschling, born just after midnight January 1, 1946) filed for Social Security benefits just last week.

And as retirees, Boomers' priorities are likely to change. They are, in general, more likely to be concerned with the "safety net" than with unrestrained

liberty. They are more likely to be concerned with protecting and maintaining the status quo than with the potential risks of free trade, reduced regulation, and the like. They are less likely to get worked up over increased taxes or to support broad tax cut proposals. They are, in short, less likely to support conservative economic positions.

Naturally, there is a chance that a politician like Ronald Reagan will emerge to challenge the prevailing sentiments on economic matters. But we don't hold out a great deal of hope. For starters, even Reagan couldn't kill big government. Moreover despite the fact that every Republican politician in the country lays claim to the title, the "new Reagan" has yet to emerge.

In 1994, Newt Gingrich and Dick Armey put together a platform based on broadly conservative policy positions. They carefully explained these positions to voters and were rewarded by those voters for their efforts. At the time, many considered that victory to be the beginning of a conservative renaissance in this country. In retrospect, it appears instead to have been the pinnacle of the movement. Both Gingrich and Armey are out of government today. And none of their successors seems either able or willing to make a similar effort. Not that it would matter a great deal if they did.

## **ANOTHER SHOWDOWN AT GUCCI GULCH.**

Two decades ago, in the wake of the Tax Reform Act of 1986, which was a monumental and improbable reform of the tax code, Jeffrey Brinbaum and Alan Murray published the definitive account of the behind-the-scenes maneuvering that made it possible for such an unlikely bill to be passed. That book, *Showdown at Gucci Gulch*, is a classic of the political, non-fiction genre and remains today, twenty years later, a riveting account of political intrigue and manipulation.

One of the five key players in the Tax Reform Act of 1986 and thus one of the key players in *Showdown* was Democrat Dan Rostenkowski, the onetime nearly-omnipotent Chairman of the House Ways and Means

Committee. And while *Showdown* purports to detail the triumph of the public interest over the “special interests” and their high-priced lobbyists in expensive suits and “Gucci” shoes, it is clear, in retrospect, that one of the biggest triumphs was, in fact, the personal triumph of Chairman Rostenkowski. Although most of the rest of the players in the story (e.g., Bill Bradley, Howard Baker) seemed earnestly interested in tax reform for reform’s sake, Rosty appeared a little more interested in what tax reform could do for him. As he himself put it, “I started to realize that, brother, I’ve got a lot of friends in the business community. I realized at that point that I was their salvation . . .”

Rostenkowski used his power to convince these “friends” that they had better be considerate of his “interests” and even reportedly threatened fellow members that he would punish them, punish their districts, and punish their constituencies if they dared to oppose him. In one of the most brilliant strokes of political manipulation ever, Rostenkowski came up with the plan to lard the tax reform bill up with “transition rules,” which allowed favored industries to retain their tax breaks for up to two years. What this meant was that he was not only able to be the “salvation” for many moneyed interests, but he also made it necessary for the same interests to come back two years later to pay “homage” and to fight for their tax breaks again. Pure genius. Evil genius to be sure. But genius nonetheless.

Now, we started thinking again about Rostenkowski and the Tax Reform Act after all these years as we perused last week’s news from Capitol Hill. You see, the current chairman of the Ways and Means Committee, Harlem’s Charlie Rangel, is an old-school leftist/socialist and a member of the House Progressive Caucus. Like old Rosty, Rangel has been touting a tax overhaul, or as the Chairman has taken to calling it, “the mother of all tax reform.” And just last week, Rangel announced that his reform effort would have to wait until next year (surprisingly, an election year) and that it may, in fact, have to wait for a new administration.

The ostensible justification for Rangel’s tax reform is to provide a permanent fix for the Alternative Minimum Tax (AMT), which has begun taking a deep bite out of the pockets of folks in places like, well, New York. And in order to fix the AMT, Rangel has promised to raise other taxes, namely corporate taxes, just as Rostenkowski did. The most recent iteration of the Rangel plan actually has him cutting the corporate rate, but drastically broadening the base from which corporate taxes are collected. All of which means that there will be hundreds of lobbyists seeking to attract Chairman Rangel’s attention so as to protect their favored industry or business from becoming a part of this broadened base. Pretty neat, huh?

Lest you think that businesses and their lobbyists are unlikely to be taken in by the likes of Rangel and his Democratic pals and to contribute to the man and the party who will almost certainly seek to slit their throats, we turn to the latest Federal Elections Commission quarterly report, which shows that business is doing just that. Indeed, our old friend Steve Moore (whose credentials are detailed in the above piece) used precisely that phrase, “slitting their own throats,” in his rundown of the FEC report. Steve wrote:

The late Milton Friedman used to rail against what he called corporate America’s “suicidal impulse.” By that he meant that the business community continually financed the very politicians who were intent on robbing their profits and slitting their throats.

It’s happening again. The latest quarterly Federal Election Commission Report on political giving, released this week, shows the majority of corporate money flowing to the Democrats. Firms like Comcast, General Electric, Federal Express and UPS have shifted campaign giving away from the GOP. Employees of five major defense contractors including Lockheed

Martin, Boeing and Northrop-Grumman spent \$104,000 on Democratic presidential candidates, versus \$88,800 for the Republican field.

Meanwhile, according to FEC data, about 85% of the donations from Roll Call newspaper's top-20 list of corporate lobbyists are helping Ms. Pelosi and Mr. Reid protect and expand their House and Senate majorities. Roll Call calls it a "Democratic donor surge," noting that many of the highest-priced lobbyists already "maxed out" – they've bumped up against the legal limit in how much they are allowed to give the Democrats.

The shift in corporate allegiance helps explain the Democrats' commanding fund-raising lead. The House Democratic money-raising committee had \$22 million of cash on hand at the end of August, the Republican committee \$1.6 million. With more than \$50 million in the bank, Hillary Clinton has as much cash as all the Republican presidential wannabes combined. The FEC report does note that Republicans closed some of the money gap thanks to a surge in small dollar contributions.

Is there anyone out there who doubts even for a second that Charlie Rangel, the man who controls the fate of corporate taxes, will, like Rostenkowski, start to realize that he has lots of friends in the business community and that he is their salvation? And does anyone doubt that the business community will pony up for Rangel, as they did for Rosty?

Steve Moore notes that the Democrats have called for increased taxes on private equity and hedge fund managers, which could cost the financial services industry "up to \$6 billion a year." Nevertheless, Steve continues, "Wall Street firms, investment banks, and private equity firms are still among the Democrats' most reliable ATMs. Goldman Sachs, Citigroup, JP Morgan Chase, and UBS are all giving about two-thirds of their dollars to Democrats this cycle."

Why would these guys or anyone else in the "business community" do such a thing? Well, why wouldn't they? They know that federal government has the ability to do just about anything it wants, to put them out of business or, at the very least, to squeeze them. And they also know that one of the easiest ways for the feds to screw them over is by "reforming" the tax code.

No one should be even remotely surprised that Charlie Rangel has decided to postpone reform until the election year. Anyone who knows how this game is played knows as well that this was the plan from the start. Likewise, no one should be surprised if Rangel is unable to pass a bill next year and is thus forced to wait until the 111<sup>th</sup> Congress and the 44<sup>th</sup> President take over in January, 2009. The longer he drags this out, the longer he can compel interested parties to make sure that he's happy. And there is little question that he will do so.

The only real question is whether he's brash enough to follow in Rosty's footsteps entirely and force everyone to come back and pay homage again two years hence, once the "transition rules" have expired.

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