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THEY SAID IT

Under a gold standard, the amount of credit that an economy can support is determined by the economy's tangible assets, since every credit instrument is ultimately a claim on some tangible asset . . . In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

This is the shabby secret of the welfare statist's tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist's antagonism toward the gold standard.

Alan Greenspan, *The Objectivist*, 1966.

HEY BUDDY, CAN YOU SPARE A FEW TRILLION DOLLARS?

Neither of us has ever before invested in Freddie Mac or Fannie Mae. Having been formally engaged in the task of watching the antics of the federal establishment for many years, the decision not to invest personal funds in these "quasi-governmental institutions" was deliberate, based on our belief that even if they were competently managed at any given moment, they would eventually be run by crooks and fools, given their close ties to various committees of the U.S. Congress.

It now appears that, as American citizens, we and our children and our grandchildren and our grandchildren's grandchildren will soon own a share in the liabilities of these unnatural institutions whether we like it or not. Or to put this in another way, our former resistance to being associated with corrupt and poorly run "quasi-governmental" companies is about to be crushed at the whim of a cabal of elected officials in Washington who, neither incidentally nor surprisingly, are collectively regarded by some 90% of the American public as being incompetent.

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How could this have occurred, we ask? How did we become passengers on this ship of fools? Did it just happen, like a rock falling from space? Or was it destiny, rooted in mankind's flawed nature? We don't know and we won't even attempt to provide a comprehensive explanation. But if we had to venture a guess as to the time and place when the die was cast for this sad episode in American economic history, we would point to a cold December day in 1971 when a small band of men, formally called the G10 and informally referred to by the fawning financial press as "masters of the financial universe," gathered at the Smithsonian Institution in Washington for the purpose of releasing the U.S. government from the shackles of fiscal responsibility and thus enabling the previously established Johnson welfare state to fly as freely as Shelley's skylark – "Hail to thee blithe spirit!"

Now we are not going to engage in a discussion of the pros and cons of the gold standard. But as an indication of our leanings on the subject, we will simply cite the above "They Said It" quote by the Alan Greenspan and the trillions upon trillions upon trillions of dollars of governmental debt that has accumulated in the past 37 years and that stands as a permanent monument to the perfidy of politicians when they are freed from legal restraints on their power to spend money.

In the meantime, you can expect more of the same. Like a fox that acquires a taste for chicken and won't leave the henhouse alone at night, "Big Brother" in Washington will continue to raid the U.S. treasury to the tune of billions upon billions upon billions of dollars annually for as far as the eye can see in order to keep you and yours as protected as possible from the vicissitudes of life and the cruelty of economic truths.

No matter who needs a few billion bucks, whether its Fannie, Freddie, General Motors, or some giant bank somewhere run by some fumble-fingered gunslinger, or even if Jane Smith in Cucamonga, California could use \$600 bucks to "go out and buy a pair of earrings," as Michelle Obama, America's new Jackie Kennedy, would put it, the Yahoos from Washington will be

there, cash in hand, grinning like they had good sense. At least they will be there until the dollar is worth less than glass beads, at which time they'll be handing out glass beads.

A LOVE-HATE RELATIONSHIP WITH CONGRESS.

American voters pose a paradox, one which has fascinated political scientists and analysts alike for at least three decades and which seems particularly relevant today. We know this may sound a bit hard to believe, but it turns out that Americans hate Congress. Maybe "hate" is too strong a word. But maybe it's not. The latest batch of polls show Congressional approval ranging somewhere between 9% and 18%, depending upon the poll, numbers that make Congress the least respected major institution in the nation, and, in some cases, the least respected political institution in the *history* of the nation, or at least in the history of polling.

At the same time, these very same voters continue, election after election, to return the overwhelming majority of incumbent members of the House of Representatives and the Senate to Washington, electing new members by and large only when a seat has no defending incumbent (i.e. an "open seat") or when, for one reason or another, a particular Congressional district is affected extraordinarily by national trends. Even in the Democratic landslide of 2006, nearly 95% of House incumbents running for re-election were, in fact, returned to office. The electorate's hatred for Congress, then, appears to have a caveat that reads something like this: "We hate Congress, but love our Congressman."

So how does one explain this and why does it matter?

Let's begin with the second question. Why does it matter? Well, it matters in part because there appears to be some confusion about the current political atmosphere. This particular Congress does, indeed, seem to be loathed quite intensely. Nancy Pelosi and

Harry Reid have won no friends and have made many enemies. They've accomplished nothing and have sounded shrill and feeble in the process. In short, this Congress deserves its approval ratings, perhaps as much as any in recent memory.

Nonetheless, the majority party, the Democratic Party, is all but certain to strengthen its hand this November. Estimates vary, naturally, but all expectations point toward another good year for Nancy, Harry, and the gang. No serious political analyst or forecaster has predicted anything other than an increase in the Democratic majority in both houses. In short, low aggregate approval numbers for Congress should not be mistaken for strength in the minority party, especially this year. Many of the trends that drove the 2006 midterm, most notably GOP retirements, are still relevant today and will again serve to hurt Republicans more than Democrats, the general discontent with the Democrat-led Congress notwithstanding.

There are a number of explanations for this, ranging from the mundane to the fascinating. Some focus on the electoral edge that almost all incumbents enjoy, including their natural advantage with respect to name recognition and their advantageous access to institutional perquisites, such as the franking privilege, government-paid travel, etc. Others focus on the reasons for voter disapproval of Congress as a whole. Congressional expert John Hibbing, a graduate advisor of one-half of The Political Forum's staff, offers several such examples. The first is that Congress' aggregate low approval rating is related, in part, to the fact that media coverage tends to focus on Congress only when there is negative news to report. Another is that people are generally disinterested in and ignorant of Congressional activity, which makes them especially susceptible to the aforementioned negative media coverage. And finally, there is the public's general distaste for standard legislative practices, namely the process of confrontation, negotiation, and compromise.

In our opinion, though, the most interesting and the most enlightening explanation focuses not just on Congress, but on other political institutions as well and, specifically, on their impact on the legislative

process. Members of Congress, while ineffective and unattractive as parts of Congress as a whole, fair better as members of the Washington establishment. Let us explain.

Last week, Robert Samuelson, one of but a handful of mainstream press columnists who seems to understand basic economics and its relationship to governance, penned a piece sounding a markedly negative note. Samuelson's complaint is that there are some very serious and imminently troublesome policy issues that should be addressed by our political "leaders," but which won't be because of the nature of today's political discourse. He put it this way:

It is one of our fondest political myths that elections allow us collectively to settle the "big issues." The truth is that there's often a bipartisan consensus to avoid the big issues, because they involve unpopular choices and conflicts. Elections become exercises in mass evasion; that certainly applies so far to the 2008 campaign. A case in point is America's population transformation. Few issues matter more for the country's future – and yet, it's mostly ignored.

Two changes dominate – aging and immigration – and they intersect. In 2005, 12 percent of the population was over 65; by 2050, that will be almost 20 percent. Meanwhile, immigration is driving population growth. By 2050, the population may exceed 430 million, up from about 300 million now. About four-fifths of the increase will reflect immigrants and their children and grandchildren, estimates the Pew Hispanic Center. The potential for conflict is obvious. Older retirees and younger and poorer immigrants – heavily Hispanic – will compete for government social services and benefits. Squeezed in between will be middle-class and middle-aged workers, facing higher taxes....

Because government policies might mute these problems, they ought to be subjects of campaign debate. We could lighten the burden of aging by curbing government benefits for wealthier retirees and raising Social Security and Medicare eligibility ages to reflect longer life expectancies. These changes would move federal retirement programs back toward their original purpose -- a safety net for the most vulnerable. We could refashion immigration policy to favor skilled over unskilled immigrants, because they contribute more to the economy and assimilate faster.

What we do, or don't do, about these issues will profoundly affect the character of the country in 10, 20 and 50 years. Doing nothing is a policy -- a bad one . . . To discuss these issues candidly might be political suicide. It could alienate crucial blocs of voters: retirees, Hispanics. Blunt talk would expose a candidate to charges of being mean-spirited (against retirees) or racist (against Hispanics). What political consultant advises such a course? . . .

We avoid messy problems; we embrace inconsistent and unrealistic ambitions. We want more health care and lower health costs; cheap energy and less dependence on foreign energy; more government spending and lower taxes. The more unattainable our goals, the more we blame "special interests," "lobbyists" and other easy scapegoats.

Although Samuelson's principle targets were the two candidates desiring the presidency, his critique applies equally well to Congress and, in fact, echoes our own thoughts on the subject, which we laid out in an article entitled "Whither Congress," published in May of last year. In that piece, we suggested, among other things, that the irrelevance of Congress and its disdain by the

public might well be "an early sign that representative democracy has outlived its usefulness as a form of government in much the same way that hereditary monarchy did." At the very least, we argued, Congress is beginning more and more to resemble the Roman Senate as described by Gibbon:

The name of the senate was mentioned with honour till the last period of the empire; the vanity of its members was still flattered with honorary distinctions: but the assembly which had so long been the source, and so long the instrument of power, was respectfully suffered to sink into oblivion. The senate of Rome, losing all connexion with the imperial court and the actual constitution, was left a venerable but useless monument of antiquity on the Capitoline hill.

All that said, the one quibble we have with Samuelson's complaint is his conclusion that while our elected officials dither, nothing gets done. In fact, for the most part, the business of the state carries on irrespective of what Congress does or doesn't do. As we have argued time and time again, the bureaucracy is surely but not so slowly gobbling up greater and greater responsibility for conducting the business of the state. As Max Weber predicted nearly a century ago, the modern world demands an informed and professional bureaucratic apparatus to account for the specialization of knowledge and the complicated nature of governance. So as life grows more complicated, the bureaucracy grows in tandem.

This is, of course, not a novel observation on our part. In fact, political science giant Morris Fiorina addressed it at length in a 1977 article entitled "The Case of the Vanishing Marginals: The Bureaucracy Did It."

Basically, his conclusion was that the continuous growth in the size and the scope of the federal bureaucracy is the fundamental reason why we see such a high reelection rate in Congress and have so few close congressional races anymore.

Specifically, he explains that as the federal government grows larger, it becomes more impersonal and unsympathetic to petitioners and this provides an opportunity for members of Congress to positively affect their standing within their home communities.

If, for example, dad has a problem with his Social Security check, you call your Congressman, and he'll straighten everything out. Or if the local dam could use some repairs, the Congressman can lean on the Corps of Engineers to assess and, if necessary, correct the problems.

It is worth noting, that Fiorina's analysis took place before the rise of "earmarks," which is to say that his conclusions likely *underreport* the effect that members of Congress can have on their home district without expending any real energy. As he notes, constituent work (and, we'd add, home-district earmarks) are "pure profit," in that they cost the member nothing, but gain him quite a great deal.

All of this is not to say that Fiorina's analysis is perfect or in any way a complete explanation for what is going on with Congress today. But it is a big piece of the puzzle.

If we combine Fiorina with Samuelson and then add a touch of Gibbon and Weber and finally sprinkle in a pinch of Hibbing and Melcher and Soukup, what we are able to create is The Political Forum's Grand Theory of Congressional Decline.

We start with a growing bureaucracy, necessitated by the burdens of modern governance, and a growing state, generated by the increased expectations of government by constituents. Congress, naturally, notices the opportunities for constituent service, federal earmarks, and other "pure profit" forms of Congressional activity – made possible by the expansion in the bureaucracy and the government at large – and leverages those opportunities to its benefit. Home district constituents are pleased by the largesse and assistance directed at them by their members of

Congress and reward said members with perpetual re-election.

This, in turn, initiates a vicious circle. Congress, seeing that constituents like getting things from their Congressmen and knowing that these "things" come cost free, as long as they are provided by someone else, agrees that the bureaucracy should be in charge of more and more aspects of public policy, thereby increasing the "pure profit" opportunities. Members of Congress discover that passing responsibility to unelected bureaucrats also has the salutary effect of removing potentially uncomfortable decisions and potentially embarrassing roll call votes from their "to do list," meaning that they have even less opportunity to screw up their happy relationship with the home-district folks by voting "incorrectly" on a controversial issue.

All the while the bureaucracy grows and grows in importance, while elected officials find ways to avoid importance and thereby to avoid accountability. They bicker and bitch about unimportant things and about legislative minutia, knowing full well that they must keep up the partisan squabbling to satiate the national "base." But they leave the big decisions for someone else. This has the effect of causing consternation among the professional observers who write columns complaining about the mess and among the public as a whole, which tells pollsters that it detests such childlike behavior.

In the end, then, the bureaucracy mushrooms, Congressional approval ratings plummet, Congressional re-election skyrockets, and the real messy and difficult decisions are either made behind closed doors by unelected and unaccountable officials or they are not made at all. And 535 increasingly useless, celebrity politicians fritter away their obligation to genuinely represent the voice of ordinary American in the great process of governance, as envisioned by the founding fathers, while at the same time strengthening the increasingly omnipotent administrative state and severely crippling the world's last great experiment in democratic government.

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