Politics et Cetera

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In this Issue

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.

F.A. Hayek, *The Road To Serfdom*, 1944.

CAPITALISM: RIP.

We don't generally pay a great deal of attention to gatherings of the "world's financial and political elite," such as the one that was held last week in Davos, Switzerland. Our impression is that beyond enriching Europe's highest priced vintners and prostitutes, little of value seems ever to come out of these meetings.

Of course, we do read about them in the newspapers, and one belief that appears to us to be making the rounds in the wake of the Davos meeting is that the world's financial woes have confirmed that capitalism is approaching the long-awaited implosion that Karl Marx predicted was coming just over a century and half ago.

One by one, as the meeting droned on, these masters of the financial universe, hailing from all corners of the globe, rose to offer their personal understanding of the emerging Gnosis that classic, free market capitalism "doesn't work," that it is, in fact, a prescription for financial ruin unless it is carefully monitored and controlled by a variety of governmental actions, which is, of course, just another way of saying that free market capitalism doesn't work.

None of the speakers that we know of spoke in Marxian terms of capitalism's "internal contradictions," or of the inevitability that the "working class" would "throw off its chains." Instead, German Chancellor Angela Merkel summed up the modern version of this notion with her observation that "unfettered capitalism" needed to be adorned with a host of "clear cut rules worldwide," enforced, or at least overseen by some sort of new United Nations-level economic council.

Now, we share the pessimism that many of these folks expressed about the future health of their own economies, the U.S. economy, and the global economy. Moreover, we agree with their gloomy assessment of the future of global capitalism.

But we would argue that if these wizards of finance are truly interested in learning what is happening in their chosen field of expertise, they need to begin with the understanding that the fault for the "global financial crises" is not the result of any defect in capitalism; that indeed capitalism is working just fine, thank you; that it is working exactly as anyone who knows anything about capitalism would expect it to work.

You see, capitalism requires a high degree of individual freedom, and rewards hard work, thrift, savings, efficiency, and, most of all, honesty. It penalizes political oppression, indolence, waste, instant gratification, sloth, and, most of all, corruption. And, whether the world's financial "experts" know it or not, capitalism is doing just that, day in and day out, brutally and efficiently, all over the world, in Europe, Africa, Asia, the Middle East, and yes, the United States.

One cannot help but wonder why this simple truth has apparently escaped the notice of the wizards of Davos and their counterparts in the Obama White House and on Washington's Capitol Hill.

Adam Smith, for one, was acutely aware of the supreme importance of a body of religiously based and time-honored moral and ethical beliefs to the development and proper functioning of capitalism. He laid it all out over two hundred years ago in no uncertain terms in each of his two major works and in his extensive lectures on jurisprudence.

In an oft-quoted paragraph from *The Theory of Moral Sentiments*, for example, he maintained that "upon the tolerable observance" of such duties as politeness, justice, trust, chastity, and fidelity, "depends the very existence of human society, which would crumble into nothing if mankind were not generally impressed with a reverence for these important rules of conduct." In the same context, he maintained that social order was not spontaneous or automatic, but was founded on institutions that promote self control, prudence, gratification deferral, respect for the lives and property of others, and some concern for the common good.

Needless to say, many other men and women of note have repeated this thought in numerous ways and forums since the Scottish Enlightenment. The late, great Wilhelm Ropke explained the relationship between an orderly, morally sound society and a well functioning economy this way in his 1971 book, *A Humane Economy*.

> Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms--all of these are things which people must posses before they go to market and complete with each other. These are the indispensable supports which preserve both market and competition from degeneration. Family, church, genuine communities, and tradition are their sources. It is also necessary that people should grow up in conditions which favor such moral convictions, conditions of a natural order, conditions promoting co-operation, respecting tradition, and giving moral support to the individual . . . It is the foundation upon which the ethics of the market economy must rest. It is an order which fosters individual independence and responsibility as much as the public spirit which connects the individual with the community and limits his greed."

And then there is the following from our good friend Claes Ryn's great classic, *The New Jacobins, Can Democracy Survive?*

> Critics of capitalism typically identify it with its worst possibilities: ruthless competition, exploitation, greed, crude commercialism, social atomism, etc. These are said to be of the very essence of a free economy. In reality,

> the prominence of such phenomena is a sign that capitalism is operating within a society in which people lack ethical, aesthetical, and other inhibitions and strong communal ties, a society in which institutional structures do not embody civilized purposes and in which neither supply nor demand recognizes any higher standards.

So, you see, the problem isn't that capitalism doesn't "work," or that it needs a new set of "fetters" to be made to work, as Ms. Merkel argued. The problem is that capitalism is not an appropriate economic system for a world in which individual freedom is restricted on many fronts in many different ways, where moral and ethical laxness has become the norm, and where the only check on individual behavior is law.

It is worth noting, in this context, that the kind of extreme welfare socialism that is practiced in Europe and the radical authoritarianism that is the child of communism in China and Russia are also unsuitable economic models for the world today, where open borders and a free exchange of ideas are essential to retaining a necessary degree of global competitiveness.

And wouldn't you know it, fortunately or unfortunately, depending upon one's point of view, an entirely new economic system is in the process of emerging from the globalization period that followed the end of the Cold War and is, whether the masters of the financial universe recognize it or not, slowly, one nation at a time, replacing capitalism, socialism, communism, and even the most brutal forms of authoritarianism.

To put this in another way, Francis Fukuyama was correct when he said almost two decades ago that all the nations of the world were slowly moving toward a common political/economic system. But it is becoming apparent that he was wrong when he identified this common system as "western liberal democracy" built upon a foundation of free market capitalism.

The events of the past few years, including the current political discussions in Washington and last week's speeches in Davos, convince us that the system toward which all the nations of the world are moving is quite different from anything that the world has seen before. Economically, it contains elements of capitalism, socialism, and even fascism. But it cannot rightly be classified as a variation of any one of these. It is assuming a variety of different forms from nation to nation, but each of these forms, when fully developed, will, in our opinion, be more similar to each other than to any one of the three above-mentioned systems. Thus, we would argue, it qualifies as a new and entirely different paradigm.

We've alluded to this system in these pages in the past. But this week we thought we would provide a somewhat more comprehensive explanation of how it is likely to look and to function in the United States, in China, in Russia, in Europe, and elsewhere.

Roughly speaking, the system we have in mind is dominated by bureaucratic "experts." It is a system in which the traditional tension between state bureaucracy and private capitalism disappears into the communal control of a unitary bureaucracy that will answer to no outside power; in which corruption is rampant, but "regulated" and rationed among the "regulators;" in which the elite arise from within the bureaucratic establishment that by definition rewards bureaucratic skills over individual initiative; in which the notion of "freedom" takes the form of unlimited moral license rather than the protection of individuality; and where myriad detailed regulations, which cover virtually all aspects of public life and commerce, carry the full force of law, and are enforced by vast cadres of police, are employed to fill the void left by the decay of a societal sense of common purpose and commitment to traditional standards of ethics and morality.

To most Americans, who have long treasured and enjoyed the joys of great individual freedom, this system will be viewed as much too repressive, restrictive, and antagonistic to individuality and entrepreneurism. But, given the tenor of the times, we assume that most will be mollified by the acquisition of a "big brother," in the form of a federal government that, to paraphrase Tocqueville, will take it upon itself alone to secure their gratifications and to watch over their fate with a power that is absolute, minute, regular, provident, and mild, that will be the sole agent and the only arbiter of their necessities, will facilitate their pleasures, manage their principal concerns, direct their industry, regulate their property rights, subdivide their inheritances, and spare them many of the cares of dealing with the vicissitudes of life in an increasingly complicated world

To those individuals in other nations, most notably China and Russia, who are used to a more oppressive and controlled economic environment, the transition to this new system will be welcomed as a step in the right direction, until they eventually realize that it is just one step and that no more steps are to come.

To students of government and literature, it will bring to mind George Orwell.

In any case, anyone who plans to save and invest and climb the social ladder in America in the years ahead should study the following blueprint. It isn't a perfect outline of what is to come. But, in our opinion, it offers an insight into the world of the future that is a useful starting point for those who fully understand that big changes are in the works and are trying prepare for them.

These remarks were written by Max Weber and published in a series of five articles in the *Frankfurter Zeitung* between April and June 1917.

> History records no instance of [bureaucracy] having disappeared once it had achieved complete and sole dominance – in China, Egypt, or in a less consistent form in the later Roman Empire and Byzantium, except when the whole culture supporting it also disappeared completely . . . As befits the rational technique of modern life, the modern official is always and increasingly a person with professional training and a specialization. All bureaucracies throughout the world follow this path . . . But wherever the trained, specialist, modern official has once begun to rule, his power is absolutely unbreakable, because the entire organization of providing even the most basic needs in life then depends on his performance of his duties.
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> In theory one could probably conceive of the progressive elimination of private capitalism . . .but assuming this were to be achieved at some point, what would it mean in practice? Would it perhaps mean the steel housing of modern industrial work would break open? No! It would mean rather that the management of businesses taken into state ownership or into some form of "communal economy" would also become bureaucratized.
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> Is there any appreciable difference between the lives of the workers and clerks in Prussian state-owned mines and railways and those of people working in large private capitalist enterprises? They are *less free* [italics here and in all future instances are from the original text], because there is no hope of winning any battle against the state bureaucracy and because no help can be summoned from any authority with an interest in opposing that bureaucracy and its power, whereas this is possible in relation to private capitalism. *That* would be the entire difference. If private capitalism were eliminated, state bureaucracy would rule alone. Private and public bureaucracies would then be merged into a single hierarchy, whereas they now operate alongside and, at least potentially, against one another, thus keeping one another in check . . .

Have any of those prolix ideologues who dream of an ethic of economic solidarity ever looked behind the curtains of our "communal wartime economy' and seen what effect it actually had on the 'instinct for gain' it was supposedly going to stifle. A wild dance around the Gold Calf, gamblers grabbing at every chance opportunity escaping through the pores of that bureaucratic system, the loss of every standard for *any* kind of business-ethical distinctions and inhibitions, and an iron compulsion forcing everybody, including even the most conscientious businessmen, either to join in and howl with the hyenas on this unique Golgotha of *all* economic ethics – or else be punished with economic destruction . . .

In view of the fundamental fact that the advance of bureaucratization is unstoppable, there is only one possible set of questions to be asked about future forms of political organization: (1) How is it *at all* possible to salvage any remnants of 'individual' freedom of movement *in any sense*, given this all-powerful trend towards bureaucratization? . . . However, let us put this question to one side for now, for there is another which is directly relevant to our present concerns: (2) In view of the growing indispensability and hence increasing power of state officialdom . . . how can there be any guarantee that forces exist which can impose limits on the enormous, crushing power of this constantly growing stratum of society and control it effectively? How is democracy even in this restricted sense to be *at all possible?*

POWER SHIFT.

For obvious reasons, the question that occupies nearly every adult mind in the country these days – from economists to market analysts, from elected officials to career bureaucrats, from billionaires to Joe and Jane Six-pack – is "when will this be over?" When will the deepest and longest recession in the post-World War II era finally turn around and move into recovery?

There are, depending on whom one believes, various timetables for this recovery. Some say the second-half of this year; others next year; and still others worry that it may be even longer in coming. Your guess is as good as ours – better probably – though it's unlikely that anyone has any firm idea about what the economic future holds. This is uncharted territory, after all.

What concerns us even more than the "when" of recovery, though, is the "what" of recovery, as in "what kind of economy will emerge from this recession, given both the utterly predictable effects and the unknowable but equally certain unintended secondary and tertiary consequences of the 'solutions' recently enacted and currently being considered by Washington?"

Many of these consequences have been discussed repeatedly and rather capably elsewhere, which is to say that we won't bore you with our own discussion, but merely provide a few important and useful excerpts, starting first with the inimitable Mark Steyn:

> Even without Speaker Pelosi talking STD on the evening news, there is danger here for the new administration. Setting aside the more messianic effusions ("We needed him. And out of that great need," gushed Maya Angelou, "Barack Obama came.") as unbecoming to the freeborn citizens of a constitutional republic, it seems clear that large numbers of people voted for this president because they wanted something different, something other than "politics as usual." Not just something pseudo-

different like the dreary maverickiness of John McCain "reaching across the aisle" (one of those dead phrases no one outside the Beltway gives a hoot about), but something really different. But the "stimulus" package is just politics as usual with a few extra zeroes on the end. Will you notice anything? No. Don't get your hopes up. If you're broke now, you'll be broke in October. The Congressional Budget Office estimates only 25 percent of it will be spent by early next year. The other 75 percent is as stimulating as the gal in the Nancy Pelosi Pussycat Lounge telling you she had such a good time she's penciled in a second date for spring 2010. A third of all the spending won't come until after 2011.

In a media age, politics is a battle of language, and "stimulus" is too good a word to cede to porked-up statist hacks. "Stimulus" has to stimulate—i.e., it's short-term, like, say, an immediate cut in payroll taxes that will put real actual money in your pocket in next month's paycheck. That way, you don't need to wait for ACORN: You can start "stabilizing" your own "neighborhood" right now.

But, if this fraudulent "stimulus" does pass, it will, in fact, de-stimulate, and much more than the disastrous protectionist measures of the Thirties did: Back then, America was dealing with a far less globalized economy, and with far fewer competitors. "In the long run, we are all dead," Lord Keynes, the newly fashionable economist, famously said. But, if this bill passes, in the medium term, we're all dead. It's a massive expansion of the state in the same direction that has brought sclerosis to Europe. A report issued last week in London found that government spending now accounts for 49 percent of the U.K. economy—and in the Celtic corners of the kingdom the state's share of the economy is way higher, from 71.6 percent in Wales to 77.6 percent in Northern Ireland. In the western world, countries that were once the crucible of freedom are slipping remorselessly into a thinly disguised serfdom in which an ever-higher proportion of your assets are annexed by the state as super-landlord. Big government is where nations go to die—not in Keynes' "long run," but sooner than you think.

A similar note was struck by the equally inimitable (and entirely unrelated) Ben Stein, economist, policy wonk, columnist, and actor, who noted the following:

> Eight hours of debate in the HR to pass a bill spending $820 billion, or roughly $102 billion per hour of debate.
>
> Only ten per cent of the "stimulus" to be spent on 2009.
>
> Close to half goes to entities that sponsor or employ or both members of the Service Employees International Union, federal, state, and municipal employee unions, or other Democrat-controlled unions.
>
> This bill is sent to Congress after Obama has been in office for seven days. It is 680 pages long. According to my calculations, not one member of Congress read the entire bill before this vote. Obviously, it would have been impossible, given his schedule, for President Obama to have read the entire bill.

> For the amount spent we could have given every unemployed person in the United States roughly $75,000.
>
> We could give every person who had lost a job and is now passing through long-term unemployment of six months or longer roughly $300,000.

None of this, from either Steyn or Stein, is terribly ground breaking stuff. Indeed, it is little that anyone who has read the book cited (yet again) in this week's "They Said It" section couldn't have figured out on his own. Hayek said it. Rand said it. Friedman said it. Heck, we've said it, more times than we can count. Still, it's helpful to see it spelled out so succinctly and so unaffectedly.

"Big government" is an unquestioned iniquity. It promotes corruption, sloth, personal capriciousness. It draws money away from productive ends and steers it to less productive but politically favored ends. It distorts ancient and ingrained social and societal behaviors, creating a variety of unintended and yet amazingly unsurprising negative consequences for states, locales, families, couples, and individuals. It is invidious.

But everyone knows that already, right?

What everyone may not know already, what all but only a handful of Americans appear not to understand is that in many very real and very important ways, this is an irrevocable zero-sum game. While government grows, something else must shrink, to make room for government. There is a growth side and a decline side to this equation. As Washington's power increases, the rest of the country's power – the source of this nation's exceptionality and prosperity – suffers, even if only by comparison. And it will never go back to the *status quo ante*.

The first half of the equation, the growth side, is well enough known; it is, anymore, entirely banal, much like the specific details regarding this particular growth proffered by Steyn and Stein. Same story, different week.

Washington is growing, and it has been for some time. The city and its suburbs constitute one of the largest and fastest growing regions in the country, certainly on the East Coast. The region is vibrant and powerful, and growing more so every day. But this wasn't always the case.

As David Brinkley famously documented in his classic *Washington Goes to War*, until the outbreak of World War II, Washington was a backwater, a sleepy pseudo-city situated in the cast off swamplands of Maryland and Northern Virginia. Washington mattered, of course, but not nearly as much as did other more "productive" cities, like New York, Los Angeles, Detroit, Chicago, and the list goes on.

And then came the war, during which the federal bureaucracy increased six-fold, and the city itself nearly burst at its seams, with housing shortages quickly becoming housing crises. The growth has continued steadily ever since, in good times and bad, in sickness and health, under Democrats and Republicans alike.

But this is just the half of it. While Washington has grown, both literally and figuratively, the rest of the country has shriveled, though only figuratively. If you think about what we've seen in just the last few months, the concession of power on the part of the territories to the centralized authority, it's hard to imagine that government could ever again not be the most important entity in this country, business or otherwise. Bankers, brokers, industrialists, educators, labor goons, environment activists, artists, actors, dancers, singers, dog acts, shysters, sharpies, and even condom makers have come to the temple of government to wheel and deal with the money changers. And none of them got anything without having to give a great deal in return.

This sad state of affairs was spelled out in rather disturbing detail last week by Joel Kotkin, a presidential fellow at Chapman University and the author of *The City: A Global History*, who in a *Washington Post* piece put it thusly:

In the past half-century, this confluence of technology and bureaucracy has transformed Washington and its surrounding suburbs into the most dynamic large metropolitan economy in the Northeast. Between 1950 and 1996, the region's population expanded by roughly 150 percent, three or more times faster than other cities along the Boston-Washington corridor.

By the mid-1970s, Washington and its environs had also emerged as the richest region in the country. Since then, it has remained at or near the top of metropolitan areas in terms of both per capita income and level of education. Despite deplorable concentrations of poverty, particularly in the city proper, the region's average household incomes remain the highest in the country – nearly 50 percent above the national average. The percentage of adults with a bachelor's degree or higher, nearly 42 percent, surpasses even such brainy-seeming places as greater Boston, Seattle and Minneapolis.

The contrast between Washington and most of the United States has gradually become more pronounced. In good times and in bad, lawyers, lobbyists and other government retainers have continued to enrich themselves even as the Midwest industrial-belt cities have cratered and most others struggled to survive. "The vision of generations of liberals," admitted the *New Republic* in the mid-1970s, "has created a prosperous and preposterous city whose population is completely isolated from the people they represent and immune from the problems they are supposed to solve."

In today's crisis, the Washington area remains somewhat aloof, with the second-lowest unemployment rate among major metropolitan areas of more than 1 million. (Only Oklahoma City, largely insulated from both the financial and housing bubbles, is doing better, although collapsing energy prices could threaten its prosperity.) The rate of job growth, although slower, is still among the highest in the country, and unemployment is below the national average.

This disparity will grow in the coming years, as rival regions reel from the recession. Many once-powerful places are already losing their independence and allure. Wall Street, formerly the seat of privatized power, has been reduced to supplicant status. The fate of New York Mayor Michael Bloomberg's "luxury city" will be determined not in deals with London, Dubai or Shanghai but by the U.S. Treasury. Similarly, the vast auto economy of the upper Midwest will take direction from congressional appropriations and whoever is named the new "car czar."

This loss of power in the provinces will broaden in scope during the coming months. Even proud Texas has lost its unique political influence. Its energy barons will now be forced to do the bidding of the lawmakers and regulators, instead of carrying them in their hip pockets.

Even industries that are well plugged in to the new Obama regime -- such as venture capital and alternative energy -- are facing financial ruin from the downturn in both markets and energy prices. To win new funding and subsidies for their next bubble, they'll increasingly rely not on their ballyhooed cleverness but on their pull with the White House, Congress and the new science apparat, under the greenoriented Energy Secretary Steven Chu and Obama's neo-Malthusian pick for White House science adviser, physicist John Holdren.

All this is bad news for much of America, but it should mean great business for many residents of greater Washington.

When the bankers come begging, it not only hurts Wall Street and Princeton and Charlotte, it helps Washington, essentially transferring the power from the one to the other. When the car dealers come looking for handouts, the same transfer takes place between Detroit and Washington. Likewise Silicon Valley to Washington, the State of California to Washington, the State of New York to Washington, *et cetera, et cetera, ad nauseam*.

Just over ten years ago, we noted that the ground had begun to shift under the feet of American business, with Washington's courtrooms and smokeless smoke-filled rooms constituting the new battlefield for American business. Now, of course, the shift is complete. George Bush and Hank Paulson saw to that. And Barack Obama, Nancy Pelosi, Harry Reid, and Timothy Geithner will ensure that government's gains, Washington's gains, are consolidated, whether they get the "stimulus" bill passed and signed or not.

So whether the country emerges from recession in July or next January or the January after that, it is clear that the country that does so will be quite different from that which entered. Government power will be enhanced, but that enhancement will hardly be benign and will, in fact, come at someone's expense.

Eventually, that someone will be the Republic and its institutions, which can't possibly hope to stand tall in the face of such a massive power shift.