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## THEY SAID IT

Even a state thus plundered and mauled, stripped of moral armor, might be tolerable if only the activity of government were confined to its ancient bounds. But modern populations, upon which a popular press bestows presumption without knowledge, are resolved to extend the functions of government immeasurably beyond its old duties of defense and maintenance of internal order; for the public is now fascinated with the possibility of obtaining necessities and comforts through action of the state, even to the exclusion of those liberties which once were so resounding in a rally-cry. Economic appetites, now the masters of all classes, incline the public to demand a paternalistic regime; they encourage a variety of cheap Utopian fancies, as popular as they are gross; they lead almost invariably to manipulation of the value of money by the state, with its consequent inflation and insecurity; they are an excuse for profuse public expenditure; they make the labor questions doubly dangerous; and the delusion, already dismayingly general, that prosperity depends upon the action of government, must lead to socialism, if wholly triumphant – to a common poverty of body and mind which masquerades as common gratification . . . Corrupt and stupid governments may be tolerated when their activities are confined by prescription to a small and certain sphere; in this age of aggrandizement, however, corrupt and stupid governments deliver us up precipitately to class warfare and international anarchy.

Russell Kirk, *The Conservative Mind*, 1953.

## THE ADMINISTRATIVE STATE.

It is axiomatic that it is impossible for one to know how history will view the current moment. Are we in a bull market or a bear market? Is the nation ascending toward greatness, or descending into decay? Is this an epoch of heroism or of shame? Historians will decide. In the meantime, however, whether one is investing in the stock market, considering a new job, or planning to marry and have children, questions such as these must be addressed. So let's do it.

Where are we today, we Americans?

Our guess is that history will view the opening decades of the 21<sup>st</sup> century as the period in which the “administrative state” was broadly field tested and found to be an inadequate model for satisfying the social, economic, and spiritual needs of the little human animal, to borrow a phrase from C.S. Lewis. If we are correct about this, then unsettling times lie ahead.

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Oh! You're wondering about the phrase "administrative state." Well, you see, that just happens to be the political system in which you and we and the citizens of all the major, developed nations of the world are living today, including not only the United States, but China and Russia as well.

Each version of the administrative state is different, of course, but they all share the common goal of attempting to combine a reasonably generous but closely proscribed portion of individual freedom, a modest tolerance for democratic dialogue, limited property rights, and carefully regulated capitalism all under the umbrella of a enormously powerful elite corps of politicians, bureaucrats, and "experts" who, to paraphrase Tocqueville, have taken upon themselves the complicated task of becoming the sole agent and the only arbiter of the pleasures, concerns, industry, property rights, and inheritances of the populations over whom they govern.

There is, of course, a certain amount of irony in the fact that the governments of the United States, Russia, and China are evolving toward a similar model. But each is simply reacting, in a very Darwinian sense, to a radical and rapid change in the environment triggered by a combination of technological complexity, widespread economic prosperity, and globalized commerce.

Communism, as practiced in Russia and China, was sadly unsuited to the exciting new world of personal computers, the internet, cell phones, the globalization of commerce, and the subsequent emergence of gross materialism as the quasi religion of the masses, all of which expanded the hopes and dreams of individual citizens in these nations far beyond the means of a socialist economy to provide or a police state to control.

On the other side of the ocean, the American concept of limited government and individual freedom had become equally unsustainable. Previously undreamed of prosperity among all classes of people fed rather than sated the public's desire for material goods and gave rise to the belief that the state had an obligation

to provide them with a cornucopia of additional material comforts and relief from the burden of the exigencies of everyday life. And lo, there arose among the American people a new political elite dedicated to fulfilling these desires and asking nothing in return except various freedoms on which the public placed little value because they had never experienced the lack of them.

The changeover from the communism model to the more liberal administrative state in Russia and China occurred rather quickly. America's evolution from a republic to an administrative state took considerably more time. Indeed, it required a half-century long intermediary period during which the proponents of big government paved the way for the administrative state by destroying the checks and balances that the nation's founders put in place to guard against that which the Federalists called the "violence of majority faction" and which Tocqueville later described as the "tyranny of the majority."

The problem, as we indicated above, is that the administrative state is destined to fall far short of becoming the end point in the history of mankind's Hegelian search for a common social/economic system. And, as we also said earlier, this portends unsettling times as the nations of the world struggle to make this unlikely hybrid work and eventually to escape from the burden of the false promises upon which it is based.

The most obvious difficulty with this model is that it combines the gross corruption and inefficiencies that are inherent in large-scale central planning with the gross corruption and inefficiencies that are equally inherent in the kind of capitalism that is overregulated by bureaucrats and unfettered by any sense of justice, patriotism, honesty, and honor, there being no entity within the administrative state that can command such homage.

Just as importantly, the administrative state sets itself up for failure by asking to be judged based on its ability to deliver material comforts via the "fair" distribution of goods and wealth among the

population. As Russell Kirk notes in the above “They Said It” section, this is a cheap Utopian fancy. Rather than defend this position ourselves, we will offer an observation from the incomparable Orestes Brownson’s quarterly review from 1864, which makes the case better than we could dream of making it.

Liberalism, taken in its practical workings, in a society, with weak faith, a movable religion, and no loyalty, tends to develop wants which it is impossible to satisfy, because the wants it develops all demand their satisfaction from the material order. In the moral, intellectual, and spiritual world, the multiplication of wants is in itself not an evil, because the means of satisfaction are liberally supplied, and even the very craving for moral or spiritual good – what the Gospel calls “a hungering and thirsting after righteousness,” is itself a good, and blessed are they that do so, for they shall be filled. But the multiplication of wants which can be satisfied only with material or sensible goods, is not a good, but an evil. Political equality and equality before the law is practical, but social equality, equality of wealth and social condition, is impracticable, and even undesirable.

And finally, the administrative state is destined to fail because its overweening insistence on controlling and regulating virtually all aspects of daily life leaves no room for the influence of society’s ancient guardians of order, including but not limited to the family and the nation’s religious institutions, or for its traditional customs and traditions, those which Robert Nisbit described in his 1975 book *Twilight of Authority* as “being the very stuff of morality, and hence of resistance to oppression and corruption.”

If we are right about all this, the administrative state is an interim form of government, destined to be replaced by something else, as yet unknown, but probably involving, in some shape or form, the

military, which is likely to be the most stable and responsible large institution left standing when the administrative state defaults.

In the meantime, which could be several decades, international commerce is likely to be increasingly controlled by a growing number of government sponsored oligopolies, constantly forming and dissolving alliances of convenience across the globe, each with an eye toward personal, corporate, and political ties rather than national allegiance.

And while concern for “the poor” will continue to be a central argument in favor of the administrative state, the adequacy of the welfare provided by the state will naturally diminish as a consequence of rising corruption and inefficiency, eventually resulting in a gross imbalance between promised joys and the assets necessary to deliver on these promises.

With this in mind, we will close with the observation that the administrative state will eventually accumulate enough power to abandon any pretense that it might have of acting on behalf of a favored group or class and concentrate instead solely on acting on its own behalf, at which point the revolution will begin.

## HEALTH CARE REFORM AND RENTS.

So, as of this very moment, it appears that some portion of the Democrats in Washington are in retreat on health care, having conceded that the so-called “public option” may be impossible to create, at least in the current environment. We don’t know yet whether this is an earnest retreat, borne of a hope to pass something, regardless of its feebleness, for the sole purpose of being able to claim victory over the health care “crisis”; or a Parthian retreat (as labeled by the Blogfather Glenn Reynolds), designed to lull opponents into complacency before the final push to get the government’s nose inside the health care tent. If we had to guess, we’d guess the latter. But like we said, we really don’t know.

What we do know is that however this turns out – whether “reform” is defeated outright or Obama gets a watered-down version of “health *insurance* reform” – there will be blame to be assessed and “evildoers” to be impugned. We know, as well, that these evildoers will all but certainly be the “rich” and the “corporate interests” who, at least as the Obama crowd sees it, stood in the way of popular reform and managed to preserve their “excessive profits” at the expense of the “common good.”

And finally, we know that this is the largest pile of horsehockey we’ve seen in a good, long time.

Now, we’re aware that we are once again gainsaying the conventional wisdom when we claim that Obama’s health care tribulations are not the result of a high stakes assault against him on the part of nefarious “corporate interests.” But unlike most of Washington’s well connected and well heeled, we’ve actually been paying attention to what has been going on in American politics for the last fifteen years and, moreover, we aren’t reliant on the old, Cold War and pre-Cold War models of public policy to inform our assessments of current developments.

The Democrats, you see, have decided, as they always do, that the villains in this, the summer of their discontent, are the usual suspects, the corporate, big business baddies. As *The New York Times* reported over the weekend, “President Obama on Friday accused some insurance companies of trying to undermine his plans for overhauling health care by ‘funding in opposition . . .’” Naturally, Obama “did not mention any company by name,” because if he had, he might have to prove his charges, rather than assume (correctly) that a compliant media would not press him on the matter. That notwithstanding, he made it clear that he believes that there are nefarious corporate forces at work, undercutting his plans to remake the American health system.

Now, to be fair to the President, despite his vague and ominous warnings about corporate ne’er-do-wells, he has been rather delicate in charging the big business bad boys with wrongdoing, at least in comparison

to the rest of his party’s professed “leaders.” The insurance companies “are the villains in this,” Speaker of the House Nancy Pelosi said just over two weeks ago. “They have been part of the problem in a major way. They are doing everything in their power to stop a public option from happening. And the public has to know that. They can disguise their arguments any way they want, but the fact is that they don’t want the competition . . . It’s almost immoral what they are doing.”

Not to put too fine a point on it, but “yikes!” We know that the mobster’s daughter represents San Francisco and, given that, is probably a little saner and a little less absurd than most of her constituents. But for crying out loud, she is the public face of the U.S. Congress. How, one wonders, did the entire House Democratic caucus ever get together and decide that it would be a good idea to put this Moonbat in charge of their collective political future? To repeat ourselves: Yikes.

Anyway, given the way the advocates of reform are jabbering on about villains and “evil mongers” (to borrow a term coined by Pelosi’s Senate counterpart, Majority Leader Harry Reid), we think we can guess how the post-mortems for “health *care* reform” will look, once it becomes clear that “health *insurance* reform” is the best that the majority party can manage. Actually, we don’t have to guess, since some of the *pre*-mortems we’ve seen are pretty solid examples of the hackneyed “blame-it-on-business” genre and hint strongly at what will follow any Democratic legislative disappointment. The following, from Peter Wilby, writing in London’s *Guardian*, should give you a sense of what is to come:

No American who voted for Barack Obama last November could have been in much doubt that he supported healthcare reform, that it would include a public scheme, and that he would make it a priority of his presidency. So why is the fate of the bill to realise his campaign promises now in such doubt, and why

does it no longer, according to polls, command support from a majority of Americans?

The answer tells us a great deal not just about American politics, but about our own. The most determined, coherent and organised voices in any contemporary political debate are those of the corporate sector and its allies. It can afford the PR and advertising to change the terms of public discourse and it well knows that lies and half-truths – for example, that the NHS leaves the old and chronically ill to die, that 40% of British cancer patients don't see an oncologist, that Edward Kennedy would be left untreated in Britain for his brain tumour – can sow doubt in people's minds even if they are easily disproved. The corporate sector can also intimidate and compromise elected politicians.

Against such lobbying muscle, democracy is overwhelmed, as the former US labour secretary Robert Reich argued in his book *Supercapitalism*. Washington crawls with corporate money, and a politician or public official may turn out to be just a future lobbyist making contacts.

This is a great story: the dedicated and egalitarian Obama standing up to the nasty, rich corporate interests, fighting to make fairness and equality, rather than exorbitant profits, the overriding features of the American health care system. Great, great story. There is only problem with this terrible yet terrific tale. It is completely and utterly divorced from reality.

The fact of the matter is that the current blueprint for health care reform is less a product of animosity between Big Business and Big Government than the result of their cooperation. We're not sure why the likes of Pelosi, Reid, and Wilby didn't get the memo,

but there are no big, bad corporate interests trying to kill this bill. They are, rather, trying to shape the bill to their liking, as corporate interests are always wont to do.

Two months ago, you may recall, the BIGGEST business in the world, joined with the Service Employees International Union (SEIU, last seen beating up black conservatives at a town hall meeting near you) and the Center for American Progress to back President Obama's health care bill and specifically to endorse Obama's mandate for employer-sponsored insurance.

Last month, the country's hospitals, as represented by the American Hospital Association, the Federation of American Hospitals, and the Catholic Health Association, agreed to a deal with team Obama whereby they would save the government money on Medicare and Medicaid reimbursements in return for better reimbursement rates on any public option insurance program that might be enacted.

America's Health Insurance Plans (AHIP), under the direction of Karen Ignagni, a onetime Democratic Senate staffer and AFL-CIO executive, has been negotiating with President Obama since before he was President Obama, beginning the very week of his election last November. And though the AHIP remains adamantly opposed to a public option, it has conceded to Obama virtually everything else for which he has asked, including elimination of the exclusion of pre-existing conditions among applicants for individual private insurance. The insurance providers may still be the punching bags for the proponents of reform, but by and large, they are all on the same side, the side of "reform."

Finally, just this month, the details of an arrangement between President Obama and the Pharmaceutical Research and Manufacturers of America (PhRMA, a.k.a. the "drug companies") were made public. In return for the promise of \$80 billion in price reductions over ten years, the drug makers were granted, among other things, a promise from Obama

not to use the power of the government to negotiate lower drug prices for Medicare and a second promise to oppose the importation of cheaper Canadian drugs.

Of course the best part of the PhRMA-White House deal is that PhRMA also pledged \$150 million in funds for advertising in support of President Obama's reform plan. As numerous commentators have noted, that sum is considerably more than John McCain spent in his entire campaign last year. And to reiterate, all that dough is being spent *in support of* health care reform.

The idea that Big Business is somehow opposed to President Obama's health care reform is, on its face, ludicrous. Big Business loves the idea of health care reform. Heck, Big Business loves the idea of *any* reform.

Who helped President Bush lead the fight for drug benefits under Medicare? PhRMA. Who helped Obama lead the fight for "cap-and-trade" energy legislation? GE. Who helped lead Congress's fight to jack-up the minimum wage? Wal-Mart again. And last but certainly not least, who helped lead the Clinton administration's fight for a long-term tobacco settlement, which led ultimately to this year's declaration that cigarettes will be regulated by the Food and Drug Administration? If you answered Philip Morris, then you are catching on.

As a general rule, the idea that Big Business is somehow opposed to Big Government or stands in the way of "progressive" legislation and regulation is patently absurd. Big Business *loves* Big Government. It loves regulation and it loves reform.

As long time readers know first hand, and as newer readers know because we can't help but remind you every few weeks, for more than a decade now, we've been trying to sort out what we call the "New Political Paradigm." The old paradigms which once governed our understanding of American politics were all destroyed by or in conjunction with the fall of the Soviet Union and the end of the Cold War. And one of those old conceptions utterly and completely

destroyed was the one that held that the political left represented labor and government, while the right represented capital and business, and government and business were inexorably incompatible.

Way back in 1967, the economist Gordon Tullock explained that business entities are constantly in search of profits (naturally) and a key part of that quest is the search for rents. Though Tullock didn't use the specific term "rent seeking" – which was introduced seven years later by Anne Krueger, who went on to become the Chief Economist at the World Bank – he did describe the process by which businesses, generally through the intervention of a third party, deny other entities the opportunity to transactions to which they would otherwise have had access. In short, rent seeking is the process by which businesses harness the power of regulation and legislation to gain an advantage over competitors and potential competitors.

By the late 1980s, scholars such as Fred McChesney had developed the compliment to Tullock's rent seekers, the "rent extractors" – those legislators and regulators who utilize the coercive power of government to maximize their own benefit and to aid favored rent seekers. Or as we put it eleven years ago:

The basic premise of [McChesney's model] is that regulation can be seen as a form of "rent extraction," whereby political actors threaten action against specific entities or industries in order to compel them to take a more active role in the great American pastime of buying influence. In short, according to McChesney, politicians extract or extort money from producers in return for favorable regulation or, in many cases, for the forbearance of further regulation and the maintenance of the status quo.

To put this all in the simplest terms possible, Big Business and Big Government are in cahoots. Big Business gets government to enact regulatory barriers that prevent smaller, less well capitalized competitors from remaining competitors and thus wins for itself

a larger slice of the proverbial pie. For example, the biggest company in the world gets the federal government to endorse mandatory health insurance for all businesses, which it can afford but its smaller competitors cannot. This, in conjunction with the biggest company in world's existing advantages with regard to sourcing and price, drives competitors out of business or, at the very least makes it makes them less competitive. Likewise, an association representing pharmaceutical manufacturers can negotiate a deal with the federal government that will provide it up to 47 million new customers (if all the uninsured are compelled, as promised, to buy health insurance) and protection from lower-cost foreign competition.

In return, Big Government gets the biggest company in the world to join with the labor unions and "good government" advocates to promote health care "reform." It also gets the association representing pharmaceutical manufacturers to spend \$150 million in advertising to drown out the nasty, noisy ruckus being created by the disagreeable oldsters who don't like the idea of having government take a greater stake in the control and delivery of healthcare.

It's a win-win. Everyone gets what they want.

Everyone, that is, except small businesses and average Americans, who manage to get royally screwed.

Conservative icon Calvin Coolidge is often misquoted as saying that "the business of America is business." What he actually said was that the "chief business of the American people is business." But in the same speech, he clarified what he meant and to what end he believed Americans' love of business was directed:

We make no concealment of the fact that we want wealth, but there are many other things that we want very much more. We want peace and honor, and that charity which is so strong an element of all civilization. The chief ideal of the American people is idealism. I cannot

repeat too often that America is a nation of idealists. That is the only motive to which they ever give any strong and lasting reaction.

Americans' true pursuit, then, is and always has been the pursuit of the good, the pursuit of the ideal, the pursuit of liberty. And it is the collusion between Big Business and Big Government that tends to short-circuit that pursuit.

The "good government" types would argue, based on this conclusion, that the only way to fix the problem is to further regulate and restrict the influence of money in political campaigns. But as the above examples of Wal-Mart and PhRMA demonstrate, there are ways for rents to be extracted without resorting to the usual approach of campaign contributions. Limiting the power of business to seek rents is hardly the answer, since rents will still be extracted, even in the very process of limiting business's ability to seek them.

No, the answer lies in limiting government's ability to extract rent, which is to say that the answer lies in limiting government.

Nancy Pelosi, Harry Reid, Barack Obama, and Peter Wilby all appear to believe that business is encroaching unfairly on the purview of government. But they have the equation screwed up entirely, which only makes sense, since they are operating from an ancient and outdated model. The fact of the matter is that both Big Government and Big Business are, in collusion, encroaching on the purview of the citizens of this blessed republic.

What we are seeing in the Tea Party and town hall movements is a backlash. We're no populists, but we can certainly sympathize with the sentiments expressed in this populist groundswell. And we can only hope that it will lead, eventually, to the rolling back of the coercive and detrimental administrative state and its co-optation of Big Business.

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