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THEY SAID IT

Change begets change. Nothing propagates so fast. If a man habituated to a narrow circle of cares and pleasures, out of which he seldom travels, step beyond it, though for never so brief a space, his departure from the monotonous scene on which he has been an actor of importance would seem to be the signal for instant confusion. The mine which Time has slowly dug beneath familiar objects is sprung in an instant; and what was rock before, becomes but sand and dust.

The Life and Adventures of Martin Chuzzlewit, Charles Dickens, 1843.

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DOMESTIC POLITICS 2010: THE NEW PARADIGM. AND THEN SOME.

We have been doing these first-of-the-year forecast pieces for as long as we can remember. This is our eighth here at TPF. We did two in our previous incarnation at that firm that doesn't exist anymore. And we did countless others at that other firm that doesn't exist anymore. All of these pieces followed the same simple pattern. We began by declaring how difficult it is to "see into the future," then asserted that the effort we were about to make to do so should be viewed more as a literary device that allows us to discuss some on-going issues than as a real attempt to attain soothsayer status, and ended with a series of predictions, each with its own lengthy and detailed explanation.

This year we are going to vary the format a little. The first half of this week's piece will follow the traditional layout. But we will conclude with one of our more typical essays. The reason should be obvious by the time we're done. But for the record, the basic idea is that the political environment is changing so rapidly and so dramatically that specific, listed predictions, without the addition of a background essay, would, we fear, prove useless. So sit down; settle in; and get comfy. This ain't gonna be pretty.

(Oh, one more thing. Making predictions is hard. Just so you know. And what follows is more of a literary device than a compilation of solid calculations upon which to make any bets.)

Forecast #1: *2010 will be a year of continued hardship and controversy for the President of the United States, and he will respond as he always does, with "mere words." This year, though, the words will be different.*

To the uninitiated, this may seem a simple, harmless prediction, though in reality, it may be our most controversial and our riskiest. What we are saying here is that President Obama will behave like any normal person would under the circumstances. And that is a questionable, if not a dubious expectation.

What we expect Obama to do over the next year is to talk a good game. We expect him to stop with the “man-made disaster” garbage and start talking about “terrorists” and “terrorism.” We expect that he will start using the lexicon of war rather than that of law enforcement. We expect him, in other words, to stop apologizing, to stop dancing around the seriousness of the threat, and, heeding Dick Cheney’s advice, acknowledge that the United States is a nation at war.

Now, we don’t mean to suggest that either his behavior or his policies will suddenly become more aggressive. But the language he uses will be. He will talk like George W. Bush, even as he continues to act like Barack Obama.

Why will he do so? Because that’s what any normal person would do.

In the same circumstances, we would talk tougher. George Bush would talk tougher. Bill Clinton would talk tougher. Heck, even Jimmy Carter would talk tougher. As we said, any normal person would talk tougher.

The hitch, of course, is that Obama is not normal, which is to say that he may not do what normal people would do in the same situation. We *think* he will do as we predict, but we can’t know for certain. Indeed, a year into his presidency and neither we nor anyone else, who we know of anyway, has figured out who this guy is or what he wants. We assume that he will act like a politician who wants not only to be re-elected but to serve the remainder of his first term as something other than a global laughingstock. But we can only *assume* that. He may have other plans, though what those might be is anyone’s guess.

In any case, we expect him talk tough. We expect, for example, to hear a great deal about “curbing spending” and “living within our means,” and “ending the unsustainable spending spree that jeopardizes this nation’s future,” even as deficits continue to explode and the spending spree continues unabated. We expect to hear all sorts of happy talk about “freeing up the power of American innovation and

entrepreneurship,” even as the regulatory code grows like Topsy and as public-sector unions continue to be the principal beneficiaries of the Obama economic program. And lastly, we expect to hear long sermons about the need to free “the middle class” from further economic burdens and pledges to keep tax increases consigned exclusively to “the rich,” even as (say it with us!) taxes on everything from income to health insurance plans to medical devices skyrocket.

By the time the 2010 midterm elections roll around, Obama’s rhetoric will, by and large, be indistinguishable from George Bush’s or Bill Clinton’s. But his policies will remain notably different. You see, as we’ve often said in these pages, he thinks you’re stupid.

And speaking of the midterm elections

Forecast #2: *The Republican Party will make significant gains in both the House and the Senate at the midterm, but will not win a majority in either. The GOP will be undone in its pursuit of the majority by its usual foil, the GOP. (Alternate Title: The Stupid Party Returns.)*

Right now, everything is working in favor of the Republicans. Or, more accurately, everything is working against the Democrats. Independent voters can’t run fast enough from the Obama-Pelosi-Reid government. Conservatives are fired up. And liberals are disheartened.

Of all the reasons to believe that 2010 will be a big GOP year, perhaps the most telling is the behavior of the politicians and prospective politicians themselves, the people who have to put their names, reputations, and careers on the line as they evaluate the political environment. And almost to a person, these politicians are betting on the GOP.

The basic idea here is that smart, high-quality politicians run for office when the chances are best that they will win. In 1980, two first rate political scientists, Gary Jacobson and Samuel Kernell, attempted to explain how it is that national-level forces affect Congressional elections when all the relevant

data show that individual voter decisions are made based on local/district-level evaluations. The answer they came up with is known, loosely, as the Strategic Politicians Hypothesis, which posits, essentially, that national forces (e.g. Obama's tanking ratings, Congressional Democrats' insistence on defying the will of the people) affect elections not at the moment the lever is pulled, but several months earlier, when candidates and potential candidates are making decisions about their future.

In the current election cycle, all of the information available says that smart Republicans are getting into races, while smart Democrats are getting out. Just over the past several weeks, we have seen several, truly top-notch Democratic potential candidates either refuse to enter races or, in a handful of cases, back out of commitments they had already made.

Additionally, and perhaps more tellingly, a handful of Democratic centrists ("blue dogs") have announced their retirements from office. Open seats are almost always easier to pick off than those with a sitting incumbent. Such departures not only make the contest objectively more favorable to the GOP, but hint at underlying concerns about the viability of any Democrat in the district. If the incumbent would rather quit than risk losing, then a non-incumbent Democrat seems all but destined to fail.

Finally, one Democrat, who feared he'd lose his seat but was not yet ready to go home and go back to real work, has acknowledged that his district is trending Republican and decided that he couldn't beat 'em and therefore had to join 'em. Last month, erstwhile Democrat Parker Griffith switched parties in the hope of salvaging his seat.

Now, party-switching doesn't always portend an electoral surge – as the cases of Jim Jeffords (VT) and Arlen Specter (PA) prove – but it can be a significant sign of fear among the legislative foot soldiers. Whether Griffith is an isolated case or the portent of things to come remains to be seen. Still, his jump can hardly make the Democratic faithful terribly comfortable.

All of this, plus current fundraising numbers, historical trends, and the slump in the President's popularity, is enough for some pundits to suggest that the Republicans will do the improbable and find the 40 seats they need to retake the House. That is, we'll happily concede, a real possibility. It is not, however, a *probability*, for one important reason: despite all of the Democrats' manifest problems, the Republicans are still the Republicans.

In his first-of-the-year prediction piece, *National Review's* resident doom-monger John Derbyshire wrote, "The GOP will make good, though not great, gains in the midterms. [Then] they will immediately embark on a strategy guaranteed to snatch defeat from the jaws of victory." While we agree with Derbyshire almost entirely, we question his sense of timing. The expectation that the GOP will wait until after the election to embark on a strategy guaranteed to snatch defeat from the jaws of victory strikes as dubious.

As we have argued before, the Republican leaders' biggest problem is that they have no idea how our economic system works and are generally uninterested in finding out. Like their Democratic counterparts, they appear to believe that the economy is "run" by the President and therefore everything he does reflects on the economy and does so immediately. This is just stupid.

Yes, presidents can affect the economy, particularly in the long term and by sending signals about stability. And yes, Obama has done and continues to do things that both damage the long-term prospect for growth and sow instability, thereby limiting short-term growth. But no, the economy – the engine of growth and change in the Western world – does not depend entirely on the president – or Congress, or anyone else.

The American economy is still, despite the Democrats' best efforts, a powerful force for growth that cannot be held down – at least not yet. And growth will return (*has* returned), leaving the Republican economic illiterates to try to explain how their apocalyptic rants are to be reconciled with real economic progress. You know and we know that any economic growth will

take place in spite of, not because of Obama and his policies. But that's a tough case for the GOP to make, given their ignorance and their ham-handed economic proclamations.

All that the GOP can do at this point is to hope for bad news. And that's a crummy position in which to be. If unemployment stays high, despite economic growth, then Republicans may regain control of the House. If employment it scratches back a little, then they probably won't. But whatever happens, the Republicans have no one to blame but themselves for turning the party into a mirror reflection of the shrill pre-2006 Democrats.

It's a sad state of affairs when the "rising" party in American politics feels compelled to put its own interests above that of the country.

Forecast #3: *Harry Reid will follow in the footsteps of his predecessor as the Democrats' Senate Leader and lose his re-election bid. His House counterpart, Speaker Nancy Pelosi should be forced to follow in the footsteps of one of her predecessors, Newt Gingrich, but won't.*

Harry Reid may be the only political "leader" in the country who could make the majority of voters long for the good ol' days when Trent Lott was Senate Majority Leader. Reid is obnoxious, whiny, vituperative, and largely ineffectual. It says something about the dearth of political leadership within the ranks of Senate Democrats that he is the best they have to offer. He is a political liability.

Interestingly, we are not alone in this assessment of the Senator from Nevada. As it turns out, a great many voters from Nevada agree. And it is looking more and more like they will do what the Senate Democratic Caucus does not have the will or guts to do and rid us of this turbulent Senator (to paraphrase Henry II).

Reid is not only out of step with the majority of voters in the country, he is out of step with the majority of voters in his home state. And that is hardly the foundation of a successful reelection bid.

If Reid is defenestrated, as we believe he will be, he will be the second such Senate Democratic Leader in a row to suffer this embarrassment, following his predecessor Tommy "the Limo Man" Daschle.

And speaking of obnoxious, whiny, vituperative, and largely ineffectual leaders, for the first time in years, we actually believe that Nancy Pelosi has solidified her position among her fellow Democrats. Unless the numbers turn just awful for the Democrats, and perhaps even if they do, Nancy Pelosi will be re-elected Speaker of the House (or, at the very least House Minority Leader) by her fellow Democrats.

Pelosi is as odious as Reid, but two things work in her favor. First, her San Francisco constituency, unlike Reid's, is uninterested in how out-of-the-mainstream she is. If anything, she's probably not out of the mainstream enough for them. Second, no one in the House Democratic Caucus presents a reasonable alternative as Speaker/Minority Leader, which is another testament to the dearth of political leadership within the ranks of Congressional Democrats.

Of course, as we noted above, it's not just the Democrats who lack reasonable, intelligent, and competent leaders. It's the whole bunch of them in Washington. They're . . . ummm . . . losers, we guess. Or at least they act like it. Not all of them are, of course. But many of them are. And they worsen when you pack them together in one place. To say that they don't inspire confidence falls far short of explaining the depth of the tragedy.

And that, naturally, leads to . . .

Forecast #4: *It will become obvious to anyone paying even the slightest bit of attention that the political dynamics in the nation have changed dramatically – and not for the better. (By the way, those of you who have been waiting with baited breath for the more traditional think-piece essay, here you go . . .)*

For more than a decade now, we have been predicting the onset of a "new political era," one in which the old labels (e.g. right and left, liberal and conservative, pro-business and pro-labor, hawk and dove) have little

or no meaning. Well, we are there. And we have been there for some time, although our arrival has only recently been made obvious.

Last month, when the Senate passed its version of health care “reform” it was clear that the United States had undergone a dramatic change; that it had arrived at what the historian Daniel Boorstin once described as a “fertile verge,” that is, “a place of encounter between something and something else . . . between kinds of landscape or seascape, between stages of civilization, between ways of thought and ways of life.”

How else could one explain the willingness of leaders of the United State Senate to do whatever it took to pass legislation abhorred by a majority of the American public and detested by the political factions that had originally advocated the concept of reform?

This act was something very different. Indeed, in our opinion, it will stand in history as a testimony to the emergence of a new paradigm in American politics, one in which the power of the state has finally surpassed that of the public itself. In fact, at the risk of being hyperbolic, it will mark the point at which government of the people, by the people, and for the people perished from the earth. At least for the time being.

What is perhaps most interesting about this current paradigm is that, in one respect, it completely and utterly confirms the fears that we have repeatedly expressed over the past several decades. Yet, on the other hand, it proves us to have been somewhat shortsighted.

For starters, the current situation is one in which state control, not liberty, is the preeminent political value. It is also one in which the bureaucracy in general and the experts in particular are the preeminent political actors. By contrast to classical American political paradigms, the individual today is a secondary actor, a critical component of the state, but only insofar as his interests can be subsumed by the state. The state, after all, is the guarantor of the domestic tranquility and

of social equality. And therefore the individual must comply with the wishes of the state to such an extent that liberty is ultimately curtailed.

None of this is particularly new or interesting. It is, as we have said countless times, the direction in which Americans have been heading for many years. And it is fitting that health care has been the vehicle for achieving this dubious goal, it having always been the proverbial camel’s nose under the tent, with its potential for providing an excuse for the state to regulate every aspect of American life.

There is, after all, a reason that the great tobacco wars of the 1990s were waged on behalf of Medicaid; smoking (allegedly) increases health costs, some of which are paid by the state, and therefore smoking is considered a risk to the state and tobacco companies must be punished. It’s that simple. Any behavior of which the state and its experts disapprove can be deemed too costly and therefore a threat to the equity of the state’s health care provisions, which is to say that any behavior of which the state and its experts disapprove can be curtailed, banned, fined, or otherwise punished. That’s the ultimate cost of state control of health care.

We’ve been warning of this for years.

What we did not foresee, at least not consciously, was the ultimate collusion in this effort between government and erstwhile private industry. Like most Republicans and even most conservatives, we viewed private industry – big business, if you will – as a bulwark against government by bureaucracy. Business, we assumed, would have different goals and different interests from the bureaucrats and would therefore protect the interests of free markets and free people. We were wrong.

For a little background, we offer here some thoughts we penned almost exactly ten years ago:

The real “iron triangle” actually describes the relationship between special interests, legislators (specifically in their

committee and subcommittee roles), *and the bureaucracy*. It is this last “leg,” so conveniently forgotten by McCain and his cohorts, that is paramount to any discussion of the topic of this nefarious, three-sided polygon of American politics

The iron triangle or “sub-government” model of public policy, was “popularized” in the 1960s by Theodore Lowi, a demigod of American political science. He discussed the idea at considerable length in his classic 1969 book (revised in 1979), *The End of Liberalism*. We drew on this book ourselves in an article published last August entitled “The Dawn Of A New Political Era - Part III.”

In a nutshell, Lowi’s thesis is that the triangular connections between special interests, legislators, and bureaucrats has rendered obsolete the old liberal-conservative dialogue that had dominated American politics for so many years, slowly replacing it with a system he called “interest group liberalism.”

Briefly stated, this sub-government/iron triangle theory describes a situation where interest groups throw money at legislators, who, in turn, lean on bureaucrats over whom they have oversight authority. Bureaucrats, for their part, seek to maximize their utility and their budgets by favoring special interests well-represented by powerful legislators. They also restart the cycle over and over again by proposing an endless stream of regulations. These proposed regulations rankle special interests, who throw money at legislators . . . blah, blah, blah, *ad infinitum*.

Lowi was not a fan of this situation, believing that it distorted expectations of government and deligitimized public policy. Some of the interest group theorists who followed him, however, notably Hugh Heclo and Robert Salisbury (one of this country’s foremost expert on the subject) altered Lowi’s normative spin on the process, suggesting that “issue networks” (the expanded alternative model of special interest group action) actually serve the public’s interests.

According to the “issue networks” crowd, in the “administrative state,” where bureaucrats possess both knowledge unavailable to the general public and substantial power, the narrowly focused and well-funded “special interests,” so boisterously denounced by McCain, actually provide an alternative source of information and help to effectively represent the will of the people. Organized interest groups have the power to succeed in affecting policy and regulation, where individuals do not

McCain has chosen to redefine the model, eliminating one of the crucial legs, leaving what can only be described as an “iron biangle.” Using this geometric *ignis fatuus* as a model, he tells adoring throngs that by cutting of the monetary lifeline between “special interests” and legislators, he will “give government back to the people.”

This is, in our opinion, pure nonsense. It is far more likely, (we would say inevitable) that by effectively cutting the “special interest groups” out of the process, McCain would vastly increase

the power of the other two sides of the triangle, namely the bureaucracy and the legislators.

Now, here's where things get really good:

What, for example, do you suppose, would have been the result of Hillary's 1993 health care proposal had something akin to McCain's campaign finance legislation been in place? When considering this question, keep in mind that Hillary-care was a program developed by public policy wonks, fine-tuned by health care bureaucrats, and overwhelmingly supported by the bureaucratic community. Keep in mind as well that the vast majority of Americans, who had just elected the Clintons on the promise of "change," initially favored some sort of government solution to the health care "crisis."

Who then stopped Miss Hillary from nationalizing a huge chunk of the economy? The voters? Nope. The plan was dead and buried before the '94 election. Republican legislators? Wrong again. Recall that Republicans were a minority and, as we have seen recently, many lack political scruples anyway. The media? Please!

The forces for good, in this case, were McCain's "hated" special interests. Insurance companies, doctors' groups, pharmaceutical manufacturers, all "bought" access to legislators through campaign contributions. Then, and only then, were they able to counter the interventionist information that government "experts" had used to justify Hillary's plan, and explain what a catastrophe the program would have created.

Had McCain's campaign finance restrictions been in place, the proposal would, we think, undoubtedly have passed with flying colors. The "special interests" saved the nation's citizens, and the health care industry, from such a fate.

Notice the differences here, between 1993 and 2009/10? This time around, the people hate the legislation, by an overwhelming majority. But the "special interests," in the form of "insurance companies, doctors' groups, pharmaceutical manufacturers," are all on board. Heck, it's they who stand to benefit the most from the passage of "reform." These interests aren't a curb against the power of the state. They are a force multiplier.

Any number of economists – from Gordon Tullock to Anne Krueger to Fred McChesney – could have warned us that this was the case. But for whatever reason, we were late to this realization. Big Business and Big Government are mutually reinforcing, and it's the individual who pays the price.

If there is any lesson in the health care reform debacle, this is it. The old, reliable Iron Triangle has collapsed. And along with it, the basic principles of democratic governance. Who can stop this legislation from being passed? No one, it seems – with the possible exception of a bribe-addled Senatorial Dead-Man-Walking from Nebraska. The people hate it. But the state and its business partners love it. So the people get screwed.

And you will note that health care is not the only aspect of governance in which this is the case. Treasury Department policy, for example, over the last two years and across administrations from BOTH parties, has been directed almost exclusively at enabling and fortifying the prospects of Big Business (and big banks in particular) with no accountability whatsoever to the people. The powerful and the well connected have always done well in Washington, but now it seems that they alone do well and extremely well at that.

Such is the current state of play in American politics. This is the “new paradigm” we’ve been trumpeting for years. 21st century America is not really a democracy or a republic, as the Founders envisioned. Call it what you want – corporatism, fascism, dictatorship of the bureaucracy – it is anything but democratic and anything but republican.

What is most fascinating about this current paradigm, however, is that it is, we believe, merely temporary. A great many people in this country are unhappy about the political status quo, as evidenced by the Tea Party movement. And the passage of health care reform just might be spark that sets off the social revolution that destroys that status quo.

Ironically, as things stand today, it is quite possible that the Republican Party stands to be the biggest short-term loser in this state of political instability. It is true that there are those on the left who are as unhappy about the status quo as are those on the right. Whereas conservatives worry that government will irrevocably pervert business and industry, “progressives” worry that business and industry will irrevocably pervert government. And both sides have equally valid concerns.

That said, a far greater number of voters consider themselves conservatives than progressives or even liberals. And, by extension, a far greater number of voters on the right are likely to be outraged by the bailouts, the health care debacle, cap-and-trade and the rest of it. Both major parties are guilty here of perverting the function of democratic governance. And both parties will pay a price. But one party is likely to see its establishment figures punished more severely. And that is the GOP.

This isn’t to say that the GOP is doomed or even that it will suffer immediate electoral losses. It isn’t and it probably won’t. But guys like House Minority Leader John Boehner and Senate Minority Leader Mitch McConnell; Mitt Romney and Newt Gingrich are more likely to be seen by disgruntled conservatives as part of the problem, rather than part of the solution. And they are likely to pay a political price. They had their chances, and they did nothing with them. Time to move on.

Looking to the distant future, what this means, we think, is that actual outsiders will fare far better in the GOP presidential primary process than they have in the past. Republicans tend, over time, to want to nominate the guy who is “next in line” and who has “paid his dues.” We suspect that this practice may come to an end in 2012.

Beyond that, we can’t really say what we expect will happen, at least not with any certainty. In essence, we are merely thinking aloud here, trying to work through some pretty significant developments in American politics.

What we can say for sure is that we have reached a new point in American politics. Our oft-forecasted new paradigm is here, but will not remain at this point for long. American politics is in tremendous flux these days and today’s paradigm will all but certainly give way to tomorrow’s.

Expect the seeds of the new-new paradigm to be sown in 2010, against the backdrop of extreme unhappiness with the new corporatist paradigm.

Or at least that’s our fearless forecast.

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