

Stephen R. Soukup Publisher
soukup@thepoliticalforum.com

Mark L. Melcher Editor
melcher@thepoliticalforum.com

THEY SAID IT

When the government is small and relatively weak, the way to make money is to start a successful private-sector business. But the larger the size and scope of government spending, the easier it is to make money by diverting public resources. Starting a business is difficult and involves a lot of risk — but getting a government favor or contract is easier, and a much safer bet. And so in nations with large and powerful governments, the state tends to find itself at the heart of the economic system, even if that system is relatively capitalist. This tends to confound politics and economics, both in practice and in public perceptions: The larger the share of capitalists who acquire their wealth thanks to their political connections, the greater the perception that capitalism is unfair and corrupt.

Luigi Zingales, "Capitalism After the Crisis," *National Affairs*, Fall, 2009.

In this Issue

The Virtuous Democratic Rich,
Redux.

The Lightworker's Light Work.

THE VIRTUOUS DEMOCRATIC RICH, REDUX.

Last Sunday, when the *New York Times* published an op-ed by Warren Buffett on the subject of taxes, wealth, and the need for greater taxation of the well-heeled in this country, it and he created quite a public stir — though we're not exactly sure why. Buffett's piece may have been the least interesting item published by the *Times* in a great many moons. And given the *Times*' habit of employing the tritest and most hackneyed columnists in the business, that's saying something.

The fact of the matter is that there was nothing whatsoever even remotely thought-provoking, attention-grabbing, or even new in Buffett's essay. Indeed, his arguments were so shopworn and his logic so utterly clichéd that our old friend Steve Moore, the economics editor at the *Wall Street Journal* and a member of the *Journal's* editorial board, did an excellent job of refuting Buffett's case and picking apart his numbers, *more than two weeks before the piece even appeared in print*. Steve's conclusion, which follows, would have been the end to an excellent rejoinder to Buffett, even if it hadn't been published on July 28th:

Overall, though, Warren Buffett is wrong on taxes. The tax system is already far too reliant on the wealthy to pay the government's bills. Taxes on millionaires and billionaires are already near a record high in terms of the share of all income taxes paid. And the effective tax rate on this group is much higher, not lower, than any other income category. The best way to balance the budget is for the economy to produce a lot more American success stories like Warren Buffett.

Given the platitudinous nature of Buffett's tax advocacy, we couldn't help but wonder why anyone cared, or, to cut more directly to the heart of the matter, why Buffett even bothered. Like we said, this is what he's been prattling on about for years . . . here, there, and everywhere. So why should he make a big deal of this now? And why on the editorial page of the *New York Times*, of all places, as if this is something about which people should stand up and take notice?

Some observers, like the *New York Daily News* columnist Stanley Crouch, think that Buffett, being a billionaire, is smarter than the rest of us dumdums and therefore feels a sense of *noblesse oblige*, which is to say that Buffett thinks he must educate the rest of us about the real meanings of democracy and the Founding principles. To wit:

But when billionaires like Soros and Buffett begin to take offense at some of the claims that the elephants trumpet up and down the street, we might begin to see some sort of a change rising out of the collective silence, where only whispers are usually allowed.

It is time that rational Republicans took their party back from the ideologues who are addicted to Alamo-like last stands and the idea of going out in a blaze of glory. But maintaining an extremely complicated democracy has little to do with last stands or blazes.

That is why the frequently misunderstood Founding Fathers conceived of a system that would point all opposing parties in the direction of compromise. And while compromise has become a dirty word, it is time to see it dusted off and put back into play.

One problem with this, as we noted, is that there is nothing that is "beginning" about Buffett's tax policy advocacy, as Crouch mistakenly seems to believe.

Crouch argues that Buffett et al. have finally come to conclusion that the GOP must be taken back from the no-tax-increase nuts. But he doesn't quite seem able or willing to admit that, to the likes of Buffett, these "nuts" have been running the GOP for better than three decades now.

The other problem with Crouch's analysis is that it is itself nuts. The notion that Buffett and Soros are selfless actors simply looking out for the best interests of the nation and trying desperately to promote "compromise," even if it thwarts the amassing of their own personal fortune, is ludicrous.

So what is Buffett up to? Well, we can't say for certain. But our guess is that following story, published last Thursday by Bloomberg, may provide a clue.

The U.S. Justice Department is probing Moody's Investors Service and Standard & Poor's over ratings of mortgage-backed securities, according to three former employees who said they were interviewed by investigators.

Washington-based lawyers from the Justice Department spoke to former employees as recently as last month about whether the companies raised their grades for the complex investments in order to win business, said the former employees, who asked for anonymity because the investigation is ongoing. The inquiry is a civil matter, two of the former employees said.

Ed Sweeney, a spokesman for S&P, a New York-based unit of McGraw-Hill Cos., said the rater has "received several requests from different government agencies over the last few years regarding U.S. mortgage-related securities." S&P has cooperated and will continue to cooperate with the requests, he said.

Michael Adler, a spokesman for New York-based Moody's, declined to comment, as did Charles Miller, a Justice Department spokesman.

You see, Buffett is known as a world-class stock-picker. And that may be so. But he's also a world-class player of big-money politics. Consider if you will, the last time that Buffett got exercised about tax policy and found himself deeply "invested" (if you'll pardon the term) in advocating for one tax position over another.

The year was 2003. George W. Bush was the president then. And he and the Republican Congress were contemplating cutting taxes significantly, including a big slice out of the "death tax," which is to say the tax on inheritance. Needless to say, Buffet had a large stake in keeping the death tax high, and, of course, he argued vigorously to keep it so.

We don't know what, if anything, old Stanley Crouch had to say about Buffett's position on the Death Tax back then, but we do know that Crouch's brethren in the mainstream press were then, as they are today, falling all over themselves to praise Buffett for his far-sightedness, and, above all, his selfless decency. After all, here was a multi-billionaire who was willing to see his fortune taxed and turned, in part, over to the U. S. Treasury rather than simply passed on to his coddled and undeserving heirs.

Of course, what these fawning Buffett enthusiasts never mentioned is the fact that the aging Oracle's heirs aren't going to get any of his fortune anyway. *And neither is the Treasury!* Buffett, like many of his "class," has his estate planned very well and very tightly. And his fortune is all going to charity, where it can be directed exclusively toward ends of his choosing, not things like toppling North African drag-queen dictators and the like.

Moreover, while Buffett's tax-policy advocacy back then was absolutely and without question self-interested, none of his supporters noted this. We did, though. And we wrote about it in a May 3, 2004 titled "The Virtuous Democratic Rich." We put it this way:

We can assume that he is aware that the death tax provides a considerable amount of business for insurance companies, such as SAFECO Life, which Buffett and his friend Jack Byrne, chairman of White Mountain Insurance Group, recently bought for \$1.35 billion. Indeed, it is hard to believe that the great "Sage of Omaha" would fail to understand that the return on his investment in a large, ailing life insurance business would be considerably higher if he could win his political battle to keep the government in the business of denying the children of recently deceased small business operators the right that Burke thought was fundamental to a just society, namely the "right to the acquisitions of their parents."

Nor is it likely that Buffett has failed to grasp the synergy between the death tax and his forte of buying up medium size businesses cheaply. Space does not allow a comprehensive examination of this synergy. But the following example might suffice.

In the February 2001 edition of Buffett's much-heralded annual letter to the shareholders of Berkshire Hathaway, he wrote glowingly of several acquisitions made during the year, including Ben Bridge Jewelers. Here's how he described this happy purchase.

[This was] another purchase we made by phone, prior to any face-to-face meeting between me and the management (sic). Ed Bridge, who with his cousin, Jon, manages this 65-store West Coast retailer, is a friend of Barnett Helzberg, from whom we bought Helzberg Diamonds in 1995. Upon learning that the Bridge family proposed to sell its company, Barnett gave Berkshire a strong

recommendation. Ed then called and explained his business to me, also sending some figures, and we made a deal, again half for cash and half for stock.

Ed and Jon are fourth generation owner-managers of a business started 89 years ago in Seattle. Both the business and the family, including Herb and Bob, the fathers of Jon and Ed, enjoy extraordinary reputations. Same-store sales have increased by 9%, 11%, 13%, 10%, 12%, 21% and 7% over the past seven years, a truly remarkable record. It was vital to the family that the company operate in the future as in the past. No one wanted another jewelry chain to come in and decimate the organization with ideas about synergy and cost saving (which, though they would never work, were certain to be tried). I told Ed and Jon that they would be in charge, and they knew I could be believed.

What Buffett failed to mention is why these “fourth generation owner-managers” would want to sell a business that was doing quite well financially, and with which they wanted to stay affiliated. For that, we need to go to another source, say an article entitled “Death Tax Afterlife” in the June 16, 2003 issue of the *Washington Times* by Art Linkletter and Charles Jarvis, National Chairman and Chief Executive respectively of the United Senior Association.

Too many American families today face a triple-tragedy when the senior member in a family business dies. Not only does the family lose a loved one and a leader, but surviving family members suddenly find they have to

pony up as much as 55 percent of the family’s assets – in cash – to pay federal death or inheritance taxes.

This literally forces many families to sell the family business in advance simply to avoid the agony of a fire sale . . . Similarly, Seattle’s Bridge family had to sell their 63-store jewelry chain to Berkshire Hathaway, the global conglomerate run by investor Warren Buffett. No wonder Mr. Buffett, the billionaire liberal, wants to keep American families under the weight of the “death tax” that forces many of the family owned companies he gobbles up onto the block. Company founder Herb Bridge, who is near retirement age, told a Seattle newspaper that the federal death tax was a “very strong factor” in the decision to sell.

This sad story repeats itself countless times every year, as farms and small-to-medium sized businesses go on the block. Sometimes, as with Ben Bridge Jewelers, the process is orderly. Often, however, it’s a race against IRS grave robbers.

The sad fact is that few such companies can survive a 55 percent tax levy against their value. *Many small business families spend a great deal of money on life insurance in order to cover the tax liability they know looms just around the corner.* (emphasis added) But as the *Seattle Times* puts it: “They’d better buy a lot. And they had better not be too successful: The smarter they work, the more they plow back into the family business, the more jobs they create, the more they create a bomb that goes off at their death.” This is one counterproductive tax.

What does any of this have to do with S&P and Moody's being investigated, you ask? Well, nothing. Unless you consider the fact that Buffett and Berkshire own roughly 20% of Moody's. Like we said, Buffett is not stupid. And he knows how to play the game. And he knows that if the Justice Department is looking for scapegoats in the 2008 mortgage-related meltdown, it can't hurt to have friends in high places pulling for you.

Think about it this way. Assuming that the reports in the *Bloomberg* piece are accurate and that Moody's is now also under investigation, along with S&P, the investigation of which was previously reported by the *New York Times*. Then what you have is this:

On the one hand is a ratings service that has just made an enemy of the President of the United States by embarrassing him and making him the "downgrade President" at an extremely delicate juncture in his presidency and with whom that President has publicly expressed dismay. On the other hand is a ratings service that DID NOT downgrade American sovereign debt and whose principal shareholder is a man who has, once again, put his reputation on the line, in a very public way, to advocate strongly for the President's policies and, just as importantly, to advocate strongly against the policies of the President's opponents and challengers.

Now, unlike Warren Buffett, we're not world-renown stock pickers. But you tell us: if you had to bet on which of these two companies is most likely to emerge from the Justice Department witch-hunt unscathed, which one would you choose?

Yeah. We'd choose that one too.

Of course, none of this is to say that investigators in the Justice Department will necessarily be swayed one way or another by anything the political operators in the White House or anywhere else might suggest to them. We have no reason whatsoever to believe that they are anything but consummate professionals who will do their jobs precisely as they should.

We do, however, have reason to believe that the rest of the players in this drama will operate to suit their own best interests, rather than those of the United States or the "common good" or some other abstraction. And we have reason to believe this because that's what they do.

The notion that "Big Business" is an exclusive or even primary devotee of Republican politics is, as we have noted countless times in these pages, a myth. Big Business thrives on Big Government. And Big Government thrives on Big Business. They are two peas in a corporatist pod.

So to answer our question: Why did Warren Buffett choose this particular point in time and the setting of the *New York Times* editorial page to trot out his tired and tiresome shtick about taxes? Because he wants something from the government. And because he knows that he has something that the government – in the person of Barack Obama – wants from him, namely the credibility that somehow attaches itself to liberal billionaires.

You scratch my back. I'll scratch yours. And we'll call it "altruism."

THE LIGHTWORKER'S LIGHT WORK.

It is nearly universally acknowledged that great leaders have a difficult time getting unbiased information from those around them. Indeed, Erasmus noted this 500 years ago in his classic little book *The Praise of Folly*. To wit:

And so for all their good fortune princes seem to me to be particularly unfortunate in having no one to tell them the truth and being obliged to have flatterers for friends. It might be said that the ears of princes shun the truth, and that they steer clear of wise men for the simple reason that they fear there may be someone outspoken enough to risk saying what is true rather than pleasant to hear.

Or, to put a more contemporary spin on this eternal truth, we would ask, who wants to be the guy who says to the Most Powerful Man in the World, “No, sir. You do not look laidback and ‘average’ riding around on that stupid bike with that stupid helmet on. You just look . . . well . . . stupid.”?

This disadvantage is, we can only imagine, significantly exacerbated when the leader in question is, despite his reputation for genius, intellectually incurious and has surrounded himself with advisors and “yes men” who are equally disinterested in ideas, thoughts, or opinions that vary even slightly from their own or from their leader’s.

It has to be difficult to assess oneself truthfully, for example, when you have no interest in taking seriously what the opposition says about you or about anything else; when you think that the opposition is illegitimate, simply by virtue of being the opposition; when you get used to seeing the guy on the TV news show talk about the tingle you give him running up his leg; or hearing that the political editor for a leading news weekly has called you “sort of a god;” or flipping open one of the largest newspapers on the West coast and reading this about yourself:

Many spiritually advanced people I know (not coveringly religious, mind you, but deeply spiritual) identify Obama as a Lightworker, that rare kind of attuned being who has the ability to lead us not merely to new foreign policies or health care plans or whatnot, but who can actually help usher in a new way of being on the planet, of relating and connecting and engaging with this bizarre earthly experiment. These kinds of people actually help us evolve. They are philosophers and peacemakers of a very high order, and they speak not just to reason or emotion, but to the soul.

Now, Barack Obama has a great many flaws as a leader and as a candidate for re-election. He is woefully inexperienced, even after nearly three years on the job. He has a political tin ear. He has no first-hand

business knowledge, no economics training, and no understanding whatsoever of the private sector. He is condescending, superficial, lazy, and stubborn. He generally considers foreign policy to be little more than a distraction from domestic policy. And he thinks domestic policy is a chance to remake the country to be more as he wants it to be, not as voters want it to be.

Worst of all, though, in our estimation, is the fact that the guy simply has no clue what his real strengths and weaknesses are. And he has no one who will tell him the truth about himself. And he never really has.

Here you have a guy who has been coddled all his life. He was raised by grammy and gramps, who knew that it had to be tough on a kid being abandoned by his father, having to leave his stepfather, and then being dropped off by his mother while she went back to exotic locales to work. So they gave him what they could: the best private education (in Hawaii, nonetheless), prep school, and then private college. From there, he went on to the Ivy League, to a community organizing job, back to the Ivy League, to a cushy book advance, a cushy law school job, and so on. And as we’ve noted repeatedly, he progressed up the ladder of success without ever really having any success to speak of. He was never held accountable for a thing and, as we’ve put it before, he “achieved a great deal without really doing anything at all.” Yes, of course, Woody Allen once said that 90% of life is just showing up. But really, receiving a Nobel Peace Prize for just showing up?

And then came the political career – complete with the toady staffers, the sycophantic advisors, the oddly homoerotic newscasters, and the bizarrely cultish journalists – all of whom have only reinforced the guy’s perception of himself as essentially infallible, unbeatable, and universally appealing. Heck, I whooped the famous Clinton machine. Then I stared down the Greatest American Hero. Who can’t I beat? Whom should I even fear? I got this. Or, as I said to journalists after my speech at the 2004 Democratic National Convention, “I’m LeBron, baby. I can play on this level. I got some game.”

Needless to say, if we were Democrats, we might be starting to worry a little bit. And not just because of the terrible economic situation, the confused and muddled foreign policy, and the general sense of cluelessness, but because of the hare-and-tortoise vibe this guy is radiating.

What the current political situation looks like is this: We have higher than 9.0% unemployment, more than two years after the stimulus bill that was supposed to keep it from going above 8%, and roughly a year after employment appeared to be picking up, slowly but ever so surely. GDP growth has stagnated once again and the expectation is that the second plunge of a double-dip recession might be just around the corner. The President himself assures us that this is not the case and that there is “no risk” of a double dip. But then his Treasury Secretary assured us that there was “no risk” that American sovereign debt would be downgraded only weeks before S&P did precisely that. So . . . on that count, we’ll hedge our bets. Markets are panicking. Europe is falling apart. And the erstwhile Most Powerful Man in the World looks against this backdrop to be the Most Powerless President in the World. Or at least the Most Powerless President in the World since 1980.

People are scared and hurting. The President’s key jobs program – his “Green Jobs” initiative -- is a universally acknowledged failure. The national polls show his popularity cratering and such powerful challengers as “generic Republican candidate” besting him in a two-way match-up. The guy – clueless as ever – nonetheless chooses this time to go on vacation to posh and expensive Martha’s Vineyard. He peddles around on a bicycle. He golfs. He eats lobster. He swims with the girls. And the nation watches, flabbergasted.

Not to worry, though, boys and girls. Remember: he can play at this level. He’s got game. All of which is to say that while things may look bad right now, and while it may appear to the untrained eye that this is a presidency in serious jeopardy, nothing could be further from the truth. The President is going to

enjoy his vacation. He’s going to let his detractors prattle on about his decadence. And he’s not going to worry about it. And you shouldn’t either. And you wanna know why? Because he’s gonna fix everything. Just as soon as he gets back from the island, he’ll fix everything. He’s gonna give a speech, dontchyaknow. And that’ll take care of it. That’ll fix it. You see?

Seriously.

That’s his plan. He’s going to give a speech.

That’s the problem that Obama has. His friends and fans all convinced themselves – and then convinced him – that he is the most gifted and glorious speaker in the history of the world. *And he believed them.* Because . . . why shouldn’t he? He’s got game, right? So now the guy has problem after problem after problem stacking up in front of him, and he doesn’t care. And the reason he doesn’t care is because he just knows that he can fix everything with a few golden tones from his captivating and mellifluous voice.

You may think we’re joking or exaggerating or making this up out of whole cloth. But we’re not. This is really what the guy believes. And we’re not the only ones to have noticed. Two weeks ago, in fact, Andrew Malcolm, a political columnist for the *Los Angeles Times* wrote the following:

Every politician has at least one major weakness. Bill Clinton’s is, well, well-known. George W. Bush’s political weakness was thinking his intuition and instincts could carry him through any challenge. Barack Obama’s weakness is thinking he can talk his way in or out of virtually any opportunity or difficulty.

Being a Real Good Talker helped him get the job heading the law review. And entering politics. And succeeding early there, albeit within Chicago’s rigged system. And being an RGT thrust him . . . onto the national stage at the

Democratic National Convention in 2004 when delegates had the foolish notion that John Kerry and John Edwards could win.

Obama is very proud of his talking. In May this year he told a Boston fundraiser: “Back in 2004, I gave a little speech here that got some attention.” And he waited for the crowd’s applause. Which he got.

Have you noticed how many remarks Obama has been making in recent weeks? Not a coincidence that they coincide with his lowest approval ratings ever. When in trouble, give a speech. Even if there’s no visible audience.

When Obama comes back to Washington he’ll give his speech about jobs. And he’ll expect that to be the end of it. What more does the country expect from him? He’s giving a speech, after all. To them. And he’s not charging them anything for it. They ought to thank him.

But that won’t be the end of it. And the reason it won’t be the end of it is because the speech won’t be any good. It will be trite. It will be tiresome. The content will be the same old, same old. And the delivery will be even worse. As we said, Obama is lazy. But worse than that, he’s mind-bogglingly arrogant. He thinks that his speeches are cute and fun and soaring and really great. And they’re just not. They’re hackneyed. Again, to borrow from Andrew Malcolm:

If you read the full statement [on the S&P downgrade] . . . you kept waiting for the point, the real rhetorical reason for the remarks. Like a grand restaurant with the most romantic atmosphere, crackling fireplace, flickering candles, exquisite place settings. And with impressive style the waiter proudly serves an empty plate – and awaits your awe.

Trouble is, real leadership is more than talking and calling for things. It takes a

while, but over time listeners begin to notice rote rhetoric, predictable patterns, empty words.

It is not unusual for a president to be tired and to sound tired by this point in his presidency. It is not unusual at all for a president to appear to be completely and utterly devoid of ideas by the start of his re-election campaign. After three years on the proverbial hot-seat, all the ideas from the original campaign have been tried or talked to death or have failed. And it’s hard work coming up with new ideas.

The last two presidents – Clinton and Bush – were exceptions to this rule, of course; the first because he morphed into a completely different politician with a completely different agenda and completely different new ideas to try, and the second because of 9/11 and its aftermath, which occupied so much of his first term that he never got around to much else until later, leaving campaign ideas like Social Security reform for the second term. It should be noted though, that these two were the exceptions that prove the rule. And neither the fact that the course of Obama’s presidency has differed greatly from theirs nor his apparent intellectual burn-out makes him particularly unique.

What does make him unique – unprecedented, in fact – is the fact that he just doesn’t seem to care, that he doesn’t seem to think ideas matter to his presidency and that he can continue his “transformation” of the country through the sheer force of his personality. This is, in a word, delusional.

For the life of us, we never thought we’d ever see an ego in politics that surpassed the two that clashed throughout the 1990s in the offices of President of the United States and the Speaker of the House. But we were wrong. Boy, were we wrong. Neither Clinton nor Newt could possibly even compare to this guy.

Up until now it may have suited Democrats simply to dismiss as sour grapes the recognition of Obama’s ego by his opponents. They lost. He won. And they were bitter. But that only made sense for a while. And it doesn’t any more. Moreover, to continue to believe

that there is nothing more serious going on here is to buy into Obama's delusions of grandeur and thereby to accept his willingness to stake his – *and their* – political fortunes on his largely non-existent “gift.”

We're not sure what their alternative is at this point, but we wish them luck. And in the meantime, our advice to you is to be afraid. Be very afraid. The storm is coming and there's no one at the helm.

Copyright 2011. The Political Forum. 8563 Senedo Road, Mt. Jackson, Virginia 22842, tel. 540-477-2696, fax 540-477-3359. All rights reserved.

Information contained herein is based on data obtained from recognized services, issuer reports or communications, or other sources believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness, and we are not responsible for typographical errors. Any statements nonfactual in nature constitute only current opinions which are subject to change without notice.