

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

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THE TERM "CORPORATE AMERICA" MAY BE TAKING ON A WHOLE NEW MEANING

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Well, they're gone. President Bush and the esteemed members of Congress, that is. They've all left town for a brief respite from the laborious task of spending the peoples' money. They have performed this exodus every August for as long as I can remember, an annual blessing that, in my opinion, too few Americans appreciate.

The President went to his ranch in Texas. He says he is on a "working vacation." I prefer to think of him as following the advice of Candide: "cultivating his garden," or ranch, as it happens, an act that the "very famous Dervish" told Candide "keeps at bay three great evils, boredom, vice, and need."

The nation's 535 or so members of Congress are, like Ezekiel's fugitives, scattered toward all winds. As I indicated earlier, I believe that this is a very good thing, subscribing as I do to Gustave Le Bon's theory, as outlined in his classic 1895 tome, *The Crowd*, that even the most distinguished individuals are prone to exercise questionable judgment when in groups.

Le Bon, surely thinking of the U.S. Congress, put it this way: "The decisions affecting matters of general interest come to by an assembly of men of distinction, but specialists in different walks of life, are not sensibly superior to the decisions that would be adopted by a gathering of imbeciles . . . the individual forming part of a crowd acquires, solely from numerical considerations, a sentiment of invincible power which allows him to yield to instincts which, had he been alone, he would perforce have kept under restraint."

As I said several weeks ago in these pages, I have found "the crowd" in Washington to be boringly predictable this year. Basically, all that has happened, in my opinion, is that an overflowing larder has had the unsurprising result of promoting a feeding frenzy of spending.

Democrats wring their hands and complain that "the shrinking of the surplus" could have dire

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effects on the economy. At the same time, they push for giant increases in spending on both old and new programs, as if fearful that the money will disappear if it isn't spent quickly. Adding to their natural propensity to spend is a high level of confidence that, if their spending does indeed lead to deficits, they can blame the situation on President Bush's tax cuts and be fairly certain that, due to the natural, one might say innate, political ineptness of Republicans, neither the White House nor the GOP congressional leadership will be able to competently counter the charge.

Republicans respond to this strategy by arguing that there is still plenty of money around. Not to worry, they say. This further enfeebles their already feeble efforts to limit spending. But few of these "pork barrel conservatives" are bothered by this conundrum, as most are as intoxicated with the myriad spending possibilities presented by the budget surplus as any of the biggest spending Democrats.

In a recent column in the *Washington Times*, Doug Bandow described the situation as "an entrenched political class that has turned the U.S. economy into the largest special interest honey pot in world history." My old friend Steve Moore, President of the Club for Growth, put it this way in a recent piece in *National Review On-Line*:

Is the problem with the budget a shortage of tax revenues? Hardly. For the past four years federal income-tax revenues have been flooding the federal treasury as if pumped in through a fire hose. We averaged 8% federal revenue increases per year in 1998, 1999, and 2000. Since 1996 federal tax receipts have risen by \$600 billion aided by a surge in capital-gains receipts after the 1997 rate cut. The \$600 billion increase in taxes is more money than the entire GDP of most nations. Even after the Bush tax cut, the federal tax bite will remain higher than at anytime since 1980. Repeat after me: There's no drought in revenues.

But there is gluttony on the spending side of the budget ledger. In fact, over the past three years Congress has been on the most expensive shopping spree in Washington since LBJ was in the White House. Last year federal appropriations rocketed skyward by almost 9%. (This was in a year with negligible inflation.) This year, I've been predicting a 7% growth rate in spending.

Over the past three years the total number of pork-barrel projects has more than doubled. It used to be that Congress spent \$20 or \$30 billion a year on parochial projects like skating rinks, convention centers, parking garages, dams, and hometown university grants on honeybee mating behavior. This year, hold onto your hats, the total cost of requested pork projects has reached \$280 billion. That comes to \$3,800 this year for every family of four in America. And yet now we're told that Congress can't afford to mail a \$300 rebate check to folks.

Theoretically, at least, there is nothing wrong with this situation. I mean, as Rush Limbaugh is so fond of pointing out, it is, in fact, "the peoples'" money, and they do indeed elect the men and women "of distinction" who are spending it, and therefore can, should they choose, throw the bums out and get a crowd in there that would spend it differently, or not spend it at all, as the case may be. Theoretically, that is.

As a practical matter, though, as Le Bon also pointed out, "the people" are just another crowd, a crowd that is highly susceptible to what he called "suggestibility," which he defined as "the state of fascination in which the hypnotized individual finds himself in the hands of the hypnotizer." And that, it is worth remembering, was written before television, the greatest of all tools of the political hypnosis trade.

To be skeptical about the wisdom of the crowd, or the masses, as they are most commonly called, does not put me in particularly bad company. From Plato to John Stuart Mill to the American founding fathers, Western political thinkers of all persuasions, liberals and conservatives alike, have expressed dire concerns about plebiscitary democracy.

Mill, an icon of American liberalism, put it as follows: "Is it, at all times and places, good for mankind to be under an absolute authority of the majority of themselves? Is it, we say, the proper condition of man, in all ages and nations, to be under the despotism of Public Opinion?"

More recently, the late, great Russell Kirk, an icon of American conservatism, argued that "the ordinary citizen does not automatically distinguish false propaganda for what it is." This, he said, "ought to be evident to anyone who knows the course of events in modern Germany or Italy. The march of events between the two World Wars convinced thinking men that it is quite possible (and, under certain conditions, probable) that falsehood, rather than truth, may triumph popularly in the market-place of ideas. Nations with a literacy almost complete and a long tradition of self government were brought to ruin by clever propaganda."

Now, I am not implying here that the United States is in any danger of being brought to ruin by clever propaganda designed to elicit broad public support for enormous increases in federal spending; at least not anytime soon. But I do think these huge gains in federal spending have negative implications that are worth watching, most of which are not obvious to the average citizen, alone or in a crowd.

I know what you're thinking. "Oh boy, here he goes with the familiar litany of conservative arguments against 'big government'; expensive regulatory burdens; the creation of dependency; inefficient use of resources; promotion of corruption."

But I am going to forego that temptation and instead make the case that something new is afoot in the world of bigger and bigger government, something that is potentially just as insidious but well outside the concerns of the old-line conservative community. Space doesn't allow for a comprehensive discussion of this phenomenon here. A long book might be a better vehicle. But the following will, I hope, provide food for thought on the subject, and set the stage for another more direct look, possibly next week.

For starters, it is, I think, important to keep in mind that the spending spree in Washington has become incredibly bipartisan in nature. A few Republicans still utter an occasional plaint against excess spending. But these are little more than empty, ritualistic tributes to their conservative antecedents, whose images, like those of ancient gods, are still heralded but whose admonitions and teachings have long been considered out of fashion.

It is also important to understand that federal spending today has little, if any, relationship to the old rich vs. poor or capital vs. labor paradigm that once helped define the two parties. People at the low end of the income distribution curve indeed receive more federal money than they contribute. Democrats can justly say that they take the lead in representing the interests of the lower-income groups. But the federal spending system today is not geared to this end.

The great bulk of federal money finds its way back, through a variety of goods and services, to the great middle class that rendered it to the government in the first place. This recycling process works in many ways: federal jobs; private sector jobs made possible by federal funds; federal "entitlement" programs, such as Social Security and Medicare; direct grants to state and local governments and to a variety of private organizations; a seemingly endless stream of pork-barrel projects; this year, tax cuts and withholding reductions; an astonishing array of subsidies and incentives designed to help favored groups, such as "enlightened" corporations, farmers, homeowners, loggers, fishermen, parents with kids in day care, immigrants, pet owners, zoo goers, bird and whale watchers, and heaven only knows what else.

To use academic public policy terminology, today's governmental spending is, for the most part, not redistributive but distributive, meaning that the process isn't designed to take money from one group (the rich, for example) and give it to another (the poor), but to take it from everyone and give it back to everyone in the form of direct payments or favors of one kind or another, after exacting what is usually referred to in not-so-polite company as vigorish.

The word vigorish, as I use it here, is a gambling term, meaning, "a charge taken on bets by a bookie or gambling establishment." It is appropriate here, I believe, because, in a very real sense, the American tax system has become something akin to casino gambling, whereby everyone "contributes" to "the house," which returns all but a fixed percentage (the vigorish) back to the players, either through direct payouts or through "comps," or favors of various kinds.

In the casino, the players happily accept paying this vigorish because they hope, through a combination of skill and luck, to get back more than they contributed at the expense of the other players. The game in Washington isn't voluntary, so most of the players aren't as happy about the whole thing. But the idea is the same. The big difference is that luck has nothing to do with determining winners and losers in Washington.

In the Washington game, the big winners are those who hire the best professionals to play the game for them. These players are called lobbyists, and more often than not, the most effective among them are those who are provided with the most generous amounts of money with which to grease the palms, via "campaign contributions," of the men and women who run the game.

One of the most interesting things about this Washington game is, I believe, how successful a player corporate America has become. Yes, some corporate players are losers. But the vast majority, particularly the very big players, has developed surprisingly effective systems for "beating the house," which actually means getting back more than is put in.

Indeed, the very large entities that make up corporate America have become such big winners that the classic conservative concern that a socialist American government would end up running and, in the process, ruining American business is, I believe, rapidly becoming passū.

What we are seeing instead is a government that is increasingly influenced by contributions from a business community, which has learned, among other things, that oftentimes a competitive edge can be delivered by "friends in Washington" more easily than it can be gained in the marketplace; that "onerous" regulation can put small competitors out of business more easily and more cheaply than price competition, leaving the field to the big guys who can then easily pass the high regulatory costs along to the consumers; that partnerships with the federal government to manage all sorts of problems, big and small, can be quite lucrative; and that a little help from the feds can provide a smart company with a huge edge in the world marketplace.

In short, the time may be fast approaching when true conservatives worry less about the governmental takeover of American business than they do about the consequences of a "corporatist" state in which the government and big business collude to pursue ends that would significantly lessen competition, promote corruption, and eventually impinge on traditional American freedoms.

If all goes well, I will put a little meat on this theme in next week's issue. In the meantime, the dealers are gone, the house is closed, and the Union is safe, at least for now.

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