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Politics and Markets

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Stepping Back from Crazy (Part 1)

We are moving through a time in which nonsense seems to be in fashion. Claims made by politicians and political observers are either just plain bizarre or so plainly governed by group-think that they are surreal. Unfortunately, what is surreal can also be dangerous. Here are a few claims that get made by pols and “pundits,” along with what I think are their weakness (wackiness?).

Government is too big

Perhaps it is. But just how big (or small) should “government” be – in a country with 312 million people, a GDP of \$14 trillion or so, and that is looked to (for better or worse) as the leader of the free world? Should the federal government’s size be equivalent to say, the UK’s, Canada’s or Australia’s, each of which has smaller populations, less wealth, and takes secondary or tertiary positions when it comes to exigent international affairs and international crisis management?

Now, it is not as though there is no sense at all to the slogan “government is too big.” If what is meant by it is something like, “Government needs to justify the amount of money it takes from its citizens, and we suspect that it can’t,” well, that can be a claim worth discussing. Its truth would be borne out by the facts, to the extent that facts still matter. But as a claim with no reference to a plethora of considerations – such as those just mentioned – it is pretty vacuous, just as the claim “government is too small” would be vacuous.

Ironically, “government is too big” is a slogan that both Republicans and Democrats can put to use if the point is to challenge aggregate government spending – albeit for different reasons. Republicans think New Deal-type “redistribution” is tainted with moral and political traps, and Republican libertarians look at such “redistribution” as a kind of theft from taxpayers who have to pay for it.

Thinly veiled in the rhetoric of Democrats, and especially the party’s more progressive wing, is the notion that government largesse in the form of a huge military-industrial partnership, along with a vast “security” establishment (which has gotten more vast over the past decade), is the equivalent claim, i.e. that “government is too big.” And progressives tend to think that profligacy is in no way “a Democrat thing.” The national debt left the stratosphere of billions of dollars and headed into the ionosphere of trillions of dollars under **Ronald Reagan**, not **Jimmy Carter**. The current fiscal crisis is in large part attributable to two off-balance-sheet/off-budget wars – wars funded by years of “Continuing



Resolutions” (Congress’s euphemism for off-budget spending) – launched by **George W. Bush**.

The idea that only the welfare state should be considered “government” but that the military/security apparatus of the state should not be is, on its face, ridiculous.

Business is unregulated, thus the current mess

This claim is simply false. The statutes and regulations with which businesses must contend are head-spinning, whether the industry is aviation, financial services, agriculture or some other. And the claim by many self-described pro-business Republicans that businesses sometimes buckle under the costs and burdens of regulation is often apt. That’s one of the reasons that analysis of the burdens of new regulations must be considered before finalizing them – why regulators seek comments on proposed regulations from the industries they regulate so that they can get a sense of the costs and burdens. (Just recently (January 2011) the president issued Executive Order 13563 “to modernize our regulatory system and to reduce unjustified regulatory burdens and costs.” Of course, the key word here is “unjustified.”)

If there are so many regulations, how did the Deep Water Horizon accident happen? Why is it that Lehman Brothers and Bear Stearns are no longer around? Critics can very well add a thousand additional questions to these. Scandals and crises in business abound. If you want to read about them all, you will need to clear your schedule for quite some time. Further, there is no indication that scandals will cease – not now, and perhaps not ever. Sad, but true.

There is no doubt that lobbying efforts water down the effectiveness of regulation, and politicians are sensitive to business concerns, since it is business that employs many of their constituents. Lobbyists are hard at work trying to water down many of the rules mandated by Dodd-Frank, just as they were hard at work watering down Sarbanes-Oxley, CAFE standards, and coal mine safety laws in West Virginia. The mode of lobbyist access to members of Congress needs to be rethought.

But many scandals, market disruptions, and systemic crises are caused not by lobbyists or bad regulation, but rather by poor management, poor judgment by corporate officers and professionals, poor corporate governance (e.g., rubber stamp boards), and willful intent to do the wrong thing (a la Bernie Ebbers of WorldCom, Jeff Skilling of Enron, and the Rigas family of Adelphia, to name just a few). These factors regulation cannot always address, and it is naïve to think that it can. How do you effectively regulate stupidity, foolhardiness, or human error when you can’t know the forms they will take?

For and Against Redistribution

Mitt Romney and Paul Ryan have decided to warn the country about “redistribution.” This concern about “redistribution” is meant to suggest that the Democrats wish to use the tax code – surreptitiously – to take from the wealthy to “give” to the “poor.” But among the largest group of beneficiaries of actual “redistribution” are the elderly, who rely on Medicare to cover sometimes enormous health care



costs. But neither Romney, nor Ryan has the courage to say plainly that Medicare should go.

In fact, taxation, at its very core, is a form of “redistribution.”

There is another danger in Romney and Ryan desecrating “redistribution.” The tax code and other laws have tended to favor a climate in which real average wages have fallen for the average American since the 1970s, while Republicans have focused on tax cuts for the wealthy and relatively wealthy. At the same time, the wealthy got wealthier. It is often claimed that this is because of technology improvements and innovations, and increases in productivity. That may be, but that rings hollow to those who can’t afford to pay for college for their kids, or the millions of households that require two incomes just to stay above water financially.

So is “redistribution” up OK, while “redistribution” down to those who could use some help is not OK?

In Part 2 I will discuss such notions and matters as Ron Paul-style libertarianism, Keynesians and Hayakians, the notion of perfect security, the banter about values, and the notion that only local government gets things right, and that “states’ rights” should always evoke dark chapters in our history. Stay tuned.

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