

Big Business, Big Government, and Libertarian Populism

President Obama took office promising to change the way politics is done in Washington. No longer would the special interests run policy and no longer would government line the pockets of its friends at the expense of everyday Americans. But a year later, Washington looks unchanged. Big Business is still in bed with Big Government and Obama's promises have been broken. At a Cato Book Forum in January, Timothy P. Carney, lobbying editor of the *Washington Examiner*, explained why this disappointment was probably inevitable. In his book, *Obamanomics: How Barack Obama Is Bankrupting You and Enriching His Wall Street Friends, Corporate Lobbyists, and Union Bosses*, he traces the role of lobbying interests in politics. Commenting on Carney's book were Uwe Reinhardt, James Madison Professor of Political Economy at the Woodrow Wilson School of Public and International Affairs at Princeton University, and *New York Times* columnist Ross Douthat.

TIMOTHY P. CARNEY: It's April 2008. Barack Obama is up against Hillary Clinton in the primaries. He has a lead. He's got to knock her off. His whole thing, vis-à-vis Republicans and Hillary Clinton, is that he's the guy who's going to clean up Washington and limit the special interests. He runs an ad in which he says:

The pharmaceutical industry wrote into the prescription drug plan that Medicare could not negotiate with drug companies. And you know what, the chairman of the committee who pushed the law through went to work for the pharmaceutical industry making two million dollars a year. Imagine that. That's an example of the same old game-playing in Washington. I don't want to learn how to play the game better. I want to put an end to the game-playing.

A few months later, Billy Tauzin, the Pharmaceutical Research and Manufacturers of America (PhRMA) lobbyist and former committee chairman Obama was talk-

ing about, gets a seat at the health care table. As the *Los Angeles Times* put it, "Obama gives powerful drug lobby seat at the healthcare table." What happened, according to the *Times*, was that White House chief of staff Rahm Emanuel met Tauzin in the Roosevelt Room, which is just a few steps from the Oval Office in the West Wing, and they cut a deal: Obama would drop his opposition to the provision that Medicare could not negotiate with drug companies (the same deal, in the April 2008 ad, he castigated Tauzin for cutting). Nor would he go after the favor the drug companies get, where our government keeps out drugs from places like Canada that have price controls. The health care bill also contains hundreds of billions of dollars a year in prescription drug subsidies. In exchange, Billy Tauzin and the drug lobbyists said that, if you're in the Medicare donut hole, drug companies will sell you discount drugs. They also agreed to spend \$150 million running ads to support healthcare reform.

How did this happen? Answer: follow

PhRMA cash. Barack Obama raised \$2.1 million from the drug industry in 2008. That's about equal to what John McCain raised, plus what George Bush raised in both of his elections *combined*. It's the most, by far, anybody's ever raised from the drug industry.

What's going on here is that whenever government gets involved, the door opens for special interests to get their way. Contrary to the common myth, big government ends up benefiting the biggest businesses.

This is governed by a few laws—I call them the laws of Obamanomics, but they were true from George Bush all the way back to Alexander Hamilton. First, *whoever has the best lobbyist wins*. If government's not involved, having a lobbyist isn't worth very much, but once government gets involved, buying the best lobbyist wins you the little details in the bill. Second, the *overhead smash*: regulation adds to overhead and the cost of doing business. But that overhead is always easier to bear if you're a big business. Often getting regulated is *profitable* when you're a big business, because it crushes the small guys. Finally, the *confidence game*: whenever you see Republicans talking about why we need Wall Street, they say "we need to *restore* investor confidence in Wall Street." Government benefits big business because it provides confidence.

It boils down to this. Every time government gets bigger somebody is getting rich. That's the general theme through my book, and I think it's a theme that's increasingly being perceived since the Wall Street bailouts. People no longer find it easy to say that what Wall Street wants is some *laissez-faire* Wild West where they're left alone. But it's missed too often when people try to tell the story.

Let me give two examples. The first is climate change. Nike got applauded when it left the Board of Directors of the Chamber of Commerce over climate change, because, oh, Nike must *care* about the planet—it

wants to regulate greenhouse gases! Nike makes all of its shoes in Malaysia, Indonesia, China—outside the United States. Regulating greenhouse gases here doesn't add to their costs. But New Balance, one of their smaller competitors, makes its shoes in New England. They *would* be hit by these costs. So Nike is saying *we want you to tax our competitors' energy*, and they're getting applauded for it.

Second is the bank bailouts. There's a cartoon where a customer is standing in line at a bank and the teller says, from behind the counter, *this is a bailout!* and sticks a gun out, robbing the customer. Obama says he's battling and being tough on Wall Street, but we can poke huge holes in that. First, he re-nominated Ben Bernanke, who was Captain Bailout. The guy who came up with the original ideas for the AIG bailout and the Bear Stearns bailout was New York Federal Reserve president Timothy Geithner. And, if you've been following the headlines, Geithner has been aggressively trying to hide exactly what was going on in those early bailouts. And Obama made him the treasury secretary. Geithner's chief of staff at treasury is a former lobbyist for Goldman Sachs. Rahm Emanuel used to be a consultant for Goldman Sachs. Obama has proposed more bailouts, and his financial reform looks like it's institutionalizing bailouts.

My point is not that Obama is some sort of evil shill for big business. My point is that, when government gets bigger, big business ends up profiting. *Both parties* are the parties of big business.

UWE REINHARDT: Tim's *Obamanomics* is a stunning read. It is revealing in many ways. It's stuff we knew, but it's put together in a way that irritates you and makes you angry and reflective—and worried about our country's future.

I liked the passage, on page four, where Tim writes Obama's "policies favor Big Business, not out of nepotism or corruption, but out of tactical necessity—he needs powerful allies—and out of economic reality: expanding the government tends to boost Big Business." And that is certainly true. Big Business owns America, not the American people. They just live and work there.

So the themes in this book are that big business makes tons of profits off federal spending and therefore favors it. Big business loves regulation. The business oligarchy can and does purchase the protection of Congress by buying legislative favors. Candidate Obama made statements and promises during his election that are belied



Timothy P. Carney

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by his conduct as president. And so on.

To my mind, the central theme of *Obamanomics* is that America's system of governance sucks. Ours is a very untoward way to run a government when you come to think of it. I come from parliamentary systems—Germany and Canada—where you cannot buy legislators retail and you cannot even buy the party wholesale. I don't know how they buy influence, but it is illegal to do what is perfectly legal in this country. We have debased democracy.

Let me look at some of the chief complaints of *Obamanomics*. First, he argues, big business makes profits off government. But what, exactly, is it that bothers Tim about this? You have soldiers who need guns and tanks and missiles and stuff. So government

collects money from the taxpayer and pays the private producers who make guns, and bombs, and stuff for the soldiers. How can you avoid this? The only alternative is that government collects taxes, makes the stuff itself, and then gives it to the sailors. Is that to be preferred?

When the movie *Platoon* came out in the 80s, our kids were very little. I took them to see it and they were white as a sheet coming out. And I said, "Hey, you are upper middle class kids, this isn't going to happen to you. You aren't going to be in the rice paddy. There will be others doing that, mainly from the lower income classes. You are going to be shareholders in the defense industry, and every time a gun goes *rat-tat-tat*, you'll make some profits. And every time a missile goes down, you'll make some profits." That is how national defense works these days.

But what seems to bug Tim the most, and me too, is that the business oligarchs whose firms produce things for government do not just deliver efficiently produced stuff to government at reasonable prices, but that with their tax-financed profits they can then literally purchase the affection of the legislators who then steer even more profits to them. It is a sort of circular flow of money, but not the one we teach students in macroeconomics.

And here you have to blame the First Amendment—who ever thought that purchasing legislators is an expression of free speech protected by the First Amendment? I didn't think that's what was meant by the First Amendment, but the *Wall Street Journal* pushes it all the time.

Now imagine an elderly woman without any net worth. That is not uncommon in American life—you come to 65 without much net worth. Would the private health insurance industry take care of her? No, it can't. Should she just be left alone to die? Do we want this? No. So you're going to have government look after her, and you have the same circular-flow-of-money story here once again. Her health care can be government produced, like for veterans. But typically we use private producers to serve government-insured Americans. The board of directors of the largest insurance company in America can't actually take money from vendors, but

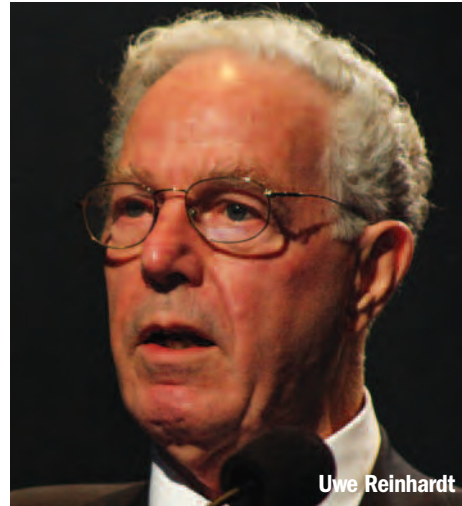
the House Ways and Means Committee and the Senate Finance Committee can do exactly that, and they are the board of Medicare. Once again we see why big business might like government spending.

Secretary of State Hillary Clinton was recently reported to have raised private money for a pavilion in China. Why does our secretary of state have to do this for a private-sector pavilion? I would tell American businesses, if you can't get your act together, don't go to China. Let the Chinese have that spot. They would probably know what to do. But don't ask the secretary of state of a great country to go fundraising for you to put up a pavilion for the United States. Why didn't you pay for this yourself? And heaven knows what favors the secretary of state now owes the folks who ponied up money for the pavilion. "None," they'll protest. Oh, yeah?

And all this is going to get worse. OpenSecrets.org observes that every four years the cost of a presidential election doubles. This leaves health spending in the dust. Every four years, from \$340 million in 2000, to \$740 million in 2004, to \$1.3 billion in 2008. Soon our politicians will need to mortgage their souls unless we stop this mad trend.

Tim writes that President Obama made statements during the campaign that were lies. Like Captain Renault in the movie *Casablanca*, I am shocked, just shocked. Now let me be truly outrageous and sacrilegious. Suppose President Ronald Reagan had said during his campaign, "If I'm president, I may deploy U.S. marines to the Mideast, and if they get hurt there, I'll just pull out again, pull down the flag and run." He didn't say that in the campaign, of course. Far from it! But he did just that when he was president. Or suppose he'd said in the campaign, "I'm going to expand the government-run health insurance program called Medicare to give the elderly coverage for prescription drugs and call it 'catastrophic coverage.'" On top of that, if elected I will implement administered prices for hospitalized Medicare patients, a Soviet-style system in which the central government sets prices for the whole country," which he actually did, in 1983. Finally, suppose he had said that "I'm going to give the

American people a massive tax cut, but I also won't cut government spending, so I propose to increase the federal deficit throughout my term and hope my successor will do the same." Spending was out of control in both the Reagan and Bush administrations. Reagan ran on the slogan that he'd balance the budget by 1984, but



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no such thing ever occurred. Do we remember him as an inveterate liar?

A major tragedy in our democracy is that the American people just do not want to hear the harsh truth during an election campaign. They want mellow messages that if the candidate before them wins, everything will be made right painlessly. That's what we want. And that is why politicians say one thing during an election and often do the opposite once they govern. They are not liars in the ordinary sense of that pejorative word. They merely state "unavoidable and justifiable untruths"—unavoidable by any candidate who seeks to win an election among a people that, as Jack Nicholson puts

it in the movie *A Few Good Men*, cannot handle the truth. If we the people want to know why politicians lie to us, we should look into the mirror. We'll see the culprits.

Tim's is an eye-opening book that should give American citizens pause as they boast to the rest of the world that we have the best government in the world. I'm no longer convinced of that, given how we finance it. I would offer two alternative titles for Tim's book, however. One is *If You Ever Again Trust a Presidential Candidate's Word, You May Want to Buy My Oceanfront Property in Iowa*. That would have been a very good title. Here's another: *What Were the Founding Fathers Smoking When They Gave Us a Government that Sells Economic Favors Retail?*

ROSS DOUTHAT: That's kind of a tough act to follow! But it's part of something very interesting about the current political conversation in Washington; you have a fascinating left-right convergence as the realities of liberal legislating become more apparent. This is happening, I think, because there are a lot of people on the American left who cut their teeth in politics during the Bush era and for whom this was their first profound experience of government and misgovernment. They came into the Obama era with blithe assumptions about what governance by their own side would mean. Now they are coming to terms with the fact that a lot of what they hated about contemporary Washington in the Bush years was actually the direct result, as Tim rightly points out, of having built a big, expensive government that every corporate big shot in America feels the need to influence.

It's also been interesting to see the liberal response, which has been defined by complaints about the "structure" of the U.S. government. And this is, I think, one of the most interesting turns in the political conversation in Washington recently. You have prominent liberal pundits, young and old, at a time of seeming liberal triumph crying out that our government is broken.

On the conservative side, I thought I'd just talk briefly about what the conservative response should be and whether one is really possible, or whether conservatives should

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Dan Griswold tours in promotion of *Mad about Trade* Free Trade's Tireless Crusader

If there is any area of policy that ought to be settled, it's the economic benefits from unrestricted free trade. Adam Smith made the case convincingly the same year America declared its independence, but almost two and a half centuries later there are still those who would use protectionism to shackle the many for the benefit of the few.

Free trade remains a message every bit as worth fighting for today as it was in 1776. Daniel Griswold's book *Mad about Trade: Why Main Street America Should Embrace Globalization* has been both a hit for the Cato Institute and an important salvo in this fight. First reviewed in the November/December 2009 issue of *Cato Policy Report*, *Mad about Trade* presents a clear-eyed, optimistic, and accessible argument for the virtues of open and unencumbered trade. *Publishers Weekly* praised the book for explaining "the complicated mechanisms of world trade with brisk, easy-to-read prose."

The story of this significant book did not end with its publication, however. In

the months since its release, Griswold, the Cato Institute's director of trade policy studies, visited sites along the West Coast, as well as the Carolinas, New England, San Francisco, San Diego, Florida, and Chicago, speaking to student groups, think tank scholars, and concerned citizens. And even when he couldn't appear in person, Griswold spread the book's message through 10 radio appearances, from *Bob Harden's Morning Edition* on WGUF in Naples, Florida, to the *David Boze Show* on KTTH in Seattle, Washington, to the *Mike McConnell Show* on WLW in Cincinnati, Ohio. Among all this, Griswold wrote frequent *Mad about Trade*-related editorials in newspapers, magazines, and journals.

"Americans are bombarded everyday with misinformation about free trade from populists on the left and the right. *Mad about Trade* challenges the critics on their own turf," says Griswold. "The book tour has allowed me to explain how free trade affirms basic American values of compassion and fairness, competition and freedom, progress and peace."



Daniel Griswold speaks about his book *Mad about Trade: Why Main Street America Should Embrace Globalization* in December at the Yankee Institute for Public Policy in Connecticut.

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just say "Our government sucks and we have to deal with it." And that may be the place where we all end up. Tim, at the end of his book (as all political books must do), makes some targeted suggestions for reform, and he also makes a broader point about the spirit that the Republican party—if it is a conservative, free market, limited government party—should have in the age of Obama. It's a spirit of "libertarian populism." I think that's exactly right. I'm less of a libertarian than Tim myself, but I think libertarian populism is, in fact, the appropriate, American response to the frankly extreme marriage of government and business that has taken place in the last couple of years. (Of course this has been going on for decades, but it is a pretty astonishing state of affairs when you have the government essentially running the nation's largest auto manufacturer, its

largest insurance company, its largest banks, and so forth.) So I think that spirit is exactly right. You see it in the Tea Party movement and in politicians who are trying to harness the Tea Party movement (or be harnessed by it). I think that's healthy.

There are two problems with trying to implement libertarian populism, though. First, which is something Tim gets into in the book, is that Democrats may be becoming America's *other* party of business, but the idea of taking sides against corporate America is still foreign to many Republicans. The second problem—a deeper and longer-term problem for partisans of limited government—is that the most successful arguments that are being made by conservatives against the Obama administration's proposals tend to be defenses of middle-class entitlements. So the only way you could imagine an American government that simultane-

ously lives up better to the ideals that Tim is speaking about and does some of the necessary things that Professor Reinhardt is talking about, is a much more rigorously means-tested welfare state. That is something that the free-market side of the argument should be supporting. But, in fact, the free-market party in America oscillates wildly between sweeping denunciations of big government, on the one hand, and support for existing middle-class entitlements on the other. So, in the long run, even if some particular victories on regulatory fronts are won, if you look at the trajectory of government spending and government power in the United States over the next 50 years, it's all driven by entitlements. There's a great danger that the Tea Party movement, libertarian populism, and so forth could win some short-term battles, but use tactics that cause them to lose the larger war.