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#### 1 – THE TWILIGHT OF SPECIAL INTEREST POLITICS?

Jonathan Rauch, author of *Demosclerosis: The Silent Killer of American Government* (1995), has long been a proponent of “enlightened defeatism,” the belief that American government is forever and hopelessly trapped in interest group politics. Interest groups are intractable, in this view, because they are always able and willing to devote more resources to their specific causes and concerns than are guardians of the common interest able to mount resistance.

Also known as public choice theory, developed by Nobel Prize-winning economist James Buchanan, interest group politics seem to be the logical and inevitable end-point of democracy because individual voters are “rationally ignorant” of special interest costs. To take an example recently cited by Brian Wesbury and Robert Stein in *Forbes*:

Let’s say teachers could benefit by \$2,000 each per year (in higher pay or benefits, smaller classes, etc.) from a piece of legislation currently under debate. But the cost per taxpayer averages just \$15 per year.

The “special interests” (teachers and politicians) have substantial personal incentive to see that the bill is passed. Teachers, who benefit directly, will use time and money to lobby for the bill. And lawmakers will expect campaign contributions, votes or both, in exchange for their support.

But the taxpayer will remain “rationally ignorant” of the whole process. Why spend time even thinking about an issue when the cost is only \$15 per year?

Multiply this process by the thousands of special interests that lobby, petition and influence the public sector and it becomes clear why government will tend only to grow, never to shrink, crowding out the private sector. Over the decades the number of special interests has expanded exponentially, whether Democrats or Republicans controlled the White House or Congress.

But eventually this system must overwhelm carrying capacity. Debts, deficits, waste, inefficiency and voter/taxpayer fatigue must at some point render the special interest state untenable. Are we reaching this point? Wesbury and Stein write that this is what the “tea party” tax protests were really about, signaling renewed support for the idea of limited government. James DeLong, writing in *The American*, goes further, suggesting that the end of the special interest state is within sight.

#### THE THIRD AMERICAN REPUBLIC

The special interest state is the third iteration of American politics and policy, in DeLong’s analysis. The first was the Civil War and its aftermath, which established that sovereignty belongs to the nation first and the states second. This was not always obvious or a foregone conclusion. The upheaval of the Civil War also resolved a second major issue, favoring private action in pursuit of national markets and industrialization over governmental direction or influence.

The second great institutional upheaval was the New Deal, which radically revised the role of government. The crisis of the Great Depression provided government with a great opportunity

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to dissolve the limits of its authority, and this opportunity was seized. Responsibility for the functioning of the economy, and for the popular welfare, was now in government hands, in theory, law, practice and popular preference.

As governmental power expanded, though, it could not handle all of its new responsibilities alone. It needed to delegate management and implementation of tasks to those with administrative abilities or specific expertise. Hence the rise of agencies, legislative committees and subcommittees, and yes, interest groups. Eventually, perhaps inevitably, power came to rest with those with the greatest interest or the most money at stake. Thus was the Special Interest State created, with various interest groups seizing control over particular power centers of government and use them for their own ends.

It is this combination of plenary government power combined with the seizure of its levers by special interests that constitutes the polity of the current Third American Republic, write DeLong. The influence of "faction" and its control had been a concern since the founding of the nation, but now control of governmental turf by special interests had become imbedded in national life and politics.

And so the Special Interest State expanded, as it must: the higher the larger and more complex the government becomes, the higher the costs of monitoring it. This means that no one without a strong interest in a particular area can afford to keep track, and leaves the turf to the beneficiaries. And as existing interests dig in to defend their turf, new interests require continuing expansions of governmental activity on which to stake claims.

Special interests wield their power through laws, regulations and the tax code. Voters may object, and politicians may pronounce and promise, but nothing ever gets done to diminish special

interest power. In fact, special interests have become their own special interest: the millions of lobbyists, governmental officials and compliance officers that make a living from the system and resist all reform.

But the infelicities of the Third American Republic have grow tedious and tiresome, writes DeLong. It is time for a change; American progress cannot proceed without reform of the Special Interest State.

### **THE END OF THE THIRD REPUBLIC**

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This Third Republic has had a good run, and could continue, writes the author. It is characteristic of political arrangements that they go on long after their defects are so patent that they have exhausted their capacity for survival. But it is more likely that the Special Interest State has reached a limit. This may seem a dubious statement, at a time when the ideology of total government is at an acme, but DeLong offers a catalogue of the current regime's insoluble problems:

**Sheer size.** Government in the US consumes about 36% of GNP (federal and state combined). This does not reflect the impact of tax provisions, regulations, or laws, however, so an accurate estimate of how much of the national economy is actually disposed of by the government is impossible. Whatever it is, it is growing apace, and the current administration is determined to increase it considerably.

**Responsibility.** As the government has grown in size and reach, it has justified its claims to power by accepting ever more responsibility for the economy and society. Failure will result in rapid loss of legitimacy and great anger.

**Lack of any limiting principles.** There is no limit on the areas in which special interests will now press for action, nothing that is regarded as beyond the scope of governmental responsibility

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and power. Furthermore, special interests try to convert themselves into moral entitlements to convince others to agree to their claims. Compromise is regarded as immoral.

**Conflicts.** The combination of moral entitlement, multiplication of claimants, and lack of limits on each and every claim is throwing them into conflict, and rendering unsustainable the ethic of the logrolling alliances that control it.

**U.S. leaders do not grasp the situation.** None of the leaders of any branch are demonstrating an appreciation of the problems and limits of the Special Interest State.

Past presidents have understood the importance of keeping special interests out of the White House. They may have given up the agencies, but most ensured that the White House staff worked for the president, not for his constituencies. President Obama has no grasp of this.

We are in a crisis of legitimacy, writes DeLong. The concept of legitimacy, the right to rule, is the single most important factor in political life. The particulars of how it is gained and lost are infinitely varied, according to the culture and history of the polity.

In the United States, legitimacy is conferred by elections, but it is not total, he points out. Through the ages, the basic question mark about democracy as a form of government has been that 51 percent of the electorate can band together to oppress the minority – “the tyranny of the majority” is a valid concern. To address it, the United States has a formal written Constitution to guarantee basic rights, but it also has an unwritten constitution that sets limits on how far the winners can push their victories. Exceed the amorphous bounds, and not only does the minority no longer accept the legitimacy of the government, many members of the majority coalition will have a guilty conscience as well. As Thomas

Jefferson said, “Great innovations should not be forced on slender majorities.”

Over the past few years, political winners have become increasingly aggressive. Losers have become increasingly restive, ready to attack the legitimacy of the winners’ victory. This problem is a fact, and an important one, writes DeLong. In particular, if each party is regarded by the other as a principle-free alliance of special interests, eager to claim the government so as to loot the other side, then a large chunk of legitimacy is lost.

## WHAT COMES NEXT?

Given these trajectories and the lack of any mechanisms for altering them, writes the author, it is hard to see how the polity of the Third Republic can continue. But it is difficult to see any self-correcting mechanisms in the Special Interest State. Quite the reverse; the incentives all seem to be pushing the accelerator rather than the brake.

And yet. Consider the expansionist nature of the Special Interest State. Writes DeLong: “If its evolution cannot be reversed, and the tendency toward expansion cannot be checked, and if at the same time the arrangements cannot expand forever, then we seem to have a paradox, because what cannot go on must stop. If the evolution cannot be reversed, and mechanisms of gradual adjustment are lacking, abrupt tectonic shifts are the only alternative. Change will not necessarily be violent, though that is certainly possible, but it could be sudden. If one characteristic of political arrangements is to continue longer than one might think possible, another is that when they change, they change with amazing speed.”

So what will the Fourth American Republic look like, and how will it come about? The answers are clouded and depend to a large extent on the outcome of the current economic crisis. If it grows severe, writes DeLong, the change will

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be quick and explosive. If this immediate crisis is alleviated, then change may have to await the next one, which will certainly come as more and more sand gets thrown in the gears of the Special Interest State.

Two possibilities for change seem most promising, he believes. The first is a third political party that explicitly repudiates the present course and requires that its members eschew the legitimacy of the Special Interest State. This would require a certain almost religious fervor, but the great tides of history and politics are always religious in nature, so that is no bar.

This second would be more bottom-up. The Constitution has a residue of the original alliance-of-states polity that has never been used. Two-thirds of the state legislatures can force Congress

to call a constitutional convention, and the results of that enterprise can then be ratified by three-quarters of the states. So reform efforts could start at the grassroots and coalesce around states until two-thirds of them decide to march on the Capitol. There is already a lively movement along these lines. On the other hand, the states are no paragons, in that the model of the Special Interest State reigns triumphantly there as well, so a few comments about pots and kettles could be made. Realistically, though, organization from the bottom up is a real possibility.

It would be unwise to treat these issues with anything other than utter sobriety, concludes DeLong. The nation made a fundamental political transition peacefully on one occasion, and only with appalling bloodshed on another.

## 2 – KEYS TO ECONOMIC RECOVERY: INNOVATION, TECHNOLOGY, PRODUCTIVITY, COMPETITIVENESS

Pessimism about America's future is growing. People worry about the long-term impact of the housing crisis, global competition, and expensive energy. And the policy solutions offered by Republicans and Democrats – mainly tax cuts and government spending programs – seem insufficient.

Yet beneath the gloom, economists and business leaders across the political spectrum are slowly coming to an agreement: Innovation is the best – and maybe the only – way the US can get out of its economic hole. New products, services, and ways of doing business can create enough growth to enable Americans to prosper over the long run.

Historically, technological change has been the biggest force for productivity growth in the US. The latest figures show that “multifactor productivity” – a category that includes technological change and other improvements in business processes – accounted for 45% of productivity gains between 1987 and 2007. What's more, the best way to keep the US competitive is to bank on

promising new ideas. America still is a leader in resources devoted to innovation, as measured by the share of gross domestic product spent on R&D and higher education.

– Michael Mandel, *Business Week*

The United States accounts for 40% of total world R&D spending and 38% of patented new technology inventions by the industrialized nations of the Organization for Economic Cooperation and Development (OECD), employs 37% (1.3 million) of OECD researchers [full-time employees], produces 35%, 49%, and 63%, respectively, of total world publications, citations, and highly cited publications, employs 70% of the world's Nobel Prize winners and 66% of its most-cited individuals, and is the home to 75% of both the world's top 20 and top 40 universities and 58% of the top 100.

– Titus Galama and James Hosek, “US Competitiveness in Science and Technology,” RAND Corporation National Research Defense Institute