



IN THIS ISSUE: POLICY, NOT POLITICS

I don't write or talk about electoral politics much; I prefer to focus on public policy and its effects. Generally my political philosophy is libertarian ("that government which governs least governs best"), although I also believe in preserving that which is worth preserving, such as our American heritage (and not necessarily through legislation). I mention this in light of recent political/policy issues that have garnered a lot of attention: the size of government, income inequality, and job creation. I devote this month's *Growth Strategies* to these subjects. To some, these three items may seem to be about partisan politics, but I would argue they are in fact about policy.

1 – US POLICY HAS GONE LIBERALS' WAY FOR 70 YEARS

2 – WHY DEMOCRATS ARE THE PARTY OF INEQUALITY

3 – JOB CREATION

1 – US POLICY HAS GONE LIBERALS' WAY FOR 70 YEARS

Government seems only to grow, never to recede. This is the ratchet effect – government policy moves in only one direction: larger (more laws, more regulations, more taxes, more spending, more bureaucracy) and then, like a ratchet, locks in. Smaller-government proponents can never hope to reverse this process – the best they can do is slow it down. Some 16 years ago in these pages I quoted Jonathan Rauch, author of *Demosclerosis* (1994), to the effect that this was a permanent condition: the American government is no longer controlled by politicians and voters but by the countless thousands of client (interest) groups.

Americans would like to change this, but they cannot. An all-time high 53% of Americans believe that neither major political party represents the American people (Rasmussen); only 29% of Americans believe the country is headed in the right direction (Real Clear Politics); a record-high 65% of Americans are dissatisfied with the US system of government and its effectiveness (Gallup); 70% of Americans have no confidence in government and wouldn't expect change even if every incumbent were turned out (Center for Public Affairs Research). No wonder voter participation

is so low: Americans do not feel their vote will matter, and in this they are correct.

Matt Grossmann, a political scientist at Michigan State University, confirms and updates this sad truth in [The Washington Post](#). He notes, first, that "liberals" blame "conservatives" for government dysfunction. (Using "liberal" in its modern meaning of favoring the visible hand of government, not classic Liberal in the sense of favoring the invisible hand of the free market, combined with individual autonomy and responsibility). In response to being called obstructionist, conservatives make two simple claims: that most policies under debate are liberal, and that Republican leaders sacrifice conservative principles when they compromise.

History confirms conservatives are right on both counts, concludes Grossmann. Combing through hundreds of history books covering American public policy since 1945, tracing the most significant domestic policy changes that made it into the law and the actors that historians credit for those changes, he finds the following:

Of the 509 most significant domestic policies passed by Congress since 1945, only one in five were conservative, in that they contracted the

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scope of government funding, regulation or responsibility. More than 60% were liberal: they clearly expanded government. The others offered a mix of liberal or conservative components or took no clear ideological direction. When significant policy change occurs in the executive branch, it is even less likely to be conservative: only 10% of the executive orders and agency rules that policy historians cited were conservative.

Even labeling as conservative policy government expansions in pursuit of conservative goals, such as traditional values or tougher sentencing, makes little difference in this conclusion; few significant policy changes fall into this category, though we hear about them often in campaigns.

Not surprisingly, liberals play a greater role in bringing about new policy. Historians credited twice as many liberal interest groups as conservative groups with policy change. Democratic politicians also played more frequent roles. The most active Republicans, such as President Richard Nixon and Senators Jacob Javits and Bob Dole, supported mostly liberal and mixed policy changes, rather than conservative changes. Republican involvement in policy has meant compromising with liberals to expand government or trading contraction in one place for expansion in another.

There is a good reason why conservatives are often charged with obstruction. When government is more active, it is usually moving policy to the left. When Congress has doubled its normal productivity, many more liberal laws pass but not necessarily more conservative laws. There was only one session of Congress, the two years after the Republican takeover in 1994, that was both active and conservative, but it did not last. Under President Ronald Reagan, the executive branch made more conservative policy changes only during the first two years of his presidency. Productive policymaking means

more domestic spending, more business regulation and wider government responsibility.

These trends are not a product of the unique perspective of policy historians, notes Grossmann. Other scholars' analyses of major laws identified by journalists find similar results but even less conservative lawmaking. Liberal policies are self-reinforcing because they create beneficiaries who act as constituencies for their continuation and expansion. Policy debates center on what additional actions government should take, not whether to discontinue existing roles.

The view that normal legislating and bipartisan compromises lead to expanded government is no tea party illusion; it is an accurate reading of the past 70 years.

To be sure, the conservative failure to shrink government does not imply constant liberal victory; "no change" is still the most likely outcome in any legislative battle. But the federal government has continually expanded its role in education, civil rights, the environment and health care – and Republican presidents have played large roles in this. Nixon entrenched the Great Society and oversaw the environmental revolution. Reagan was less active domestically but signed more government expansions than contractions. President George H.W. Bush brought us landmarks such as the Americans with Disabilities Act, and his son brought us No Child Left Behind and a new Medicare entitlement.

This history does not bother some Republicans, who see opportunities to fashion new ideas and bargain in pursuit of conservative objectives. But even past policymaking designed to promote markets, safeguard morality and protect the homeland usually expanded government.

The arc of the policy universe is long, but it bends toward liberalism, concludes Grossman.

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- Strategic business direction
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- Trend identification and analysis
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2 – WHY DEMOCRATS ARE THE PARTY OF INEQUALITY

Democrats have adopted economic inequality as a central issue (Republicans respond by emphasizing economic opportunity and mobility). But according to a recent [study](#), income inequality is lower in Republican congressional districts than in Democratic ones.

Another [study](#) from the National Urban League shows that economic inequality by race is concentrated in left-leaning cities, particularly in the North: “the San Francisco-San Mateo-Redwood City metropolitan area has an astonishing \$56,000 white-black gap in household median income. The white-black gap in the Minneapolis-St. Paul-Bloomington metro area is about \$40,000.”

As Robert Tracinski points out in [The Federalist](#), a lot of liberal northern cities have truly lousy track records of fostering black-white economic equality, as well as integrating neighborhoods and schools. But these are the result of public policies that liberals propose, support and defend, such as restrictions on building, and strict zoning laws. These policies influence housing prices, and housing prices influence inequality. Resistance to growth and sprawl in liberal California cities such as Santa Monica and Berkeley, evidenced by the issuance of few housing permits, is a driver of high housing costs.

That is a problem in cities [across the country](#), notes Tracinski, citing an analysis for *The New York Times* by Zillow. A great case study is what has happened over the past 40 years to the city of Chicago, which has become segregated by income, race, and housing affordability into affluent, desirable areas and those far less so. Housing policy and zoning laws are the main drivers.

As I have written on [NewGeography.com](#), laws and regulations concerning land use, zoning, building codes, permits, property taxes and the

like have had the unintended consequence of killing geographic, and hence income, convergence – the unique forces that built the United States and the wealth of its inhabitants, *and that fostered economic and social equality*.

This trend toward stratification *as a result of public policy* (however inadvertent) extends to city services, such as public transportation, public schools, and public safety. Put this all together, writes Tracinski, and the picture is deeply ironic and cynical. Democrats are enamored of rhetoric about inequality and class warfare, while their “top-bottom coalition” constituents (composed of the wealthy, educated elite and the urban poor) are far more likely than Republicans to live in American equivalents of Rio de Janeiro, a class society starkly divided into really nice neighborhoods and the not-so-nice. Therefore, he concludes:

“The Democratic Party is the party of inequality. They are the political faction that has a vested interest in inequality, because they depend on appeals to guilt and envy. To upper-middle-class elites, they promise to alleviate any spiritual discomfort caused by contemplating their relative good fortune, by the easy expedient of voting to spend a little extra money on welfare handouts – preferably the money of somebody just a little bit richer than them – rather than doing anything that would actually help the city’s poor find jobs and housing and transportation. For the poor, they promise to take the rich down a notch and distribute some of the loot.

“This is the Democratic agenda across the board. It’s almost as if they want there to be a vast rabble of the poor who look upward for political saviors, rather than a thriving independent middle class that just doesn’t need them.”

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3 – JOB CREATION

The pattern is repeated in regards to job creation. Democrat Party policies seek to stimulate job creation by public spending, additional public sector jobs, and “industrial policy” (choosing promising companies in promising industries and backing them with public funds). Republican policies seek to stimulate private sector business investment and hiring. Which strategy has the better track record?

According to [data](#) compiled by Michael Bargo Jr., policies that stimulate the private sector are more effective than public sector expansion in increasing average wage growth, median income, labor force participation, take-home pay and job growth, while reducing income inequality.

This is not surprising because public spending does not drive the economy; indeed, public spending can only come by taking resources from the private sector. The real economy of real productivity and real jobs comes from business spending, which leads to profits and growing employee income. And as of right now, [business capital spending is flat](#). Corporations are sitting on lots of cash, and interest rates are very low for credit-worthy companies, but when companies do spend money, it's to lower operating costs through labor or energy savings. Few companies are increasing their productive capacity (aside from energy, agriculture and high tech), because the investment environment (including future tax and regulation policy) is uncertain.

So instead of making long-term investments that would create tens of thousands of jobs, companies have held onto their profits and gone into a defensive crouch. Or they've stashed their money overseas. Don't expect job growth to pick up dramatically until policies change. Policies matter, not politics.

As Richard Epstein [writes](#):

The correct policy choice is strong deregulation of

labor markets, which will spur higher labor market participation, albeit at somewhat lower wages. But once people get into the labor force, they can hone their skills in ways that will allow them to command higher wages. Government mandates can never lead to sustainable wage increases. Higher levels of labor productivity can.

This critique is equally applicable to all labor market interventions, including minimum wage laws, overtime rules, family leave statutes, mandatory collective bargaining, and mandated healthcare benefits that likewise distort labor markets.

It is therefore disheartening to observe that the dismal failures in the current labor market have led to renewed calls for further government intervention at both the federal and state levels. More specifically, progressives are calling for a two-pronged program that couples increased unemployment benefits with increased worker protections on all these key fronts. This agenda will only deepen the current malaise.

It is just fantasy to think that the addition of any new constraint to labor markets will make matters better than they are. Efforts to make workers better off by making employers worse off will not have their desired effect. It is of course easy to take employers down a notch. But the second half of the program is far harder to implement, given that employers have incentives to minimize their losses from regulation, and will do what it takes to avert the adverse effect of new external constraints.

Labor markets are no different from other markets. They work because they create win/win relationships. In contrast, the government's regulatory efforts to create win/lose relations will not work. What those efforts will get are the lose/lose scenarios that have been the bitter fruit of recent labor market regulations.