November 17, 2011

Investor's.com editors react to the suggestion we have become "lazy."
We're starting to grasp how hard a job the president has. It can't be easy to rule a country filled with so many soft, lazy, greedy fat cats who can't make good stuff anymore.

At a business forum Saturday, President Obama complained that "we've been a little bit lazy over the last couple of decades." He apparently meant we've let foreign investment go slack, since "we aren't out there hungry, selling America and trying to attract new business into America."

But this is just the latest slur against the United States uttered by its leader.

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And that's when he hasn't been complaining about greedy Wall Street executives who think they deserve to make a profit.

But calling America lazy is going too far.

First of all, foreign direct investment has more than tripled over the past two decades. So it's hardly like businesses abroad haven't noticed that the U.S. is a good place to invest.

And while the president might have been too busy writing autobiographies to notice, the past two decades have shown an America that is anything but soft or lazy. Since our president doesn't seem to know about this, here's a quick review: ...

Craig Pirrong calls our attention to articles in WaPo and NYT about the dismal record of government investments in alternative energy projects. The Professor says if you're surprised by the poor results then you might be an idiot.
... These failures were predictable–and in fact predicted. But the predictions have been ignored. For decades, as the WaPo article points out in excruciating detail. Good money has been thrown after bad which had been thrown after worse. These decisions have been driven by political economy rather than economic calculation. If something needs a subsidy, that means it costs too much for the value it produces. Yes, there can be circumstances in which there is some value that is not internalized by the producer, in which a subsidy may theoretically be justified. But as the historical record makes abundantly clear, that's not what drives how subsidies are allocated: they come out of the political sausage grinder, and it is politics and political connections that turn the crank.

Whatever you think about ExxonMobil, they deserve credit for not buying into the "beyond petroleum" moonshinery of BP and some other supermajors in the last decade. During the Bush years, XOM CEOs Lee Raymond and Rex Tillerson steadfastly refused to commit capital into renewables and alternative energy, and resisted playing the subsidy game: they were *unabashedly an oil company, and didn't pretend otherwise. They had seen the boondoggles of the 1970s–remember Synfuels?–and didn't want to squander valuable capital on similar boondoggles in the new millennium. Unfortunately, Congress and two administrations–particularly the current one–haven't been quite so perceptive. As a result tens of billions of dollars have been wasted, and wasted predictably.*

Here's the **Washington Post** article. No surprise it is much better than the Times'.
Solyndra, the solar-panel maker that received more than half a billion dollars in federal loans from the Obama administration only to go bankrupt this fall, isn't the first dud for U.S. government officials trying to play venture capitalist in the energy industry.

The Clinch River Breeder Reactor. The Synthetic Fuels Corporation. The hydrogen car. Clean coal. These are but a few examples spanning several decades — a graveyard of costly and failed projects.

Not a single one of these much-ballyhooed initiatives is producing or saving a drop or a watt or a whiff of energy, but they have managed to burn through far more taxpayer money than the ill-fated Solyndra. An Energy Department report in 2008 estimated that the federal government had spent $172 billion since 1961 on basic research and the development of advanced energy technologies.

What does Washington have to show for these investments? And should the government even be in the business of promoting particular energy technologies?

Some economists, executives and financiers — as well as Energy Secretary Steven Chu — argue that the government must play a role because certain technologies have non-financial benefits, such as producing fewer greenhouse gas emissions or easing U.S. reliance on foreign oil. The semiconductor industry is often held up as a model of how government money can help build a new type of economy.

But others argue that the history of government attempts to reach for the holy grail of new energy technology — a history that features both political parties — is not inspiring. "We're making very large bets, and the decisions seem to be more grounded in politics and geography than in engineering and science," said Michael Graetz, a professor at Columbia Law School and the author of "The End of Energy."

Consider the saga of the Clinch River Breeder Reactor.

In 1971, President Richard Nixon set a goal of building an experimental nuclear power plant. The Clinch River reactor was supposed to be a sort of perpetual motion machine, producing power as well as plutonium that could be used in other plants.

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Then there was the Synthetic Fuels Corporation. ...

More on DC corruption from **Marc Thiessen's** OpEd book review also in the Post.
... Perhaps the most disturbing revelations come from Schweizer's investigation into the Obama Energy Department and its infamous "green energy" loan guarantee and grant programs, a program Schweizer calls "the greatest — and most expensive — example of crony capitalism in American history." The scandal surrounding Solyndra — the now-bankrupt, Obama-connected solar power company that received a federally guaranteed loan of $573 million — is well known. But Solyndra, Schweizer says, is only the tip of the iceberg.

According to his research, at least 10 members of President Obama's campaign finance committee and more than a dozen of his campaign bundlers were big winners in getting tax dollars from these programs. One chart in the book details how the 10 finance committee members collectively raised $457,834, and were in turn approved for grants or loans of nearly $11.4 billion — quite a return on their investment.

In the loan-guarantee program alone, Schweizer writes, "$16.4 billion of the $20.5 billion in loans granted went to companies either run by or primarily owned by Obama financial backers — individuals who were bundlers, members of Obama's National Finance Committee, or large donors to the Democratic Party." That is a staggering 71 percent of the loan money.

Schweizer cites example after example of companies that received grants or loans and documents their financial connections to the Obama campaign and the Democratic Party. And he shows how "the [Energy] department's loan and grant programs are run by partisans who were responsible for raising money during the Obama campaign from the same people who later came to seek government loans and grants."

There is much, much more, which means that when Schweizer's book hits stores Tuesday, heads in Washington are going to explode.

William McGurn notes how special crony capitalism is in Chicago.
New York gave us banks too big to fail. Washington bequeathed us Fannie Mae and Freddie Mac. Still, when it comes to crony capitalism, no one quite matches Chicago.

Soon the Illinois state legislature will meet in special session to consider the Chicago machine's latest favor: legislation designed to deliver tax relief to three of the state's largest companies. These tax breaks for the lucky few come just 10 months after the Illinois legislature approved what has been described as the largest tax increase in the state's history. It's no coincidence *that both have been supported by Gov. Pat Quinn and other top leaders of the state's Democratic Party.*

In so doing, Chicago is giving America a window into the logic of crony capitalism: Raise taxes on everyone—and then cut side deals with those big enough to lobby for special relief.

The legislature is considering this limited tax relief because three corporate mainstays of greater Chicago have threatened to leave without it. One is the CME Group, operator of the Chicago Mercantile Exchange, the world's largest futures exchange by volume. Another is the Chicago Board Options Exchange (CBOE), the world's largest options exchange. The last is Sears, one of America's oldest and most famous retailing giants. ...

David Harsanyi says, "Constitutional or not, ObamaCare has to go!!"
Is not doing something the same as doing it, and should government be allowed to force you not to do the thing you're already not doing by making you do it so you don't not do it anymore?

That is just one of the perplexing legal questions the Supreme Court will likely find a way to say "yes" to in July after it wrestles with the constitutionality of Obamacare.

Once the court upholds the individual mandate -- a provision that allows politicians to coerce citizens to purchase products in private markets (or, in this case, state-backed monopolies) -- we will have precedent that puts few limits on the reach of Washington and crony capitalism. And beyond policy, Obamacare demonstrated why we should be cynical about government.

I suppose it starts with process. Obamacare was shoved through the sludge of parliamentary trickery, lies, horse trading, cooked-up numbers and false promises. Even after waiting to see what was in the bill, as Nancy Pelosi suggested, there was a historic electoral backlash. (Some people just don't know what's good for them.)

As for the court's decision, it probably won't imbue many people with any more confidence in process. Supreme Court Justice Elena Kagan -- only recently charged with defending the administration's positions in federal courts as solicitor general, working there while the health care law was being written and picking the legal team to defend it -- will be rendering her entirely untainted decision on the matter.

Nor, as we learned this week, is it reassuring to find out that while the House was debating passage of Obamacare, Kagan and well-known legal scholar Laurence Tribe, then in the Justice Department, did a little dialoguing regarding the health care vote, and according to documents obtained by Media Research Center, Kagan wrote: "I hear they have the votes, Larry!! Simply amazing."

Nothing says impartiality like double exclamation points!! ...

Andrew Malcolm has late-night humor.
Fallon: *The Miami Dolphins won their first NFL game this year! My grandma was so happy, mostly because she's the Dolphins starting quarterback.*

Fallon: *The AFLAC duck balloon debuts in Macy's Thanksgiving Parade this year. You think that's weird. Wait til you see the balloon for that old guy from the Cialis ad.*

Letterman: *Kim Kardashian had a quiet intimate meeting with her new husband in Minnesota last week. It was just him, Kim, the cameraman, the sound guy, the makeup artist, a publicist, the cue card holder, the grip and, of course, the teamster driver.*

Investor's.com - Editorial
A Country Unworthy Of Its President

Leadership: We're starting to grasp how hard a job the president has. It can't be easy to rule a country filled with so many soft, lazy, greedy fat cats who can't make good stuff anymore.

At a business forum Saturday, President Obama complained that "we've been a little bit lazy over the last couple of decades." He apparently meant we've let foreign investment go slack, since "we aren't out there hungry, selling America and trying to attract new business into America."

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First of all, foreign direct investment has more than tripled over the past two decades. So it's hardly like businesses abroad haven't noticed that the U.S. is a good place to invest.

And while the president might have been too busy writing autobiographies to notice, the past two decades have shown an America that is anything but soft or lazy. Since our president doesn't seem to know about this, here's a quick review:

We have invented, among many other things, an entirely new industry — the Internet — that has reshaped almost every aspect of our lives, from communication to education to medicine to commerce. Every great Internet company — Google, Amazon, Facebook, Twitter, eBay, Yahoo — has been born in the U.S.

We've produced incredible breakthroughs in science, medicine and technology — everything from smartphones, DVDs, digital cameras and flat panel TVs to the mapping of the human genome and spectacular new medical technologies.

In the past two decades, we've managed to add more than two additional years to our lives thanks to gains in medicine and health care. And competitive forces have produced continued efficiency gains, letting the country do more with less energy.

And even before Obama arrived on the scene, the nation managed to defeat communism, mount a global war on terrorism, liberate Kuwait from Iraq and then Iraq from Saddam Hussein — the latter two in a matter of days.

You'd think the president would want to boast about a country that's produced so much in so short a time. But when Obama looks out his Oval Office window, he apparently sees a nation filled on the one hand with layabouts — or, as his wife described them during his presidential run, the "uninvolved and uninformed" — and on the other with greedy, selfish millionaires and billionaires.

Maybe Obama is mistaking his own experience as president for some broader trends.

It's certainly true that many things have gotten worse since he took office. Unemployment is up, earnings are down. The poverty rate has climbed, the dollar has fallen. Gas prices are way up but housing prices are way down. And the economic recovery, which started a mere five months after Obama was sworn in, has been the most anemic since the Great Depression.

But despite Obama's endless efforts to shift blame, the fault for these trends lies not with the American people or the actions of his predecessors. It lies with Obama's own wrongheaded efforts that have vastly expanded the size and intrusiveness of government, weighed the country down with massive debt and threatened ever higher taxes.

Americans don't need lectures from their president about how soft, selfish or shiftless they've become. We need only to relieve the country of his policies.

Streetwise Professor

If These Stories Are a Surprise to You, You're Probably an Idiot

by Craig Pirrong

Or you've been working to devise US energy policy over the last couple of decades. But I repeat myself: the latter group is a proper subset of the former.

I am referring to articles running in the official house organs of the conventional liberal wisdom, the WaPo and the NYT, which confirm the obvious: government subsidies for energy, and particularly "alternative" energy and renewables, have proved to be a dreary litany of failure after expensive failure.

These failures were predictable–and in fact predicted. But the predictions have been ignored. For decades, as the WaPo article points out in excruciating detail. Good money has been thrown after bad which had been thrown after worse. These decisions have been driven by political economy rather than economic calculation. If something needs a subsidy, that means it costs too much for the value it produces. Yes, there can be circumstances in which there is some value that is not internalized by the producer, in which a subsidy may theoretically be justified. But as the historical record makes abundantly clear, that's not what drives how subsidies are allocated: they come out of the political sausage grinder, and it is politics and political connections that turn the crank.

Whatever you think about ExxonMobil, they deserve credit for not buying into the "beyond petroleum" moonshinery of BP and some other supermajors in the last decade. During the Bush years, XOM CEOs Lee Raymond and Rex Tillerson steadfastly refused to commit capital into renewables and alternative energy, and resisted playing the subsidy game: they were unabashedly an oil company, and didn't pretend otherwise. They had seen the boondoggles of the 1970s–remember Synfuels?–and didn't want to squander valuable capital on similar boondoggles in the new millennium. Unfortunately, Congress and two administrations–particularly the current one–haven't been quite so perceptive.   As a result tens of billions of dollars have been wasted, and wasted *predictably*.

Washington Post

Before Solyndra, a long history of failed government energy projects

by Steven Mufson

Solyndra, the solar-panel maker that received more than half a billion dollars in federal loans from the Obama administration only to go bankrupt this fall, isn't the first dud for U.S. government officials trying to play venture capitalist in the energy industry.

The Clinch River Breeder Reactor. The Synthetic Fuels Corporation. The hydrogen car. Clean coal. These are but a few examples spanning several decades — a graveyard of costly and failed projects.

Not a single one of these much-ballyhooed initiatives is producing or saving a drop or a watt or a whiff of energy, but they have managed to burn through far more more taxpayer money than the ill-fated Solyndra. An Energy Department report in 2008 estimated that the federal government had spent $172 billion since 1961 on basic research and the development of advanced energy technologies.

What does Washington have to show for these investments? And should the government even be in the business of promoting particular energy technologies?

Some economists, executives and financiers — as well as Energy Secretary Steven Chu — argue that the government must play a role because certain technologies have non-financial benefits, such as producing fewer greenhouse gas emissions or easing U.S. reliance on foreign oil. The semiconductor industry is often held up as a model of how government money can help build a new type of economy.

But others argue that the history of government attempts to reach for the holy grail of new energy technology — a history that features both political parties — is not inspiring. “We’re making very large bets, and the decisions seem to be more grounded in politics and geography than in engineering and science,” said Michael Graetz, a professor at Columbia Law School and the author of “The End of Energy.”

Consider the saga of the Clinch River Breeder Reactor.

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After President Ronald Reagan was elected, Clinch River survived the first round of his spending cuts, in part out of deference to Senate Majority Leader Howard Baker (R-Tenn.), a strong supporter of the reactor, which was in his home state. But finally, in 1983, with the Congressional Budget Office saying the cost might exceed $4 billion, Congress terminated the program. Blueprints had been drawn up, modeling done, components ordered and some ground cleared, but the reactor was never built. The price tag for the federal government: $1.7 billion ($3.9 billion in today’s dollars).

Then there was the Synthetic Fuels Corporation.

President Jimmy Carter called it the “keystone” of U.S. energy policy; Congress authorized $17 billion for it to act as a sort of investment bank, funding projects that would turn plentiful U.S. coal and shale into oil and gas. Carter set a goal of producing 2 million barrels a day of “synfuels” by 1990.

Not quite. A handful of coal and auto companies tapped the new funds to build a facility that was intended to produce 50,000 barrels a day, the first of what was supposed to be a network of synfuel plants, many on federal lands. But after oil prices leveled off, then fell, in the early 1980s, the project was not economically sound, even with government help. The private partners pulled out.

Congress ousted the corporation’s president in 1983 after the entity was accused of handing out money for political reasons. In 1986 the corporation closed down. It had spent $2 billion (more than $4 billion in today’s dollars).

This sort of industrial policy fell out of favor in the Reagan era and into the 1990s, but then it returned, as fears of climate change spawned new “clean energy” ideas.

President George W. Bush had his own pet projects. In his 2003 State of the Union address, he called for “a new national commitment” to work toward hydrogen-powered vehicles so that “our scientists and engineers will overcome obstacles to taking these cars from laboratory to showroom.”

But on the road to the showroom, the hydrogen car made a wrong turn. From 2004 through 2008, the federal government poured $1.2 billion into hydrogen vehicle projects; the Government Accountability Office noted that about a quarter of that money went to "congressionally directed projects" outside the initiative's original research and development scope. Visitors to General Motors outside Detroit could drive a vehicle powered by hydrogen, but the technology was costly, and there was no infrastructure to support the vehicles. They died in development.

The "clean coal" movement has been no more successful. Politicians on both sides of the aisle have sought to put money into efforts that would make coal more appealing by taking its greenhouse emissions and burying them. After a carbon-capture project in Alaska burned through $117 million during the 1990s, Republican lawmakers tried to give the moribund project another $125 million in 2005. Just this year, the utility AEP, one of the nation's largest emitters of carbon dioxide, abandoned a pilot project because it was too expensive — even though the Energy Department was willing to kick in $334 million, half the expected cost. A North Dakota project was shelved last December despite a $100 million federal grant.

Bush launched what was supposed to be a $1 billion project to separate carbon dioxide from the emissions of a coal power plant in Illinois and bury the gas underground. Several years later, cost estimates have climbed, the project has been scaled back — and it still hasn't broken ground.

Despite this track record and the recent Solyndra failure, Energy Secretary Chu remains undeterred. Citing examples from Civil War-era railroads to airplanes to semiconductors, he has defended government's role in funding new technologies and promising companies.

"Americans have always led by looking ahead. Even in the midst of the Civil War, when our country was under incredible stress, we planned for the future," Chu said in September. "President Lincoln signed the Pacific Railway Act of 1862, which authorized generous public financing for two private companies — Union Pacific Railroad Company and Central Pacific Railroad Company — to lower the investor risk in building railroads in unsettled territories. In 1869, the first Transcontinental Railroad was completed at Promontory Summit, Utah, revolutionizing transport in this country and opening up a world of possibilities for industry."

Enter Stanford University professor Richard White, a historian of the American West who wrote "Railroaded: The Transcontinentals and the Making of Modern America."

"I admire Steven Chu a great deal, but his knowledge of the Pacific Railway Act unfortunately appears to be about equal to my knowledge of high-energy physics," White said in an interview. He said the legislation produced a disaster far larger than the lifeless factory that Solyndra has left behind.

White said that Union Pacific and Central Pacific became two of the most hated corporations in the West, spawning political opposition wherever they went. Within 10 years of giving them land grants and loan guarantees, the federal government reversed its policy and eventually sued to recover its investment. The litigation dragged on into the 20th century.

Chu has also argued that the government should help ramp up manufacturing. He says that while the internal-combustion engine was invented in Germany, Henry Ford mastered the assembly line and made the United States the world leader in automaking. However, historians note, Ford did not receive government assistance.

Some experts also question the semiconductor example, in which the government purportedly created an industry through military purchases. Jack Spencer, a nuclear power and energy expert at the Heritage Foundation, said that the Pentagon supported the semiconductor industry because it wanted “to kill people better through innovation, but its goal wasn’t to create commercial enterprises.”

Moreover, he added, if the broader marketplace hasn’t created enough incentives for a new technology such as solar or wind energy to thrive, then loan guarantees or grants will only postpone the death of a company.

But Chu isn’t the only one who thinks the government has a role to play.

David Eaglesham, chief technology officer at First Solar, a leading maker of thin-film solar panels, says government funding for basic research during the 1990s kept the company alive when it comprised about “10 guys working in Toledo.” He said the Energy Department’s National Renewable Energy Laboratory funded “pretty much everything” when it came to technology, but “at low levels.”

Many policy experts say some of government’s biggest energy investment payoffs have come in the small stuff, such as testing the use of magnesium alloys to make lightweight car batteries more efficient or developing ballasts that make compact fluorescent bulbs more efficient.

Still others say that the nearly $40 billion paid out by the federal government so far to subsidize corn-based ethanol is a success story; ethanol has displaced more than half a million barrels a day of petroleum. But that benefit must be weighed against whether ethanol has driven up corn prices, along with evidence that it may be worse than oil from a greenhouse gas perspective.

Energy innovation is simply different from innovation in other industries, argue Edward Steinfeld and Jason Lee of the Massachusetts Institute of Technology. In electronics and information technology, they note in an unpublished article, the end products are cheap, consumers buy new ones every few months or years, and much of the value is captured by the front-end designer rather than the manufacturer. (Think Apple.)

Energy technologies, however, “are more expensive by several orders of magnitude, and they have much longer life cycles,” they say. “A solar panel is expected to last 20 to 25 years. Moreover, for many of these technologies, including thin-film solar, the key knowledge lies not just in upstream design, but also in learning how to produce inexpensively at high volume.” Essentially, Steinfeld and Lee conclude, “to pull off energy innovation successfully, you need scale.”

And, of course, you also need to keep innovating. As First Solar’s Eaglesham says, “there’s never the last word in technology.” Doing all this requires massive sums of money — and an acceptance of the inevitability of frequent failure.

That could be a tough sell in Washington, given the downfall of Solyndra and the unsteady status of some other recipients of Energy Department assistance. Massachusetts-based

Beacon Power, maker of a nifty and effective — but unprofitable — method of using flywheels for electricity storage, filed for bankruptcy on Oct. 30. Ener1, a maker of lithium-ion batteries and a recipient of an Energy Department grant, was delisted by the Nasdaq Oct. 28 because of its low stock price.

Perhaps the federal government is, as former Obama economic adviser Lawrence Summers put it, "a crappy VC," or venture capitalist. Or perhaps it should stick to funding basic research. But if more recipients of Energy Department loan guarantees falter, they will become part of a long, if undistinguished, history of failure.

Washington Post

Crony capitalism exposed

by Marc A. Thiessen

Insider trading is illegal — except for members of Congress. A Wall Street executive who buys or sells stock based on insider information would face a Securities and Exchange Commission investigation and quite possibly a federal prosecutor. But senators and congressmen are free to legally trade stock based on nonpublic information they have obtained through their official positions as elected officials — and they do so on a regular basis.

On Sunday night, CBS News' "60 Minutes" looked into this form of "lawful graft." The "60 Minutes" story exposed, among others, then-House Speaker Nancy Pelosi for participating in a lucrative initial public offering from Visa in 2008 that was not available to the general public, just as a troublesome piece of legislation that would have hurt credit card companies began making its way through the House (the bill never made it to the floor). And it showed how during the 2008 financial crisis, Rep. Spencer Bachus (R-Ala.) — then-ranking Republican on the House Financial Services Committee — aggressively bought stock options based on apocalyptic briefings he had received the day before from Federal Reserve Chairman Ben Bernanke and Treasury Secretary Hank Paulson.

The report was based on an explosive new book by Peter Schweizer that will hit stores on Tuesday. It's called "Throw Them All Out: How Politicians and Their Friends Get Rich off Insider Stock Tips, Land Deals, and Cronyism That Would Send the Rest of Us to Prison." (Full disclosure: Schweizer is a close friend, a former White House colleague and my business partner in a speechwriting firm, Oval Office Writers.

The "60 Minutes" story only scratches the surface of what Schweizer has uncovered. For example, Bachus was not the only member of Congress trading on nonpublic information during the financial crisis. On Sept. 16, 2008, Schweizer writes, Paulson and Bernanke held a "terrifying" closed-door meeting with congressional leaders. "The next day Congressman Jim Moran, Democrat of Virginia, a member of the Appropriations Committee, dumped his shares in ninety different companies . . . [his] most active trading day of the year."

Rep. Shelley Capito (R-W.Va.) and her husband "dumped between $100,000 and $250,000 in Citigroup stock the day after the briefing," Schweizer writes, and "at least ten U.S. senators, including John Kerry, Sheldon Whitehouse, and Dick Durbin, traded stock or mutual funds related to the financial industry the following day." Durbin, Schweizer says, "attended that

September 16 briefing with Paulson and Bernanke. He sold off $73,715 in stock funds the next day. Following the next terrifying closed-door briefing, on September 18, he dumped another $42,000 in stock. By doing so, Durbin joined some colleagues in saving themselves from the sizable losses that less-connected investors would experience." Some members even made gains on their trades, at a time when ordinary Americans without insider knowledge were seeing their life savings evaporate.

Schweizer also documents numerous examples of how members of Congress of both parties — including Pelosi, Senate Majority Leader Harry Reid and former House speaker Dennis Hastert — have used federal earmarks to enhance the value of their own real estate holdings. They have done so, Schweizer shows, by extending a light-rail mass transit line near their property, expanding an airport, cleaning up a nearby shoreline, building roads and bridges, and beautifying land and neighborhoods nearby — in each case "substantially increasing values and the net worth of our elected officials, courtesy of taxpayer money."

Perhaps the most disturbing revelations come from Schweizer's investigation into the Obama Energy Department and its infamous "green energy" loan guarantee and grant programs, a program Schweizer calls "the greatest — and most expensive — example of crony capitalism in American history." The scandal surrounding Solyndra — the now-bankrupt, Obama-connected solar power company that received a federally guaranteed loan of $573 million — is well known. But Solyndra, Schweizer says, is only the tip of the iceberg.

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There is much, much more, which means that when Schweizer's book hits stores Tuesday, heads in Washington are going to explode.

WSJ

Crony Capitalism, Chicago-Style

The new economy: Tax hikes for all, tax relief for the well-connected, campaign contributions for the politicians.

by William McGurn

New York gave us banks too big to fail. Washington bequeathed us Fannie Mae and Freddie Mac. Still, when it comes to crony capitalism, no one quite matches Chicago.

Soon the Illinois state legislature will meet in special session to consider the Chicago machine's latest favor: legislation designed to deliver tax relief to three of the state's largest companies. These tax breaks for the lucky few come just 10 months after the Illinois legislature approved what has been described as the largest tax increase in the state's history. It's no coincidence that both have been supported by Gov. Pat Quinn and other top leaders of the state's Democratic Party.

In so doing, Chicago is giving America a window into the logic of crony capitalism: Raise taxes on everyone—and then cut side deals with those big enough to lobby for special relief.

The legislature is considering this limited tax relief because three corporate mainstays of greater Chicago have threatened to leave without it. One is the CME Group, operator of the Chicago Mercantile Exchange, the world's largest futures exchange by volume. Another is the Chicago Board Options Exchange (CBOE), the world's largest options exchange. The last is Sears, one of America's oldest and most famous retailing giants.

Earlier this month, CME chairman Terrence Duffy told Illinois lawmakers that his company is entertaining "very, very lucrative offers" from other states. Meanwhile, his counterpart at the CBOE, Bill Brodsky, says his exchange needs relief from a tax code that is "virtually punitive." Sears has chimed in too, with its general counsel reporting that it has a $400 million offer from a nearby state to relocate there.

To be fair, these companies have a case when they complain that Illinois is making them less competitive. Take CME. Because its world-wide sales are taxed in Illinois, CME accounts for almost 6% of all state corporate taxes. On top of this, Mr. Duffy says that the "temporary" corporate tax increase passed in January is now costing his company an extra $50 million a year.

CME and the other beneficiaries of this special tax bill would have a far better case, however, if instead of pushing for special treatment for themselves, they used their clout to argue for a more market-friendly environment overall. After all, if the state's tax treatment is making it hard for Sears and CME, the family restaurant or mom-and-pop shop down the corner is probably feeling the pinch too.

Alas, equal treatment is not the Chicago way. Maybe that's why we heard little from corporate Chicago when Mr. Quinn was campaigning for his tax hikes. To the contrary, back in June the Chicago News Cooperative reported that CME donated $50,000 to Mr. Quinn in the general election and $40,000 in the primary, $200,000 to Rahm Emanuel (a former CME board member) during his run for mayor of Chicago, and $150,000 to the man who really runs Illinois, House Speaker Mike Madigan.

Perhaps you can't blame these companies for going with the only game in town. For notwithstanding an exodus of job-creators and a public debt that has the state in hock up to its eyeballs, the Illinois GOP has not been able to come up with an alternative message. On this measure, for example, Republicans are flummoxed, limiting themselves largely to quibbling around the margins of general tax relief.

That's unfortunate for Illinois, because there's a story waiting to be told. According to a soon-to-be released study of IRS tax filings from the free-market Illinois Policy Institute, between 1995 and 2008 Illinois lost 345,891 tax filers. All in all, that works out to a $188 billion loss in net income. That loss is remarkable, especially given that one in four of these taxpayers moved to a bordering state.

This is the fruit of Chicago politics. That much should be clear from the governor's election in 2010, when Mr. Quinn won office despite losing 98 of the state's 102 counties—all but Chicago's Cook County and three others in the southwest. These days the governor is highly unpopular for his tax hike, so Democrats such as Mayor Emanuel have become the face of the special relief bill. The constant is that the machine remains intact, here taxing all, there doling out favors to a well-connected few.

The rest of America would do well to think of it as a public service. Next door in Indiana, Gov. Mitch Daniels is showing what you can do when your government gets control of spending and allows its businesses to blossom. In sharp contrast, by settling for Chicago rules Illinois provides us with the perfect bad example, a vivid illustration of how high taxes and crony capitalism go hand-in-hand.

"Our Chicago machine has come up with a deal so rotten it's uniting Occupy Wall Street and the Tea Party," says the Illinois Policy Institute's Collin Hitt. "If Illinois Republicans don't use this opportunity to find their voice on tax cuts, they never will."

Denver Post via Real Clear Politics

Constitutional or Not, Obamacare Has To Go

by David Harsanyi

Is *not* doing something the same as doing it, and should government be allowed to force you not to do the thing you're already not doing by making you do it so you don't not do it anymore?

That is just one of the perplexing legal questions the Supreme Court will likely find a way to say "yes" to in July after it wrestles with the constitutionality of Obamacare.

Once the court upholds the individual mandate -- a provision that allows politicians to coerce citizens to purchase products in private markets (or, in this case, state-backed monopolies) -- we will have precedent that puts few limits on the reach of Washington and crony capitalism. And beyond policy, Obamacare demonstrated why we should be cynical about government.

I suppose it starts with process. Obamacare was shoved through the sludge of parliamentary trickery, lies, horse trading, cooked-up numbers and false promises. Even after waiting to see what was in the bill, as Nancy Pelosi suggested, there was a historic electoral backlash. (Some people just don't know what's good for them.)

As for the court's decision, it probably won't imbue many people with any more confidence in process. Supreme Court Justice Elena Kagan -- only recently charged with defending the administration's positions in federal courts as solicitor general, working there while the health care law was being written and picking the legal team to defend it -- will be rendering her entirely untainted decision on the matter.

Nor, as we learned this week, is it reassuring to find out that while the House was debating passage of Obamacare, Kagan and well-known legal scholar Laurence Tribe, then in the Justice Department, did a little dialoguing regarding the health care vote, and according to documents obtained by Media Research Center, Kagan wrote: "I hear they have the votes, Larry!! Simply amazing."

Nothing says impartiality like double exclamation points!!

Supreme Court judges are under no legal obligation to recuse themselves from any case, mind you, though the U.S. Code has some rubbish about a judge's disqualifying himself "in any proceeding in which his impartiality might reasonably be questioned," especially when the person in question has previously served as counsel or witness in the same case or has expressed an opinion about the outcome.

Why all the distrust and cynicism, you ask? We can trust judicious elected officials not to abuse legal precedent and pass legislation that micromanages the lives of citizens. They would never force Americans, for instance, to purchase broccoli (though when this was hypothetically suggested to then-nominee Kagan, she saw no legal hurdle) or decree exactly what sort of light bulbs a citizen can purchase.

The Supreme Court may find that the commerce clause has omnipotent powers because in the age of hyper-trade and globalism, everything touches everyone and everything is interconnected. Health care is a necessity. Like food. Energy. Housing. All of it up for grabs. The court may find that if an individual acts irresponsibly -- or just acts in a way the majority deems unhelpful -- he can be impelled by the state to partake in the plans of the many.

Judges can come to any decision they'd like, but Obamacare is an affront to the spirit of the Constitution. People just need to be reminded.

Now, numerous news organizations have falsely reported that the Supreme Court agreed this week "to decide the fate" of Barack Obama's health care policy. Fortunately, the fate of Obamacare can still be decided by voters and -- more likely, in time -- by its overwhelming fiscal and moral failure. The court does not historically like to strike down federal legislation. Those who oppose Obamacare might hope for the best in July, but rather than stake their argument solely on the constitutionality question, they should be prepared to fight on grounds of bad policy and corrupt process. They have a strong case to make.

Investor's.com

Overworked TSA asks Thanksgiving air travelers to grope themselves

by Andrew Malcolm

Fallon: A new research survey says that LAX will be the busiest airport over the Thanksgiving holiday this year. In fact, they are going to be so busy that TSA is asking airline passengers to grab their own crotches.

Fallon: Soccer has now passed the NBA to become the nation's third most-attended sport. They say someday in our lifetime we could see a soccer player marry a Kardashian.

Fallon: Wow! Microsoft is teaming up with Yahoo and AOL to sell Internet ads. So exciting! I immediately called my friend who lives in the 90s.

Letterman: Lindsay Lohan got another 30 days in prison. She was out after five hours. Boy, that'll teach her a lesson.

Letterman: Lindsay Lohan’s 30-day jail sentence was over after five hours. Would have been three but she was looking up old friends.

Fallon: The Miami Dolphins won their first NFL game this year! My grandma was so happy, mostly because she’s the Dolphins starting quarterback.

Fallon: The AFLAC duck balloon debuts in Macy's Thanksgiving Parade this year. You think that's weird. Wait til you see the balloon for that old guy from the Cialis ad.

Letterman: Kim Kardashian had a quiet intimate meeting with her new husband in Minnesota last week. It was just him, Kim, the cameraman, the sound guy, the makeup artist, a publicist, the cue card holder, the grip and, of course, the teamster driver.


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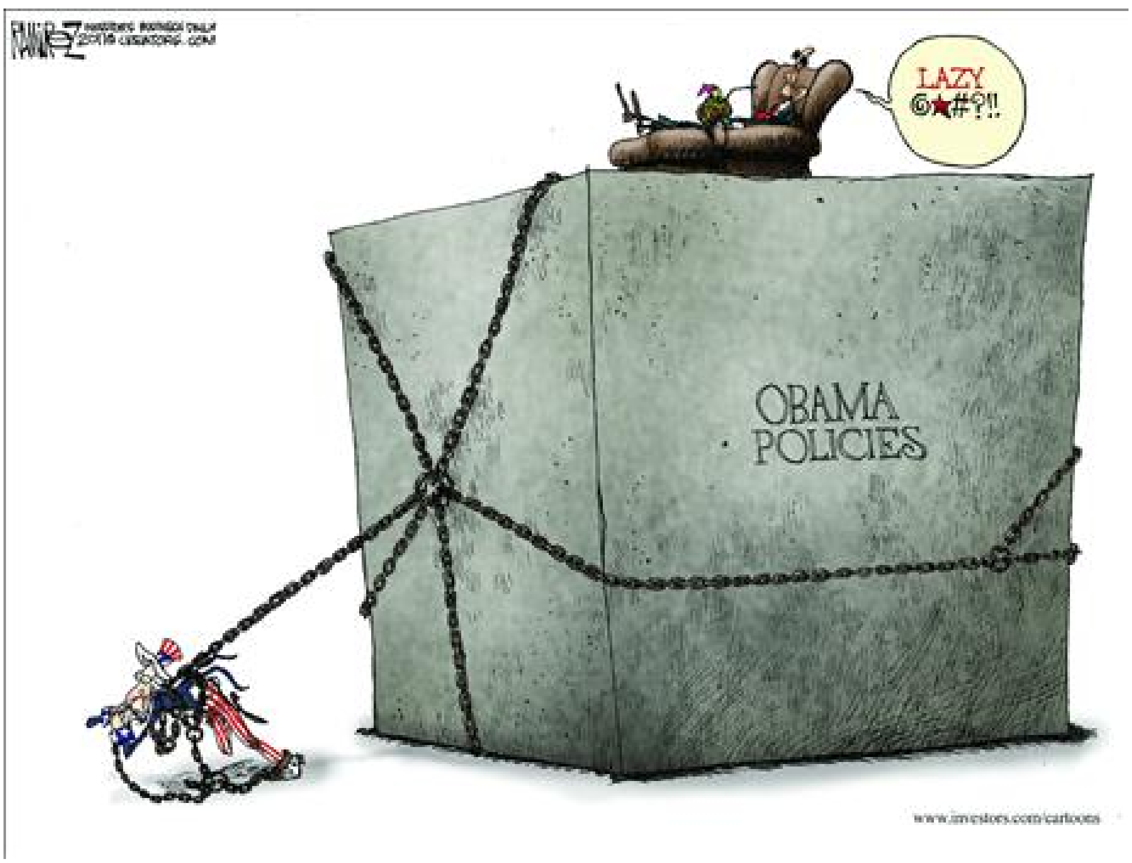
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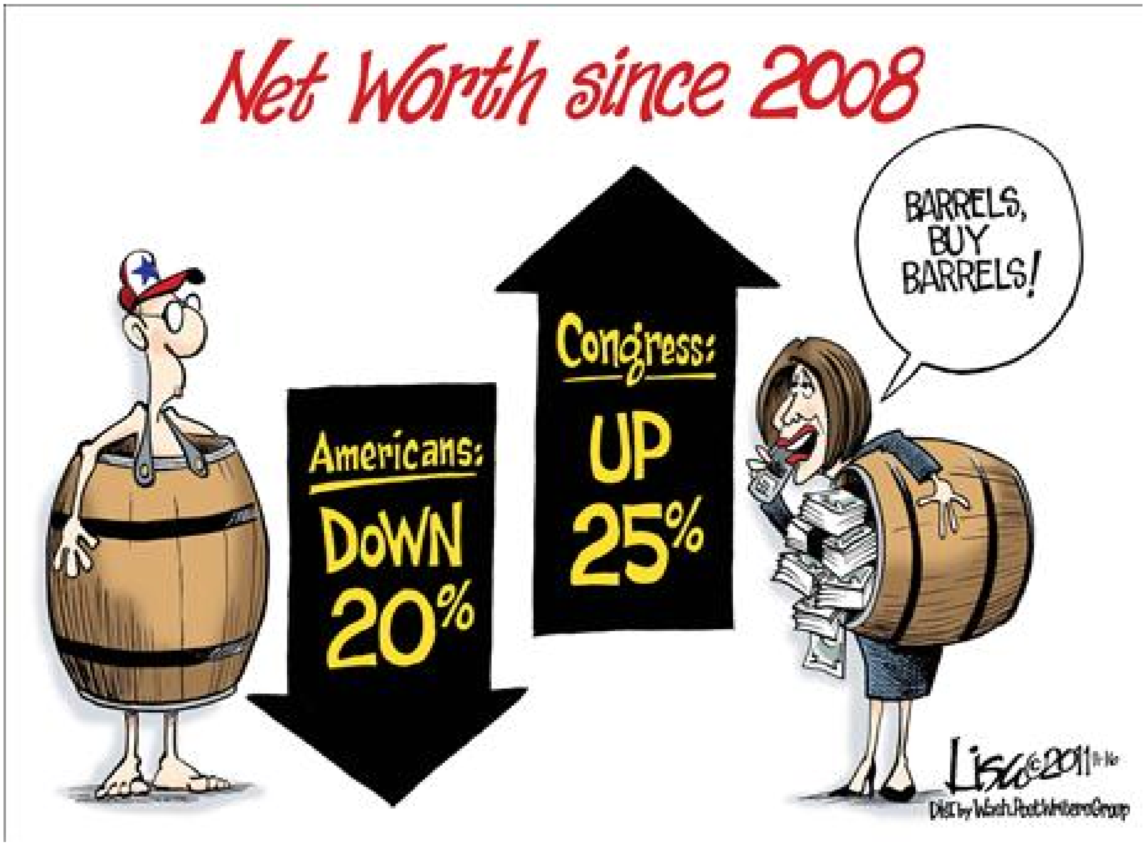
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APPOINT A SUPER DUPER COMMITTEE!