

Presidents, Politics, and Creating Wealth

By Bartley J. Madden 16 Nov 2007

Most people intuitively understand that wealth is created by private businesses competing for customers — not by the government. Could a presidential candidate win in 2008 by demonstrating a genuine commitment to competition and consumer choice?

That candidate could explain how economic progress is the result of firms responding to or creating new customer needs by combining resources and talent in innovative ways. The companies that do this best have figured out how to adapt to the global competitive environment. The long-term track records of companies provide ample evidence that *customers, employees, and shareholders alike have mutual, long-term interests*. And those interests are served by continually redirecting resources to their best use.

But the big picture of moving resources to their best use is discarded when politicians offer myriad ways for government to help voters solve problems. A government-knows-best approach ignores the process of, and the benefits from, creating long-term wealth through competition. More wealth enables people to better solve problems and achieve even higher goals for themselves.

Wealth creation, over the long term, is driven by business success in serving customers. Free markets provide a natural discipline to weed out activities that do not add value to customers. In business, the status quo is never a long-term, viable option. Society benefits when skilled business leaders anticipate the future and make *early* decisions to better utilize resources.

Unfortunately, many people are heavily influenced by some news media that preach a fixed-pie-and-keep-others-from-the-table mentality. Wealth *creation* is missing from their world views. Somehow they have overlooked the essential facts that business is a creative activity, and that something always must be created before it can be used by its creators, voluntarily exchanged, or sent to Washington to pay taxes.

Politicians play a mega role in the extent to which markets are free or unfree. It is important, therefore, that we vote for candidates who are committed to keeping or making markets free. But are there enough free-market supporters to affect the presidential election?

Maybe. A 2006 CATO Institute study by David Boaz and David Kirby estimates that 15 percent of voters in 2004 favored less government in both our economic and personal lives. Those voters are fiscally conservative and socially liberal; i.e., neither "reliable" Democrats nor "reliable" Republicans. Given the tightness of recent presidential elections, this 15 percent of independent thinkers has the clout to swing elections.

What if a presidential candidate repeatedly and clearly communicates to voters that he or she is *absolutely committed* to wealth creation principles rooted in competition and consumer choice? What if that candidate calls for an across-the-board elimination of the subsidies and tariffs that reduce consumer wealth, a radical simplification of the tax code, and wholesale repealing of regulations that obstruct the most efficient use of resources?

In addition, consider the big issue of health care. Hillary Clinton describes her health care proposal as full of "choices." But her "choices" are within a massive, new, government-controlled system. In contrast, Rudy Giuliani proposes dramatically less reliance on government and more consumer control over health care.

However, the polls suggest Giuliani has not yet captured the hearts of that 15 percent group of independent thinkers. Surprisingly, the views of the dark horse Republican candidate Ron Paul have been enthusiastically received by the swing voters and he has achieved remarkable fund raising success. Dr. Paul has an evangelical commitment to his interpretation of limited constitutional government. Although his views on government spending, taxes, and regulation appear sound, some of his other positions are difficult to support. The key point is Dr. Paul is effective in communicating his views on fundamental issues that are of great concern to voters in general, and libertarian-leaning voters in particular.

The eccentric Dr. Paul may be unelectable, but he gives straight talk as to why subsidies, such as for ethanol, are detrimental to consumers. Front-running Republican candidates ought to speak as plainly about the differences between pro-wealth creation principles versus wealth redistribution schemes.

The Democratic strategy of Hillary Clinton, Barack Obama, and John Edwards is to assert that the free market represents greed and needs to be policed, and their administration would be the ideal "fairness cop." By explaining the pro-wealth creation agenda, the Republicans could reveal the serious flaws in their arguments.

For example, right now Republicans are silent when the Democrats point out the "obscenely high" paychecks of corporate CEOs. Why not reply that corporate governance does indeed need to be improved? Boards of directors need to be vastly more attuned to representing the long-term interests of shareholders. That includes paying CEOs for performance — something that boards have not done well in the past.

Invariably, critiques of free-market capitalism ignore the competitive process for handling *tradeoff* decisions. In a well-functioning market system more (or less) skilled CEOs earn higher (or lower) paychecks. With CEO paychecks tied to *demonstrated* long-term performance, employees, customers, shareholders, and CEOs are all in the same wealth creation boat.

Would the front-running Democrats want American businesses to be run by the lowest-paid CEOs that apply for the job? If not, let's examine the logic of how they propose tradeoff decisions to be made in business. What exactly are the wealth creation principles believed by Clinton, Obama, and Edwards?