

Endangered Industries

Who has the most to fear from the Democrats?

BY IRWIN M. STELZER

Now all the forecasts are in. Readers know what myriad experts think of the outlook for most of the world's economies, the securities traded on the world's exchanges, trends in the commodities markets, and the course of the once-mighty dollar. It would, therefore, contribute little to the sum total of knowledge were I to attempt to add my own forecast to those already available.

What readers might find useful instead is a short survey of American industries in which politics might trump economics in 2007—those that have attracted the special attention of the new Democratic majorities in the Congress.

The first that comes to mind is the pharmaceutical industry, set for tussles with five congressional committees over prices, safety, and competition from generic drugs. John Dingell, resuming the chair of the Energy and Commerce Committee, promises to “be quite diligent” in exploring health care issues; anyone who has appeared before “Big John” will know that being the object of the always-well-prepared Dingell’s “diligence” can be uncomfortable indeed. Survive that, and you get to move on to Henry Waxman’s Government Reform Committee, a venue in which my friend Dingell’s courtliness has no place.

Voters are telling politicians that one of their principal worries is the soaring cost of health care in general, and of prescription drugs in particular. Older folks feel pressed by rising prices, and

old folks tend to vote. So they are getting a hearing from the Democrats, who are eager to demonstrate that—unlike the Republicans, who they say are in the pockets of the big drug companies and the insurance lobby—they are for the little guy.

This means that they will attempt to empower the federal government to bargain with drug manufacturers on behalf of the 22.5 million elderly and disabled enrolled in the Medicare prescription drug benefit program. Presumably, mass buying will lower prices; possibly, it will be the precursor of federal price controls. That pressure will be supplemented by calls to allow reimportation of drugs from Canada, which now buys American-made pharmaceuticals at prices below those prevailing in this country. Never mind that the Canadians are “free riding,” and not bearing any of the cost of the research and development that make these drugs available in the first place.

Low prices now, even at the cost of fewer new drugs in the future, are seen by Democratic strategists as one key to retaining control of Congress and seizing the White House in 2008. Cynics say that the assault on Big Pharma is also a way of sending a signal to the industry that its influence on Capitol Hill would be enhanced were it to increase the portion of its political giving that finds its way into Democratic coffers in the congressional and presidential contests in 2008.

Next in line for punishment will be the oil industry. “Big Oil,” always a particular hate object of Nancy Pelosi and liberal Democrats, finds itself caught in the perfect political storm. Profits are at record levels; gasoline prices, although down a bit from their peak, are still high

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enough to have motorists muttering about price gouging; the Bush family and Vice President Cheney have long associations with the petroleum industry; the greens are out to cut consumption of oil, perhaps by raising fuel efficiency standards (not if Detroit's Dingell has anything to say about it); and there is a row over pipeline and refinery safety that will see Lord Browne of British Petroleum hauled before a few of the less gentle committee chairmen in the House.

Whether any of this will result in legislation affecting oil industry profits is not yet clear, but Congress will call for an increase in the royalty payments demanded by the government, and the removal of some of the tax benefits the industry has traditionally been accorded. Bush will be hard-pressed to veto any such legislation.

Politics will also rear its unlovely head in the airline industry. Congressional protectionists are looking for some way to demonstrate their America-first credentials, and have found it:

They have frightened regulators into heading off Richard Branson's plan for a low-cost carrier, Virgin America, even though he complied with the corporate structure requirements laid down in the law. Never mind that U.S. airlines are flying at such high load factors (capacity utilization rates) that travelers are finding it difficult to get the bookings they want, and that frequent flyer programs have been made virtually worthless by a proliferation of "black-out days."

Then there are the defense contractors. The administration plans to send up to Congress a request for a substantial amount of new money to replace hardware depleted by the wars in Iraq and Afghanistan, rebuild the armed forces after decades of neglect, and fund the development of new aircraft and the other paraphernalia of defense. The Democrats will be reluctant to be seen to "short-change our soldiers," and will therefore more or less have to go along.

But they will be unconstrained in their assault on alleged corruption

and waste by the merchants of death, as many of them view producers of military hardware, and on Halliburton and other companies they believe have ripped the government off with too-lucrative contracts for reconstruction in Iraq and, while they are at it, in Katrina-stricken areas of the United States. Nothing like calling for speedy action and then complaining that some of the bureaucratic contracting procedures were short-circuited.

Finally, there will be outrage, real and feigned, at the huge bonuses paid to Wall Street's top producers—and the howls will grow louder when the Democrats realize that the partners at Goldman Sachs are pikers compared with hedge fund managers, some of whom are taking home ten times as much as the Wall Street crowd that has dominated the headlines.

The Democrats have long contended that the average worker is not sharing in the nation's prosperity, that corporate profits are sopping up a too-large share of the national income, that globalization enriches the few who can thrive in an international labor market and penalizes the many who cannot compete with \$1-a-day laborers. Never mind that the recent rise in real wages suggests the market is evening things out; the Democrats' complaints about distributive justice will now provide the basis for an assault on the tax system, and especially on the president's reductions in corporate and capital gains taxes, and in marginal tax rates.

This is not an argument that will be settled by recourse to reason and statistics, but by a tallying of potential voters. Al Gore failed in 2000 to get himself into the Oval Office with his appeal to the politics of class and envy, but that was then and this is now—and similar views held by the more emollient Barack Obama or the shrewder Hillary Clinton might, just might, resonate with voters if Congress can keep this issue alive for the next two years.

May all of this, factored into the forecasts you have received recently, increase your ability to foresee what is in store in 2007, which I join the editors in hoping will prove to be a good year. ♦

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