
The Party of ‘Yes, but’

Republicans can say more than just ‘no’ to Obama’s policies

BY IRWIN M. STELZER

Rahm Emanuel says that the Republican party has become the party of “no”—devoid of constructive alternatives to those parts of the Obama program to which Republicans and conservatives object. There is some truth in that. After all, there is much to which to say “no”: a stimulus program that hasn’t got much to do with stimulating the economy; a budget that threatens the nation with financial ruin and future generations with an inheritance inscribed in red ink; massive and, worse still, irreversible federal intrusions into key segments of the economy; and a foreign policy aimed at grasping the hand of Hugo Chávez while turning a cold shoulder to Benjamin Netanyahu.

But there is more to a loyal opposition than saying “no.” There is an obligation to propose solutions to problems that need solving. We conservatives might not be the change we have been waiting for, but neither should we oppose change simply because we are offended by those who claim to personify it. Besides, as Barack Obama is fond of pointing out, they won. He and his congressional colleagues swept the board because Republicans in power acted as if compassion requires a major expansion of spending and of the size of government; because George W. Bush was a less than competent communicator; because the estimable John McCain’s shambolic campaign led voters to question his ability to manage the federal bureaucracy. Every reader will have his own list, so I will stop there.

No matter the cause, Republicans are now in the position of observers of the passing legislative and regulatory scene. They have learned that the president’s professed willingness to work with them in a bipartisan fashion was so much campaign rhetoric. Unless they come up with some really good alternatives to the policies being pushed by this avowedly transformational and dazzlingly telegenic president, they have no chance of being heard by voters in the run-up to next year’s congressional elections. While the majority of Americans remain suspicious of big government and are worried about the consequences of the administra-

tion’s spending spree, they see in Obama a bright, articulate, reasonable non-Bush. If you believe that conservatives’ return to power is likely without new ideas to offer, read no further—for you, the problem is solved.

But few experts with whom I have spoken in Washington believe that the Republicans can make a serious comeback without having policies that accept the president’s goals, but map different routes to their attainment.

No use arguing whether the globe is warming as a result of the use of carbon-based fuels: Rightly or wrongly, voters believe that to be the case.

No use arguing that the nation’s health care system produces a quantity and quality of care that is satisfactory: Rightly or wrongly, many voters fear the financial consequences of even nonserious illnesses or of a loss of job-based insurance coverage.

No use arguing that the education system produces equal opportunity for the children of rich and poor to achieve their potentials: Too many unbright sons of alumni inhabit the classrooms of our better colleges while poorer kids lack the educational foundation that might gain them admission even if the admission criteria are skewed in their favor.

And no use arguing that the income-distribution and tax systems produce results that are fair and efficient: They don’t.

In short, Obama has identified Americans’ concerns and is in the process of persuading them to abandon their suspicion of big government and accept the fact that these ills can be cured only if government appropriates to itself a larger portion of the nation’s income, hires a minimum of 600,000 more workers, and controls the availability and quality of such essentials as health care and energy. If he succeeds, it will be only because the Republicans have failed to show the way to better solutions. This would be a pity, since better solutions are at hand.

Start with climate change and energy policy. It has long been conservative dogma that there is no sense in trying to curb our own emissions unless China and India, which are constructing hundreds of coal-fired plants, do the same. True. But that only raises the question of whether it might be possible to elicit cooperation from emerging

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economies, countries that are attempting to follow the early American example and climb out of poverty in good part by replacing human brawn with electrical energy.

Given the dependence of those countries on our markets, several approaches are available. One being bandied about at the Department of Energy would be to tax the carbon content of imports, providing an incentive for exporting nations to reduce their emissions. Another would be to arrange cooperative programs in research into clean-carbon technologies, surely in the joint interests of the United States and developing countries whose citizens suffer from the health effects of their dirty-energy systems. Still another would be to enable relatively clean U.S. industries to receive credit for investing in pollution-reducing equipment in China and other emerging nations.

It is the position of many congressional Republicans (and not a few Democrats) that putting a price on carbon is a bad idea and that a cap-and-trade system is too expensive for the country to bear, especially during a recession. More than just saying “no,” this relieves them of any need to develop alternative policies to solve a problem that in their hearts they do not believe exists. But it puts them on the wrong side of history.

If we accept the climate-change thesis, as most voters seem to, the emission of CO₂ is not without cost: It is bringing about a host of ills, if not soon, then eventually. No need to accept the Gore-y hysteria emitting from the former vice president or the daft calculations that purport to prove that the cost of emissions is so high that almost any corrective measures are worth paying for. It is enough to admit that there just might be a problem and that the purchase of a bit of insurance is in order. After all, we know that the odds that our house will burn down are low, but we still purchase insurance against such an event. The trick is to keep the premium paid in line with the probability and magnitude of the loss.

Consumers of fossil fuels are probably (possibly, if you prefer) imposing a cost on society and should see that cost reflected in the prices of the goods and services they buy. In short, put a price on carbon.

So far, so easy. But then comes Obama’s cap-and-trade proposal, supported by Senator McCain, among others. As originally conceived by the president, the limited number of permits to emit CO₂ would be auctioned off, so that those most in need of what would then be a scarce resource would pay the most for the right to emit this greenhouse gas. Coal plant operators would have an incen-

tive to reduce emissions so as to free up unneeded permits for sale. Meanwhile, producers of green energy would be competing with coal-based power that had become more expensive because of the need to pay for permits, and the energy system would turn greener.

Great theory, but unfortunately, that’s not the way the world works. K Street did not close up shop when Obama rode into town to clean up the political process as well as the air. Congressmen from steel- and coal-producing states do not believe their constituents will support a program that taxes their manufacturing industries, but leaves the already-richer bankers, new media, and high-tech entrepreneurs in Nancy Pelosi’s San Francisco unscathed. The result has been a series of deals to hand out free permits to those with the most skilled lobbyists—heavily unionized and heavily polluting industries—and others with a claim on the congressional leadership and/or the president. Printing permits

is no different from printing money, and a bag full of permits is no less a temptation to corruption and influence-peddling than a sack full of small denomination notes.

All of which conservatives could point out is unnecessary and not very likely to promote green technologies. The history of cap-and-trade in Europe demonstrates that permit prices fluctuate wildly, depending on the number issued and the level of industrial activity. Which is why the trading arms of banks and private

entrepreneurs are so fond of the system: Traders make their living betting on price changes.

But investors abhor such uncertainty. Invest in a new technology that can compete with carbon-based technologies when permits are selling for \$40 only to have the price drop to \$10 when permits are in excess supply and you are on a hiding to the bankruptcy courts—as several investors in solar and wind are discovering. The recession-induced drop in manufacturing activity in Europe has resulted in a glut of unneeded permits, just when manufacturers are having trouble getting credit from their banks. They are dumping permits for cash, lowering the cost of using fossil fuels, and the competing solar and wind industries and hawkers of conservation devices and technologies are feeling the pain.

Conservatives need not confine themselves to pointing out the defects in the Obama plan. It does have virtues—carbon is no longer a free good—but virtues that can be captured more efficiently and with less government intervention than cap-and-trade requires. Instead, conservatives can screw up their courage and take the advice of all mainstream economists and of politically savvy columnists from

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Charles Krauthammer to Tom Friedman—tax carbon and redistribute the proceeds by lowering taxes on wages. Tax bad things (CO₂) not good things (jobs). A carbon tax makes the use of carbon-based products more expensive, discouraging their use; it makes the consumer of such products pay the costs his consumption is allegedly imposing on society; and redistribution of the proceeds makes work more rewarding.

An advantage of this plan is its flexibility. My informal poll of a few greens and some representatives of coal-burning utilities turned up suggested tax levels ranging from \$12 to \$20 per ton of carbon. The most sensible suggestion was to start at the lower end and have the tax increase at a real rate of, say, 5 percent per year, so that industries have time to adjust, and green technologies all are able to predict the cost target at which they should be aiming. No need for the government to pick winners.

That leaves open the “energy independence” portion of the Obama energy program. Forget for the moment that the goal is so unrealistic that it continues to amaze me that politicians from the time of Richard Nixon have called for its realization with a straight face. Think of it instead as an unattainable goal, but one worth pursuing in the interests of the nation’s security and of relieving future presidents of the necessity of strolling hand-in-hand with, or bowing before, the king of Saudi Arabia.

Conservatives are right to argue that the development of domestic resources should not be off the table, but they do need to do some careful cost-benefit analysis to specify just which resources will add more to our national income and our national security than they would cost in environmental quality. My guess is that most of these resources will survive such a cost-benefit test, and a comparison with the cost of energy-saving devices—the president’s so-called smart grid—that reduce energy demand. If it is indeed cheaper to bring some of our domestic resources on line rather than to spend money smartening a large part of the grid, conservatives will have a coherent, market-based alternative to spending on all the gadgetry so beloved of technophiles, and of central planners who want producers rather than consumers to control how and when energy is used.

There are still other ways that the cry “energy independence” can be turned in a more practical direction. Mexico is heavily dependent on us as an outlet for the workers for whom it is unable to create jobs and as a market for its goods. But it prevents our energy companies from investing in its declining oil industry. It doesn’t take much imagination to conjure deal structures that would allow Mexico to retain ownership of its oil reserves, but our companies to obtain a reasonable portion of the increased output that would result from the application of American capital and technology to the lagging industry. And it should take

even less imagination to explain to the Mexican government the disadvantages to it of a U.S. policy that responds to its restriction on the free movement of capital between our countries by impeding the free movement of goods and workers. Tough stuff, to be sure, but conservative energy policy need not be for wimps.

Then there is the fraught question of income distribution, bound up with concerns about corporate governance, bankers’ bonuses, and the regulation of financial institutions. Because so many financial institutions are now wards of the government, egalitarians in Congress have been provided with cover for plans they have harbored since—well, since long before this recession and the bank bailouts: Limit executive compensation, especially bonuses and those most visible of all perks—limos and jets. If the new definition of “rich” is an annual family income of \$250,000, surely twice that should satisfy even the most avaricious pinstriper.

Conservatives know better. To limit incomes either by fiat, by inciting the pitchfork-wielders to take to the streets of Greenwich, or by punitive taxation is to discourage risk-taking, entrepreneurship, and hard work. But they should concede that there is something wrong with a system that rewards failure, leaves in place executives who have brought their institutions to ruin and their colleagues to Washington with begging bowls rattling, and fails to maintain the legitimacy of the market system by satisfying the majority of citizens that it is fair.

Liberals want to take steps to redistribute income. Conservatives should counter with policies that improve the process by which income distribution is determined, and let the results of that process fall where they may.

The most important reforms will have two things in common: They will relate pay to performance (teachers’ unions opposing merit pay beware), and they will align private incentives with the public interest. We now know that mortgage brokers, paid with upfront fees, had every incentive to write NINJA (no income, no job or assets) mortgages and offload the risk of nonpayment. We now know that loan officers had every incentive to write as large a book of business as they could, since their bonuses often depended on the volume of loans they generated rather than the quality of those loans. We now know that the rating agencies had every incentive to slap “AAA” labels on securities because their fees were being paid by the dealmakers: no-deal, no-fee, and no need to worry about loss of reputation because government regulation made significant new entry into the rating business all but impossible. And we now know that at all levels bonuses were based on short-term profits, so that executives were immunized from any subsequent losses inflicted on

their institutions by their lending and deal-making practices. Woody Allen's advice governed: Take the money and run.

Democrats see all of this as calling for armies of regulators to scrutinize lending and other financial practices. Surely conservatives can make a better case for limited regulation that sets financiers on the right path, rather than attempting to monitor every step they take.

Require a mortgage broker to have "skin in the game"—retain some portion of the risk associated with any mortgage he writes—and he will not be inclined to lend to borrowers who it turns out can't even make the first payment on their loans. Ditto a rating agency: Hand a coveted AAA-rating to a security that later proves to be risky and forfeit the fee, which must be held in escrow for several years. Support the market, which is already sweating some of the abuses out of the system by which executive compensation is set, with tough rules requiring independent directors (tougher than Sarbanes-Oxley already requires), more power to shareholders to approve compensation packages, rules prohibiting compensation consultants from accepting assignments from the CEOs on whose compensation they advise. All designed to set in place processes that make markets work better, that make it unnecessary for government to say \$500,000 per year is enough and make it difficult for President Obama to contend that only he stands between the fat cats and the pitchfork crowd.

Finally, end the moral hazard created by banks too big or too interconnected to fail with a market-based insurance system. Premiums rise with the risk the institution creates for the financial system as a whole. Throw in counter-cyclical capital requirements that rise with the volume of lending, and you just might be able to get the government out of the banking business, as poor Tim Geithner is so reluctant to do despite urging from Barney Frank.

Combine all of this with a willingness to admit that notions of fairness are appropriate complements to efficiency when reforming the tax system, and you have an attractive and workable alternative to what is on offer from the president and, especially, the liberal wing of the Democratic party. Regulation that depends less on armies of bureaucrats and more on getting incentives right, corporate governance rules that align compensation with performance rather than mindless attacks on "the rich," and a tax system that is perceived as fair as well as being efficient—surely this is a more attractive package than big-government Obamaism.

A word about education. It is difficult to argue against the notion that the nation's interests are served by an expansion of educational opportunity. But that need not mean government funding of college for

all. Instead, it could mean greater opportunity for each person to pursue the education that he or she decides is in his or her best interest. Studies suggest that the path to material well-being is not necessarily ivy-covered.

On the early education level we already know the answers: Expand parental choice by providing vouchers, usable in public or private schools. Rather than repeat the arguments in favor of such a plan, I suggest that conservatives insist that any politicians who oppose vouchers or similar schemes publish the names of the schools in which their children are enrolled. In the not-so-distant past liberals lost ground with Reagan Democrats when they forced other people's kids to be bused to troubled schools. Today's liberals might find that denying their constituents' children the advantages they bestow on their own, merely to placate the teachers' unions that are opposing the president's call for merit pay, just doesn't play well in Peoria. Nor would insisting that government funding of education be restricted to only those uses that Washington deems best, rather than handed to the intended beneficiary to use as he sees best.

Let's leave it there. Health care solutions are for health care experts to devise. They should be consistent with the Obama goal of expanding insurance coverage to as many Americans as possible, coupled with reforms that relieve the widespread anxiety that loss of job means loss of coverage. Like it or not, the status quo is not going to survive, and conservatives have a special responsibility to see to it that we do not drift into the sort of rationing system used in Britain, where until recently a patient had to be already blind in one eye to be eligible for treatment of macular degeneration in the other.

There is much more than "no" that conservatives can contribute to the health care debate: fewer rules preventing the sale of stripped-down coverage of catastrophic illnesses, removal of barriers to interstate competition by insurers, elimination of unrevealed and unseemly relations between physicians and drug companies, equal tax treatment of all medical costs. All designed to make markets work better.

Conservatives need to swallow hard, accept the goals of the Obama administration, and find ways to achieve them that minimize the growth of government and maximize reliance on market forces channeled by efficient regulation. Rahm Emanuel is trying to paint the Republican party as the party of "no" because he and his liberal friends do not want to debate alternatives to their plan to extend the reach and size of government. It is the job of Republicans in Congress and in the statehouses to force them to do just that, and of conservatives to supply the intellectual support for an effort to prevent government from becoming increasingly and unnecessarily larger and more intrusive. ♦