

# Explaining Liberal Principles by Bob Powell

## Liberal is principled, logical, pragmatic, and workable

Some say the Republican secret is: "Simplicity, simplicity, simplicity."<sup>1</sup> It's true ... in two ways.

The first way is that their message is simple and easy to communicate: "Get government off your back; the less government, the better." Economic conservatives praise "free market" virtues. If a problem persists, it's that there's too much government intervention. So simple. So neat. So flawed.

The second way is that they make this message convincing by using the technique George Orwell described: repeat the simple and false so often that voters believe it. Simple. Effective. Tried and true. Communists and Nazis have used it. Hey, it works.

But false simplicity is also their weakness because their simple solutions are leading our society to ruin. While a simple solution may work, finding the correct "simple solution" is not always simple. And, heresy of heresies, the correct solution may require collective, rather than individual action. That's because individually logical actions can often lead to system failure.

Liberals must convey to voters that we understand the complexity of the world and that we have logical and workable solutions to their problems. We must convey that we have logical and principled reasoning for when governmental solutions are required. We must convey the complex in simple, principled ways that connect with people lives.

My purpose here is to briefly explain the ideological extremes, why our systems are failing, why conservative ideology doesn't work, and why only a liberal approach can properly address the problems in our society.

## The political extremes

On the **far left**, socialists and communists believe all businesses should be nationalized, owned and run by the State. No one hears this from liberals, Democrats or Greens, nevertheless they're called the "extremist left." Pure socialism and communism are unworkable; everyone knows it.

On the **far right**, libertarians and "free market" Republicans believe virtually all government functions should be privatized. We hear it every day from the Republicans who control our government. They're even privatizing much of national defense (e.g., logistics, food service, even some security functions); and they're profiteering from it. Pure "free market" capitalism is unworkable; conservatives just don't realize it.

A riddle: "How many libertarians does it take to change a light bulb?" The answer: "None, they just sit in the dark and wait for the invisible hand to do it for them." Bill Hawkins of the United States Business and Industry Council noted that "... as the 'invisible hand' turns off the lights in one factory after another in America, the intellectually dishonest [libertarian] has the temerity to deny that it is dark at all."

In the **center** are liberals. They're not extremists; what a shock! They realize for some things free markets are best and for others only government-regulated or government-run work.

Unfortunately, Republicans have successfully redefined the "middle" as the "extremist liberal left." The country has moved so far to the right that, practically, there is no "left," much less "far left," left.

## What's wrong with the extremes?

Why can't we keep it simple, ignore uncomfortable realities, and stick with an extreme? Because of moral values.

At the communist extreme, people are cogs in the machine of the State. At the libertarian, or Republican economic conservative, "free market" extreme, people are commodities to be bought and sold.

At neither extreme are people treated morally as humans with intrinsic value. Evil is done in the name of dedication to these extremes. Those who now control government are at this "privatize everything" extreme.

## The Communist Menace vs. the Libertarian Menace

The "Libertarian Menace" is more threatening than what was called the "Communist Menace." The reason is that the "free market" corporate control of libertarianism is driven by a reinforcing feedback process. Communism didn't have a powerful enough reinforcing process to overcome the balancing (limiting) feedback processes that opposed it -- an economy is simply too complex for central economic control -- which is why it collapsed relative to capitalism. Some Communist countries, such as China, remain dictatorships, but have largely abandoned attempts at central economic control.

John Sterman, in a section of *Business Dynamics*<sup>2</sup> on "The Rules of the Game," describes this feedback process:

The larger and more successful an organization, the more it can influence the institutional and political context in which it operates. Large

<sup>1</sup> "Simple but Effective", By William Saletan, 11/03/04, <http://slate.msn.com/id/2109079/>

<sup>2</sup> *Business Dynamics: Systems Thinking and Modeling for a Complex World*, <http://www.exponentialimprovement.com/cms/BusinessDynamics.shtml>

organizations can change the rules of the game in their favor, leading to still more success -- and more power. [The Figure] shows the resulting golden rule loop [R1]. The golden rule loop manifests in many forms. Through campaign contributions and lobbying, large firms and their trade associations can shape legislation and public policy to give them favorable tax treatment, subsidies for their activities, protection for their markets, price guarantees, and exemptions from liability. Through overlapping boards, the revolving door between industry and government, and control of media outlets, influential and powerful organizations gain even more influence and power. In nations without a tradition of democratic government, these loops lead to self-perpetuating oligarchies where a tightly knit elite controls a huge share of the nation's wealth and income while the vast majority of people remain impoverished (e.g., the Philippines under Marcos, Indonesia under Suharto, and countless others). The elite further consolidates its control by subsidizing the military and secret police and buying high-tech weaponry and technical assistance from the developed world to keep the restive masses in check. Even in nations with strong democratic traditions these positive loops can overwhelm the checks and balances designed to ensure government of, by, and for the people. [*Business Dynamics: Systems Thinking and Modeling for a Complex World*, p. 380.]

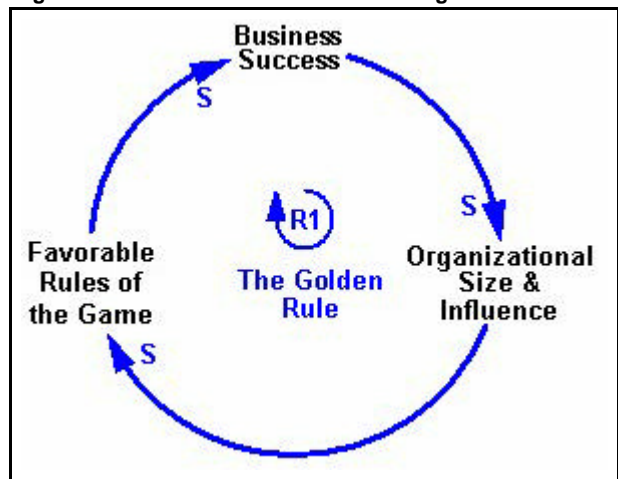
A prominent example of "The Golden Rule" is the "growth machine" that drives urban growth, which is described in *The Tangle of Growth*.<sup>3</sup>

Growth and development provide rentiers<sup>4</sup> (developers, builders, realtors, mortgage lenders, etc. ... those who profit from the increasing the exchange value of property) with income. Some of this income is "reinvested" in contributions to economic development, in campaign contributions to political candidates who share sympathetic points of view, and in advertising campaigns and other promotions. This is to lobby for favorable regulations, for tax increases (in lieu of impact fees) to pay for infrastructure, and to increase the perception that growth is good. These investments lead to more growth, development, income and investments in a reinforcing cycle.

### Principles to guide when government involvement is required

There are principles to guide determining when government is needed. Many liberals don't understand these principles and so don't communicate them, leaving us open to charges of just wanting unwarranted "big government." But government is needed

Figure. The Rules of the Game Reinforcing Feedback



to:

**1. Moderate market instabilities.** We get enormous price oscillations when there are long delays between price signals and the ability of either supply or demand (or both) to respond. Price can stay high for a long time before the either supply or demand can adjust. Think price instabilities and power interruptions during the California power crisis and that enormous price fluctuations provided Enron with opportunities to manipulate energy markets and rob millions.

**2. Overcome adverse selection.** Think health insurance where the healthiest drop insurance thinking it's not worth the cost, the sickest stay in, prices go up, the healthiest again drop out, etc. ... creating today's health insurance death spiral. No, it's not due to "frivolous lawsuits;" a 2004 CBO study shows malpractice costs were less than 2 percent of the overall U.S. health care spending. Any proposed solution that does not overcome adverse selection will fail. Period.

Note: Adverse selection arises due to what's called asymmetric information. Individuals know more about the state of their health than others do. Similarly, people know more about the condition of their used cars than others do; without lemon laws requiring disclosure the used car market would be much less efficient and would perhaps fail.

**3. Take advantage of positive externalities** (externalities are the effects of individual actions on others). Think education because when we work together, I'm more productive when you're better educated. We all benefit from public schools and libraries. Think health care because 1) when you don't get a communicable disease, I'm less likely to get sick and 2) when we work together, I'm more productive when you're not out sick. We all benefit when our nation is more competitive. In addition, it's immoral for children to not have health care and a good education simply

<sup>3</sup> Find *The Tangle of Growth* at <http://www.exponentialimprovement.com/cms/TangleOfGrowth.shtml>

<sup>4</sup> Economists' use of the term "rents" extends to profit on the sale and exchange of property, not just profit on rental income

because they happened to borne by the wrong parents.

**4. Make long-term investments.** Think net present value (NPV) calculations that devalue future returns and embed short-term thinking in our economy. At a typical 20% discount rate required for investments, \$100 next year is effectively worth only \$83 this year. Similarly, an investment that would be worth \$1 billion in 100 years is only worth \$12.07 today; it's not worth making. The payoff from higher education is so delayed (16 - 21 years) and uncertain (maybe no work in the selected field) that no self-respecting capitalist would ever make the investment. Because of the tyranny of NPV, government must make long-term investments; the private sector will not. The private sector inadequately represents the future to the present.

To preserve rights and liberties, John Adams wrote, "wisdom and knowledge, as well as virtue," must be "diffused among the body of people."  
- John Adams, for the 1780 Massachusetts Constitution.<sup>5</sup>

**5. Overcome negative externalities.** Think intrinsic incentives to pollute. Companies make more profit when the public cleans up the mess. Think development that leaves the public to pay for much of the cost of roads and schools necessary to support selling their product (producing TABOR/Gallagher reactions). Negative externalities allow companies privatize the profits and socialize the costs; this is an insidious form of socialism embedded within capitalism itself.

**6. Overcome the "tragedy of the commons."** Think depletion of ocean fisheries where to increase income every fisherman logically adds more boats to the fleet; but more boats increases fish scarcity, which drives up the price, prompting even more fishing. The market sends a signal exactly opposite to that required to preserve the resource. And think farming where every farmer logically puts more land in production with more mechanization. But this produces too much overall supply and drives down prices so no farmer can cover costs without government subsidies (demand is inelastic in that people don't eat all that much more when prices fall). Following "free market" ideology, Republicans passed the "Freedom to Farm" Act in 1996 to eliminate subsidies, but they tripled to over \$22 billion from 1996 to 2001. In "tragedy of the commons" situations like these, individually logical actions are collectively insane.

**7. Overcome reinforcing feedback.** Think the "rich get richer and the poor get poorer." It's easy to get a loan when you don't need one, difficult when

you do. More resources makes it easier to earn even more, and vice-versa. Vast inequalities of wealth are due to more than differences in individual initiative. There's luck, privilege, criminal behavior, other people's efforts and society's investment that allows creation of individual wealth, such as intellectual property protectionism (patent and copyright laws), enforceable contracts, open courts, property ownership records, police and fire protection, national defense, and public education. Hence the need for progressive taxation to pay for the support systems that make wealth accumulation possible; those who have accumulated wealth have benefited the most from these systems and should pay progressively more.

**8. Overcome escalation.** Think concerns that people have for their safety that prompt more and more individuals to arm themselves with ever more powerful arms. Such individually logical decisions produce a proliferation of guns that makes everyone less safe. Here again, individually logical actions are collectively insane.

We can use stories to explain these principles while connecting with people's lives.

Liberals seem to know instinctively that government solutions are required to solve certain problems. But they don't understand these principles and so don't communicate them, leaving us open to charges of just wanting unwarranted "big government." That's made it too easy for conservatives to convince too many voters that liberals are the evil that's responsible for the problems.

## Examples of simple liberal responses to conservative policies

### Taxes on dividends and capital gains

**Conservative:** "Dividends and capital gains are double-taxed. It's immoral to require individuals to pay taxes on earnings that are already taxed."

**Liberal:** First, time is money. It's immoral to require that people who invest their time to make money pay taxes, but not those who invest their money to make money. It's class warfare to make those who work for a wage pay for the infrastructure, courts, police & fire protection, and national defense that make it possible for investors to make money. Second, dividends and capital gains are not double-taxed because the law defines a corporation as an "individual" that is legally separate from individual stockholders to shield them from liability. Because the taxes apply to distinctly different "individuals," there's no double-taxation. Note that there is triple-taxation when people pay income taxes, Social Security taxes, and sales taxes on the same income.

### Human Capital Gains Tax Cuts

<sup>5</sup> "What would we change about the Constitution?", Sun, Jun. 29, 2003, [http://www.philly.com/mld/philly/living/special\\_packages/constitution/6167807.htm?1c](http://www.philly.com/mld/philly/living/special_packages/constitution/6167807.htm?1c)

**Conservative:** Completely unaware of the concept.

**Liberal:** Award the same kinds of investment incentives to individuals and their children that corporations have enjoyed. Instead of "capital gains tax cuts" for those who invest in corporations, provide "human capital gains tax cuts" for those who invest in themselves.

- Create education investment tax credits, similar to R&D investment tax credits for corporations.
- Create education depletion allowances. Little becomes obsolete faster than education. Such allowances make more sense than giving corporations "oil depletion allowances" for extracting oil from public lands.
- Allow education expense depreciation so individuals can write-off education expenses against future income. Now, even when deductible, education is expensed in years in which there's no income due to attending school full time.
- Apply these incentives to learning related to retooling for a different career field, not just to enhancing skills relevant to current employment, because so many are being forced to totally change their field of employment.
- Give all of these tax credit status, rather than making them tax deductions. This will treat those with lower incomes as favorably as those with higher incomes.

In other words, provide incentives for people to invest in themselves. Increase the positive externality effects associated with education; that is, we'll all benefit from such policies because we're all more productive when working with those with better skills.

Our economy depends on a better educated and capable workforce to provide the knowledge capital necessary for the country to prosper. Let's foster the ability of individuals to do their part in our economic and national recovery by treating individuals as favorably as we do corporations. What a concept.

### **Corporate taxes**

**Conservative:** Corporations shouldn't pay taxes at all because that expense is passed on to consumers and it's ultimately individuals who pay the taxes.

**Liberal:** Corporations selling products and services require the support of common infrastructure and government services. The market can only efficiently allocate resources when the costs of supporting the creation of those products and services is built into all the products people purchase. Individuals in turn pay sales tax to pay for the services that support their own economic activity.

### **Minimum Wage & Unions**

**Conservative:** A minimum wage is unwarranted government interference because wages should be

determined by market forces. A minimum wage interferes with market regulation of labor supply and demand. Unions also interfere with the free market and no employee should be required to pay dues.

**Liberal:** There is no free market for labor due to prior interference by the Federal Reserve Board. Whenever the Fed perceives unemployment is too low, it raises interest rates to slow the economy and reduce demand for labor. Unions are also needed to at least partially make up for the Fed's manipulation of labor demand, though the current large excess labor supply now undermines union strength. In addition, capital organizes itself in corporations and a labor union counterpart is a necessary counterbalance. Corporations are virtual dictatorships, unions are democracies and just as messy to manage. "Right to work" laws are simply a means to undermine union strength by letting some employees "free ride" on those who do pay dues; the equivalent in our democracy would be letting people opt out of paying taxes.

Note: Official unemployment is vastly understated, 6% official unemployment is over 10%, if we only include those who have given up and those working part-time but wanting more work. Including other not fully engaged categories that provide sources of labor (on-call, "disappeared," temporaries, contract workers, and self-employed but underemployed), slack in the labor force at more like 20 to 30%. The number of mainly low-wage temporaries has tripled since the early 1980s. The Fed game of "musical chairs" keeps 10 to 20% slack in the workforce all the time, which means that the added value of any one worker is zero and wages at the bottom approach subsistence level. This depresses all wages, not just those at the bottom.

### **"Free Trade"**

**Conservative:** "Free trade" and offshoring of jobs is good for the U.S. because it supplies consumers with inexpensive goods and services. The market will take care of itself because productivity gains will eventually lead to job creation and workers will learn to adapt. Poor countries benefit because it raises them out of poverty.

**Liberal:** The short-term effect is inexpensive goods; but long-term, competition from low wage labor undermines overall market purchasing power, increasing cost pressure for more offshoring and a downward economic spiral in a world economy with a virtually unlimited supply of cheap labor. People eventually find new jobs, but at a significantly lower wage; and this drives down pay for workers with similar skills profiles. Workers in undemocratic low-wage countries don't benefit because individuals don't value and "purchase" clean environment and workplace safety, governments do. If a government isn't a democracy, it doesn't represent the interests of its citizens.

### **"Moral values" are more important than**

## economics

**Conservative:** Citizens should vote for their conservative Christian individual moral values.

**Liberal:** There's more to moral values than individual behavior. Values include access to education and health care, freedom from poverty, freedom from war, and protecting God's creation. Values include how we treat the least fortunate among us.

**Note:** This is especially true because many are less fortunate because of a Federal Reserve policy that assures that there are always more people than there are jobs.

**Note:** Government policies create winners and losers, even when there are net gains for the whole. The winners don't share their gains with the losers; either the losers totally lose or their losses are partially offset by government support, that is, the winners privatize the gains and socialize the costs onto everyone.

**Note:** If Republicans can keep Christians thinking about a "threat to their afterlife," they calculate that Christians won't notice that they're being taken advantage of financially in this life.

This quote explains the alliance:  
"Religion has always had one very useful role, it keeps the poor from killing the rich." Napoleon Bonaparte (1769 - 1821)

## Cost-Benefit Analysis

**Conservative:** Republicans like Sen. James Inhofe, OK, endorse what they call "fiscally responsible policies ... based on ... cost-benefit analyses."<sup>6</sup> They believe that if the benefits obtained by correcting a safety problem don't exceed the costs a company incurs to correct the safety problem, then it should not be done. They use the same logic for arguing against pollution controls to maintain clean air and clean water.

**Liberal:** On the surface, this sounds reasonable. But it's not. Here's why: "Cost-benefit" analysis is valid when an individual decides whether to spend to obtain benefits: the person who saves the costs loses the benefit. But it's not valid when a corporation decides whether to spend to protect public health and safety. That's because the corporation saves costs and increases profit, but the public loses the benefit. That is, some people get to die. But no one gets jail time, much less the death penalty. (Examples: The Pinto gas tank; 55,000 Vioxx deaths even though company studies revealed problems years earlier.) Corporate cost-benefit analysis privatizes profits and socializes costs; it's an insidious form of the socialism that libertarians despise. Socialism is a no-no when it comes to redistributing income, no matter what the social good. But it's OK to redistribute costs, no matter what the social harm. More importantly the problem with

cost-benefit analysis is that it's "people in service of the market," rather than "the market in service of people." William Greider notes in his book, *Who Will Tell the People*, that "cost-benefit" analysis has the "whiff of fascism."

## Abortion

**Conservative:** Abortion is an immoral taking of life and all abortions should be banned.

**Liberal:** There must be a balance between concern for the life and health of the mother and concern for the fetus. A bill including protections for the life and health of the mother could pass constitutional muster and reduce the number of abortions; conservatives were more interested in keeping the issue alive than in making progress. In addition, when the State interferes with the decision of the mother to prevent an abortion, then it takes on a moral responsibility for supporting and raising the child.

## What's it mean to be "liberal"?

Conservatives have distorted it to mean soft-headed and naive at best, ignorant and stupid at worst. They conflate liberals and the "left," even calling liberals socialists and communists.

In response, many have taken to referring to themselves as "progressive." But that's a weak label compared to "liberal," a word rooted in liberty. I won't shy from it. We must reclaim it.

That's because to be liberal is about getting beyond "left" and "right." It's the opposite of ideology; it's not limited or bound by dogmas. It's "open to new ideas for progress, and tolerant of the ideas and behavior of others." It's "broad-minded" and "open-minded" in understanding the world and identifying what works. For economics this means sometimes free market, sometimes government, sometimes a combination.

It's intelligent and practical, not socialist, to apply government (collective) solutions when privatizing (individualistic) solutions are doomed to fail.

it's even mandated in the U.S. Constitution. In some cases we can't "form a more perfect Union," "promote the general Welfare" or maintain the economic power to "provide for the common defense" without collective solutions that consider "the whole" instead of "the parts."

Liberal is about creating community. Collective solutions value community and honor people's desire to belong to something larger than themselves. Liberal principles comprehend that, to a large extent, we're all in this together. And they comprehend that, in some situations, we'd better be in this together, otherwise we're courting disaster. Soldiers on the war front know this; they support each other because they know that "there, but for the Grace of God, go I."

<sup>6</sup> "Industry Seeking Rewards From G.O.P.-Led Congress" <http://www.nytimes.com/2002/12/03/politics/03ENVI.html>

## Why the fear of liberals?

Our society values radical individualism and fears the collective. For example, the ultimate enemy in science fiction is of a collective nature. The loss of individual identity on being assimilated into the Borg collective of "Star Trek" is the equivalent of death; and it reminds us of communism. But unless we want to stand by and watch our social and economic systems fail, we'd best get over this fear of collective action.

Beyond this irrational fear, libertarians abhor the idea of society putting any kind of restraints or burden on individuals. They maintain they are protecting the freedom of individuals. They say that it is tyranny for individuals to be taxed to provide a benefit to others in our society; they say that, after all, government has the power to lock you up if you don't pay your taxes. (Never mind that, as noted above, they have no problem with individuals or corporations externalizing and redistributing costs onto individuals as part of the population at large).

But the truth is that they really don't care about the well-being of individuals. Their interest is actually in *requiring that all individuals remain subject to risk, even if society decides they want to mitigate the risk to individuals ... such as providing a social safety net or health care.*

They are fundamentally opposed to allowing a democracy to even decide the issue and actually are even opposed democracy itself. They oppose collective or governmental solutions to a society's problems, even when individualistic or privatized solutions are doomed to fail as described above. Their individualistic ideology denies the right of a society to effectively address its problems. This is the real tyranny.

True freedom<sup>7</sup> is about more than the ability to take action; it's more accurately about *the ability to take effective action*. Libertarians and economic conservatives would rather have someone who wants to exit a room be free to run into walls than be truly free and able to find the door.

## The imperative of a call for balance

First, we need balance between the short-term and the long-term. A short-term focus is as natural as drug addiction. Short-term rewards are seductive; long-term rewards uncertain and risky.

Second, we need balance between the individual and the collective. As individuals we live in the logic of the individual and we're largely unaware of the effect of that logic on the collective and how it feeds back to affect our individual experience. Therefore, as individuals we do not modify our behavior; instead we follow our individual logic to produce results that are

often the opposite of what we desire. Individual behaviors can be perfectly logical, but collectively insane.

This is the systems perspective that shifts from "either-or" thinking to "both-and" thinking. It sees the parts and the whole, the individual and the collective ... an ability that is profoundly spiritual; it is holy.

Juveniles and libertarians alike neglect responsibilities to the long-term and to the whole, adopting a teenage, foot-stomping, "I want to do what I want to do when I want to do it" attitude. But maturity requires balancing between the extremes, just as in a family we must balance between individual needs and family needs.

A call for "balance" seems bland and uninspiring in comparison to often violent support of capitalism on the one hand and socialism on the other. This is a major barrier to achieving balance, but balance is required to create a society that works. If we want a creative and sustainable society, to some extent we must all be both capitalists and socialists ... and, yes, I know this is a politically incorrect thing to say.

## Conveying the liberal message

We must not try to trick voters as the conservatives do with false and misleading messages. We must overcome the serious problem that humans are all too willing to accept simple, but incorrect, explanations in a complex world. We need spokesmen who both connect with people and tell the principled and complex truth ... as simply as possible.

## Making public policy

The libertarian view of reality promoted by the Cato Institute, the Independence Institute, Republican economic conservatives, and The Gazette in Colorado Springs is as partial and distorted as the communist view. Both see only part of the truth; both are fatally flawed. There's a word for those who are out of touch with reality; we call them insane and we don't let them make public policy.

## A final note

We must aggressively explain to voters why liberal policies are based on principle, character and morality. We must clearly explain why government involvement is necessary to improve their lives, the lives of those in their family, and their community.

Mahatma Gandhi described why the country is failing under Republican leadership. "The things that will destroy us are: politics without principle; pleasure without conscience; wealth without work; knowledge without character; business without morality; science without humanity and worship without sacrifice."

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<sup>7</sup> "On Freedom" <http://www.exponentialimprovement.com/cms/freedom.shtml>