



## Do We Need Businessmen in Government?

Many conservative-leaning Republicans, it appears, continue to be held in thrall to “The Donald.” Trump, after all, is a businessman, they reason, and surely we need someone like that in the White House, especially given the gross ignorance of business that is replete in the Obama administration.

This impulse is wrong, and I will explain why. But let us first acknowledge the problem.

Michael Cembalest, the chief investment officer for J.P. Morgan Private Bank, wrote up a report in *Forbes* in 2009 that claimed a huge gap between the Obama administration and the world of commerce. The number of Cabinet appointees who have any connection to commerce, he wrote, is less than 10 percent, whereas the typical Republican administration has more than 50 percent. Eisenhower had the highest percentage of the century, with Reagan a close second.



This report was later disputed by those who regard community organizing, work for government-funded research labs, and law partnerships to be business experience. Those who dispute the report, for example, cite Timothy Geithner’s work for Kissinger Associates as the “private sector.” That’s a stretch! In any case, the author of the report later withdrew it, admitting that there were too many close calls — too many leaky passages between public and private — to make an objective judgment.

There can be no question that the Obama administration is tone deaf on matters of business and that this is part of the reason. There is virtually no one in a position to weigh in on legislation or on economic matters at all who has a clue of what it is like to pay the bills based on consumer-driven revenue, do the cost accounting, hire and fire workers, reach out to new markets, or beat the competition. They have about as much sympathy for the daily affairs of commerce — the heart and soul of a thriving economy — as the rest of us have for the workers and peasants of the planet Pluto.

This helps explain why there are so many in government today who think that regulations are no big deal, that taxes can go up with no consequence, that inflation is harmless, that the minimum wage — and the regular increases in the minimum wage — surely causes no harm. For these people, the causes of job creation and economic growth are ultimately mysterious. They are vulnerable to witch-doctor technicians who announce the need for new trillions in spending or some new cockamamie scheme for regulation.

How did the Obama appointees get where they are? They are mostly creatures of the political, legal, and academic worlds that exist in blissful isolation from the need to actually produce anything useful to people. They came up through the ranks in this system and learned that capitalism is mostly dangerous,



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that business is a menace, that only governments and the activists that support governments make a contribution to progress.

Even though they have lived their entire lives in a parasitic relationship to the private sector, they have no sympathy for or understanding of the host. If they think of the private sector at all, it is to regard it as a thing to use and loot, and otherwise whip into shape. The host must obey its parasite at all times.

### **A Perennial Temptation**

This terrible reality has given rise to a predictable response from Republican ranks. We need a President who understands business. And who better to understand business than a wildly successful businessman? And so if a contender like Donald Trump didn't exist, the political system would surely have to invent him. He is a very rich businessman — sometimes deservedly so — who knows business up and down, and he wants to apply what he knows to public life.

It is with this model in mind that Trump has made some unbelievably stupid comments about politics. At every interview, he attempts to deflect blame for all America's problems by pointing the finger at China and India. He says that instead of career diplomats who make nice, he would hire ruthless businessmen from New York to do all his negotiations. Their goal should be simple, he says: to crush the enemy.

What's going on here? Is Trump crazy? Well, yes, he is crazy, but there's more to it than that. He is thinking about politics the same way that real-estate developers think about business. Many are indeed ruthless. They think of the competition as the enemy. They seek to crush the competition. And it is precisely language like this that gives capitalism the reputation for being a kill-or-be-killed system that disregards all standards of morality, a system that unleashes human wickedness.

However, in the market economy, words like destroy and crush are purely metaphors. There are no bombs. There is no killing going on. How does one business outcompete another? By excelling at serving the consuming public. As Ludwig von Mises used to say, the Chocolate King is not a king who can tax or make wars. He is only on top because he makes the best chocolate at the best price. All the rest is bombast and style.

What about his point that we need mean and nasty people — not traditional diplomats — to negotiate to advance American interests? The history of statecraft has given us very few good things, but one of them is the idea of diplomacy. The goal of traditional diplomacy was to work out differences between states in a friendly way so that war could be avoided. True, this has usually involved all kinds of graft and corruption, but that is better than bloodshed and destruction.

Trump says that this is a bad thing! He wants diplomats to be more like cutthroat businessmen, inspiring more wars and bloodshed and mayhem. What is truly scary about this is that it is possible that there are some Republican voters that would actually go for this idea.

### **Business and Politics Don't Mix**

The problem with applying a business ethos to politics is that the institutions are completely different. One works with trade and cooperation, and the other with force and guns. One works by making people better off and the other by clobbering people on the head, stealing their money, regulating their lives, and ruining everything in sight. The only way to make the government work like a business is through complete privatization. So long as it relies on the tools of government rather than private enterprise, it will be a completely different entity.

Consider the case of cost accounting alone. In private enterprise, you can know if you are doing the



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right thing and following the right course if revenue matches or exceeds expenses. This is the essential tool of rationality in business. You can check this daily, monthly, or annually, and break it down by sector to know how to finely tune your operations. Profit then becomes a signal to know that you are satisfying consumers and operating efficiently. What you produce and how much you produce is dictated by this constant feedback mechanism. This is why business can be seen as the most socially attentive institution. It depends fundamentally on pleasing people, and it has a metric that makes it possible to discern this.

In government, there is nothing like normal cost accounting. There is no feedback mechanism between the funding source and the spending source. The government gets its money by forcing people to cough it up through various schemes such as taxation and fees. It can also extract money from people through the disguised extraction of inflation.

And then how does it make decisions on how to spend the money? It is economically arbitrary. It is influenced by politics, the need to keep control, the need to reward friends, and the like, but not economics as such. There is no relationship, in an economic sense, between the money coming and going. In other words, government is completely irrational from an economic point of view.

This is one of the reasons that government has such a hard time cutting money from its budget. When a business cuts back, it targets the least profitable sectors in the hope of efficiency gains. When government cuts, it has no profitable or unprofitable sectors to investigate and ends up just randomly naming programs that have to go. It's no surprise that it would tend to cut those areas that are most important to people but least important to government. This prompts a backlash and the cuts never happen. This is yet another consequence of the impossibility of conceiving of the state as a business.

### **Business, the State, and Personality**

Then there is the incentive and character issue to consider. For hundreds of years, economists have noted something remarkable about the market economy. It has a way of converting individual interest into the social interest. A businessperson might be in it entirely for the money, pursuing profits with an eye to the bank account first, last, and always, but the results are still the enhancement of social welfare. This is because the means that they have to use to profit are trade and exchange, which is to say, human cooperation. They must come up with goods and services that people like in order to inspire people to buy. When people buy, they are freely exchanging in order to enhance their own material well-being.

This leads to the remarkable way in which the market economy can harness individual interest toward the social betterment of all. The market leads everyone to do the right thing even if the inner impulse of the players is not to do the right thing.

Stated more strongly, the individual businessman might be a wicked, selfish, greedy, power-hungry monster. But if he wants to feed all those inner impulses, if he really wants to make a go of it, the market allows only one way to do it: in the service of others. This is a glorious thing; the market actually channels such impulses in a way that turns out to be a social benefit.

And this is precisely how it is that Donald Trump can end up being fantastically rich and successful. If he never engages in force or fraud, he can otherwise behave loathsomely and still manage to help others, even if he never intends to do so. In the market economy, saints and sinners can work together toward their mutual enrichment.

The reverse is true with government. A person with a collection of vices will find the opportunity to



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unleash them within the context of the government, which has no mechanism for converting selfishness to the public good. Government's currency is power, and that means lies, manipulation of opinion, duplicity, and very few checks on any of these things.

It is not only, as Hayek says, that the worst get to the top. It is that when a person works in government, their vices and hidden evils are fed until they threaten to take over completely. The people at the top in government, then, actually become worse. Government can take a saint and turn him into the worst of sinners, whose sins are multiplied through the whole of society, resulting in brutality and even mass murder. The state can turn idealism into the gulag: That is the short history of socialism.

### **The Business-Government Partnership**

The usual reality when business gets involved with politics is a corruption of free enterprise. This has been true throughout history. The mercantilism of post-feudal Europe was essentially the story of how business came to extract monopoly privileges from the crown, each greasing the other's palm in a way that is unjust and a stifling of economic progress. The liberals of the 18th century were devoted to unraveling this system, and it was they who pointed out that a government-business partnership ends up rewarding the few at the expense of the many.

This partnership has long corrupted every major industry and innovation. It was especially true with banking, which ought to be a free-market practice but has long sought protection for its operations from government. When the banks got in trouble, they would seek bailouts from the state, with the ultimate result of centralized banking. Today this is the main function of central banks: not to stabilize the economy but rather to keep the financial system operating in times of crisis to the benefit of the biggest players.

Another example is healthcare. The medical industry in the 19th century was largely a free-market industry, but its leaders started working with the states and then the federal government. The level of dependency has grown through every new program. Slowly but surely, the tables have turned, and now government is the master in the relationship, even to the point that large medical firms see the need to have the government approve of their CEOs. The more the industry has invited government in, the more government has tended to politicize the industry.

The public-private partnership has had especially grievous effects in the area of war and war making. In contrast to normal businesses, arms suppliers for the government have everything to gain from the promotion of hostilities between nations. They have funded both sides of war, lobbied Congress for increased conflict, and made money at the expense of human beings. Not for nothing have arms dealers been called the "merchants of death"

One of the worst tragedies of our current economic times is how successful businesses are expected to go crawling to the state to beg for the right to do business. This almost always involves a variety of compromises and payoffs. This has been the fate of industry after industry, and this includes the high-tech industry. Microsoft was forced to play the game, followed by Google, and even, most recently, Facebook. Instead of opposing government as they should, these companies that have been successful in markets end up playing the game, if only to assure their own survival.

### **It's Not About Who; It's About What**

The core problem of the Obama administration is not that its people do not have business experience. Even with business experience, there is no way to run a government rationally according to business principles. One might hope for someone in government to have greater sympathy and understanding of



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commerce. But this is no guaranteed solution. What really needs to be dismantled is the whole of the political machinery itself. It doesn't matter who is running it; it cannot be used for good.

An additional problem with the conventional views on this topic is that they wildly over-inflate the significance of elected officials and their temporary appointments. This is only the veneer that the state itself sets up. Even if the whole of the office of the President, the Congress, and the Supreme Court went on a long holiday, the state itself would still function and thrive.

That's because the real workings of the state are found much deeper within its structure. The nation-state as we know it consists of a lifetime bureaucratic class that pays little attention to elections that come and go. Its marching orders are given by the endless regulations and laws that manage its operations, not the speeches or priorities of this or that elected official. Elected officials can play a role in making things worse, but very rarely have played any role in making things better. The state usually always outruns and outguns the politicians who attempt to beat it back. As Ron Paul notes, we need a change in the philosophy that guides American hearts and minds.

For this reason, the core of the country's problems cannot be solved by the political process. Nothing will change with an election. Real reform can only consist in going for the heart and soul of the state itself, which will require a wholesale shredding of the central plan that governs this country regardless of who is superficially in charge of the public relations year to year.

Let us finally consider some salient facts from that now-withdrawn Cembalest report. After Reagan and Eisenhower, the two other Presidents who packed their Cabinets with the business class were Woodrow Wilson and Franklin D. Roosevelt. These two Presidents were responsible for the largest increases in state power in the 20th century. Most of their interventions were secretly designed to help a narrow group within the business class, but they cost the free enterprise system dearly. Certainly one of the most striking examples of this harmful symbiosis between government insiders and the business elites is the collusion among the principal Wall Street bankers and the Wilson administration to create the Federal Reserve system, which gave the houses of Morgan and Rockefeller de facto control over our currency and credit and, virtually, our entire economy.

Never forget that the interest of capitalism and the interest of capitalists are not the same. In fact, the upper-crust of the business class has frequently revealed itself to be the most formidable enemy that free enterprise ever had. We do not need more or fewer businessmen running things; we need ever fewer positions of power from which anyone can purport to manage society.

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