

Whatever happened to muscular capitalism?

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When Arnold Schwarzenegger took over as Governor of California in 2004, he called state legislators who opposed his first-term fiscal conservatism "girlie men." This past year, having evolved from budget hawk to overspending environmental champion, he accused corporate supporters of Proposition 23 -- which would have suspended the state's draconian climate change legislation -- of being motivated by "self-serving greed." Mr. Schwarzenegger isn't a greedy man, much less a girlie man. Now he's a greeny man, but it's a status unlikely to harm the mega-star's pocketbook.

Mr. Schwarzenegger is in Canada this week honing up his post-gubernatorial skills on the rubber filet mignon circuit, reportedly pulling in hundreds of thousands of dollars a pop. Yesterday it was Calgary and Winnipeg. Today it's Toronto, where Ed Clark, CEO of the TD Bank, which is the main sponsor of the visit, will be doing the introductory honours.

Mr. Schwarzenegger is one of the most charismatic movie stars and disappointing politicians of his generation. The star of such classics as Conan the Barbarian, The Terminator and Total Recall entered the governorship spouting Milton Friedman, and left sounding like a cross between a fiscal barbarian and a green siren cyborg sent to destroy the state economy. He came preaching financial rectitude and left his successor with a budget shortfall of over US\$25-billion. It would be going too far to suggest that California is on the financial brink, but Mr. Schwarzenegger certainly didn't improve its outlook, as "The Governor" turned into "Governor Weathervane."

On the way into office, Mr. Schwarzenegger touted his free enterprise credentials. He declared that he had learned from Professor Friedman "a lesson that every political leader should never forget: that when the heavy fist of government becomes too overbearing and intrusive, it stifles the unlimited wealth creation process of a free people operating under a free enterprise system." He bemoaned the state's "matrix of onerous regulations." He castigated "a counterproductive culture in [state capital] Sacramento." He claimed that governor Gray Davis -- who was about to be recalled--was "too beholden to moneyed special interest groups." He pointed out that the free market Cato Institute had given Mr. Davis a grade of "F" in its rankings of governors.

Last year, Cato gave Mr. Schwarzenegger a "D."

"During his years in office," noted the Cato rating, "Governor Schwarzenegger has gyrated between support for tax and budget reforms and support for the legislature's big government policies.... Schwarzenegger has made some reforms to California government, but he will be handing over a giant economic and fiscal mess to the next

governor. State unemployment is over 12%, the state's pension system has massive funding gaps, and the state's bond debt has exploded."

What went wrong?

A combination, it seems, of lack of clear vision, failure to seize the honeymoon moment at the beginning of his tenure, a conversion to leftist greenery, and the 2008 meltdown.

Mr. Schwarzenegger's disappointing performance came as no surprise to some, despite his famous introduction to one of the segments of the 1991 version of Milton Friedman's Free to Choose series, in which he castigated the "socialistic" Austria from which he had emigrated as a young man, and praised muscular capitalism.

He had already married into the Kennedy clan and was known as a social liberal. Although he was inevitably compared to that other charismatic actor turned California governor, Ronald Reagan, his ideology was never as soundly based or finely honed as that of the Great Communicator.

Mr. Schwarzenegger was said to be a "compassionate libertarian." Nothing wrong with that, except true libertarians don't believe in getting compassionate with other peoples' money. That's why there aren't many libertarians in government. Similarly, his claim that "government should ensure a fair start and fair competition for all" sounded a little squishy.

An early billionaire straw in the wind was when Mr. Schwarzenegger appointed Warren Buffett as his chief economic advisor. Mr. Buffett is a man who -- perhaps because great wealth came so easily to him--has always recommended stiff taxes for the rich. As a perceptive piece in The Wall Street Journal noted upon the news of Mr. Buffett's appointment "Hasta la von Mises, baby!"

Ultimately, the man who came in determined to "blow up" bureaucracy, lower taxes and boost education instead raised taxes and cut education spending (although he did make some progress in installing parental choice, a la Friedman). His decision to close the state's budget gap with borrowing rather than by cutting spending led the legislature to spend even more. Having consumed political capital losing a fight with the unions in 2005, in 2006 he cozied up to the Democrats and wound up passing the potentially disastrous climate change act, AB32. And yet voters -- despite Mr. Schwarzenegger's unpopularity as he left office -- appear to have bought into his claim that AB32's "onerous regulations" would be a job creator rather than destroyer. This despite a study by the California Small Business Roundtable in 2009 that estimated that AB32 would cost over a million jobs. A more recent report from the Pacific Research Institute predicted job losses of 1.3 million by 2020. Meanwhile as Mr. Schwarzenegger berated "greedy" Big Oil for supporting Proposition 23, he didn't note that there were even bigger, and perhaps greedier, "moneyed special interests" supporting climate legislation, and thus him. Presumably there will be no shortages of speaking opportunities sponsored by those still seeking to make out like bandits from climate legislation (although TD, to be fair,

has developed a reputation for high-profile speakers for their own sake, and this is not to brand all Mr. Schwarzenegger's sponsors as self-serving villains.)

Milton Friedman is not on record as having expressed strong views about climate change, but he did once say that "eliminating pollution" was obviously a dumb idea, since that would involve economic costs far in excess of any benefits. In fact, carbon dioxide isn't pollution, and the whole man-made climate change is looking more and more like an over-hyped political hobbyhorse.

Mr. Schwarzenegger, meanwhile-- apart from suggesting he might get into film production -- has reportedly put out feelers suggesting that he might like to be the Obama administration's "Energy Czar." Given his political performance, that sounds like an even worse idea than Last Action Hero.