Warren T. Brookes

THE SILENT BOOM

George Bush has a boom economy to brag about.
What more could he possibly need?

As the primary campaign for the Democratic presidential nomination wound down in late spring, Jesse Jackson and Michael Dukakis continued their pledges to "end economic violence by ending Reaganomics," and "to put America back to work in decent jobs with decent pay." As they spoke, the U.S. unemployment rate dropped to its lowest rate in fourteen years, while the U.S. economy generated a world's record rate of employment (the employment ratio of jobholders to population), ten points above Europe, and one point above Japan.

The fact that Jackson's and Dukakis's rhetoric went unchallenged by a sycophantic press shows how difficult is the task facing George Bush—and it's much worse than he thinks.

On May 26, for example, the Commerce Department revised its first quarter GNP growth estimate from 2.3 to 3.9 percent, from solid growth to a powerful surge. Yet the media treated this good news as a "new threat to inflation." The same pundits who six months ago were warning the nation of a recession or a depression now are warning us either of "the dangers of a boom," or of the economy's impending takeover by foreign powers.

Last January, there was a cartoon in the *Christian Science Monitor*—a normally moderate and sensible organ—showing Uncle Sam as a bedraggled and grease-stained mechanic standing next to the open hood of a tattered, over-sized, broken-down American car, labeled "U.S. economy." He was eyeing an on-rushing Model-T filled with Hispanics labeled "Latin American Debtors," all of them yelling cheerily at Uncle Sam, "Going our way?" The implication was clear: the *Monitor*, like the rest of the establishment press, tends to see the U.S. economy as a banana republic headed down the Latin American route, laden with external debt, ready to default at any moment.

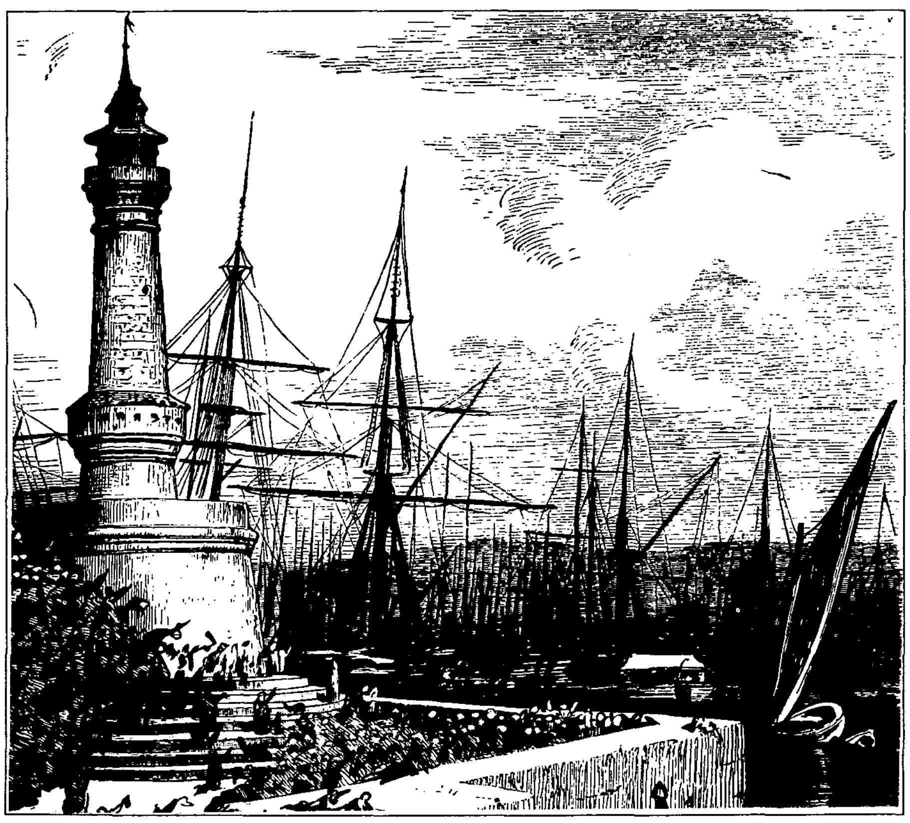
But, just a week or so before that cartoon appeared, Charles Wolf and Sarah Hooker of the Rand Corporation reported in the *Wall Street Journal* that when our foreign investments are properly valued at market level, the U.S. in 1986 was a net *creditor* nation, to the tune of at least $50 billion—instead of $264 billion in debt, as the Commerce Department reported.

The reason for this is that the "net debt" position reported by Commerce is based on valuing all investments at book, not market, value. Since most of the U.S. investment abroad was made ten to thirty years ago, it is badly undervalued, while virtually all of the foreign investment in the U.S. was made in the last decade, and is closer to its real market value.

Rand's common sense analysis was backed up by a simple fact: In 1986, when we supposedly became "the largest debtor nation on earth," U.S. income from overseas investments was $20.8 billion greater than U.S. payments to foreign creditors and investors. As Milton Friedman politely told the Commerce Department in an article, "If your income from investments exceeds the cost of carrying your investments, you are clearly *not* a debtor."

The point of these examples should be clear. Shallow economic reporting and a fountain of misinformation have combined to spook and depreciate an otherwise booming economy.

That economy is now in its record sixty-eighth month of a peacetime recovery whose *average* GNP growth has been nearly 4 percent a year, and which has created over 15 million jobs even as it cut inflation from 12.6 percent to less than 4 percent, and put on the best competitiveness performance in the postwar history of the United States. In the process it has destroyed the ugly Phillips Curve, which postulated that there was a trade-off between inflation and unemployment.



That's the *good* news.

The *bad* news is that few Americans, and even very few investors, seem to know the good news. And unless George Bush can get across the good news—and how he intends to keep making it better—the public will put an end to the most powerful and successful economic restructuring ever undertaken by a major and mature industrial power.

The greatest irony of the Reagan recovery is that its loudest noise thus far was made on October 19 of last year. Yet at the moment of the market crash, the U. S. economy was expanding at its most rapid rate since 1983, with industrial production up over 5 percent, total jobs up over 3 million, and manufacturing jobs then up 340,000 from the year before—a rate of growth that has expanded to 466,000 a year as of April.

Factory capacity was at peak operating levels, as was the employment ratio, along with help-wanted advertising, and consumer confidence. Capital spending was surging at the fastest rate in three years, manufacturing profit reports were the highest since the 1960s, and exports were soaring by 20 percent, in an economy where unit sales per worker were rising more than thirteen percentage points faster than unit labor costs.

So what caused the crash?

Certainly an unnecessarily extreme shift in Fed policy—from far too loose in 1986, when money growth averaged 15 percent, to far too tight in 1987, when it averaged less than 2 percent—had much to do with it; even as stock yields had fallen to 5 percent or less, long T-bond yields had risen to more than 10 percent. Something *had* to give.

But that should only have caused a nasty but nevertheless controllable correction. What turned it into a crash? I think two things: first, extreme but

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unwarranted fears about the future strength of the U.S. economy, in what I call the "silent boom," and second, the sudden and fully justified realization in the wake of Iran-contra that the Reagan years were over, and that no matter who is elected, the 1988 election could in fact reverse all the gains that were made.

As an example, consider the real story behind the nation's government deficit. About a year and a half ago in December 1986, my editor and I had lunch with the very bright young thirty-two-year-old state treasurer of Michigan, Bob Bowman, formerly a whiz kid with Goldman Sachs. He spent much of the lunch good-mouthing the "comeback recovery" of Michigan and bad-mouthing the Reagan Administration and its allegedly foolish economic policies.

Some of this was good-natured ribbing of the *Detroit News*'s persistent pickiness against Bowman's liberal Democratic boss, Gov. James Blanchard, so we took it in stride. But near the end of the lunch, I finally got lucky and asked him just the right question: "By the way, how are Michigan's public pension funds doing?"

Dropping his political guard momentarily, he was suddenly and immensely proud: "We are nearly fully funded on the teachers and over 100 percent funded on the public employees." He then went on to tell us in glowing detail how, when he became treasurer in January 1983, he immediately moved those pension funds, then about 70 percent-funded and worth about $6 billion, heavily into common stocks.

Under his guidance the value of the Michigan funds has (very quietly) soared to more than $16 billion, even after the crash. As a result, Michigan's huge non-contributory pension funds (entirely taxpayer funded) are fully funded at least thirteen years ahead of the schedule announced as recently as 1981. So instead of being a permanent drain of more than $500 million in annual taxpayer contributions (over and above Social Security), they now throw off nearly $2.5 billion a year in income and growth, three times the cost of the pensions.

(By contrast, Governor Michael Dukakis has actually *decreased* the level of funding of the Massachusetts pension system to less than 32 percent, and its unfunded liability has soared over 65 percent since 1983, from $6 billion to more than $10 billion, the worst performance in the nation.)

Now, as of the moment when I asked my question, no one in the Michigan public or the legislature had any idea of this incredible explosion of pension wealth. It was simply hidden from public view by Democrats who didn't want the taxpayers to know!

Yet what happened in Michigan has *very quietly* been happening in most states around the nation. Much of the federal deficit has been offset by soaring $60 billion-plus annual surpluses in the national income accounts of state and local governments—most of it in the form of booming pension-fund wealth.

Shallow economic reporting and a fountain of misinformation have combined to spook and depreciate an otherwise booming economy.

Indeed, it may come as a shock that the nation's total government deficit (at all levels combined) this last year was less than $108 billion, or about 2.4 percent of GNP—well below most of the major nations of the world.

What this means, of course, is that, at least in part due to the bull market of 1982-87, our actual deficits have never been as large as we were led to believe, and even after the crash the net rise in stock and bond values has been nearly triple the net $732 billion rise in real public debt since 1981.

The fact that you are probably being pleasantly surprised by this good news merely shows how dangerously at variance the public mood about the economy is with its reality. Polls consistently show that while public satisfaction with individual economic fortunes is at near record highs (over 70 percent), pessimism about the national economy is now at 1982 early recession lows!

And why not? If an ignorant alien were to visit the U.S. today and simply listen to the network news or read the *Washington Post* (whose stories are regurgitated by the press around the country), they would think the country is on the brink of depression.

The negativity takes many forms. In his current best-seller, *The Rise and Fall of the Great Powers*, Yale professor Paul Kennedy asks "How can the United States' relative decline be made to occur as smoothly and as slowly as possible?" Kennedy has since joined up with Norman Lear and Dukakis advisor Lawrence Summers to try to sell editorial writers on a "non-partisan" plan "to rebuild America."

Then there's Larry Krause, a Brookings Institution scholar who told the Democrats at the Joint Economic Committee a year ago: "Japan is replacing the U.S. as the world's strongest economic power. It is in everyone's interest that the transition go smoothly." In pursuing this Carteresque vision of Avis-hood, Professor Krause has apparently not noticed that Japan has zero population growth, zero natural resources, and, if it had to pay for its own defense, would pitch off the cliff with the resulting tax burden. That's why it is now sending all of its spare cash to invest in the U.S.!

Harvard's Robert Reich, ignoring the entrepreneurial explosion taking place within blocks of his Cambridge offices, argues that "the myth of the self-made man" should be abandoned because "the opportunistic individual short-circuits progress," and "is no longer appropriate to our place in the world." Professor Reich is advising Michael Dukakis.

The plain truth is that the current recovery, now well into its record sixth year, has also been stronger than any peacetime recovery in our history, with GNP growth and per capita income growth setting a far stronger pace than anyone has noticed. (See Table 1.)

One reason this recovery has been so "silent" is that it has been fueled not by the big noisy corporations, but, contrary to Robert Reich, by an entrepreneurial boom in smaller businesses. As Joel Kotkin, the west coast editor of *INC.* magazine, put it in an article in the January 17 *Washington Post*, "From Thatcher's England to Takeshita's Japan, emulating America's entrepreneurial explosion has become a fundamental goal of policy-makers. . . . While large corporations lost 1.4 million manufacturing jobs between 1974 and 1984, those losses were virtually made up by positions created by 41,000 *new* industrial companies formed during that period. Companies with fewer than 250 employees, which now make up some 42 percent of all manufacturing employment, could constitute an absolute majority by the early 1990's."

As Peter Drucker puts it, "America shares equally in the crisis that afflicts all developed countries, but in entrepreneurship, in creating the different and the new, the U.S. is way out in front." Indeed, since 1982, U.S. industrial production has almost silently risen over 26 percent, compared with Japan's 22 percent, West Germany's 11.6 percent, and Europe's 8.8 percent.

Table 1
Economic Growth Trends in Two 5-Year Periods

	1975-80	1982-87
Real GNP Growth Total	% 18.3	% 19.8
Per Year	3.4	3.7
Real Disposable Income Total	% 14.6	% 18.3
Per Capita	8.7	12.9
Annual p/c	1.7	2.5

Source: U. S. Commerce Department Bureau of Economic Analysis

In spite of this, thirty days before the crash, the *Washington Post*'s Hobart Rowen, who since 1983 has forecast three recessions, chimed in again with a major piece, "The Coming Unpleasant Recession," which followed by just a few days a similar dose of despair in the *New Yorker* by Columbia economist Robert Heilbroner, "Hard Times Ahead." All this, combined with apocalyptic predictions from Peter Peterson and John Kenneth Galbraith in successive issues of the *Atlantic*, created a near hurricane of horror and despair storming across the financial markets during August and September. No wonder the bull market started to collapse.

Meanwhile, we simultaneously discovered that the U.S. manufacturing economy was soaring into a boom. As First National Bank economist James Howell told me last September 15, "In the more than twenty years we have been tracking some 150 economic indicators, they have never looked so strong at once."

Nevertheless, as Black Monday demonstrated, the cumulative effect of this avalanche of apocalyptic augury can at least temporarily overwhelm even the strongest economic basics. Even Howell suddenly went from extreme bullishness in September to complete doomsdaying on October 20.

Economies, after all, like investors, are moved by attitudes and expectations about the future—more than by real measurements of the present. If the country is continually told its future is bleak, it will sooner or later lose its self-confidence and turn away from growth investment, and its markets will crash. And over the last seven years we have been told one lie about the U.S. economy after another:

The Myth of Declining Savings and Soaring Debt

Take, for example, the myth about the nation's supposedly declining savings rate, as simplistically measured by the Commerce Department, and our supposedly soaring debt burden. While our debt has indeed risen dramatically, even counting the crash, our financial wealth has (quietly) risen even faster, making us more solvent than ever before.

It may come as a surprise to discover that in 1986, U.S. financial wealth, as measured by the Federal Reserve "Flow of Funds" analysis, reached 244 percent of GNP—an all-time high, and up hugely from the 181.4 percent level of 1981. Even after the crash that figure remains over 240 percent.

Indeed, since 1980, U.S. financial wealth in constant 1982 dollars has soared 53.3 percent. In the 1970s that number rose only 17.6 percent. So the rise in the U.S. financial wealth under the Reagan Administration at over 7 percent a year, real, has been nearly five times the average 1.6 percent a year in the 1970s.

One reason the recovery has been so "silent" is that it has been fueled not by the big noisy corporations, but by an entrepreneurial boom in smaller businesses.

But what about our vast new debt to the rest of the world? Aside from the incredible overstatement of that "debt," most of it represents ready and willing investment in U.S. assets (property, factories, stocks, bonds, deposits in U.S. banks for factoring purposes) because the U.S. is now the world's hottest economy. Or as Joel Kotkin put it in the *Post*: "In fact, periods of heaviest foreign investment usually coincided with the most dynamic U.S. expansions, particularly in the late 19th and early 20th centuries when American industrial prowess overcame that of all European competitors. After several decades of American capital flight to other parts of the world, the same process is now repeating itself. Faced with declining populations, high unemployment and anemic economic growth, European investors again consider the U.S. a good place to put their money." It may shock you to know that right now overseas investors hold less than 5 percent of U.S. financial assets.

Ironically, the single most important reason we are now a "debtor nation" (and have a big trade deficit) was the 1982 decision by U.S. banks to stop throwing good money after bad and reduce foreign lending from $110 billion a year to less than $2 billion in 1985. This alone, and not the influx of new credit, turned our "net creditor" position into the current net "debtor" position. And it was this sudden sharp shift from creditor to debtor that was the main stimulus for exploding the trade deficit.

Last January, President Reagan told a Cleveland audience that "trade deficits and inflows of foreign capital are not necessarily a sign of an economy's weakness. They are more often a sign of strength." This immediately caused stifled smirks on the part of the know-nothing network newsfolk. CBS's Jacqueline Adams told her viewers, "Of course few economists or investors agree with that view." In fact there are virtually no serious economists, left to right, who *don't* agree with it. The last time we had a merchandise trade surplus was in 1975, when unemployment was over 9 percent—and the last time our current account was in surplus was in the 1980-81 recessions.

The Myth of Lost Competitiveness

All of which explodes still another myth—namely the supposed decline in U.S. competitiveness. Last summer, Britain's prestigious National Institute of Economic and Social Research published a study showing that the U.S. now has the most competitive labor costs in the world. (See Table 2.)

This, more than the falling dollar, explains why U.S. exports are soaring (merchandise exports alone are rising at a 30 percent rate), and why our manufacturing production is now rising at a humongous 6.4 percent annual rate—the fastest of the major industrial nations—while Japan is now importing its own cars from the U.S.

Table 2
U. S. Labor Competitiveness

Relative Unit Labor Cost Indexes
In Dollar Terms (U. S. =100)

	1980	1987 (June)
U. S.	100.0	100.0
Japan	89.1	142.4
W. Germany	141.3	193.3
France	137.0	118.2
Italy	134.8	153.9
United Kingdom	217.4	185.1

Source: National Institute of Economic and Social Research
London

Yet last April former president Jimmy Carter was allowed to get away with holding a national seminar in Atlanta, Georgia, on the subject of "restoring U.S. competitiveness." At the moment the conference began the U.S. was registering the sixty-sixth month of the greatest rise in industrial competitiveness of any period since World War II, as the Labor Department reported that manufacturing productivity rose by a solid 2.9 percent annual rate in the first quarter of 1988—buttressed by a stunning 33 percent annualized rise in capital spending on new plant and equipment.

At the same time, unit labor costs—the key ingredient in our world competitiveness—actually *fell* at a one percent annual rate, following a nearly 2 percent fall for all of 1987.

This means that as of the latest quarter, U.S. productivity stands 29 percent higher than in 1981, when President Carter left office, for an average annual rise of 4.2 percent a year—the greatest and most prolonged rise in U.S. history.

At the same time, unit labor costs in manufacturing as of the last quarter stand nearly one percent *lower* than in 1981. This is the most stunning reduction in relative labor costs for any nation in the last twenty years, except Japan—and even Japan has barely matched our own performance since 1982. And when you factor in the 40 percent drop in the dollar's relative exchange rate against our biggest competitors, the improvement is even more remarkable. As Irwin Jacobs, chairman of MINSTAR, said on "Wall Street Week" last January: "This country has never been better postured from an industrial side to flourish."

The Myth of Exporting Jobs

Ironically, as a result of our soaring competitiveness, and our sudden export boom, the greatest danger facing the country today is not "exporting jobs," as the political myth goes, but increasing labor shortages. Since 1982, our employment has grown three times as fast as Japan's and ten times as fast as Europe's.

A year ago this July, I warned that labor shortages could mean a serious 1988-89 inflation surge. I pointed out that over the last twelve months the sixteen- to nineteen-year-old labor force had *fallen* 2.4 percent, and since 1980 had fallen nearly 15 percent, and that our working-age population grew only 7 percent while jobs grew 13.1 percent.

So even though soaring labor force participation rates for women and blacks have helped offset this "birth dearth," we are now close to full employment in this country with our employment ratio at a world-record 62.3 percent of our adult population.

In a nation where employment continues to grow at 2-3 percent a year, the working age population (16-65) is now growing only one percent per year. This is why, contrary to all the political hype of a "stagnant economy," the nation's help-wanted advertising index remains (quietly) stuck in the record 155-160 range.

The Myth of Low-Paying Jobs

Of all the lies about the Reagan recovery, none has been more egregious than the Democrats' charge that most of the 15 million new jobs have been for "hamburger flippers." The best proof of the fraudulent nature of this argument is Michael Dukakis's Massachusetts. Over the last four years, it has lost over 96,000 manufacturing jobs, 14 percent of its entire industrial job base, even as the U.S. gained 2 percent. Yet the state's per capita income has been *rising* 40 percent faster than even the nation's powerful rate.

This completely debunks organized labor's notion that a move toward a service-sector economy means "low-paying jobs." In fact, over the last twelve months, the Labor Department reports that 63 percent of all new jobs were "Managerial and Professional," its highest paying and skills category, while only one percent were in "service occupations."

The "McJobs" nonsense was first advanced in December 1986 by Big Labor's economic propagandists, economists Barry Bluestone and Bennett Harrison (B/H), who contended that nearly 60 percent of all new jobs during 1979-84 were "low pay."

Yet, as a Labor Department analysis of B/H's own unpublished data base later showed, since 1981, nearly 47 percent of all new jobs were "high pay," and only a tiny 7 percent were low pay; moreover, the trend toward higher pay *increases* as you come forward in years, and when you use the more reliable Personal Consumption Expenditures (PCE) deflator (instead of the over-hyped CPI), the trend toward high-pay jobs has been stunning.

Table 3
The Low Pay Jobs Myth Debunked

Percent of New Jobs by Income Grouping Constant Pay Levels	1975-78	1982-85
Using the CPI Deflator		
Low Pay	% 18.7	% 8.3
Medium Pay	44.4	33.1
High Pay	36.9	58.6
Using the PCE Deflator		
Low Pay	% 18.7	% −12.8
Medium Pay	39.9	32.8
High Pay	41.4	80.0

Source: Bluestone Harrison JEC Study
Labor Department Analysis
PCE data points supplied

The single most important reason why we are now a "debtor" nation was the 1982 decision by U.S. banks to reduce foreign lending from $110 billion a year to less than $2 billion in 1985.

The Myth of the Disappearing Dream

But the best proof that the low-paying jobs thesis was bunkum came last summer, when the Census Bureau's report on family income and poverty showed not only a 4.2 percent rise in median family income in 1986 (the largest rise since 1972), but also that since 1981 median family income in real dollars had risen by 9.1 percent. (In the Carter budget years 1977-81, it *fell* by 6.8 percent!)

Indeed, one of the biggest problems now facing the Democrats is that from 1981 to 1986, real per capita disposable income rose 12.3 percent, or a little over 2.3 percent per year, more than double the 1.0 percent a year during the Carter budget years.

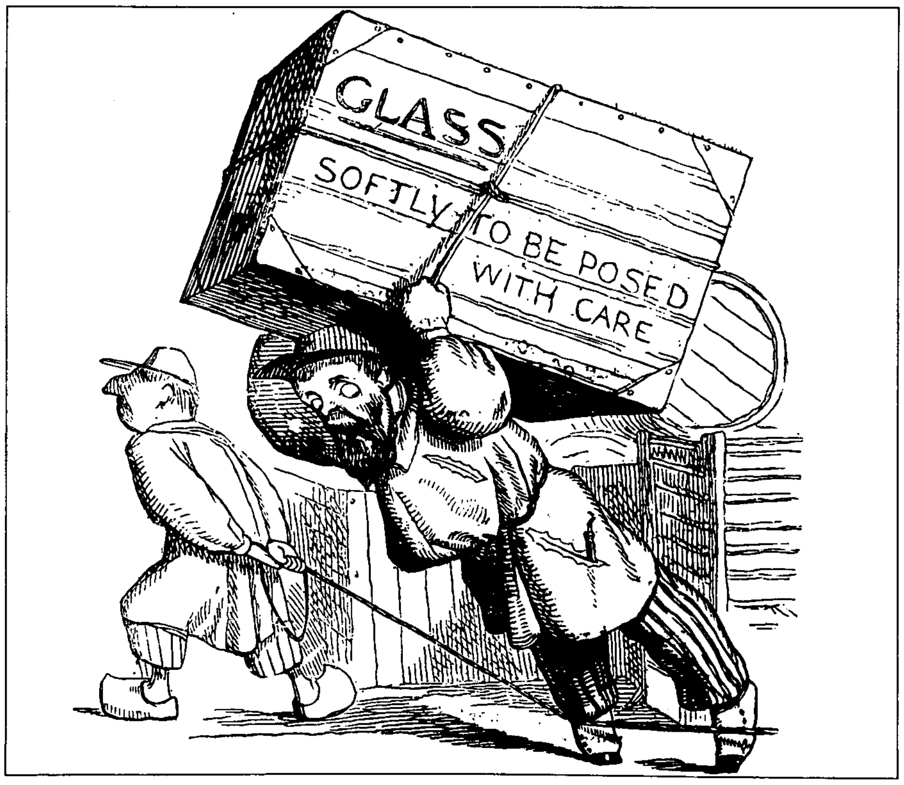
Figures like these explain why one of the nation's leading political-economic theorists, professor Ray Fair of Yale, predicted last September that the Republicans would win by 54 to 46 percent in 1988, based on his econometric model which has successfully "predicted" most elections since World War II. Even since the crash, Fair's update picks the Republicans by 52-48.

Critics scoffed at President Reagan's 1988 State of the Union contention that the American dream has been restored—but the Census income data clearly bear him out. They show that the main reason why incomes are rising again is that *all* groups are "trading up" to higher incomes, after "trading down" during the late 1970s.

Table 4
Income Trends

	Carter 1977-81	Reagan 1981-86
Median Family Income	% −6.8	% +9.1
Per year + +	−1.7	+1.8
Average Weekly Wage	−10.0	+0.5
Per year	−2.6	+0.1
Per Capita Disposable Inc.	+4.1	+12.3
Per year	+1.0	+2.3

Source: Census Bureau—Bureau of Economic Analysis



From 1977-81, the percentage of families with incomes under $12,500 (constant 1986 dollars) *rose* from 34.7 percent to 36.6 percent for blacks, and from 13.9 to 15.9 percent for whites. But, since 1981, that picture was reversed, as the low-income percentage for blacks *fell* from 36.6 percent to 33.5 percent, and for whites back to 14.7 percent.

At the same time, even as these families were moving back to the middle class, the middle class itself was losing even larger numbers to the upper-income brackets above $50,000. From 1981 to 1986, the share of white families with incomes over $50,000 shot up from 16.6 percent to 22.0 percent, a huge 33 percent rise—offsetting a 7 percent drop from 1977-81.

But the most striking progress was made by blacks, whose share of families over $50,000 rose from 7.1 percent to 12 percent, an impressive 69 percent rise, after a 12.3 percent loss during 1977-81. What is happening, then, is that even as the low incomes are moving up, the middle is "vanishing" upwards.

The Myth of America's Falling Living Standard

Which brings us to the final myth, perpetrated by the otherwise sensible *Economist*, namely that our "faltering growth in the standard of living is not the stuff dreams are made on, certainly not the American Dream."

Yet an analysis by the Organization for Economic Cooperation and Development (OECD) shows that "living standards in the U.S. continue to soar well above those of other Western countries." Using what they call "purchasing power parities" (PPP), OECD found that not only is U.S. real per capita GNP 10 percent ahead of its nearest competitor (Canada), it is 41 percent ahead of Japan, 33 percent ahead of West Germany, and 51 percent ahead of Great Britain, a clear proof that we remain competitive, with real U.S. PPP income rising another 4.3 percent in 1986 over 1985.

All in all, when you consider that the U.S. has created nearly 90 percent of all the new jobs in the Western world since 1980, this upward income performance in an era of exploding competition has been nothing short of incredible—and another testament to the fact that the U.S. economy, despite all its creaks and groans, continues to be a miraculous (if awfully quiet) success, and especially over the last five years when it has consistently outdone the world on every other indicator possible.

The question now is: Will presidential candidate George Bush turn the economic boom into a political bust by running away from the President who helped to create it? □

Terence P. Jeffrey

THE STUFF ON WRIGHT

Old Dirty Paws reaches into oil, shaky banks, belles-lettres, and much, much more.

On the evening of July 7, 1948, on a country road in Parker County, Texas, a Chevy sedan pulled to a stop in front of an isolated farmhouse. Eugene Miller, a candidate for the local seat in the state assembly, stepped out his door to see who'd come calling.

"Is this Eugene Miller?" asked a voice from the darkness. Before Miller could answer, his visitor drew a .45 caliber pistol and opened fire. Miller collapsed on the lawn with a lead slug embedded below his heart and another in his right leg; his attacker escaped in the Chevy.

Later that night, dying in the local hospital, Miller could not identify his assassin. Nonetheless, he was sure it was a "left-winger," a Communist "henchman"—a claim which some imaginative locals later interpreted as pointing a finger at Miller's principal opponent, incumbent Assemblyman Jim Wright. And even though Wright magnanimously showed up to donate blood, as the challenger's pulse beat down to nothing, so did the incumbent's chances for re-election.

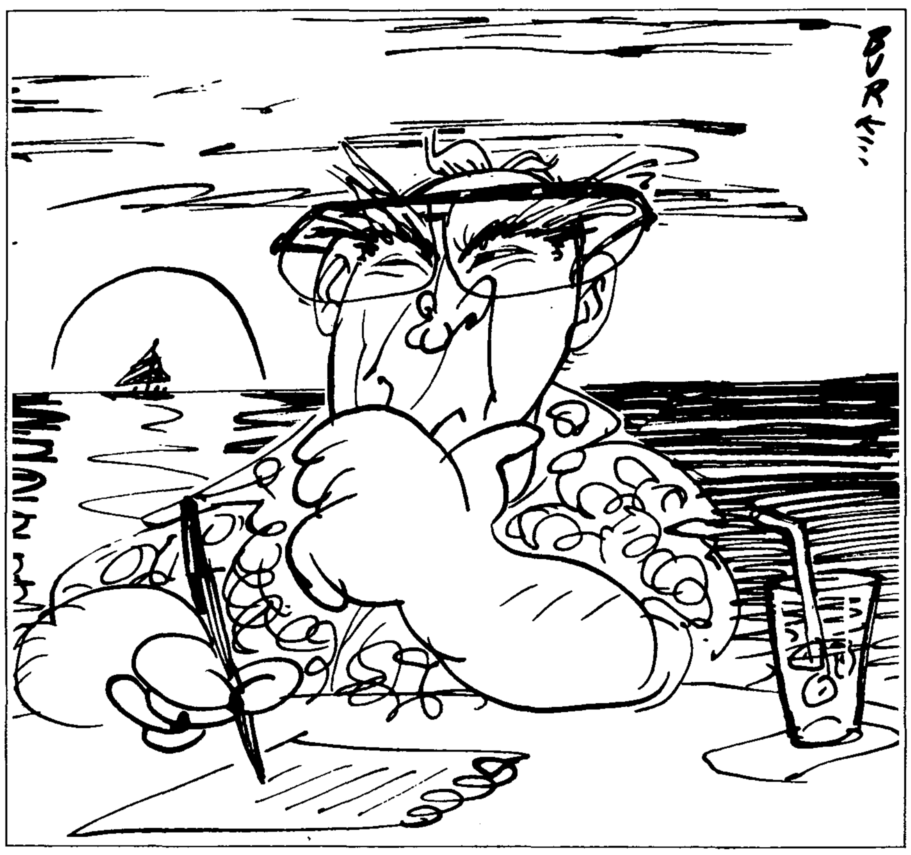
Soon after Miller's murder a neighboring farmer named J. A. Coalson claimed that he had seen Jim Wright in a nearby field practicing with a pistol. Wright denied the story. He admitted being in the field, but said that what Coalson mistook for gunshots was actually the twanging of wires as he tacked a campaign poster onto a telephone pole. Ballistic tests performed on a handgun confiscated from Wright's home proved that it was not the murder weapon, and investigators fruitlessly shifted their attentions elsewhere. To this day, the crime has not been solved.

In 1986, the *Fort Worth Star Telegram* interviewed George Roach, a Texas Ranger who investigated the case for twenty-five years and is not too proud to admit he never got his man. Roach said that "[Wright] was clear. I never could find anything to tie to him." But in the weeks immediately after Miller's murder, subtle distinctions like guilt and innocence were lost on Parker County voters. Two days before the election, Wright's surviving opponent, a mild-mannered teacher named Floyd Bradshaw, ran an advertisement in the local newspaper condemning . . . Communism. Wright responded the next day with his own ad celebrating the "Southern tradition of segregation." Bradshaw won by thirty-nine votes.

Jim Wright has the manner of a Lyndon Baines Johnson and the luck of a Richard Nixon. He's a good old boy, a Southwest wanna-be cowboy, who can, if he needs to, shake off the boots, drop his hat in the vestibule, put on a silk tie, and preach to a born-again congregation with evangelical sincerity. At the same time, his political career has been pocked with ethical and legal near-misses—from which he has always come back smiling.

In 1950, two years after losing his state assembly seat, he ran for the mayorship of Weatherford, his home town, and won. Four years later, not yet thirty-two years old, he decided to run against Wingate Lucas, the Fort Worth Democratic establishment's happy incumbent congressman.

This time as the Democratic primary approached, Wright's activities attracted the attention of federal investigators. In late June, the Post Office Department filed a complaint against Wright and his father alleging that they had masterminded "a scheme for obtaining money through the mails." The charge was that the Wrights had signed an affidavit in 1947 promising to "refrain from using the United States mail for the purpose of conducting or carrying on any alleged lottery," but that Wright's business, the national Trades Day Association, did exactly that. Wright was subpoenaed to appear before a postal investigator in Washington the day of the Texas primary. Wright's defense was not to deny that he and his father had been running a "scheme for obtaining money through the mails" that worked very much like a lottery, but that such activity was not actually illegal and that the call for an investigation was politically motivated. His lawyers petitioned the postal service to cancel the hearing because they claimed, first, that "the violation of an affidavit, even if proven, is not an offense," and second, that "the appearance of newspapermen so soon after formal filing [of the complaint] is not only unusual but smacks of an attempt on the part of persons unknown in the government service to maliciously and wantonly smear" Jim Wright.



Wright won a half victory: the postal service agreed to postpone the hearing until after the election. But then Wright beat Lucas—campaigning as a young uncorrupted David, slaying the establishment's pet Goliath—and the Democrats swept the fall elections. The postal investigation was lost in the political shuffle.

Jim Wright's next major ethics conflict did not come until 1977 when, as House majority leader and Tip O'Neill's heir apparent, he saw his power and influence in the Congress become greater than anyone's save his Irish Bostonian mentor's. This time, suffering financial hardship resulting from failed business ventures and alimony payments to his first wife—whom he had discarded in 1972—Wright used $48,000 in campaign contributions to pay off personal debts, and then withdrew another $48,000 to

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