No 'Plunge Protectors' On Bush Economic Team

by Art Ticknor

With the Japanese banking system near the breaking point, with global stock markets collapsing, and with currency crises breaking out from Turkey to Argentina, events are racing far ahead of the ability of the Bush Administration "economics team" to respond. A review of the backgrounds, writings, and accomplishments of the key economic advisers reveals a group with conflicting viewpoints. If the Clinton-era troika of Robert Rubin, Lawrence Summers, and Federal Reserve Board Chairman Alan Greenspan was dubbed "the plunge protection team" and the "committee to save the world," one can imagine the Bush team being bestowed with such labels as "the plunge accelerators" and "the gang that couldn't plunge straight." We provide here brief profiles of the key players on the Bush "economics team."

The Treasury Secretary

Paul O'Neill was sworn in as Secretary of the Treasury on Jan. 30. In his confirmation hearing on Jan. 17, he reassured us all that as globalization spreads, "the magic of the economic system will help to raise everybody's standard of living." Wages for workers in other countries depend, he said, on "political experience and the financial system." Mexico's low standard of living isn't caused by free trade and globalization, in O'Neill's view, but by its lack of a stock market! He declared, "We should not fear absolute free trade," and endorsed a tax cut.

O'Neill has long had good relations with Vice President Dick Cheney and Greenspan—he worked with both during President Gerald Ford's Administration. He worked in the Office of Management and Budget (1967-77), rising to Deputy Director when Cheney was Ford's Chief of Staff. Greenspan was a member of the Alcoa Board of Directors that selected O'Neill as chairman (and CEO) in 1987.

O'Neill has been chairman of the RAND Corp. Board of Trustees since 1997 (and a Trustee since 1988), playing a key role in the Russian-American Business Leaders Forum at its Center for Russia and Eurasia, together with Donald Rumsfeld, Robert Zoellick, and Kenneth Dam. He is a Trustee of the American Enterprise Institute (AEI), and on the Board of Directors of the Institute for International Economics, which contributed to the formulation of the North American Free Trade Agreement (NAFTA) and the proposed Free Trade Area of the Americas (FTAA).

Even though O'Neill was a captain of industry (he was also president of International Paper), he is part of the crew that now loots the productive economy.

The President's Man

Lawrence Lindsey is Assistant for Economic Affairs, and will also head a new White House office that the Administration says will be similar to the National Economic Council, set up in 1993 by President Clinton. He was the chief economic strategist of Dubya's Presidential campaign, helping to craft the tax cut proposal and Social Security reform (i.e., privatization) program.

In 1981, Lindsey joined the Reagan Administration's Council of Economic Advisers, chaired by Martin Feldstein, where he pushed the Wall Street tax-cutting bubble-building policy known as "Reaganomics."

Lindsey's specialty is the use of tax policy to stimulate "growth," through the application of incentives to investors. Since the biggest investors are the rich, growth, in Lindsey's view, comes from helping the rich get richer. The essence of Lindsey's philosophy is, "The only permanent motivating force in this world is self-interest," as stated in a speech to a Community Development Lending Conference in Dallas, Texas in October 1996.

The 'Moral Hazard'

Peter Fisher, nominated to be Undersecretary of the Treasury for Domestic Finance, is known as the "troubleshooter" of the financial markets, the fixer who controls what's left of the Clinton-era "plunge protection team," out to save the speculative bubble. He was the Executive Vice President of Markets for the Federal Reserve Bank of New York (FRBNY), and Manager of the System Open Market Account for the Federal Open Market Committee, in charge of implementing the central bank's policy of pumping a "wall of money" into the financial system.

The collapse of the Long Term Capital Management (LTCM) hedge fund in September 1998, triggered hysterical behavior on the part of Greenspan, FRBNY President William McDonough, and Fisher, who muscled 14 banks to pony up a $3.6 billion cash infusion into LTCM, in an attempt to prevent the entire world's derivatives market and banking system from melting down. As Fisher put it, they feared "this layer cake becoming unglued" and putting the world's financial markets at risk.

Fisher was again the point man to pump massive amounts of money into the system near the end of 1999, using the pretext of needing expanded reserves to deal with Y2K-induced anxiety among investors and consumers. At a press conference held at the New York Fed, he assured the market that liquidity will not dry up.

The Rest of the Team

Gary Eson, a venture capitalist and free trader, was named to the new position of Deputy Assistant to the President for International Economic Affairs and Deputy National Security Adviser. He will serve as a deputy to both Bush's chief economic adviser Larry Lindsey and National Security Adviser Condoleezza Rice.

Edson will be responsible for coordinating and integrating international economic policy with national security and foreign policy, that is, coordinating responses to the financial crisis. He will also be the U.S. coordinator for the annual summits of the Group of Eight countries.

At the 1992 conference of the Organization of Women in International Trade, when he was the chief of staff to U.S. Trade Representative Carla Hills, Edson intoned: "It is too easy for protectionism to rear its head; we need to collectively fight temptation and work toward open markets." He also proclaimed, on the Fox-TV "Morning News" program in Washington on Aug. 12, 1992, that NAFTA "will create good, high-paying jobs for Americans." Edson oversaw the final drafting of NAFTA, and participated in the negotiations on the General Agreement on Tariffs and Trade (GATT).

Kenneth Dam, whom Dubya intends to nominate as Deputy Secretary of the Treasury, was brought to Washington by Secretary of State George Shultz in the Nixon Administration, where he worked as a budget analyst with Paul O'Neill, and was Executive Director of the Council on Economic Policy in 1973. He served as Deputy Secretary of State under Shultz from 1982 to 1985. Shultz and Dam co-authored a book, *Economic Policy Beyond the Headlines,* which attacked International Monetary Fund (IMF) "bailouts," as saving reckless investors and lenders.

"A major, IMF-generated problem—perhaps an international monstrosity—may well be the result" of the more than $100 billion in loan packages that were marshalled in Asia, they wrote. "Against the background of the Mexican rescue, and now the much larger East Asian bailout, emerging market borrowers and especially developed country lenders are being convinced by experience and observation that they will be bailed out in case of big trouble. They can say to themselves, 'Heads I win, tails you lose.' "

Dam participated in the Russian-American Business Leaders Forum of the RAND Center for Russia and Eurasia in 1997-98, on "the impact of privatization on Russia's social and political stability" and "managing the social dislocations of global competition."

As part of a New York Council on Foreign Relations task force which, in 1999, issued a report, "Safeguarding Prosperity in a Global Financial System: The Future International Architecture," Dam favored reducing the IMF's activities and limiting the size of its loans.

Sean O'Keefe is deputy director of the Office of Management and Budget. Cheney called him one of his "closest advisers," when announcing his appointment as Acting Secretary of the Navy in July 1992, having served as Comptroller and Chief Financial Officer of the Defense Department since 1989. He is Director of National Security Studies, a partnership of Maxwell School of Citizenship and Public Affairs at Syracuse University (where he was the Louis A. Bantle Professor of Business and Government Policy) and Johns Hopkins University's School of Advanced International Studies, which provides executive training programs for senior military and civilian Pentagon managers. In September 1992, he wrote, "America's influence depends on its ability to sustain military operations around the globe," in *. . . From the Sea,* a Navy and Marine Corps White Paper.

O'Keefe is a member of the Naval Post-Graduate School's civil-military relations seminar team for emerging democracies—training coordinators to help overthrow governments—in Central Europe, Southeast Asia, and Ibero-America. In 1994, he conducted a seminar program for the Strategic Studies Group at Oxford, and participated in a Center for Security Policy roundtable discussion (with Paul Wolfowitz) on foreign policy. He also served on the national security panel to devise the 1988 GOP platform.

Robert Glenn Hubbard, Lindsey's friend, has been nominated as chairman of the Council of Economic Advisers. As Deputy Assistant Secretary at the U.S. Treasury Department (1991-93), Hubbard claimed that the richest 1% of taxpayers made only 11% of the income gains during the 1980s. He advocates a large tax cut for the rich, claiming that this will spur entrepreneurial activity, saying, "The rich get rich by taking risks, and you don't want tax policy that discourages risk taking." He also calls for privatization of Social Security. Hubbard is a professor of finance and economics at Columbia University, and a visiting scholar at AEI. He also serves on the Panel of Economic Advisers at the Federal Reserve Bank of New York.

Mark Weinberger, proponent of the "Chilean model" of austerity policy, is Secretary of the Treasury for Tax Policy. He is on the Advisory Board of the Cato Institute's Project on Social Security Privatization (José Piñera, the looter of Chile's state pension fund, is co-chairman). Weinberger claimed in 1996 that higher standards of living (as reflected in higher wages) are, in part, causes of Social Security's "fiscal imbalance," in "Social Security: Facing the Facts." He omits the truth that monetarist policies are responsible for the decay of the productive physical economy, of which the Social Security problems are but a reflection.

Weinberger attacked the principle of government's constitutional responsibility to promote the General Welfare: "The Federal government should plan also to strengthen the other two legs of the stool that supports people during their retirement years—private savings and employer-provided retirement plans—so as to ease the pressure on the Federally financed leg."

He was senior adviser and counsel to the National Commission on Retirement Policy, launched by the Center for Strategic and International Studies (CSIS) in 1997, with a call for America to "save more and spend less"; and was appointed to the Social Security Advisory Board by President Clinton, strongly recommended by Sen. Trent Lott (R-Miss.), in October 2000. He also served as chief of staff to the Entitlement and Tax Reform Commission in 1994, and as adviser to the Kemp Commission in 1995.