POLITICAL PULSE

Looking More and More Like Bush 1.0

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Like his father, President Bush doesn't seem to have "the vision thing" when it comes to the economy and the markets.

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Watching the equity markets founder in the face of the Beltway's bipartisan corporate-accountability *jihad*, it would seem that a **Republican** in a position of some authority might take a hint (remember, the GOP is nominally the more pro-capitalism of the two major parties). But as was the case last fall with the weak-kneed domestic-policy response to 9/11, the gaping hole in the frenzied drive to legislate corporate morality is leadership from the **Bush White House**.

The influence on the market of this week's wrangling on Capitol Hill has been so clear-cut, it's not too much of a leap to think even a Republican politician could figure it out. Monday saw the Dow Jones Industrial Average make up almost all of an early 400-point rout in a late-day rally coinciding with **Senate** floor action blocking an attempt to mandate expensing of stock options. Tuesday morning, the market swallowed hard on **Alan Greenspan's** moralizing lecture to the **Senate Banking Committee**, but didn't gag up the bulk of its 166-point loss until the Republican-controlled **House** later rushed through a package of harsh criminal penalties for misrepresenting corporate audits, one-upping even the Senate's punitive sanctions.

Even so, a report in Wednesday's *Washington Post* suggested House Republican leaders were attempting to cool the flames of their members' legislative ardor, working to delay a final House-Senate conference agreement until after the August recess. That helped the market open with a 200-point rally, and the Dow managed to hold on to a 66-point gain for the day, its first up session in eight. But after Thursday's papers brought word that the House GOP was likely to cave and go for a quick deal with the Senate prior to recessing next week, the Dow closed 133 points lower, down more than 10% since closing just above 9,400 on July 5.

It's abundantly plain that despite all the twaddle about Congress acting in the name of "investor protection," the markets see far the greater risk of crippling capitalism in the process of rooting out some crooked capitalists. For congressional **Democrats**, of course, the eruption of the corporate sleaze scandal within four months of mid-term elections is a heaven-sent invitation to indulge their nanny-state instincts. That's no surprise -- that's their role in our two-party system. Congressional Republican acquiescence, and even one-upsmanship, would seem more difficult to reconcile on those grounds. It becomes much less difficult, however, in the context of the vacuum of principled leadership coming from the Bush White House.

The political reality fostered by the Democrats and advanced by a classic media feeding frenzy is that "everybody realizes Bush can't veto any legislation on this that comes to him," said one senior Capitol Hill GOP aide. That means "it's in everybody's interest that this gets off the radar screen as quickly as possible." Thus do we have the remarkable foolishness of earlier this week when, in a reflection of the administration's vain hope of changing the subject and explaining away the market slide, Bush offered that all we are now experiencing is a "hangover" from the "economic binge" of the late 1990s. And as if that weren't enough to make a bad situation even worse, at about the same time came reports of **Deputy Treasury Secretary's Ken Dam's** inane observation about the market remaining substantially overvalued in historic terms (see "Dam Lies?" July 17, 2002).

Maybe you thought we'd upgraded to the latest rev -- but does this not bring back bitter memories of the tin-eared days of Bush 1.0? Consider as well the administration's thus-far implacable resistance to policies that would help heal the economy's seriously wounded risk propensity and restore an environment of robust capital formation and wealth creation. "In terms of the state of the economy, I see nothing that would suggest the need for any change in policy," **Council of Economic Advisers Chairman Glenn Hubbard** testified this week. This raises the specter of President Bush campaigning for Republican congressional candidates in this fall's elections with the compelling motto of "everything's fine, no change in policy is needed," against a Democratic party riding high on the plaudits of an appreciative press for cleaning out the scoundrels in the executive suite. A Democratic rout could well be in the making.

There are, to be fair, sentient members of this administration, some in fairly senior positions, acutely attuned to all this, who are becoming as frustrated and discontented as any outside observer. They see a president whom they admire and respect being waylaid by bad advice from a small coterie of aides who maintain unquestioned first call on his time and attention. Ideas for change are not in short supply, from a principled stand against corporate corruption that rises above the witch-hunt mentality, to fiscal policies such as capital gains tax cuts that would rekindle the market's risk-taking spirit. The prevailing impression one gets in discussing such changes, though, is that things will probably have to get significantly worse before they get better. TM