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POLITICAL PULSE

Bush's Growth Deficit

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If Stephen Friedman is out of step with Bush's economic ideology, why did Bush pick him in the first place?

Suddenly the **Bush administration** has found several convenient excuses to put on hold the appointment of **Stephen Friedman** to the head of the **National Economic Council**. "Complications" with some of Friedman's investments and even the "flare-up" of a heart condition have been cited in the press as the reasons -- but it's plain that the **growth wing of the Republican party** has pulled out all the stops to block Friedman. It got so intense yesterday that I even had to deny to the *Washington Post* that I was the tool of a "vast supply-side conspiracy" out to spike Friedman just because I'd written an anti-Friedman commentary for the *National Review's* website.

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Oh, it's all a great drama. The market dropped sharply on Monday on the news of Friedman's prospective appointment, and of the nomination of **John Snow** as **Treasury** secretary. It recovered substantially yesterday as rumors swirled that Bush was reconsidering the Friedman appointment, and administration spinmeisters circulated stories about how deeply Snow is steeped in the free-markets economic theories of **Ronald Coase** and **James Buchanan**. Yet in the larger scheme of understanding the growth implications of the administration's policies, this tempest simply confirms what we have already told clients many times about the Bush administration's economic teapot -- *there ain't no growth commitment there.*

Even if the Friedman appointment ends up getting spiked, there's no evading the reality that the appointment was floated in the first place. Think about the manifest absurdity of it -- Friedman is vice chairman of the deficit-hawk tax-cut-phobic **Concord Coalition,** a **Clinton** appointee (to the Foreign Intelligence Advisory Board), a former intimate of **Robert Rubin**, a man who contributes to the political campaigns of liberal **Democratic Senators Schumer**, **Lieberman** and **Corzine**. Why not just appoint Robert Rubin himself? As my colleague **David Gitlitz** wrote on Monday, "There's no way to sugarcoat this" (see "Why Bother?" December 9, 2002). By floating the Friedman appointment, the Bush administration signaled

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where it's at on growth: *nowhere*. It's bought into Rubinomics, a zero-sum nightmare world of policy error in which tax-cuts are deadweight costs to the budget, and deficits lead to higher interest rates.

But this is just what we've been telling clients all along. When the Bush administration staged its Waco economic summit last August we called it for what it was -- a photo-op, and a chance to stroke prominent growth-wingers like **Steve Moore** and **Bruce Bartlett** (see "911: Why It Matters, Why It Doesn't" September 11, 2002). The only tangible policy initiative that came out of it and survived was the idea of mitigating the double taxation of dividends -- it won't do much to stimulate entrepreneurship or capital formation, but it'll be a nice break for mature Old Economy companies like **Alcoa** and **CSX** (is getting that kind of policy favor something John Snow learned from Coase and Buchanan -- or did he pick that up on the 17th green at **Augusta** with his pals from the **Business Roundtable**?).

And now that Moore and his fellow growth growth-wingers have pressed the point on Friedman, the administration isn't stroking them anymore. According to the *New York Times* today, "White House officials lashed out at critics of Mr. Friedman, including Stephen Moore, president of the **Club for Growth**, a conservative political action committee. They said Mr. Moore had no credibility with the administration."

The masks are off. It's time for growth-wingers -- and investors -- to stop pretending that the problem with Friedman is that he is, as the *Washington Post* put it this morning, "out of step with President Bush's ideology." There's no reason to think that he isn't *perfectly* in step with it. After all, *President Bush picked him!* It's the *ideology* that's out of step -- out of step with growth. If Bush were now to completely reverse himself by spiking Friedman and appointing someone with well-known pro-growth *bona fides*, that would be a step in the right direction and we would try to give him the benefit of the doubt. But we could not help but be left wondering then whether there was any ideology at all -- or, for that matter, any rhyme or reason.

This starkly reconfirms our message to clients two weeks ago. Deflationary monetary policy risks from **the Fed** now seem well contained, and for that reason we remain cautiously constructive on the deeply undervalued equity market (see "Monetary Progress, Fiscal Stasis" November 25, 2002). But fiscal policy remains sidelined by the administration's ongoing failure to break out of the zero-sum trap of deficit-phobia. The economy will have to continue its gradual muddle toward recovery with one arm tied behind its back. TM