

# The Political Forum

*A review of social and political trends and events  
impacting the world's financial markets*

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## SEPARATED AT BIRTH?

Mark Quinn

On Friday, December 6, President Bush effectively fired Treasury Secretary Paul O'Neill, a former Washington bureaucrat who worked in the Nixon and Ford administrations and who parlayed his public sector contacts into a lucrative career in the private sector. On Monday, December 9, President Bush announced that he would replace Mr. O'Neill with John Snow, a former Washington bureaucrat who worked in the Nixon and Ford administrations and who parlayed his public sector contacts into a lucrative career in the private sector.

One of the major beefs that Mr. Bush reportedly had with Mr. O'Neill was that he was not sufficiently behind Mr. Bush's supposed economic program, which consists largely of stimulating the economy through permanent tax cuts. As soon as Mr. O'Neill sat down at Treasury, he made abundantly clear his lack of enthusiasm for tax cuts. This coolness toward tax reduction continued almost to the day of his sacking; late last month, he told the *Financial Times* that he was in favor of changes to the tax code that were "not very costly" while the rest of the team was reportedly working on some very costly changes to the tax code, including elimination of the double taxation of dividends and possibly expediting Mr. Bush's snail-like reductions in marginal tax rates.

That Mr. O'Neill had little tolerance for reducing government's share of the typical taxpayer's budget should have come as no surprise to the Bush brain trust. When he was chairman of Alcoa, which conducts its business in a highly energy-intensive environment, Mr. O'Neill, a proponent of Algorian/Kaszycynskian global warming theories, advocated an energy tax. As an informal advisor to the first and failed President Bush, he recommended the tax increase that would ultimately prove to be the undoing of both the Reagan recovery and the Bush presidency.

Like Mr. O'Neill, Mr. Snow has shown little enthusiasm for tax reduction. While he has been an outspoken advocate of fiscal austerity and balanced budgets, there is little in his record to indicate that he is an advocate, passionate or otherwise, of generalized tax reduction. About the best that his champions in the Bush cheering section can come up with is that he was a member of the Kemp tax reform commission of 1996, the recommendations of which were watered down in the interest of treacherous "bipartisanship." We are also advised by the hosanna chorus in the formerly conservative sections of the media not to worry about it, that privately Mr. Snow is a

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tax cutter at heart. However, his long time leadership in the Business Roundtable, a group which serves mainly to facilitate and accelerate Fortune 500 brown-nosing in Washington and to quash any challenges to the power of the federal government, like across the board tax cuts, makes us doubt this seemingly desperate bout of tail covering by the “George Bush, Right or Wrong” crowd.

There are two differences that we can see between Mr. O’Neill and Mr. Snow. First, Mr. O’Neill had a quite successful career in the private sector. He turned a moribund Alcoa around, and Alcoa’s stock outperformed the S&P 500 during the heady days of the late ‘90s bull market. Mr. Snow, on the other hand, has a much more, er, mixed record of success in the private sector. His boldest move at CSX, the acquisition of major parts of Conrail, led to a tangling of rail traffic in this country about which many customers are still fuming. Over the last decade, a period of time that corresponds quite closely with Mr. Snow’s tenure as chairman, CSX’s stock has fallen 17% while the S&P 500 has risen 111%.

This, however, is an unimportant difference in both Washington and in the boardrooms of American “Big Business.” In Washington, there is no correlation between accomplishment and success, which, in Washington, is defined as acquisition of power and the access to money that power provides. In the corporate boardroom, there also appears to be little distinction between success and failure when the pay envelopes are distributed. In this case, Mr. Snow will leave the private sector with gazillions of dollars in an amount roughly equivalent to the gazillions Mr. O’Neill took with him, despite the widely disparate experiences of Alcoa and CSX shareholders during their respective tenures at those firms’ helms.

The more important difference between Messrs. O’Neill and Ford involves personal attributes. Mr. O’Neill is blunt and plain spoken, qualities which are much frowned upon in Washington and, to a larger extent than most will admit, in corporate America. Mr. O’Neill had the habit of inserting his foot into his mouth on a regular basis, didn’t have *proper respect* for Congress, and thus had a hard time winning friends and influencing people in the Imperial City. (Mr. O’Neill’s approach to the notables who inhabit the Hill and the bureaucracy in D.C. endeared him to us, and almost made up, in our view, for his lack of enthusiasm for tax cuts. Almost.) Mr. Snow, on the other hand, has good relationships with Congresspersons on both sides of the aisle. Indeed, one could argue that he owes every dollar he has to his ability to schmooze public officials. Rest assured that Mr. Snow will be making few enemies in Washington.

So Mr. Bush has replaced a man who wasn’t with the supposed program and who was inept as a salesman and advocate with a man who has shown few signs of being with the program and who has built his fortune on his ability to brown-nose, er, sorry, advocate, on Capitol Hill.

Does this strike you as a good deal from the President’s perspective?

The astute observer is led to one, or both, of two conclusions. Mr. Bush, as a lifelong beneficiary of ever-expanding government, has a decided lack of enthusiasm for reducing taxes and goes through the motions in order to mollify the base and bamboozle formerly conservative talk show hosts and columnists, as we have argued in the past. Or Mr. Bush is an incompetent who does not take the time, or have the ability, to make sure that the ideals of his appointments

jibe with what he purports to be his ideals, as we have argued in the past. Or both, as we have argued in the past.

Either way, or both ways, Mr. Bush has continued to show the duplicity and/or (probably “and”) lack of competence that have characterized his presidency from its inception. Obviously, this is not the popular view. But we are quite sure that, long before election day 2004, this take on our president will become more and more the norm.

You’re probably wondering (or, come to think of it, probably not) what we think about Mr. Bush’s replacement of Larry Lindsey as head of the National Economic Council with former Goldman partner Stephen Friedman. Whatever his shortcomings as a salesman, Larry Lindsey was a fervent, though occasionally misguided, tax cutter. Mr. Friedman? Aside from pointing out that he is a veteran Wall Streeter, we have a hard time coming up with potential positives.

Most damningly, Mr. Friedman is a member of the Concord Coalition, a cabal of politicians and business types who benefit from government largesse which trots out its reputed fealty to fiscal responsibility whenever anyone, anywhere proposes reducing taxes by even a dime. But the Coalition is strangely silent when spending increases, no matter how pointless their purposes or gargantuan their girths, are proposed. For good measure, Mr. Friedman is also a member of the Council on Foreign Relations and the Trilateral Commission. One does not have to be a paranoid who searches the skies for black helicopters to admit that neither of these organizations could be accused of being unfriendly to ever-encompassing government.

The replacement of Mr. Lindsey with Mr. Friedman should remove any doubt that Mr. Bush is anything but a garden-variety moderate Republican who is completely bereft of anything remotely resembling an original idea.

**Mark Quinn**, aside from being a friend of mine, as well as a friend of The Political Forum, is an independent investor and former mutual fund manager, who has been involved in the fixed income markets for twenty years. He has been interested in economics, politics, and public policy for a much longer time, though, as he puts it, his cynicism on the latter two “seems to have grown over the last ten years or so.”

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