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## Treasury's Task

**Robert B. Reich****June 02, 2006**

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**The last time** I saw Hank Paulson was at our college graduation, almost exactly 38 years ago. He had been a tackle on the football team and was heading to business school and then into the Nixon administration. I was resolutely not a football player, and I had just returned from keeping Clean for Gene. (For those of you too young to understand this reference, I was campaigning on behalf of Eugene McCarthy, the anti-Vietnam War candidate.)

Although Hank did reasonably well at Dartmouth, I wouldn't have said he was bound for success, certainly not \$30 million a year running Goldman Sachs—and now Bush's great hope to bail out his failing economic policies. Wall Street is delighted one of their own is going to be at Treasury's helm. The White House feels confident Paulson will be able to sell the administration's policies better than his predecessors, Paul O'Neill and John Snow. I wish my old classmate well. But let's get real.

The reason consumer confidence is dropping, the dollar is dropping, the stock market is dropping and Bush's ratings are dropping is *not* because the administration has failed to sell its economic policies. It's because those policies are fundamentally flawed.

If America continues to go deeper into debt, it makes no difference who's running the Treasury. And it is going deeper into debt because households aren't saving—indeed, household indebtedness is rising. More to the point, the federal deficit is rising. The president continues to cut taxes while spending more and more. His spending includes wars in Iraq and Afghanistan, corporate welfare to the pharmaceutical industry (disguised as a Medicare drug benefit), subsidies for Big Agriculture and excessive pork (earmarks).

Even if my old classmate convinces the Chinese to further revalue the yuan—which seems unlikely, given that the Chinese well understand Bush is approaching lame-duck status—these fundamentals won't change. The dollar will continue to drop, interest rates will continue to rise, and the economy will be in deep doo-doo, as the president's father used to say.

At best, Paulson may be able to coordinate with the Chinese a slower drop in the dollar than otherwise. This would be an accomplishment, to be sure. Better a gradual decline than a death-defying fall. But neither would be good for American living standards. And neither gets at the basic problem.

Paulson is a deficit hawk although he supported the Bush tax cuts. So what gives? He can't honestly think Bush can balance the budget by just cutting spending. But unless he can get Bush to roll back the spending and also roll back the Bush tax cuts, he might as well have stayed back at Goldman Sachs and continued to collect \$30 million a year. All the action will continue to be at the Federal Reserve Board.

The Fed has just one lever over the economy—control of short-term interest rates. Even this control is becoming more tenuous as America merges with the rest of the globe. How do you control the supply of money in this country (on which short-term rates depend) when so much

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foreign money is sloshing around? Moreover, as the dollar drops the Fed has little choice but to raise rates. That's because everything Americans buy from abroad will cost more, pushing prices upward and threatening inflation.

Paulson has a job cut out for himself—convincing Bush to reverse his ways. I'm not betting he'll succeed. So the man to watch in coming months isn't Henry Paulson. It's the chairman of the Fed, Ben Bernanke.

*Editor's Note: This piece originally aired on the public radio program [Marketplace](#) on May 31, 2006.*