US Treasury Secretary Rubin's legacy: the unfettered rule of Wall Street

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US Treasury Secretary Robert E. Rubin resigned Wednesday after more than six years of directing the Clinton administration's economic policy. Rubin's tenure has been identified with policies that contributed to an unprecedented rise on the US stock market--with the Dow Jones Industrial Average soaring from 4,000, when he became Treasury Secretary in 1995, to over 11,000 today.

Investors shuddered Wednesday morning on the news that Rubin was resigning and the Dow fell 200 points. But share values quickly recovered as Federal Reserve Chairman Alan Greenspan praised Clinton's choice as a successor, Lawrence Summers, Deputy Secretary of the Treasury, who has long been groomed by Rubin to replace him.

Formerly the co-chairman of the powerful investment banking firm Goldman, Sachs & Co., Rubin became the most influential voice of Wall Street inside the Clinton administration, pressing for deficit reduction policies domestically, and for an international economic policy based on tearing down all barriers to the free flow of US capital throughout the world.

Clinton, who had been heavily supported by Wall Street in his 1992 presidential bid, appointed Rubin as his top economic adviser in 1993, selecting him to head the National Economic Council. Along with Treasury Secretary Lloyd Bentsen, Rubin insisted that deficit reduction had to be the administration's first priority. This, he made clear to Clinton, would reassure the bond market, keep interest rates down and insure Clinton's own reelection. Clinton obliged, shelving and ultimately scrapping entirely his modest election pledges of jobs, healthcare and "putting people first."

Clinton acknowledged Wednesday that whatever credibility he had with Wall Street and "fiscal conservatives" he owed largely to Rubin. This was underscored by Republican House Ways and Means Committee Chairman Bill Archer, who said, "Secretary Rubin has been a strong and sometimes solitary voice within the Clinton administration for open markets and fiscal discipline, which has helped keep our economy strong."

After succeeding Bentsen as Treasury Secretary in 1995, Rubin engineered the $20 billion bail-out of the Mexican economy, a measure largely aimed at rescuing US banks and big investors who stood to lose tens of billions. The Republican-led Congress refused to back the plan, so Rubin persuaded Clinton to use his own authority, lending $12 billion to Mexico from an exchange-rate fund under the Treasury's control. Under US pressure the Mexican government imposed austerity measures and increased interest rates, leading to a sharp rise in unemployment and cutting living standards in half for the great mass of Mexican workers. By 1997 these policies had squeezed enough out of the Mexican people to repay the US loans ahead of schedule.

Domestically, as the US budget deficit was sharply reduced through a combination of tax increases and spending cuts, heavy Treasury borrowing was no longer required, thus easing pressure on the bond markets and allowing Federal Reserve Chairman Alan Greenspan to keep interest rates low and fuel the roaring stock market. Rubin's first year as secretary saw the stock market rise by 31 percent, the largest percentage increase in 50 years.

The subsequent near tripling of stock market values has coincided with a wave of downsizing, costing millions of workers their jobs, and the stagnation and decline of living standards. These were the conditions repeatedly praised by Rubin and Greenspan as a near perfect "low inflation" economy. Unlike previous

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Democratic administrations, where it was virtually commonplace to voice occasional complaints about Federal Reserve policies that favored wealthy investors, Rubin set a rule early on that no one in the Clinton administration could publicly criticize Greenspan.

When the devaluation of the Thai currency in July 1997 sparked an economic meltdown throughout Asia Rubin again fashioned the response by both the administration and the International Monetary Fund. Interests rates were sharply increased and tight budget policies imposed to restore currency stability and calm markets. The austerity measures sent the affected economies into deep economic slumps, with millions of workers thrown out of their jobs and into poverty. The same demands were made of Russia, Latin America and other regions.

These measures directly benefited Wall Street. First, as a condition of IMF bailouts, these countries were forced to carry out draconian measures in order to repay US investors. Moreover, the instability that prevailed in these "developing" countries had the added benefit of convincing investors internationally to put their money in the safest haven, i.e., the US stock market.

Rubin pressed countries to drop barriers to capital and currency movements and open their banking systems to US competition. As a spokesman for Wall Street, he also opposed the protectionist wing inside the Democratic Party itself.

Rubin's "legacy" has been universally praised in Washington circles, on Wall Street and in the news media. The *New York Times* called him an "Architect of Prosperity." Fed Chairman Greenspan called him "one of the most effective Secretaries of Treasury in this nation's history." House Minority Leader Dick Gephardt said, "Bob Rubin deserves much of the credit for the economic policies which have made our economy the envy of the world."

The social reality behind the so-called "prosperity" and "low unemployment" in America is sharply different. Rubin has overseen a massive transfer of wealth from masses of working people and the poor, in the US and the world over, into the hands of the richest 1 percent of the population. According to the Century Foundation, the only other period in this century when household wealth was so disproportionately held by a relative handful of the richest Americans came between 1922 and 1929. During that time, too, inequality was buoyed primarily by the excessive increase in stock values, which eventually crashed and led to the Great Depression of the 1930s.

There is speculation that Rubin, 60, had been waiting for the end of the impeachment crisis and stability on global markets to return to private life. Rubin had amassed a large personal fortune, estimated at $100 million, before joining the Clinton administration. There are also rumors that he may be a possible successor to Federal Reserve Chairman if Greenspan chooses to retire when his current term expires in 13 months.

But it is also possible that the Treasury Secretary has decided to get out while the getting is good. The IMF's World Economic Outlook published last month warns of the "distinct possibility" that a deepening global slowdown could be triggered by a pick-up in US inflation, a significant stock market correction, prolonged weakening in the euro zone or more emerging market problems.

An IMF spokesman, citing the enormous gap between stock market values and corporate profits, said a "correction" of at least 20 percent on Wall Street was in the making. Such a downturn, which would wipe out trillions in paper values, would have both financial and social consequences of enormous proportions.

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