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Flirting With Financial Disaster

House Republicans signaled resolve and spectacularly bad judgment by rolling a financial nuclear bomb out on the tarmac in their budget war with the White House this week. If they detonate it by accidentally pushing the government into default, everyone gets hurt.

The Republicans briefly went nuclear after months of messy trench warfare over the federal budget. They brandished their ultimate weapon by threatening to refuse to raise the debt ceiling when the Treasury runs out of money in a month's time unless President Clinton meets their demands on cutting entitlements and taxes.

Speaker Newt Gingrich initially took a rigid line in responding to Treasury Secretary Robert Rubin's declaration that he would shortly run out of stopgap solutions for paying the government's bills. Rubin has drained government reserve accounts in recent months to meet payrolls and debt deadlines.

Republicans want to know what Clinton "is prepared to sign to get that ceiling" raised, Gingrich said in a news conference on Monday. "With the absence of that, we are, quite frankly, at an impasse." Later in the week, after strong negative reaction to the discussion of default surfaced, Gingrich softened his remarks. But he still insisted that Clinton meet some GOP demands as a price for what until now has been automatic congressional renewal of the government's borrowing authority.

This is John Foster Dulles' doctrine of massive retaliation updated and transformed. The House Republicans and the White House have entered the territory of mutually assured destruction by risking global market shocks and soaring interest rates that a default would undoubtedly bring.

World stock and bond markets and other governments have until now discounted Washington's political wars over balancing the budget in seven years, trusting that a compromise would be reached. The Dow Jones industrial average has soared past the record level of 5200 points twice in the last six weeks as other exchanges have risen.

But the drawing of rigid lines in the sand over the debt ceiling may yet rattle the markets and foreign investors, Wall Street investment analysts warn.

Even if a compromise is reached before the Feb. 29 deadline Rubin says he faces—an interest payment of $5.8 billion on Treasury bills due that day will finally break the bank—the threats of the past few days have already changed Washington history. For one thing, they have made it nearly impossible for Clinton not to reappoint Alan Greenspan as head of the Federal Reserve, and fast—whatever the president's own desires.

Gearing up for his reelection campaign, Clinton has let it be known in recent weeks that he regrets not having pushed America's central bank to lower interest rates more rapidly to stimulate growth. The president has instead quietly accepted the cautious, anti-inflation monetary policies favored by Greenspan and Rubin.

Greenspan and Rubin have affected the American economy more by their presence than by their policy initiatives. Each reassures the capital markets, which have thrived in the Clinton administration, by their orthodoxy and determination to rock no financial boats. Neither is a favorite of manufacturers and retailers, who would benefit from higher growth rates in the economy.

Greenspan's four-year appointment, originated by George Bush, expires on March 2, two days after the projected debt ceiling crunch. It is no longer in Clinton's interest to let the Greenspan reappointment dangle, as he has while figuring out who to name to the Fed's number-two job, vacated last week by liberal Democrat Alan S. Blinder after a long period of indecision.

Clinton can reassure the markets about the future and deemphasize the partisan nature of his battle with Congress by announcing his intention to reappoint the Republican Greenspan now. The impact of the congressional threat on the debt ceiling makes the reappointment a no-brainer.

The Wall Street Journal and The Washington Post reported last week that the president is strongly leaning toward Wall Street investment banker Felix Rohatyn to be Greenspan's vice chairman. But both stories suggested that Greenspan and Rubin would be uncomfortable with the activist Rohatyn, who would add a competing voice in Washington on economic policy.

The views of Rohatyn, who has emphasized deficit reduction as well as growth policies in his public statements and who played a key role in rescuing New York City from its 1970s debt crisis, are in fact somewhat less liberal than those of Blinder. But the New Yorker would be more active in pushing his point of view on Greenspan and Rubin, longtime friends of Rohatyn.

A package announcement of Greenspan and Rohatyn would signal a new determination by Clinton to balance deficit reduction and sustainable growth policies in a second term. It could strengthen the president's hand in averting the financial Armageddon the House Republicans have recklessly and cavalierly threatened.