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Crony Capitalism, U.S.A.

by Paul Krugman

Four years ago, as Asia struggled with an economic crisis, many observers blamed "crony capitalism." Wealthy businessmen in Asia didn't bother to tell investors the truth about their assets, their liabilities or their profits; the aura of invincibility that came from their political connections was enough. Only when a financial crisis came along did people take a hard look at their businesses, which promptly collapsed.

Does this sound familiar?

On the face of it, the sudden political storm over Enron is puzzling. After all, the Bush administration didn't save the company from bankruptcy. But then why did the administration dissemble so long about its contacts with Enron? Why did George W. Bush make the absurd claim that Enron's C.E.O., Kenneth Lay, opposed him in his first run for governor, and that the two men got to know each other only after that race? And why does the press act as if there may be a major scandal brewing?

Because the administration fears, and the press suspects, that the latest revelations in the Enron affair will raise the lid on crony capitalism, American style.

Cronyism is hardly novel in America; the Clinton administration took us to the edge of a trade war on behalf of Chiquita bananas, a major campaign contributor. But the Bush administration, with its sense of entitlement, seems unconcerned by even the most blatant conflicts of interest — like the plan of Marc Racicot, the new chairman of the Republican National Committee, to continue drawing a seven-figure salary as a lobbyist. (He now says he won't lobby — but he will still receive that salary.)

The real questions about Enron's relationship with the administration involve what happened before the energy trader hit the skids. That's when Mr. Lay allegedly told the head of the Federal Energy Regulatory Commission that he should be more cooperative if he wanted to keep his job. (He wasn't, and he didn't.) And it's when Enron helped Dick Cheney devise an energy plan that certainly looks as if it was written by and for the companies that advised his task force. Mr. Cheney, in clear defiance of the law, has refused to release any information about his task force's deliberations; what is he hiding?

And while Enron has imploded, other energy companies retain the administration's ear. Just days before the latest Enron revelations, the administration signaled its intention to weaken pollution rules on power plants; late last week it announced its decision to proceed with a controversial plan to store radioactive waste in Nevada. Each of these decisions was worth billions

to companies with very strong connections to Mr. Bush. CBSMarketWatch.com declared, in its story about the nuclear waste decision, that "one group of major energy-business political donors just hit the jackpot."

Notice the source of that quote. In recent months, while political reporters have been busy waving the flag, business reporters have taken the lead in telling us what's really going on. And they seem disgusted by what they see. It was CBSMarketWatch's executive editor, not some whining political commentator, who warned that "a small group of business leaders exert enormous clout over Bush and his team in getting the rules changed to their benefit."

And the business magazine Red Herring has published the biggest exposé to date of the secretive Carlyle Group, an investment company whose story sounds like the plot of a bad TV series. Carlyle specializes in buying down-and-out defense contractors, then reselling them when their fortunes miraculously improve after they receive new government business. Among the company's employees is former President George H. W. Bush. Among the group's investors, until late October, was the bin Laden family of Saudi Arabia.

Another administration would have regarded the elder Bush's role at Carlyle as unseemly; this administration apparently does not. And Defense Secretary Donald Rumsfeld recently gave his old college wrestling partner Frank Carlucci, head of Carlyle, a very nice gift: Mr. Rumsfeld decided to proceed with the much-criticized Crusader artillery system, which even the Pentagon wanted to cancel. The result was another turnaround for a Carlyle-owned company.

Sad to say, none of this is clearly illegal — it just stinks to high heaven. That's why the Bush administration will try to keep the Enron story narrowly focused on one company during its death throes. Just remember that the real story is much bigger.

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