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Arnie's Money Man

By Donald L. Luskin

Hasta la Von Mises, baby! Gone are the hopes that Arnold Schwarzenegger would bring his own brand of free-market Austrian economics to California's troubled economy. The would-be tax terminator has chosen as his chief economics advisor a tax perpetuator -- Warren Buffett.

The choice of Mr. Buffett is a betrayal of the libertarian economic ideals that Mr. Schwarzenegger has lived by since he emigrated from Austria as a penniless 21-year old. In introducing the 1991 re-release of Milton Friedman's "Free To Choose" video series, Mr. Schwarzenegger said, "I come from Austria, a socialistic country... I felt I had to come to America, where government isn't always breathing down your neck or standing on your shoes."


Warren Buffett

At the 2002 shareholders meeting of Berkshire Hathaway, Mr. Buffett said "This has been a tremendous economic system. It's a system that showers rewards on my particular skill set… The tax system is the way to distribute the prosperity." Mr. Schwarzenegger parlayed his own particular skill set into a position at the very top of the pyramid -- but he did it Mr. Friedman's way, not Mr. Buffett's.

In a campaign so far lacking in policy proposals, Mr. Schwarzenegger has said that his approach to California's budget crisis will be to stimulate growth by making the state a friendlier place for business. That's just the ticket, but will Mr. Buffett advise him how to achieve that by using taxation to "distribute the prosperity"? Been there, done that. California is already taxed to death. And Mr. Buffett's well known opposition to every major tax cut proposed by the Bush administration suggests that Mr. Schwarzenegger will be advised to just keep on taxing.

Some have speculated that Mr. Buffett would bring Wall Street cred to a Schwarzenegger administration that will have to peddle $10 billion in bonds. That's a fantasy. Wall Street won't mistakenly believe that Mr. Buffett knows anything about public finance, just because he's made some smart investments in razor blades. Mr. Buffett will be at a similar loss to advise Mr. Schwarzenegger on reinvigorating California's sputtering growth engine, its high tech sector. Berkshire's chief has famously said, "Technology is something we just don't understand."

Yet technology company leaders understand that Mr. Buffett has been vocally opposed to stock options, the quintessential form of compensation for employees at all levels of California's entrepreneurial tech culture. Mr. Buffett says options discourage managers from paying dividends. Yet he also opposed the elimination of dividend taxes, which do even more to discourage them. And Berkshire Hathaway -- which issues no options -- hasn't paid a dividend in years!

Mr. Buffett says that if companies must issue options, they should go only to top executives-not 21-year-old immigrants from Austria. And he believes adamantly that options should be expensed in financial statements. How's that going to go over with potential supporters like Cisco's Republican CEO John Chambers, who has lobbied aggressively against options expensing -- and has plenty of earnings challenges already?

Arnold has the Reaganesque optimism and free-market ideals that could make him a great governor. But first he'll have to get Warren Buffett to stop standing on his shoes.

About the Author

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