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Grading Bush's Economic Team

BY FRED BARNES

The bad news: They've got few new ideas and fear too much being slapped down (the "Lindsey factor").

The good news: Josh Bolten is positioned to emerge and Snow's been an improvement.

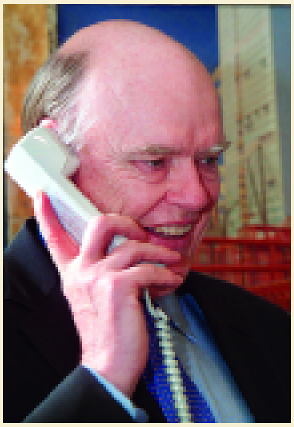
On President Bush's initial economic team, Larry Lindsey, the head of the White House's National Economic Council, famously didn't get along with Treasury Secretary Paul O'Neill. They needed a referee on policy disputes—deputy White House Chief of Staff Josh Bolten. The budget chief, Mitch Daniels, delighted in twitting Congress for its excessive spending. Glenn Hubbard knew his way around Washington and was the most assertive chairman of the Council of Economic Advisers since Alan Greenspan held the job in the mid-1970s. As Commerce Secretary and Bush's best friend, Don Evans played a quiet role. More than anything else, the first economic team produced ideas and proposals, all promoted aggressively.

Now consider Bush's current economic team. Treasury Secretary John Snow and Stephen Friedman, the White House economic coordinator, are allies. Unlike O'Neill, Snow is an effective salesman of Bush's policies. Bolten is now budget chief and concentrates on good relations with Congress. Gregory Mankiw, the new chairman of the Council of Economic Advisers, is publicity-shy after sparking a flap over the loss of American jobs overseas. Evans remains as Commerce secretary and plays a more prominent role as a public voice in Bush's re-election campaign. More than anything, this team produces consensus. Bold new ideas? Hardly a one.

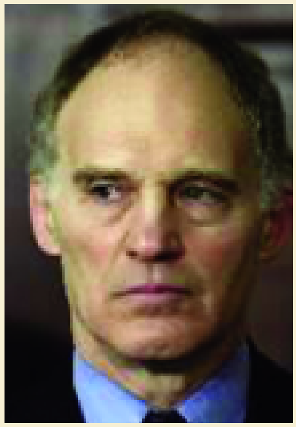
Fred Barnes is Executive Editor of The Weekly Standard.

The Second Half Team

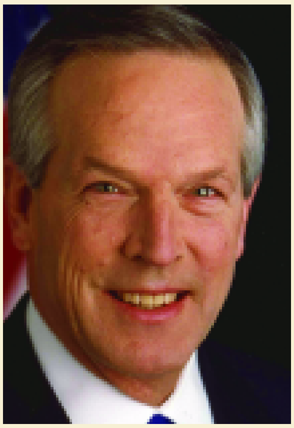
OMB's **Josh Bolten:** *Quietly building a power base, could emerge as the most influential budget director since Richard Darman. Nicer guy, too. He alone will have an issue.*



Treasury's **John Snow:** *A pleasant surprise, good with the G7 and a perfect antidote to Paul O'Neill. Not a new idea man, but smart enough to stay close to the White House.*



NEC head **Stephen Friedman:** *Mr. Invisible. Honest broker to the extreme. Fearful of the "Lindsey factor." Well organized and well liked. Highly effective within his limited area.*



Commerce's **Don Evans:** *The outside man and major counterweight to the Bush free traders. Smooth talker, no policy heavyweight, but effective communicator.*

CEA's **Gregory Mankiw:** *Main free trade counterweight to Evans. Burned by political fires over outsourcing comment but position basically correct. Enjoys significant influence internally.*

The White House's **Karl Rove:** *Likes to dabble in economic policy but with few new ideas on the table, nothing much to advise on.*

The Lindsey Factor

Bush economic officials are wary of being fired or slapped down. A Republican consultant in Washington refers to the "Lindsey factor." Former NEC head **Lawrence Lindsey** (left) was fired along with O'Neill in 2002. O'Neill was a contrarian, ill-suited for the Treasury post. But Lindsey was simply a scapegoat. His only sin was having put a public price tag on the intervention in Iraq, a figure higher than the White House was willing to concede. The effect of his firing was to discourage individualism among Bush advisers and stifle fresh ideas.

—F. Barnes

If Bush is re-elected in November, this team—followers, not playmakers—is expected to remain in place. They are ready to push Bush's radical but old ideas for reforming Social Security with private investment accounts and increasing savings through a new type of retirement account. They are committed to not raising taxes. Except for Evans, they are full-blown free traders. But not one of them has a favorite idea he is pushing aggressively, as Lindsey did with tax rate cuts in 2001 and Hubbard with cutting the tax on dividends in 2003.

But watch Josh Bolten. There are murmurings inside the Bush Administration about a push next year for budget austerity to shrink the deficit. Bush has chafed at criticism from conservatives over his Medicare prescription drug benefit for the elderly and his signing of a bloated farm subsidy bill. Even Bush's Democratic opponent, Senator John Kerry, claims to be a fiscal conservative by comparison. So Bush is considering a course reversal. Both Snow and Mankiw, known as budget hawks before joining the Bush Administration, can be helpful here. But Bolten is the key figure.

He has spent a year mastering the budget and shunning a major role on other economic issues. He is, an associate says, "still transitioning from behind-the-scenes staffer to a principal." Bolten is a trusted adviser to Bush, having left Goldman Sachs in 1999 to become policy director of Bush's first presidential campaign. And now he is coming out of his shell. Earlier, as a White House aide, Bolten rarely talked to reporters, though he knew many from the campaign. Now he's available to the press. In a second Bush term, Bolten is positioned to become a top economic spokesman for the Administration, especially as champion of spending restraint. He, perhaps alone among Bush's economic advisers, will have an issue.

The first economic team produced ideas and proposals, all promoted aggressively.

Congress is a problem. The economic team has little clout on Capitol Hill. And the Bush White House has a poor record of standing up to Republicans. When the House and Senate passed separate tax bills last year, the President and his aides preferred the Senate version, which called for a three-year phase-out of the tax on dividends. Chairman Bill Thomas (CA) of the House Ways and Means Committee, however, wanted to trim the tax rate on dividends and capital gains to 15 percent. When Thomas met with Snow and Friedman, he dominated the negotiations and blew their objections away. Persuading congressional Republicans, much less Democrats, to ratify deep spending cuts will require smart, disciplined leadership. That means Bolten.

Fiscal austerity is an old idea. Why are there no new ideas? There are two reasons, one understand-

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able, the other worrisome. "It's a less creative period," says a senior administration official. "I'd rack that up to where we are in the cycle." That's the election cycle. Bush is running for re-election on a single economic issue: tax cuts that have successfully spurred economic growth and, finally, job creation. The president is playing up his plan for Social Security reform less than he did in 2000. He's distracted from domestic issues by his focus on the war on terrorism and the struggle for democracy in Iraq. Fine.

The other reason is that Bush economic officials are wary of being fired or slapped down. A Republican consultant in Washington refers to the "Lindsey factor." Former NEC head Lindsey was fired along with O'Neill in 2002. O'Neill was a contrarian, ill-suited for the Treasury post. But Lindsey was simply a scapegoat. His only sin was having put a public price tag on the intervention in Iraq, a figure higher than the White House was willing to concede. The effect of his firing was to discourage individualism among Bush advisers and stifle fresh ideas.

Then came the Mankiw affair last February, which had the same effect. Gregory Mankiw, once the youngest Harvard professor with tenure, had already learned it wasn't safe to talk about the dollar. When asked about it, he simply declines any comment. But he hadn't realized that "outsourcing" of jobs was an explosive subject. When he treated outsourcing as benign, the White House pointedly failed to support him. Later, a friendly economist spoke to Mankiw by phone. "I had the distinct impression he was reading from talking points," the economist said. "He didn't want to say anything that wasn't pre-approved."

What Mankiw had said was hardly incendiary. It merely reflected mainstream economic thinking. The *Economic Report of the President,* which Mankiw authored, contained this sentence: "When a good or service is produced more cheaply abroad, it makes more sense to import it than to make or provide it domestically." Asked about this during a White House briefing, Mankiw reported to have labeled outsourcing "a good thing."

His answer was actually more elaborate than that. "Outsourcing is just a new way of doing international trade," he said. "We're very used to goods being produced abroad and being shipped here on ships and planes. What we're not used to is services being produced abroad and being shipped here over the Internet or telephone wires. But does it matter from an economic standpoint whether values of items produced abroad come on planes and ships or over fiber optic cables? Well, no, the economics is basically the same. More things are tradable than were tradable in the past and that's a good thing."

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The White House felt differently. Scott McClellan, the press secretary, argued that the economic report, despite its name, wasn't really the president's. Nor did Bush himself defend Mankiw. "The way they

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treated Mankiw, it was like blood in the water," said Bruce Bartlett, an economist who worked in the Reagan administration. It was left to Snow, more experienced in Washington than Mankiw, to come up with a way to discuss outsourcing. It's a four-step approach, first empathy for those who lost jobs, then economic growth as the source of new jobs, then job training, and finally a denunciation of "economic isolation" as harmful to American producers. The word "outsourcing" is never mentioned.

The economic team meets over lunch each Wednesday. The sessions are collegial. Vice President Cheney often sits in. Cheney, by the way, is a close friend of Federal Reserve Board Chairman Alan Greenspan. They normally agree, but Cheney is less worried than Greenspan about the potential impact of deficits. The economic policymaking process is well run with Friedman in charge. Let's examine the five players:

Bold new ideas? Hardly a one.

Josh Bolten. He is building a powerful base at the Office of Management and Budget and could emerge as the most influential budget director since Richard Darman in the elder Bush's administration. He has hired two hard-core free market conservatives for his staff—economist J.D. Foster and Steve McMillan, a former aide to Senator Phil Gramm, an advocate of smaller government. Bolten is getting more acquainted with outside economic advisers. One ally is John Cogan of Stanford, who was twice offered the budget post and turned it down.

Gregory Mankiw. He may not speak out in public much these days, but he has influence internally. The biggest single fight was between Mankiw and Evans on protectionism. Mankiw, a tenacious free trader, is the major counterweight to Evans, who represents his constituency, the business community. On both rolling back the steel tariff and trying to force China to make currency changes, he prevailed over Evans. Mankiw believes China is better left alone on currency matters for the time being.

John Snow. He is a pleasant surprise, a perfect antidote to O'Neill. He's proved adept at dealing with finance ministers from G7 countries, notably Britain's Gordon Brown. He's done well in touting the economic recovery. He's adroitly taken the lead on issues such as tort reform, pension reform, and regulation of Fannie Mae and Freddie Mac. And he's developed a close relationship with the White House—and not just Friedman. He regularly invites Bush aides to private lunches at Treasury. Among others to come: political director Karl Rove, domestic policy adviser Harriet Miers, and lobbyist David Hobbs. But a fount of new ideas Snow is not.

Stephen Friedman. He is known in Washington as the Invisible Man. He neither gives speeches nor appears on TV interview shows. He differs sharply from Lindsey in being well organized and running crisp meetings—and also in being no ideologue. "He takes his role as honest broker to an extreme and rarely promotes his own agenda," says a former White House policy official. He is popular with other officials. His role has been enhanced by Rove's attention to political matters. The absence of new ideas to vet has also allowed Rove to be less of a factor on economic issues.

Donald Evans. He has emerged as the Outside Man, along with Snow a spokesman for the Administration on the economy. He rebuts and criticizes Kerry. His speech texts are distributed by the White House, which wasn't the case until recently. He shows up frequently on TV. His public role "has evolved because he's good at it," says a White House official. "I'm not surprised at how well he's done. He's a smooth talker." His economic views are conventional. He's a corporate conservative with protectionist tendencies. On substance, he's still not a heavyweight.

There's a mystery at the core of what happens in economic policy in a second Bush term. Greenspan must be replaced as Fed chief by 2007 and the fact of his impending retirement is well known to Bush and his aides. Yet the White House isn't close to thinking about a replacement. "We like to plan for the future, but that's a little far out even for us," says Rove. Bush announced his reappointment of Greenspan as Fed Chairman out of the blue in April 2003, if only to quash speculation about his intentions. Now, on the eve of a possible second Bush term, there's nothing but speculation. It's a mystery that won't be solved until after election day. ◆