The Incredible Shrinking U.S. Treasury

Can new chief John Snow turn things around?

By Fred Barnes

When Karl Rove, President Bush's chief political adviser, appeared recently at a hotel near the White House for a luncheon with the media, more than fifty newspaper and magazine reporters jumped at the chance to interview him. Nearly as many turned up when Jean-David Levitte, the French ambassador to the United States, was the guest at a similar event. But when John Snow made an appearance shortly after becoming U.S. Treasury Secretary, no more than twenty journalists attended, roughly the same number as showed up for a session with Gerald McEntee, a labor union official.

The turnout was a reflection of the status of the once-powerful Treasury Department in Washington today. If reporters think the Treasury Secretary is no longer a central figure, he may not be. This is not simply the result of the Bush administration's emphasis on wars with Iraq and global terrorists. Rather, Treasury has suffered an enormous loss of influence for both political and structural reasons. And the unanswered question in Washington is whether Snow, an ebullient former railroad executive, can return Treasury to a position of power.

On what issues has Treasury lost ground? Taxes, for one. President Reagan's 1981 tax cut was drafted largely at Treasury, but President Bush's new tax proposal that includes the elimination of taxation of stock dividends is a product of White House economic aides. The same is true of tax reform. In 1984, the assignment to create a sweeping tax reform plan was given to Treasury Secretary Donald Regan. Now, the reform agenda is in the hands of White House staffers, including non-economists such as Rove. In fact, it's Rove who has been the moving force behind reform proposals to create private investment accounts in the Social Security system and to make investment and savings income in retirement accounts non-taxable.

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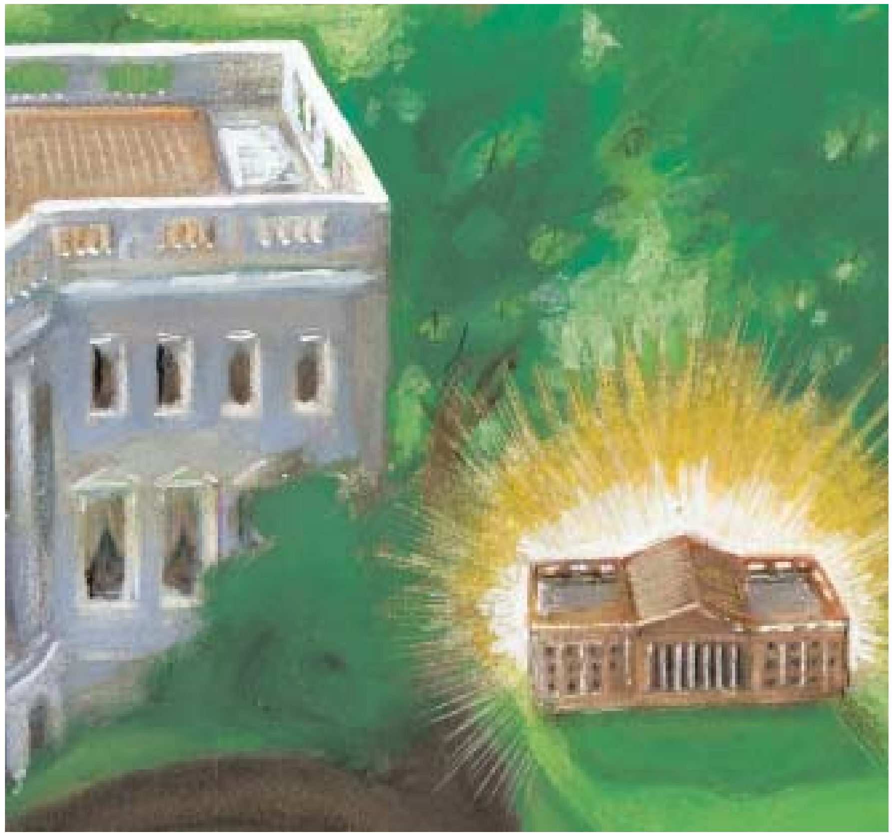
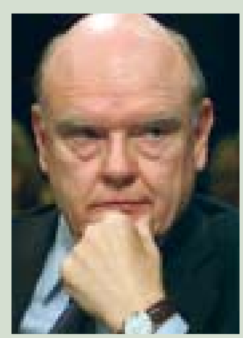


Darman, turned the G7 group of industrial democracies—United States, France, Great Britain, Canada, Italy, Germany, and Japan—into an unsurpassed forum for finance ministers, especially the American ones. In the past decade under three secretaries, however, the American role has precipitously declined, so much so that President Bush seems to have lost interest in the G7 as tool of American economic policy. Bush and his aides have a bilateral bias.

In Treasury's fall, former Secretary Paul O'Neill played a critical part. When he was appointed at the start of the Bush administration, Treasury was one of the four elite departments of government along with State, Defense, and Justice. O'Neill followed a number of powerful secretaries in the past two decades. Regan was a major force in Reaganomics and his successor, Baker, had even more clout with the White House, where he'd been chief of staff. Nick Brady under the first President Bush was a weak boss at Treasury and former Texas Senator Lloyd Bentsen felt he had less sway with President Clinton than he should have had as Treasury Secretary. But then came Robert Rubin, whose every word was treated as economic gospel by Clinton, and Lawrence Summers, who impressed Clinton with his academic expertise. Summers is now president of Harvard University.

O'Neill managed to alienate all of the three main sources of influence for a Treasury Secretary—the White House, Congress, and international institutions—plus a fourth if you count the press corps, where O'Neill had no known allies. Rarely has a Cabinet secretary entered government with so much clout and left with so little—and left his department adrift as well. O'Neill's penchant for making impolitic statements got him on the wrong side of the White House, which was repeatedly required to smooth over the gaffes. He also made clear his low opinion of Congress, never a savvy move if you want help on taxes, spending, or regulation. And O'Neill once declared his time would be better spent flying over meetings of finance ministers than participating in them, and he wasn't kidding. He left Snow, a success at running CSX railroad, to pick up the pieces.

From the moment he was sworn in February 3, Snow has moved aggressively to regain lost ground. Unlike O'Neill, he knew the president when he arrived. Bush tele-



Treasury Secretary **John Snow** *inaugurated one-on-one meetings weekly with White House Chief of Staff Andy Card and CEA Chairman Stephen Friedman. He meets biweekly with National Security Adviser Condoleezza Rice. And twice in his first month at Treasury, Snow conferred privately with chief political adviser Karl Rove.*

The tax reform agenda is in the hands of White House staffers, including non-economists such as **Karl Rove.** *In fact, it's Rove who has been the moving force behind reform proposals to create private investment accounts in the Social Security system and to make investment and savings income in retirement accounts non-taxable.*

phoned him last December for advice on ending taxation of dividends. Should he limit the cut to 50 percent? Snow's reply was no. "I strongly recommend you stick with 100 percent," he said. "There's an important principle involved. There's no principle to cutting the tax in half." Bush's response, according to Snow, was: "You know, John, I like that. I'm always better when I fight from principle."

To reestablish Treasury, Snow must meet three tests. The first is seizing control of economic policymaking from White House aides and emerging as the chief (and lone) economic spokesman for the Bush administration. It would help if he came up with a simple thirty-second explanation of Bushonomics, something more compelling than "jobs and growth" and touching on the president's fondness for expanding individual choice.

Test number two is Congress, where O'Neill was regarded by the president's Republican allies as a pariah. For now, Snow is concentrating on his job as Bush's point man

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on the new tax cut. Congressional leaders send wavering or unconvinced members to Snow for persuasion and indoctrination. And the initial votes went Snow's way, the full $720 billion tax cut being included in the House budget resolution and all but $100 billion of it in the Senate's. Later, the Senate reversed itself and trimmed the tax cut to $350 billion. The House and Senate are expected to compromise on a reduction in the range of $500 billion.

The third and most difficult test for Snow is whether he can overcome the administration's indifference to international economic issues. Bush's distaste for multilateral institutions is well-known, and there's no crisis to make him take the G7 and International Monetary Fund more seriously. That task belongs to Snow.

Even passing these tests won't restore all Treasury's lost power. Let's examine what happened to Treasury in the three key areas in recent years.

The White House. The handwriting was on the wall when Clinton installed a National Economic Council at the White House and appointed an adviser who had his ear, Robert Rubin, to run it. Bentsen, the former chairman of the Senate Finance Committee, had been expected to be Clinton's economic guru. But Rubin counseled Clinton constantly in the Oval Office and Bentsen was frozen out.

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When Bush arrived in 2001, he decided to keep the NEC, and he put his top campaign adviser on economics, Larry Lindsey, in charge. Not surprisingly, Lindsey and the assertive chairman of the Council of Economic Advisers, Glenn Hubbard, dominated the policy process. O'Neill and most of Treasury were downgraded.

Enter Snow. As luck would have it for Snow, Lindsey and Hubbard are gone. The new NEC boss is Stephen Friedman, a refugee from Wall Street. He's deferred to Snow—so far. The CEA head is Greg Mankiw, fresh from Harvard but not expected to have Hubbard's clout. In short, Snow has an opportunity to dominate. Should Congress approve most of the Bush tax cut, Snow will get a chunk of the credit. "He's doing on Capitol Hill what the president can't do while concentrating on Iraq and terrorism," says a Bush aide.

Snow has a knack for building relationships. He's inaugurated one-on-one meetings weekly with White House Chief of Staff Andy Card and Friedman. He meets biweekly with National Security Adviser Condoleezza Rice. And twice in his first month at Treasury, Snow conferred privately with Rove. A measure of where Treasury stands is the location of the Rove meetings: Snow goes to his office. If Rove starts visiting Snow at Treasury, which is only a few hundred feet away, you'll know Snow has become THE major economic player.

Congress. Many Republicans and most Democrats were in awe of Rubin, though his pronouncements were often dubious. Economist Kevin Hassett once asked Rubin what evidence he had for believing deficits drive up interest rates. "My experience," he said solemnly, citing no eco-

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nomic studies. But there was no awe of O'Neill, who didn't mask his view that elected officials are phonies or lightweights interested chiefly in thirty-second sound bites.

Snow faces a situation on Capitol Hill where, as a member of the House Ways and Means Committee put it, "Folks are more afraid of Rove than they are of Snow." Still, Snow has convinced Republican leaders that he's a valuable ally. House Republican Whip Roy Blunt was so amazed at Snow's skill at lobbying that he asked, "Has he done this before?" He has. Snow was congressional liaison for the Transportation Department in the 1970s, then Washington lobbyist for CSX.

Snow spent more time on Capitol Hill in his first six weeks than O'Neill did in a year. Until there's a final vote on the Bush tax cut late this spring, it constitutes 100 percent of Snow's agenda. "It's his only priority," says an administration official. "It's important for the role of Treasury to be re-asserted in the councils of government," Snow told me. The best way to do that, he added, is "by demonstrating your ability to produce results."

I asked Snow his agenda after the tax cut. As best I could tell, he doesn't have one beyond aiding the war on terrorism and helping postwar Iraq establish what he calls "viable financial institutions."

International Economics. The problem is, "This administration isn't interested in the international area," says an IMF official. "There's no crisis, so they don't have to be." The Clinton White House wasn't much interested either, but

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Summers was and he managed to take over the entire international portfolio. And the number of Treasury officials working on international matters was doubled.

Snow has a golden opportunity to assert himself without a major turf battle. The State Department official in charge of international economics is a minor player and his counterpart at the National Security Council lacks the standing to compete with a Treasury Secretary. What Snow needs is an agenda.

He quickly set up regular meetings with IMF managing director Horst Koehler and, contrary to O'Neill, informed the Fund he sees a role for it. More important, though, could be the creation of a replacement for the G7, which includes Canada, whose economy is marginal, and France, which is in deep disfavor with Bush. "I'm sure the president is hating the fact he has to go to a G7 heads of state meeting in May," says a Bush official.

Snow is no apologist for the G7. He's told me the group is "useful" and nice to have around "when you need them." A replacement might include a representative from a dollar country (U.S.), a euro (the European Union), and a yen (Japan), plus Russia, India, and China once it liberalizes its markets. No doubt Bush would be intrigued if this concept were presented to him.

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Like all Treasury heads, Snow stumbled when first asked about the dollar. He said he wasn't alarmed by its softening, which reporters concluded was a sign the administration wants it to weaken. Perhaps it does, but Snow concluded from the incident that he must start any dialogue with the press on the dollar by uttering the words "we support a strong dollar."

Overall, a recovery of influence for Treasury is likely—a modest recovery. Power will naturally drift toward a secretary who's popular with the White House and effective on Capitol Hill. This won't produce another Andrew Mellon, the mighty Treasury chief in the 1920s, or even a new James Baker. But it should be enough to attract the favorable attention of reporters. ◆