O’Neill’s Resignation Offers Opportunity

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Since the administration of Franklin Roosevelt, America has had 11 presidents and 20 treasury secretaries. George H.W. Bush had one, but Presidents Harry Truman, Dwight Eisenhower and Jimmy Carter had two each, Presidents John F. Kennedy and Lyndon Johnson together and Presidents Ronald Reagan and Bill Clinton had three. Together, Presidents Richard Nixon and Gerald Ford appointed four.

Though the turnover of secretaries of state and defense is comparable during the last 11 administrations, the treasury secretary has often been the senior Cabinet member who was least well known to the new president - someone whose appointment was urged on by political advisers and with whom the president had not developed a comfortable relationship. Nixon hardly knew David Kennedy, his first appointment. Likewise, Carter hardly knew Michael Blumenthal, Reagan hardly knew Donald Regan and George W. Bush hardly knew Paul O'Neill, who resigned Friday. But these were not ordinary Cabinet appointments. The treasury secretary is the most visible member of the administration addressing economic policies - policies which are crucial to the success of any administration. So, naturally enough, he is the one who has to take the blame for unsatisfactory economic performance.

O'Neill's departure offers his boss an important opportunity to bring in new faces and fresh approaches to achieving better results from unpopular or stalled initiatives. Often the second or third guy in the Treasury job has been recognized as one of the most effective members of the administration he served - Henry Fowler (Johnson), George Schultz (Nixon), James Baker III (Reagan) and Robert Rubin (Clinton). But whether or not Bush can turn O'Neill's resignation into an opportunity depends on who the new appointment is and what sort of policy shift is likely to follow.

So far, the Bush administration has spent its economic capital on a tax cut to return much of the expected fiscal surpluses of a few years ago back to the folks who provided them, as well as some anti-free trade tariff increases and the restoration of extensive farm subsidies that were cut out in the Reagan days.

Though since then the economy has softened and the surpluses have disappeared, unemployment has reached the 6-percent level again, a war on terrorism has been declared and there may soon be an invasion of Iraq, the economic message from the White House seems to be that all the economy needs now is to make the earlier, slow-acting tax cuts permanent to boost consumption and to reduce the tax on corporate dividends to perk up the stock market.

Today's economic reality, however, dictates that the new man or woman in the Treasury get a grip quickly on two policy areas that may already be out of control - the growing danger of huge federal, state and municipal fiscal deficits in the years ahead and the need to plan more thoroughly for the cost of wars against terrorists and those countries that we deem to be harboring them or developing weapons of mass destruction.

Congress may regard the federal budget as an unlimited source of spending for pork once again, but the president has the power to stop it by vetoing bills that are not sufficiently frugal.
The direct costs of warfare and military occupation in the Mideast are likely to be very large - this time borne mainly by the United States - and they need to be part of the planning process that leads to spending limits. Even then, the indirect costs of military operations can be even more serious if these begin to affect commodity prices and bring about a renewed battle with inflation, as happened during the 1970s when the economic consequences of the war in Vietnam were felt around the world, especially in stock and bond markets.

These issues require a tough line from the White House, one that might offend the ideological base of the Republican Party and possibly toughen up the resistance shown in the future by Democrats. But one of the most important jobs that a treasury secretary has is to gain the president's confidence to force him to face the harsh realities that are out there now and to resist political motivations to give people what they want.

Bob Rubin was reportedly very effective at playing this role with former President Clinton after he succeeded Lloyd Benson as treasury secretary. The Clinton economic policy appeared to change after Rubin was installed in the Treasury to place the highest emphasis on deficit reduction, which led to further lowering of interest rates, an extensive stock market recovery and several years of continued economic growth.

President Bush has a chance now to do something similar - to focus on the deficits - and Paul O'Neill has given him that chance by becoming disposable. It has happened to a lot of treasury secretaries.