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The Four Horsemen of Bush Economic Policy

BY FRED BARNES

An emerging system of seemingly obscure officials takes over.

Glenn Hubbard is the most influential chairman of the Council of Economic Advisers in two decades. His job is to provide economic analysis for the White House, primarily on domestic issues such as taxes and jobs. The sudden popularity of eliminating the taxability of stock dividends—that's Hubbard's doing. As a young U.S. Treasury Department official ten years ago, he circulated a fifty-page study advocating the change, and he followed up this year by prevailing on President Bush and his senior aides to support the idea. And Hubbard was also active in feeding information and analysis to the presidential commission that looked at one of Bush's pet projects, reforming Social Security and creating individual investment accounts.

But Hubbard, 44, has stretched his role far beyond tinkering with the tax code and overhauling the pension system. When an

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The No-Name Offense

Josh Bolten, *48, stepped up to whip NEC into shape. An indispensible figure, and honest broker.*

Glenn Hubbard, *44, enjoys wide-ranging policy role as most influential CEA chairman in two decades.*

Peter Fisher, *46 and a Democrat, has become indispensible based on his "feel" for the mood of Wall Street.*

Karl Rove, *48, the President's 800-pound gorilla, is general overseer of all things economic. Big on expanding IRAs and 401(k)s.*

international bankruptcy system was being talked up at Treasury and the International Monetary Fund, he crafted his own proposal for a new global arrangement. He also weighed in with his take on bailouts for Brazil and Argentina. Hubbard, a free-market economist from Columbia University, "is an impressive guy and his views are respected across the range," says a top Bush assistant.

That's putting it mildly. Hubbard exemplifies what's happened to economic policymaking in the Bush Administration. From the start, Bush's national security team—Vice President Dick Cheney, Secretary of State Colin Powell, Defense Secretary Donald Rumsfeld, national security adviser Condoleezza Rice, CIA director George Tenet—have performed dazzlingly. But the economic team, led by Treasury Secretary Paul O'Neill and National Economic Council chief Larry Lindsey, stumbled. O'Neill was out of sync ideologically with Bush, and Lindsey failed to run the NEC to Bush's satisfaction.

The result: little-known officials quietly stepped up to fill the gap. Josh Bolten, 48, the deputy White House chief of staff, took charge of the underperforming economic apparatus and the task of sharpening ideas for the president's consideration. Hubbard emerged as a major player in administration policy circles. At Treasury, the undersecretary for domestic affairs, Peter Fisher, a 46-year-old Democrat, became the person the White House relies on. And Karl Rove, Bush's top adviser on politics and practically everything else, has involved himself as a kind of overseer of economic policy. "Everything crosses his desk," says an economic aide.

Even with the departure of O'Neill and Lindsey, the makeshift system of seemingly obscure officials (Rove is the exception) with enormous clout remains. Their replacements, railroad executive John Snow at Treasury and Wall Street investment banker Stephen Friedman at NEC, have been brought in as advocates of Bush's new economic growth policies—policies that were fully developed before they arrived. Another big name with diminished influence is Alan Greenspan, the Federal Reserve chairman. Greenspan was close to O'Neill. The firing of O'Neill was "a shot across the bow" of Greenspan, an administration official says. At the White House, there's a feeling the Fed has fallen behind the economic curve. This is bad news for Greenspan, hardly a friend of the Bush family after his tight money policy helped doom the re-election chances of President Bush senior in 1992. White House aides can recite the date—June 2004—without hesitation. That's the deadline for the chairman's reappointment. For Greenspan, the message in the O'Neill canning is that the same awaits him should he jeopardize Bush's re-election prospects by raising interest rates.

The economic role played by Rove is a sensitive issue at the White House. So is the part played by Cheney. If they are seen by the political community and the public as manipulating Bush, it damages his image. In any case, Rove especially and Cheney to a lesser extent were the key players in the decision to change direction in economic policy last fall. For months, the administration's line had been that the economy was recovering nicely from the 2001 recession and no further stimulus was needed. This was a strongly held view of O'Neill. But last October, the White House changed tack and said the president would propose a package of tax cuts to assure a growing economy, notably in 2004 when Bush is sure to seek reelection. Among other things, this gave the White House and congressional Republicans a positive agenda to tout.

Cheney, for one, has been less optimistic about the economy than O'Neill, Commerce Secretary Don Evans, or most mainstream economists. From time to time, he's called in outside economic experts to get their assessment of how the economy is doing and what they recommend to keep it growing. But Cheney hasn't been quite as pessimistic as Lindsey. To jack up the economy and stock market, Lindsey sought Bush's approval for cutting the tax rate on capital gains in half. Rove blocked that.

Rove, the architect of the Republicans' sweep in the midterm election, is associated with two ideas. He was the moving force behind Bush's adoption of tariffs to aid the steel industry. This proved to be an unpopular policy that the administration is gradually unraveling. (The new Bush initiative to terminate all tariffs by 2015 is the brainstorm of Robert Zoellick, the special trade representative.) And Rove's hope that the favor to the steel industry and steelworkers' union would stir support for Bush or Republicans in organized labor was dashed as well. A decision to bar Mexican trucks from delivering goods nationwide in the United States might have won Teamsters' backing for the president. But Bush has a policy of doing everything conceivable to help Mexico, so he decided to allow Mexican trucks. Rove's other issue: expanding IRAs and 401(k)s.

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Bolten's importance at the White House rose as Lindsey's fell. The NEC, as a presidential aide puts it, is “supposed” to be the chief economic policy coordinating body for the entire administration. But Lindsey, a former Fed governor and respected supply-side economist, turned out to be an activist but not an effective coordinator. Bolten, along with supervising the domestic policy and budget councils, had to take over the NEC, unofficially at least. Now Bolten, an ex-Goldman Sachs executive in London, makes sure Bush gets economic recommendations that have been fully honed and vetted.

If Bolten has strong economic views, he's kept them private. He's regarded as an honest broker. But as the chief domestic policy adviser in the Bush presidential campaign, he populated his staff with smart, young conservatives, most of whom have gotten jobs in the administration. He was instrumental, along with White House chief of staff Andy Card, in retaining the NEC, created during the Clinton presidency, at the Bush White House as part of a four-tier economic policymaking process. At the bottom are junior aides, who formulate policy ideas. The next level is senior aides—folks like Hubbard. Then comes the full NEC with principals such as Cheney and Evans. At the top is the president.

Like Bolten, Fisher has made himself an indispensable figure. And as O'Neill lost favor at the White House, his reputation soared. “He's all about

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efficient markets," says Michelle Davis, the former assistant treasury secretary for public affairs. Though a Democrat, Fisher "doesn't come across that way," Davis says. Fisher does things no one else can. He "knows what makes a difference to Wall Street and what wouldn't," a Treasury official says. O'Neill didn't. Fisher negotiated the details of the terrorism insurance bill. The bond market and banking regulation come under his jurisdiction. As the administration's representative on the Air Transportation Stabilization Board, he's often the lone dissenter when loan guarantees are granted to airlines.

Rove especially and Cheney to a lesser extent were the key players in the decision to change direction in economic policy last fall.

John Taylor, the treasury undersecretary for international economics, was expected to be a heavyweight in economic policy. But that was not to be. He's been held back both by O'Neill's clumsiness in global affairs and O'Neill's failure to play as significant a role in international economics as treasury secretaries Robert Rubin in the Clinton administration and James Baker under President Reagan. In particular, the Bush administration has been inconsistent in assessing the need for bailouts of foreign countries in economic trouble. O'Neill opposed a bailout for Argentina and won. He also opposed a bailout for Brazil, but Bush decided without consulting O'Neill or Taylor to back a large package of financial aid for Brazil.

Another Taylor problem was the legacy of Larry Summers, who was undersecretary for international economics under Clinton, then secretary, and now is president of Harvard University. Summers doubled the size of the international staff at Treasury and filled it with officials who favor international bailouts. Taylor and O'Neill feared bailouts would become contagious, but the Summers leftovers were never convinced. "Taylor had a lot of internal battles he had to deal with," says a treasury official.

A measure of Treasury's loss of clout occurred in mid-December when Ari Fleischer, the White House press secretary, was asked if the administration's strong dollar policy was changing with a new treasury secretary. Before answering, the White House didn't bother to check with Treasury, instead merely looking up Bush's last comment on the subject. "Our policy is unchanged," assistant press secretary Claire Buchan announced. "We support a strong dollar and believe that growth policies lead to a strong dollar."

The new economic powerhouses—Hubbard, Bolten, Fisher, Rove—have one thing in common. They avoid the media spotlight. The last CEA chair who sought publicity, Martin Feldstein in the Reagan years, so enraged the White House staff that they considered moving the entire CEA operation to a distant suburb of Washington. They took away Feldstein's White House mess privileges, cut his budget, and eventually forced him out.

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Hubbard won't suffer that fate, though he may return to Columbia soon. He's even been allowed to add a chief economist to CEA, Douglas Holtz-Eakin, a tax policy expert who's become influential in his own right. When Bolten met with Hubbard, he asked about this. If Holtz-Eakin is the chief economist, "what are you?" Hubbard just laughed. The answer he could have given, though, is that he's a lot more than an economist. He's a player. ◆