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Long To-Do List for New Economic Team

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NewsAnalysis

If the to-do list for President Bush's new economic advisers were limited to explaining his policies more successfully than their predecessors did and persuading a Republican Congress to cut taxes, they might be facing a fairly simple task.

But John W. Snow, the nominee for Treasury secretary, and Stephen Friedman, the leading candidate to be Mr. Bush's economic point man in the White House, will be greeted in Washington by a much broader array of challenges. They highlight the tension between the free-market policies that the administration's business supporters favor and their equal desire for an old-fashioned government boost to growth.

In their new jobs, Mr. Snow and Mr. Friedman will have to meld the Bush administration's preference for tax cuts that affect the economy primarily over the long term with its desire to jump start growth before the 2004 election.

They will continue the administration's push, along with other officials, for lower trade barriers in other countries while confronting foreign executives and policy makers angered by recent tariffs enacted in this country.

And they will be faced with the near collapse of large parts of some crucial industries, including airlines, energy and telecommunications, each of which could provide tempting if vexing possibilities for government intervention. Just hours before Mr. Snow's introduction by the president yesterday and his call for "a pro-growth, pro-jobs agenda," United Airlines filed for bankruptcy protection, jeopardizing some of the company's 81,000 jobs.

In every case, Mr. Bush's conservative economic philosophy and his political need to reverse two years of rising unemployment could come into conflict, with Mr. Snow and Mr. Friedman left to offer explanations.

"You need a slick salesman," said Ian S. Morris, chief domestic economist at HSBC, the large bank. "The Bush team is going to sell their tax cut as if it is an important part of boosting the economy. In truth, these kind of tax cuts are more useful in the long run."

Administration officials are preparing a fiscal package that is expected to include a reduction in taxes on stock dividends, an easing of the rules for corporate deductions on investments in new equipment and probably an acceleration of personal tax cuts now scheduled for 2004 and 2006. With the White House expected to be preoccupied with Iraq, Mr. Snow, the chairman of the CSX Corporation, a railroad company, and Mr. Friedman, formerly the co-chairman of Goldman Sachs, would become the leading advocates for the plan, on Capitol Hill and in the public eye.

Many Democrats are calling for an extension of unemployment benefits and a suspension of the payroll tax. Economists disagree about the overall wisdom of such measures, but generally agree they do more to increase economic growth quickly than Mr. Bush's new tax cuts, which mostly affect wealthier Americans.

Although frustrated by the economy's performance, business leaders have largely been pleased with the administration's record so far. It has consistently sided with management during labor disputes, and it won passage of the biggest tax cut in two decades.

Mr. Snow and Mr. Friedman will not change the administration's thrust, officials say, but they will face difficult decisions — about rising health care costs, federal and state budget deficits and other issues — that were largely avoided during the exuberant 1990's.

With the Republicans in control of both houses of Congress and the Federal Reserve wary of more interest rate cuts, the administration could bear an unusual amount of responsibility for the economy's direction. The Fed has cut its benchmark short-term rate 12 times since early last year, to encourage consumer and business spending, but it has only slight room to take further steps, with the rate now at 1.25 percent, many economists say.

That will tend to increase the profiles of Mr. Snow and Mr. Friedman as protectors of the fragile recovery, and decrease that of Alan Greenspan, the Fed chairman.

"The top three issues facing this economic team are No. 1, economic growth; No. 2, economic growth; and No. 3, economic growth," said John J. Castellani, president of the Business Roundtable, a group of executives that Mr. Snow once led.

"When our C.E.O.'s looked at the economic outlook for next year and beyond, they did not see a return to robust economic growth," Mr. Castellani said.

Like President Bill Clinton and his advisers, Bush administration officials have tried to help American companies, and lift economic growth, by opening up new markets to their products. But the administration's introduction of steel and agricultural tariffs has complicated the effort.

"On the one hand, they try to be the champion of free trade," said Murillo de Aragão, president of Arko Advice, a consulting firm in Brazil that advises American companies there. "And on the other hand, they fiercely protect American industries."

Mr. Snow and Mr. Friedman will be the ones to balance the ideals of free trade with the political problems that often arise when American industries lose jobs to other countries. Neither will be directly responsible for negotiating treaties — which is the job of Robert B. Zoellick, the United States trade representative — but top economic advisers usually play a role in the decision.

When Mr. Bush imposed taxes on foreign steel companies, for example, some economic advisers tried to persuade him not to do it, officials say.

"The biggest challenge is how to reinvigorate domestic growth while at the same helping the global economy," said Jerry Jasinowski, president of the National Association of Manufacturers. "That's a fairly complicated problem."

The weakness of large industries that are partly regulated by the government could also present complicated decisions about intervention. With the exception of Southwest Airlines, every large airline is losing large amounts of money, and United Airlines and US Airways have both sought bankruptcy protection, joining a long list of telecommunications and energy companies.

United sought bankruptcy protection only after a federal board rejected its request for \$1.8 billion in loan guarantees. Requests from other carriers might follow. Strikes are another possibility as airline executives try to lower the industry's wages.

Since the Depression, the nation's economy has rarely remained weak for four consecutive years, as would be the case if it failed to improve from now to 2004. But it also has rarely been saddled with the imbalances that were created during the 1990's bubble.

More than any personal traits of Mr. Snow or Mr. Friedman, the speed with which those imbalances disappear is likely to determine how successful they are considered.

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