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Two New Salesmen

By **RICHARD W. RAHN**

Will the new Bush economic team succeed? The short answer is yes, and here's why. John Snow and Stephen Friedman have been brought on as Treasury Secretary and head of the National Economic Council not so much to make policy as to sell it. They have reputations as consensus builders, and for being effective advocates for their policies. Critics of the appointments note that neither Mr. Snow nor Mr. Friedman has substantial experience in economic policy making. That is true, but the economic policy team is still in place despite Larry Lindsey's resignation as head of the NEC. Glenn Hubbard, the highly regarded chairman of the Council of Economic Advisors, will remain, with his influence increased.

Reluctant O'Neill

The new economic growth package, with investment-oriented tax relief, has been signed off on by the president. This package was largely developed by Messrs. Lindsey and Hubbard, who won many of the internal administration disputes over its makeup. Most of the administration's economists favored a new round of tax cuts but Paul O'Neill was reluctant to push for them. The economists thought new cuts were necessary to ensure the continuing rebound of the economy and to redress some of the long-standing tax impediments on investment which have been a depressant on long-term growth. As a condition of being offered the jobs, both new men pledged to fully back the growth package, and they are reported, even, to be enthusiastic about it. If this is true, those who are worried that the newcomers -- especially Mr. Friedman -- would be more concerned about reducing deficits than increasing growth can drop their objections, but not their guards.

A particularly encouraging note is that Messrs. Snow and Friedman have articulated the need for dynamic scoring of proposed tax changes. Traditionally, both tax-writing committees of Congress and the Treasury have used static analysis, which assumes little or no behavioral change, when estimating the gains and losses from any tax changes. Dynamic scoring involves estimating the effects on work, saving and investment from any tax change which should result in far more accurate numbers. Properly structured reductions in tax impediments on investment will cause the economy to grow faster and result in higher tax revenues over the long run. We have seen this effect with reductions in capital-gains tax rates and other investment-oriented cuts. Understanding the importance of dynamic scoring is essential to both designing and selling a proper tax program.

Concern has been expressed, because of Mr. Friedman's association with the Concord Coalition (a deficit reduction group, some of whose members never have been able to grasp the difference between tax rates and tax revenues), that he might be a non-supply side "root-canal" Republican, in contrast to a pro-growth (Kemp-like) one. But I am told that during the vetting process, the White House became convinced that Mr. Friedman understood growth to be the key to reducing deficits, and that the right tax cuts increase growth.

Paul O'Neill suffered not only because of his lack of political skills and sensitivities, but from his failure to recognize and squash bad ideas emanating from Treasury bureaucrats. An example is the interest-reporting regulation proposed by the IRS. This would require U.S. banks to report to some foreign governments interest paid to their citizens, even though the U.S. deliberately does not tax such interest payments. This provision would impose a substantial cost on U.S. financial institutions and drive capital investment out of the U.S. in order to help foreign governments collect taxes on their citizens. Every industry, economic and tax policy, and civil liberties group that has commented or testified on the regulation has been opposed to it, as has every testifying member of Congress. Even the Small Business Administration and bank regulators' associations oppose it. The ultimate irony of this

proposal is that it would reduce tax revenue to the U.S. because of the reduction in foreign investment. The fact that such a proposal, made during the last week of the Clinton administration, could continue to be considered almost two years into Mr. O'Neill's reign is another demonstration of why his departure was necessary.

Administration officials are saying that Mr. Friedman and Mr. Snow have the ability to reach out to Democrats. This causes concern among many Republicans, not because they do not believe in working with the opposition, but because others, famous for getting along with their political opponents, do so by giving up their policies and principles. Ronald Reagan should be the role model for the new team. He knew what he believed and where he was headed, but he also compromised when necessary without giving up core principles. Mr. Reagan also understood that, before proposing a solution to a problem, it had to be explained to the public and opinion leaders in clear language. Once people understood the ailment and agreed with his diagnosis, the medicine became much easier to sell.

A problem this administration has had is not explaining often enough the particular economic problem it is trying to resolve. For instance, the Democrats always argue that whatever Bush tax package is presented benefits only the rich. Thus the new team has to explain, many times over, how the rich pay almost all the taxes (the top 50% of taxpayers pay 96% of the income tax). And in order to increase growth and jobs we must have more investment, and this investment will create more and higher paying jobs. Many have forgotten this basic message from the Reagan years, and the administration has not made the effort to explain these economic fundamentals. Messrs. Snow and Friedman have reputations for being persuasive; however, now they have the greatest challenges of their professional lives, because they need to persuade the skeptical, often hostile, American media.

Sound Policies

The new economic team would be well advised to quickly meet with Jack Kemp and many of those around him from the Reagan years who have skill in developing high-growth economic policies, as well as a proven ability to explain the need for such policies to the American people. John Snow and Stephen Friedman are men of accomplishment. My bet is that they will learn from the mistakes of their predecessors, and have the skill to implement the sound policies developed by these same predecessors.

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