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***Key Challenges Facing  
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## KEY CHALLENGES FACING PRESIDENT-ELECT BUSH

by Murray Weidenbaum

If any novel had described a post-election scenario along the lines of our recent experience, it would have been quickly dismissed as the melodramatic output of a feverish imagination. Nevertheless, this unpleasant reality is the situation that President-elect George W. Bush will have to deal with when he takes office.

I suggest that we look beyond the recent legal battles and partisan posturing and focus on January 20, 2001, when Mr. Bush will be inaugurated. This approach enables us to skirt the current disagreements and focus on the serious business of leading our nation during a difficult and perhaps dangerous period.

### The Political Challenges

There will be no shortage of challenges facing President Bush. The overriding one, of course, will be to restore the public's confidence in the presidency and then to develop good working relationships with the Congress. This dual and interrelated task will be an awesome challenge.

The closeness of the presidential vote is mirrored in the narrow majority that the Republicans retain in the House of Representatives and the 50-50 split in the Senate (as the formal presiding officer of the Senate, Vice President Cheney will be in the position of breaking any partisan tie). There is great danger that the bitterness and intense partisanship that characterized the last few weeks will grip the Congress. The result would be paralysis rather than the cooperative spirit of bipartisanship so badly needed and so widely desired by our country. In a close election, every interest group can claim that their support was critical—not so when your side wins big.

By and large, the president can set the tone in Washington, D.C. President Kennedy did it with an eloquent inaugural address. Bill Clinton did it effectively by his dealing with the Congress. (Yet 85 percent of the Republican "Contract with America" was passed.) The saying in Washington has been, "If Clinton were the *Titanic*, the iceberg would have sunk." President Bush will surely have

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the attention of the nation when he delivers his Inaugural Address on January 20. We can only hope that he succeeds in setting a positive tone, one that rises above the attack dog approach that characterized the campaigns of both parties in the past year. But it will take more than rhetoric or even eloquence. Of course, easier said than done.

One traditional way to take a bipartisan position is to appoint members of the other party to some of the key positions in the new administration, not just token jobs. Many recent presidents—Roosevelt, Truman, Eisenhower, Kennedy, Johnson, Nixon, and Clinton—did that. Examples include secretaries of defense and the treasury as well as cabinet-level officials in the White House. In each case that I personally recall, the appointee served the president loyally.

In a Bush administration, some obvious—if available—candidates for such a bipartisan approach are Sam Nunn, former chairman of the Senate Armed Services Committee, at the Department of Defense (or State) and former Secretary Bob Rubin chairing the Federal Reserve, should Alan Greenspan retire after his term expires in 2003. Both of these highly regarded gentlemen are the epitome of the centrist policymaker—and possess good judgment to boot.

At the same time as these bipartisan appointments are made, the new president could announce a revised program agenda that is more centrist than the key proposals of his presidential campaign. Thus, President Bush could advance more modest tax cuts than were contained in his election campaign speeches and place some emphasis on deficit reduction.

There is no assurance, however, that such “olive branches” will be effective in surmounting the distrust that is likely to characterize the incoming Congress. A successful effort would require repeated attempts at reaching out to the nominal opposition. But there is a great reservoir of public support for a sincere and sustained effort to do so. The public would like to get beyond the legal technical battles of the presidential contest and favors modernizing the archaic voting and counting procedures—resulting in fewer lawyers and more CPAs!

### **The Economic Challenge**

Speaking of difficult situations, President Bush will face an economy that is slowing down and with the danger of inflation simultaneously heating up. The year ahead will be a far more

difficult time for business as well as government decision-makers than the year that is coming to a close. The prevailing outlook among professional forecasters includes rising labor costs, slower productivity growth, and a trade deficit reaching record highs. These negatives are reinforced by slower capital spending, weakening auto and retail sales, and disappointing profits. The United States has avoided a painful “stagflation” situation for several decades, but it is not written in the stars that stagnation will never recur.

Should the prospects for the American economy really dim, the repercussions could be severe. The resultant falling dollar would make foreign investors reluctant to provide the hundreds of billions of dollars a year necessary to finance our massive trade deficits. On the bright side, the combination of a weak economy and a falling dollar would help to reduce the trade gap.

However, such a situation would make the job of the Federal Reserve far more difficult. Normally, rising inflation (pushed by a falling dollar) calls for higher interest rates. So does financing the trade deficit. But a weaker economy is revived by lower rates. The new administration will find itself on the horns of a real economic dilemma.

Over the next two years, George W. Bush will be appointing the majority of the Board of the Fed in addition to replacing the 74-year-old chairman at some point. That appointment authority is the key power over monetary policy that he will possess. Recent presidents have learned that leaning on the Fed to influence interest rates is not effective. Public disputes with the Fed upset financial markets and are counterproductive. But it's unlikely that any new president will merely respond to a changing economy by keeping his fingers crossed.

A cynic might say that continuing the legislative gridlock is good for economic policy. After all, so far the Republicans have kept the Democrats from voting large new spending programs while the Democrats have prevented the enactment of huge Republican tax cuts. The large budget surpluses are truly a bipartisan accomplishment. Moreover, legislative gridlock has underscored the role of the Fed as the dominant economic decision-maker in Washington, D.C.

The economic policies adopted by the next administration surely will benefit from the realization that the basic cause of this nation's prosperity is not inside the Capital Beltway. Rather, it is the strength of the American private enterprise system that provides the dynamism and innovation so

special to the American economy.

However, a sustained partisan deadlock in the Congress would not be benign. The president would be unable to secure the prompt confirmation of his key subordinates, such as the cabinet secretaries, the budget director, the Council of Economic Advisers, the Trade Representative, or the head of the CIA. In the process, an interesting power shift would occur—to the White House officials who do not require Senate confirmation.

Thus, the day-to-day authority of the president's chief of staff would be further enhanced, as would that of the cadre of assistants to the president, deputy assistants to the president, special assistants to the president, deputy special assistants to the president, and so on. As a practical matter, the White House office often tends to act in a fashion similar to that of the headquarters of a major corporation, with the cabinet officers serving as the principal operating officials.

There could be some long-term benefit from these short-term arrangements. The perennial tension between cabinet-level secretaries and the White House staff might be reduced. Most heads of federal departments come to Washington in the belief that they are important advisers to the president and that the cabinet is a key decision-making mechanism. In a few cases—notably the secretaries of defense, state, and treasury—that is so, but even there conspicuous exceptions have occurred.

In practice, and especially in domestic policy areas, the chief of staff tends to act as the chief operating officer of the federal government—the president, of course, being the chief executive officer. In a more constructive atmosphere than the present situation, some formalization of that evolution of the executive branch would be useful. Of course, the Congress would have to face up to the dilemma that, by blocking the confirmation of the major appointees, it is lessening its own authority over the executive branch.

As someone who has successfully navigated the shoals of the confirmation process on two occasions, I can vouch for the fact that, when the process works, it provides for substantial congressional influence over key executive branch departments and agencies.

## Domestic Challenges

Let us turn to the substantial array of programmatic decisions that will face President Bush, whatever organizational and personal arrangements he utilizes.

A major challenge will be fiscal policy: What to do with those budget surpluses? Politically, that is turning out to be almost as difficult to deal with as large budget deficits.

The president and his advisers will be wrestling with such questions as how much to cut taxes and for whom. Everyone thinks he deserves a bigger tax cut than the other guy. A tough issue is whether to combine tax cuts with tax reform. Realistically, that is the only way to get basic tax reform, whether it is a flat tax, sales tax, or consumption tax that is adopted to replace the income tax. However, any fundamental change will generate losers as well as winners. But, combining tax reform with tax cuts means more winners and fewer losers—thus enhancing the prospects for achieving serious improvements in the tax system.

Another basic fiscal policy challenge is to shore up Social Security and Medicare. Both are scheduled to run out of money, but not right away. An important lesson of the bailout of the savings and loans in the 1980s that few people appreciate is that the longer the Feds wait to act, the more difficult and expensive the bailout becomes.

Covering prescription drugs under Medicare is the easy part. How to pay for the increased cost was ignored by all the candidates. Social Security and Medicare are potentially two huge budget busters. Neither program will go broke this year or next. But government is not good at making tough long-run decisions early.

In dealing with the emotional issue of health care (not that Social Security fails to generate its share of passion), the solution boils down to some form of restricting demand. But both parties have told the voters that all people are entitled to excellent medical care whenever they need it. That has encouraged the widespread and irresponsible view of most Americans, “When it comes to my health, nothing is too good for me, especially if I don’t have to pay for it.”

In tackling Social Security, President Bush will encounter the conundrum that Americans are living longer and retiring earlier. Under those circumstances, the federal government promises more than it can deliver. A useful starting point is the fact that most people go on Social Security

before they reach 65, many as early as their 62nd birthday. Given the nation's low birth rate, there is no reason to encourage people to take such early retirement.

There are lots of other domestic policy issues waiting for President Bush. In what direction will he take regulation? Global warming (often referred to in polite company as climate change) is the hottest issue, and not just in a political sense. Global warming is truly a global issue, but the role of the developing nations is not clear. As we witnessed last month at The Hague, a global agreement on climate change will not come easy. One thing we do know: any serious global warming policy will generate substantial economic consequences.

Many other regulatory problem areas are surfacing. Pressures are rising to require employers to pay employees who are absent to take care of a sick family member. The impending new Occupational Safety and Health Administration (OSHA) regulations would lead to an increase in the cost of hiring people that does not show up in employees' pay.

The debate on ergonomics has become tough because OSHA has expanded the original proposal on carpal tunnel syndrome to include literally your aching back. That's an example of how difficult it is to control the bureaucracy. When OSHA learned that the incidence of carpal tunnel syndrome and related on-the-job ailments was declining, it just broadened substantially the coverage of the proposed standard.

Let us not ignore ongoing EPA regulation. EPA is the largest and fastest-growing regulatory agency. It imposes a hidden tax of several hundreds of billions of dollars a year in compliance costs.

In recent years, regulatory review has become a paper shuffling operation that neither the agencies nor the White House takes seriously. We need a real benefit/cost test for each new regulatory issuance plus a review process with teeth in the White House.

Of course, few issues are entirely domestic. Consider the large and rising trade deficit. That is the result of Americans interacting with a global marketplace. In the face of likely congressional opposition, will President Bush be able to keep the free trade position traditionally held by the White House? That opens up the whole issue of globalization. Despite the substantial benefits generated by the international economy, numerous groups have taken an anti-globalization position. An important example is the new alliance of unions and environmentalists who want to slow



down any future trade negotiations by adding labor and environmental provisions. Recession would bring out more protectionist sentiment because there would be fewer new jobs open for those who lose their existing jobs due to imports. However, protectionism could convert a short, mild recession into a longer, deeper downturn, as it did in the Great Depression of the 1930s.

### **Foreign Policy Challenges**

Finally, there will be no shortage of real foreign policy issues facing President Bush. Just spin the globe—almost anywhere you look, there are problem areas. The Mideast is a perennial source of serious trouble. In the Holy Land, it is sad to see two sets of victims going after each other. Then again, from time to time the China-Taiwan relationship presents the threat of real danger.

China is modernizing and expanding its military forces very substantially. A confrontation across the Taiwan straits would quickly raise the issue of American involvement. The South China Sea is one of the most important strategic areas of the world. If the hardliners on the mainland decide to use force in “reuniting” the two Chinas, the conflict could spread. The recovery of East Asian economies could quickly come to a halt.

Russia will be more difficult to deal with than when Yeltsin was president. Putin is smarter and healthier—and tough. He appears to be no friend of democratic procedures and institutions. And no White House can ignore Japan, Africa, and Latin America, at least not for long. It is time for the president to restore his daily foreign policy briefings—otherwise his staff waits until crises loom before bringing an issue to his attention.

Meanwhile, our existing military capability has been stretched thin by participation in a host of regional disputes. The military budget has been drained by expensive commitments in Somalia, Haiti, Bosnia, and Kosovo. Most defense analysts say that the remaining funds are insufficient to finance the force structure the Pentagon is planning to maintain.

President Bush will face difficult choices in preparing his new defense budget. Does he limit U.S. military participation to foreign areas key to our national security? He should—but what are they? Does he try to close additional bases and other defense installations that are vestiges of the Cold War and alienate key members of Congress? How does he reorient the armed services to deal

with the emerging high-tech threats of nonconventional conflicts?

Perhaps the most difficult challenge facing President Bush is one that no president can adequately prepare for: the inevitable efforts of friends and foes to test any new U.S. leader. He can only guess when and how those threats and pressures will arise. The most basic ingredient for presidential success can be summed up in two words: good luck!

In this dangerous world, we must wish our new president luck and a substantial measure of success.