



PAULSON'S POTENTIAL

The new U.S. Treasury secretary may signal real change in the way the Bush administration approaches economic policy.

BY ORIE L. DUDLEY JR.

“Hank will be my principal advisor on the broad range of domestic and international economic issues that affect the well-being of all Americans.”

With this preamble, President George W. Bush recently introduced Hank Paulson, his nominee to be the new United States Treasury secretary. It was a choice the U.S. Senate confirmed quickly and unhesitatingly. Paulson's recruitment is considered a major coup for the Bush administration.

Paulson was head of Goldman Sachs, arguably America's most successful investment bank. He has a large global Rolodex, with many longstanding connections in China. His knowledge and understanding of financial markets clearly enhances his credibility for this job. And he has been a pivotal architect of Wall Street's profitable renaissance and its adoption of more daring and risk-embracing global strategies.

But Paulson is a risky choice for the administration itself. The new secretary comes with a history of independence and toughness. He clearly anticipates some latitude to develop policy priorities and in fact expects to be the President's “principal advisor” on most facets of economic policy.

His arrival, in other words, implies real changes in the way the administration approaches economic problems and makes policy.

Paulson Faces Challenges

Important challenges confront Paulson in his new role:

1. The federal deficit. After almost five years of above-trend GDP growth, the U.S. government should now be running a budget surplus. It isn't. Factor in the rising costs of programs like Social Security and Medicare, and the government's fiscal problem will be immense going forward. Despite the controversy, Paulson could be the right person to lead another effort at entitlement reform.

2. Global economic imbalances. Among them:

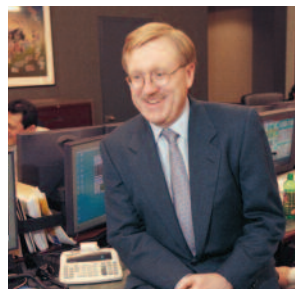
- America's record current-account deficit grows larger.
- The trade-weighted dollar is declining.
- The possibility of an international economic crisis rises.

3. China. China needs to reform and open up its financial system and increase the flexibility of its currency. The U.S. must more aggressively pressure Beijing for such changes. Paulson could become the leading figure in this effort.

A Window of Opportunity

In addressing these and myriad other challenges, Paulson probably will have a window of opportunity after the November midterm elections. Before then, the political environment will be increasingly hostile and partisan. Regardless, progress on these issues will require political skills and leadership. Paulson has the capability and gravitas to provide them. He could be a great treasury secretary.

His success and effectiveness will ultimately depend on the White House. Final decisions on major issues rest with the President. However, Paulson undoubtedly demanded the key advisor role and will now significantly influence final policy decisions. ❖



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