

## Summers' Time: Preparing Treasury for the Future (Part 5 of 5)

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This series of articles has stressed that the end of the Clinton administration presents a unique opportunity for the Secretary of the Treasury to set up processes to address major national issues. The goal is not so much to delineate exact solutions—that is the role of elected officials—but to clarify outstanding problems and opportunities and set in motion forces for reform that would be hard to ignore. But one other thing is necessary also: strong institutions and, in particular, a strong Treasury Department. No one can do more to strengthen the Treasury Department than the Secretary himself.

As mundane as it may sound, information is the primary source of Treasury's power when it comes to having a hand in national decisionmaking. Among the most important mechanisms at Treasury's disposal are those studies and reports in which it marks out untenable or unsustainable directions away from which the country must move. Within the executive branch, Treasury is the lead agency for tax policy and, to a large extent, it is the lead agency on macro-economic issues surrounding the adequacy of saving, investment, and the labor supply. Its responsibilities for tax and economic policy also puts Treasury full-scale into the so-called social security debate. But Treasury's economic mission is even wider and includes substantial responsibility to try to assure stable international markets and domestic finance markets, among others.

Alexander Hamilton would have loved the current situation and seen opportunity everywhere. According to Michael Lacey, head of U.S. Studies at the Woodrow Wilson Center, Hamilton ran what was the premier think tank in the America of his day—the Treasury Department itself. But a strong Treasury doesn't just happen accidentally. It requires serious planning and institution building.

Over the past few years, one part of Treasury, the IRS, has been undertaking serious reorganization. But that task is only a beginning, and the fruits of the effort remain to be seen. More importantly, the IRS's principal problem—a tax system too complex to administer well even with the proper resources—has not been tackled.

Organizational issues, however, stretch far beyond the IRS to other parts of the Treasury Department. No one has examined seriously in a long time whether Treasury can perform its many roles adequately with the current staff and organization. An example of one piece of the puzzle is Treasury's salary structure, which is now out of whack with that of the IRS and other governmental institutions with which it deals, such as the Federal Reserve. Moreover, Treasury's primary role in dealing with an increasingly untenable tax system and shortfalls in social security finance require that serious attention be paid to the resources necessary to examine those problems.

When the Clinton health care reform plan failed early in the first term, the administration concluded the politics just weren't right. Others concluded that the plan was not well designed. Yet, a problem over-riding the whole operation was an Executive Branch that really was incapable of pulling together all the pieces.

Think about it. Where can broad-based reform be developed? The Office of Management and Budget does little real research anymore, and it puts out no major studies. When coordinating activities, OMB often depends mainly on individuals in other government agencies.

Many departments, such as Health and Human Services, no longer possess the highly capable analytic skills they once had. The Social Security Administration, to its credit, has recently been rebuilding its analytic skills, but it still cannot handle the economy-wide questions, whether those questions involve calculating all the revenue effects (such as income tax pick-up) of social security reform or the potential impact of reform on the economy as a whole.

Putting significant reform efforts in the hands of White House offices, as was done in the health care reform effort, practically ensures a bit of anarchy—especially when all the estimators are scattered elsewhere.

For better or worse, no department is better prepared than Treasury to handle significant economic reform. It does macro- economic and micro-economic analysis, it prepares estimates, it is intimately involved in legislation, and it understands the revenue and budgetary implications of proposals. In a lot of cases, it simply has more analytic capability than other government agencies. Just one example: only Treasury, through its Office of Tax Policy, has any long-term experience with the types of modeling necessary to make revenue estimates.

Preparing for tax or social security or other major economic reforms, however, requires a lot of prior planning. Some economic models take months or even years to build. They must be capable of displaying in simple terms some of the likely effects of many proposals, including reform possibilities not even on the table today. Often methods of presentation must be revised so as to better display important elements. (An example from tax reform days was the requirement to ensure that those with negative incomes because of tax shelters did not show up as poor in distributional tables.) Staff must be developed, enhanced, encouraged, and nurtured.

The way that information flows within the Treasury Department, and from the Treasury to the White House, also cannot be taken for granted. Nothing is more harmful to that stream than too many political appointees with little knowledge throwing useless tasks and information into the system. The Secretary's office should be set up to maximize the amount of useful information received, not deal with information in a random way. Good information should rise to the top and not be shoved aside by bad or less important information.

These are the types of issues that are often best addressed before the next presidential election is over. The flurry of activity after a presidential election will be much more likely to result in sound economic policy if institutions like Treasury have been prepared and nurtured well in advance. I realize that it is a test not well recognized, but the success of any Secretary of the Treasury can often be assessed best a few years later by asking those who worked for him: Did he tackle the important economic problems of the day? Did he look far ahead or did he mainly react to his in-box? Did he strengthen the Treasury itself as an institution?

I have listened to many speeches by the current Secretary of the Treasury over the years and have had a number of dealings with him personally. I concluded that on most issues, most of the time, he is dead on target. Therefore, I believe he can meet this test as long as he seizes the opportunities as they come before him.

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- [C. Eugene Steuerle](#)

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