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HEADLINE: Background noise ends in shock departures TREASURY SHAKE-UP SIMMERING DISCONTENT IN WASHINGTON CLIMAXES IN RESIGNATIONS AS RISK OF POLITICAL DAMAGE BY WE:

BYLINE: By ALAN BEATTIE

DATELINE: WASHINGTON

BODY:

Before yesterday's resignations of Paul **O'Neill** and Larry Lindsey, many observers had spent so long wondering when there would be a shake-up in the economics team that they had begun to doubt it would happen at all.

"There were so many rumours that **O'Neill** was about to be fired that in the end it just became background noise," says a former Treasury employee. The main question was not whether there were tensions between Treasury and the White House but if they were damaging enough to override President George W. Bush's famous loyalty to his appointments.

In the end, it appeared that "What ultimately did (Mr **O'Neill**) in was his refusal to play politics," says Sheila Bair, a former treasury assistant secretary and supporter of Mr **O'Neill**, now at the University of Massachusetts. Observers said some White House officials presented yesterday's news as the implementation of a long-made decision. But there was little doubt that there was strong pressure to resign that came as a shock both to the Treasury and to Mr Lindsey. The simmering discontent between the Treasury and the White House has been a staple of Washington gossip for many months. The department, which wielded immense power under the Clinton-era treasury secretaries, Robert Rubin and Larry Summers, has seen its power severely circumscribed. During the first year of the administration Mr **O'Neill's** outspokenness helped to muddy the administration's message in a number of key policy areas, including the strong dollar policy, last year's tax cut and the handling of international financial crises.

On the international policy front, the Treasury has ceded much power to the International Monetary Fund, which has overridden Mr **O'Neill's** desire to reduce the size of rescue packages for countries in financial crises. Domestically, more and more power has been concentrated in the White House itself. Behind-the-scenes but highly influential figures such as Gary Edson, the liaison between the National Economic and Security Councils, and Josh Bolten, the deputy chief of staff, have taken over much economic policy-making.

While the administration faced a huge challenge this summer as the US economy weakened and stock markets plunged in response to corporate scandals, Mr **O'Neill** was reduced to leading a regional cheerleading tour.

Administration officials say that Mr Lindsey's abrasive and opinionated manner was ill-suited to his intended role of co-ordinating economic policy.

"I don't think Larry was right in that role," Ms Bair says. "Larry is brilliant but he is a better advocate of policy than a co-ordinator."

The immediate policy consequences of the resignations are opaque, not least because it remained unclear yesterday who would be replacing the two men.

The dollar eased yesterday on the risk that the administration would change its hands-off policy on the dollar and try to talk it lower, but that would be a risky change. On the immediate question of a fiscal stimulus planned for early next year, the resignations largely cancel each other out, Mr **O'Neill's** wariness of a large short-term tax cut matched by Mr Lindsey's enthusiasm.

On the longer-term question of fundamental tax reform, there may be more effect. Mr Lindsey's resignation removes one of the main opponents to a radical reworking of the tax code as proposed by Glenn Hubbard, the chairman of the Council of Economic Advisers. Kevin Hassett, an economist at the conservative American Enterprise Institute, said: "Glenn Hubbard has spent his career working on a better understanding of fundamental tax reform."

During his travels this summer, Mr **O'Neill** said that he was going to control his public statements.

"I have been burned so much by trying to give people an education, I've just given up hope that I can do it," he said. Yesterday's resignation suggests his conversion came a little too late. Editorial Comment, Page 10

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