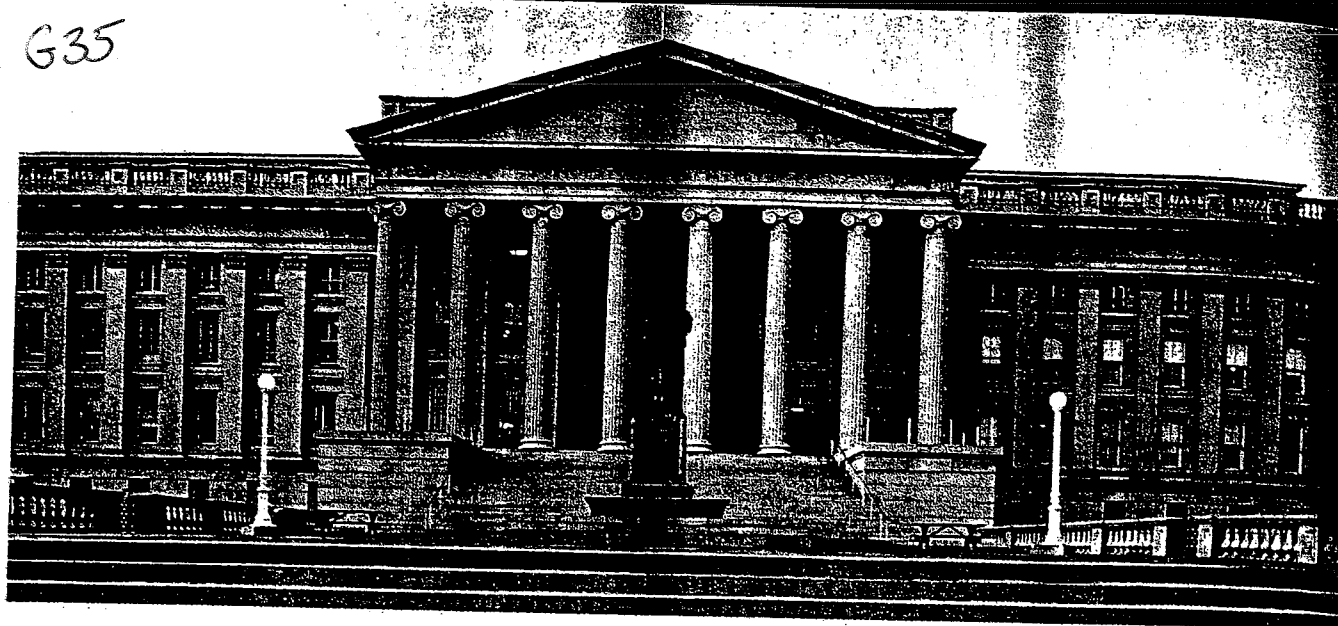


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than most economists will admit. Facing intense competition from around the world, the only way the American economy can thrive is through risk-taking. Indeed, some economists have characterized the U.S. as a giant venture capital fund that sucks in money from overseas and invests it in high-risk, high-return projects.

Old Economy Thinking

THE TWO PREVIOUS heads of Treasury, Paul O'Neill and John W. Snow, came out of the old industrial economy. Before moving to Treasury, O'Neill was head of Alcoa Inc., the aluminum giant, and Snow led the railroad giant CSX Corp.—two industries where growth is slow and borrowing is to be avoided. Paulson comes out of the part of the economy where the U.S. still has a preeminent global position, growth is strong, and borrowing to take advantage of opportunities makes sense.

It's hard to know whether Bush and his staff understood the difference between Paulson and his predecessors when he was first approached several weeks ago. At the time, Paulson said he wasn't interested. He didn't change his mind until he met with Bush on May 20. According to an individual close to Paulson, the President told the Goldman chief he wanted a "very senior person" from Wall Street. He also said he wanted Paulson to

play a broader role in his Administration than had previous Treasury secretaries, taking on the role of Bush's "principal adviser" on economic matters and driving economic policy.

Heady stuff. Yet it seems hard to imagine that Paulson will have more than a marginal influence on tax policy, especially if the Democrats make political inroads in November, as seems likely. And the dollar will be affected far more by economic events, such as the course of inflation and growth, than by anything the Treasury Secretary can do.

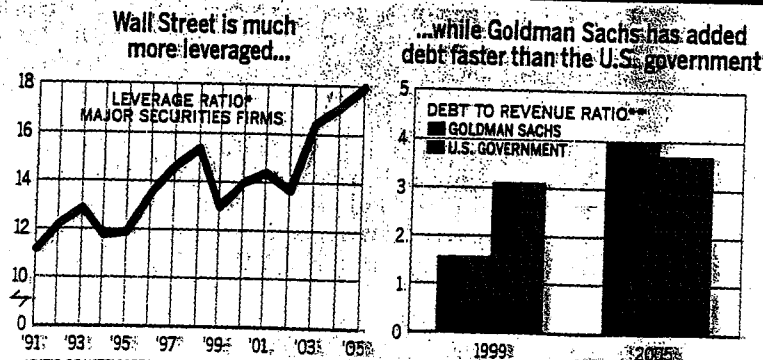
Instead, what Paulson brings to the Treasury Dept., the Bush Administration, and, in fact, all of Washington, in addition to his understanding of risk, is an ability to communicate its upside and downside.

The importance of risk shows up in virtually every economic issue of the day. Take free trade, a subject that falls under the purview of the Treasury Secretary. Keeping the U.S. open to foreign goods and services is essential for growth, both in this country and abroad. Yet free trade creates risks for Americans. If Paulson can communicate the pros and cons of trade to voters and politicians, he'll do the country a service.

Or consider tax cuts, a subject dear to the President's heart. Whether or not you believe lowering taxes is a good idea, the logic seems clear: Cutting taxes accepts the certainty of a bigger budget deficit today in exchange for a less certain boost to economic growth in the future. A Treasury Secretary who can get that idea across could be highly influential in Washington. Paulson is already on the record as favoring the risk-reward proposition. "I still prefer the situation we're in to a situation without a deficit but with no growth," he told German news magazine *Der Spiegel* last November.

Within Goldman, Paulson is known as an exceedingly effective communicator. If he can translate Wall Street's language of speculation into something the public and politicians understand, the President's gamble in appointing him will pay off for everyone.

PAULSON'S WORLD



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