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Abstract

This study focuses on the presidential advisory system through the lens of fiscal policy in order to develop a better understanding of how modern presidents utilize their advisers and how through a process of advisory entrepreneurship, advisers compete among each other for the president’s attention and time. A set of ideal types of presidential advisers is developed in an effort to shift away from studying the presidency through traditional notions of staff hierarchies and management of the White House to the actual selection of advisers. This research traces fiscal policymaking from the Carter administration through the administration of George W. Bush by using a qualitative case study approach, with elite interviews and a quantitative test of ideal adviser types on fiscal policy, to provide a view of the decision making process inside the White House that often gets submerged in larger institutional studies of Washington.

The study also offers an important perspective in explaining how presidents can veer away from fiscal competence. Presidential advisory systems matter a great deal to the policies that get passed through Congress. The fiscal policies themselves are the mark of what presidential advisers often decide is best for the country. Therefore providing the background and narrative of the roles these advisers play gives insight into how presidents confront their economic realities and how designing policies that appeal to the national interest can be sometimes, at best, a second or third priority.

The case of presidential advisers and fiscal policy across these five presidential administrations provides instances of fiscal competence, when an administration crafts ways to have government live within its means and design policies that for the most part appeal to and benefit the majority of Americans. It also provides instances of fiscal incompetence, in
which presidents ignore long-established truths and principles to push the country off of a sensible economic footing often for the benefit of those who elected them, and instances in which administrations aim for fiscal prudence but alienate the public in doing so because the policies enacted do not reflect the campaign promises made by the incumbents.
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<th>Description</th>
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<tr>
<td>BOB</td>
<td>Bureau of the Budget</td>
</tr>
<tr>
<td>BEA</td>
<td>Budget Enforcement Act of 1990</td>
</tr>
<tr>
<td>CBA</td>
<td>Congressional Budget Act and Impoundment Control Act of 1974</td>
</tr>
<tr>
<td>CBO</td>
<td>Congressional Budget Office</td>
</tr>
<tr>
<td>CEA</td>
<td>Council of Economic Advisers</td>
</tr>
<tr>
<td>COBRA</td>
<td>Consolidated Omnibus Budget Reconciliation Act of 1986</td>
</tr>
<tr>
<td>COLA</td>
<td>Cost of Living Adjustment</td>
</tr>
<tr>
<td>DEFRA</td>
<td>Deficit Reduction Act of 1984</td>
</tr>
<tr>
<td>DLC</td>
<td>Democratic Leadership Council</td>
</tr>
<tr>
<td>EGTRRA</td>
<td>Economic Growth and Tax Relief Reconciliation Act of 2001</td>
</tr>
<tr>
<td>EITC</td>
<td>Earned Income Tax Credit</td>
</tr>
<tr>
<td>EOP</td>
<td>Executive Office of the President</td>
</tr>
<tr>
<td>EPB</td>
<td>Economic Policy Board</td>
</tr>
<tr>
<td>EPG</td>
<td>Economic Policy Group</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>G-R-H</td>
<td>Gramm-Rudman-Hollings</td>
</tr>
<tr>
<td>LSG</td>
<td>Legislative Strategy Group</td>
</tr>
<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
</tr>
<tr>
<td>NEC</td>
<td>National Economic Council</td>
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<tr>
<td>NSC</td>
<td>National Security Council</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
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<tr>
<td>OPD</td>
<td>Office of Policy Development</td>
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<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>PAD</td>
<td>Program Associate Director</td>
</tr>
<tr>
<td>PART</td>
<td>Program Assessment Rating Tool</td>
</tr>
<tr>
<td>TEFRA</td>
<td>Tax Equity and Fiscal Responsibility Act of 1982</td>
</tr>
<tr>
<td>WHO</td>
<td>White House Office</td>
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</tbody>
</table>
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Dedication

For Amanda Benjamin
Chapter 1: Introduction

1.1 General Introduction of the Topic

No matter how intelligent and conversant with issues, every American president must still rely on advisers to develop options and assess the likely implications of one course of action against others. What happens, however, when collectively these aides canvass and present only a narrow spectrum of possible positions and advocate these to the exclusion of other viable contenders? Further, if advisers fail to offer discernable alternatives to proposed positions, can we assume that presidents know that their choices have been constricted? In this study, it is argued that presidents have underlying incentives to design presidential advisory systems that are balanced, by including advisers from policy, political and ideological standpoints. An imbalanced advisory system can lead to problems for a president, some that are perfectly clear and some that are unforeseen, with tremendously negative implications for implementation of a policy agenda, for reelection, and for a president’s legacy.

The role that advisers play in the White House is an important topic in presidential studies and is closely connected to the debates over centralization and politicization of the presidency. This also is linked to concerns that presidents today vest too much power in advisers, given that all advisers in the White House and the Executive Office of the President are unelected and most are employed without Congressional approval.

Two central themes are explored in this study. First, it investigates tax and budget policy over the course of the last five presidential administrations to look at the effect the inner circle of economic advisers have on each president’s macroeconomic fiscal policy decisions. These decisions are affected by the way in which each president selected his
advisers, how each inner circle of advisers was crafted, and whether it left the president cut off from alternative viewpoints. The conditions in place when a president assumes office (a large electoral win, a clear electoral mandate, etc.), and the way that environment influences the selection of the president’s inner circle of advisers ultimately affects the decision making process over the course of an administration.

Second, this study is concerned about the long-term impact of economic decisions that have been made over the course of the last thirty-two years. With the exception of the presidency of Bill Clinton, who chose to focus on balancing the budget through economic prudence and brought about the first balanced federal budgets in thirty years, every contemporary president has struggled with massive deficits and accumulated American debt as a result of the politics around taxation and spending.

In 1978, Richard Rose and Guy Peters suggested that government could actually go bankrupt, both economically and politically, in its attempts to navigate between devising viable fiscal policies and dealing with a public that had always expected to be a net beneficiary of government.¹ Written in the spirit of the economic doldrums of the 1970s, in which the economics profession was in disarray and economic concerns such as stagflation were unable to be remedied by prevailing Keynesian theories, their message and themes are relevant today given the global economic shocks that have occurred as Barack Obama assumed the presidency.

Rose and Peters outlined how fiscal policy in developed countries was no longer just an accounting exercise; political tradeoffs had prevented governments from simply trying to balance debits and credits. Today it is not just about these tradeoffs between viable policies and public expectations, but between tax and spending politics that defy actual economic

conditions and budgeting based primarily around the costs of ever-increasing entitlement programs on inflationary autopilot.

A simple answer to the question of the American government’s debt crisis would be that the United States today has not only gone bankrupt, but is perennially bankrupt, given that the goals of each party almost never meet and each takes the nation in divergent directions once elected, often reversing a decade of the previous governing party’s economic direction. Presidents thus struggle with how to balance fiscal objectives that most of the public regardless of political affiliation request, such as fiscal prudence, efficient government, fair taxes and balanced budgets, with realities that prevent them from achieving most of them. Apart from Clinton, no modern president has been able to design a fiscal policy which has government living within its means. In fact, a number of tax and budgeting policies have helped induce much steeper recessions and consequently a more hostile investment climate.

These two themes – the roles and power of presidential advisers, and the consequences of fiscal decisions often based on advice from unbalanced advisory systems – are the central themes of this work. The study investigates these themes through detailed case study analysis of the economic advisory systems and fiscal decisions made by the last five presidents by selecting the factors truly decisive in a president’s performance and relating these to key indicators over time. It combines qualitative and quantitative analysis to argue ultimately that presidents require a balanced advisory system, regardless of popular support and the size of their electoral wins and mandates, to avoid the pitfalls of accepting and adhering to advice from only one type of adviser. An assumption is made that presidents should adhere to policies that appeal to the national interest and in fiscal policy, those are
policies in which the tax burden is treated with an eye on being proportioned relatively equitably among all income brackets, or that everyone should pay their fair share, and that budgeting and spending be designed to have government living within its means where modest deficits of under 4% of GDP are normal in times of economic contraction and where these deficits are reduced in times of economic expansion.

Since the President’s Committee on Administrative Management issued its 1937 report stating that “the president needs help,” this help has evolved into a fully functioning bureaucracy that assists the president in virtually every task, from policy advice to management of the government. This raises the question of why it is important to study the relationship between presidents and their advisers.

Marc Hetherington has argued that declining political trust in government has played the central role in the demise of comprehensive public policy reform in the United States over the last several decades. At the same time, we have witnessed the rise of personalized trust in presidential elections that reflect citizens’ beliefs that the elected president represents their own values (or at least the values of those who supported him). This trust in personal vote/distrust in government dichotomy suggests an environment in which the president’s unelected ‘help’ have tremendous opportunity to influence and guide the decision making process, particularly at the final moments or deliberations of policy making. While the president, and indirectly, his party are responsible to the electors is clear but what is less clear is that the advisers are unelected and, more specifically, often appointed without

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Congressional confirmation. The power these advisers wield at the final stages of the policy process is problematic given their unchecked influence.

1.2 Theory

*Ideal Types of Presidential Advisers*

A set of ideal types of presidential advisers is developed to establish a working theory of presidential adviser selection. These ideal types are then utilized in a comparative case study of the dominant and arguably most important domestic policy area for a president, tax and budget policy, across the last five presidential administrations. Case studies yield comparability across cases because the issue area is held constant, and consequently the study looks at time-limited incidents that are bracketed by historical processes. This kind of research yields the comparability advantages of a case study and the advantages of causal process observation in order to tease out a process view of presidential advisers with a broader historical orientation.5

This study investigates the extent to which a president’s inner-circle advisory system within the White House Office (WHO) and the Executive Office of the President (EOP) is dominated at certain times by particular types of advisers, whom I term *advisory entrepreneurs*. These four types of entrepreneurs are political advisers, policy advisers, ideologues, and honest brokers/fixers. One type or a combination of types will likely dominate the White House. The focus then is on understanding and explaining under what conditions principal advisers who concentrate on only one of the needs of the president, such as honest brokerage, political advice, policy and/or pragmatic advice, and ideological or electoral base policy advocacy, can dominate.

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Advisory entrepreneurship refers to principal advisers who concentrate on ideological, political or policy maneuver or on providing an honest broker perspective. Because of an adviser’s focus on either policy, political or ideological positions, individually they do not canvass the entire spectrum of alternatives and submit those positions to the test of collegial consultation. But together, working as a functioning and balanced entity, they can.

Differentiating this concept of entrepreneurship to capture all types of advisers that can influence the president, a set of ideal types of presidential advisers is offered to capture the groups of advisers that compete for the president’s attention. Naturally, access and influence with the president among advisers ebbs and flows. These advisers are divided into four categories of entrepreneurs (see Table 1.1). By doing so, the dependent variable in this research, namely presidential adviser selection, becomes more fine-grained than research on only one adviser type would allow.

Table 1.1 Ideal Types of Presidential Advisors

<table>
<thead>
<tr>
<th>Type of Advisory Entrepreneur</th>
<th>Source</th>
<th>Objective</th>
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<tbody>
<tr>
<td>Ideologue</td>
<td>Party and electoral base advocates</td>
<td>transform the system through policies that are off-center and achieve goals of the bases of the liberal and conservative factions of their respective political parties</td>
</tr>
<tr>
<td>Policy</td>
<td>D.C. insiders/specific policy constituencies (domestic, economic, foreign)</td>
<td>implement policy ideas and win benefits and advance long-term strategic interests of constituency</td>
</tr>
<tr>
<td>Political</td>
<td>Political/campaign strategists</td>
<td>win elections</td>
</tr>
<tr>
<td>Honest Brokers/Fixers</td>
<td>Former advisers/strategists/policy experts/etc.</td>
<td>returning stability to the presidential agenda; reprioritizing presidential goals</td>
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Advisory entrepreneurship is developed from Campbell’s (2004) notion of “ideological entrepreneurship.” This refers to principal advisers who concentrate on ideological maneuver at the expense of canvassing the entire spectrum of alternatives and submitting those to the test of collegial consultation. The inner circle of ideological voices then constricts the access to challenges to their own views and blocks out collegial dissent, thereby marginalizing formal decision making processes.
This study argues that a president should try to assemble a mix of each of these types in order to provide a balance between those committed to his campaign issues and philosophy, and utilize both seasoned political and policy veterans who understand what and how much an administration is able to achieve given the institutional constraints in Washington. This mix of advisers is essential not just for mere political success but for a president’s long-term historical legacy. Getting reelected is important but many two-term presidents have expended much of their political capital in just that one area. Good advisers, protecting both the president and the presidency, can help ensure that legacy is equally as important and guard against the tendencies of other more political and ideological factors that work only towards securing reelection and shoring up the party base. Well-remembered presidents have to appeal beyond party and design policies that pivot towards the national interest. This is where a balanced advisory system can play a key role, in modulating policies that appeal more broadly across the spectrum, and giving the potential of enlarging the electoral coalition that initially voted for the president.

Those four types of advisers, when proportioned correctly, can help presidents with three key elements for a successful presidency: popular policies that appeal to the most voters, policies that help ensure reelection, and policies that help ensure a positive legacy. This mix is not just for mere political success but to guard against the tendencies of presidents to appeal only to their party or party base. The most successful presidents are those that are remembered for appealing beyond their own party. We assume here that all presidents want to achieve this kind of presidency.

Naturally, not every adviser fits squarely into one of the above categories, but as ideal types, these four represent the roles presidential advisers are required to play and are four
essential elements of successful presidential leadership: an effective political staff to navigate party politics and elections, a competent policy staff to put in motion and pass the presidential agenda, a cohort of ideologues keeping presidential decisions on message with one’s own party and seeking systemic transformation in certain policy areas to achieve party base objectives, and straight shooting honest brokers unafraid to offer presidents advice unencumbered by the agendas of other adviser types who are already in the White House.

The ideologues represent the advisers who are seeking to transform the system through policies that are off-center and to achieve goals of the bases of the liberal and conservative factions of their respective political parties. Among the issues and policies pursued by ideologues include the 1981 Reagan and 2001 Bush II tax cuts, with at least some of the supply side economics behind them stemming from a Republican base philosophy of cutting taxes and then cutting the size of government to ‘starve the beast’.\(^7\) But an ideologue can also be working at the center, if they are not countered by advisers from other parts of the political spectrum. For example, it can be argued that members of the centrist Democratic Leadership Council are just as ideological as those on the far left wing of the Democratic Party or the far right of the Republican Party. Each has a particular ideology. Therefore in the definition of ideologue, radically centrist ideologues are not excluded.

The political advisers represent, in the most pejorative sense, the ‘hacks’, those who helped the president win his campaign or have considerable political experience and who then take up key positions in the White House. Many are naturally there for one overarching

reason, to get a president a second term. They can temper positions, and push out unfeasible policy/pragmatic suggestions all to the benefit of focusing on political maneuver to get the president reelected. For example, Karl Rove has been the key political entrepreneur in the Bush White House as he sought to expand the Republican base and offer up policy positions, often very much off-center, to appeal to that constituency. Another key political adviser was Dick Morris, who Clinton turned to in the wake of the 1994 midterms and helped move to the president more to the center on a number of key issues.

There are also the policy advisers, or colloquially, the ‘wonks’. These are often Beltway insiders with considerable knowledge of either individual policy areas or with significant executive branch experience who are brought on to the White House team and suggest policies and positions that are feasible in the given political environment in which the president will operate. They are seeking to implement mainstream policy ideas, as well as trying to advance long-term strategic interests of their policy constituency (e.g. tax and budget reform). They differ from ideologues in that they are fundamentally grounded within the confines of the Washington system and are realistic enough to understand that incremental and not systemic changes are likely.

Finally, there are honest brokers or fixers, often individuals that are brought in after-the-fact to steer the White House in a new direction or give the president policy advice unencumbered by the group environments of the other three. Examples have included Carter’s second set of OMB leadership led by James McIntyre, Roger Porter, who served under Reagan and George H.W. Bush in a number of capacities, and Clinton National Economic Council Director Robert Rubin as well as his first term adviser David Gergen.

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Distinguishing among these types of advisers is not without some fuzziness. Few advisers would fit solely in one category. However, it is a useful way to delineate the kinds of advice on which presidents have come to rely. For example, ideologues represent the key issues that the base of a political party, be it the right, the left, or occasionally the center, is advocating. But a president, in crafting a group of advisers, must be cognizant that he also represents the national interest and not just that of his party, and it is in the context of the conflict where different types of advisers play a crucial role.

This dissertation will argue that presidents require a healthy mix of different kinds of advisers, a balanced advisory system, to avoid costly errors in group thinking. This leads to the inevitable question of whether a president is better off seeking homogeneity or heterogeneity among his inner circle of advisers. For example, a president who invests too heavily in his political advisers and does not adequately ensure he gets advice from other sources can become captured by those interested only in political maneuver. The same goes for a president who utilizes political and policy people without finding room for an ideological perspective to bring those two groups together or an honest broker to navigate between the policy and political groups.

Relying solely on the advice of only one or two types of advisers would come at the expense of the opportunity to canvass the entire spectrum of alternative policy positions. This can leave an administration prone to major policy mistakes on issues pulled into the WHO and EOP, when particularly unrestrained influence over the president by one type of adviser exists, and when those who control access to the policy process are so cut off from alternative perspectives that there is inadequate review and little or no collegial consultation.
Off-center\textsuperscript{9} or ideological position-taking can guide presidents and their principal advisers; however, it can prove a double-edged sword. Ideologues help focus a president on core party base principles and enable him to take the lead on these issues nationally by utilizing the bully pulpit of the presidency and by going public.\textsuperscript{10} But as the work of Kernell and Edwards and a series of studies that have followed has shown, going public on these base issues is often ineffective.\textsuperscript{11} However, after a focusing event, national crisis, or international conflict, in which there tends to be a rally in presidential support, certain conditions can exist in which presidents can more easily turn to ideologues to advance their positions.\textsuperscript{12} It is in situations like these, such as after a major economic fluctuation, a terrorist attack, a natural disaster, or as the country prepares for war, that can produce an environment in the presidential advisory network wherein the president can cut himself off more easily from an effective review or countervailance of positions staked out by the leadership.

Campbell invokes the term “unrestrained ideological entrepreneurship” to describe this environment and he suggests that the George W. Bush administration in the aftermath of 9/11 provides almost a textbook case of this, in which policy decisions with serious long-term negative impacts on both the effectiveness of the policy enacted and the credibility of


the administration were made.\textsuperscript{13} For instance, Bush’s advisers tried to make the case for weapons of mass destruction in Iraq to justify going to war based on inaccurate evidence, and were overly optimistic in planning the invasion and occupation of Iraq.\textsuperscript{14} They also recommended permitting high deficits despite the long-held opinions of members of the EOP’s Council of Economic Advisers.\textsuperscript{15}

In such an environment, a combination of political advisers and ideologues can dominate. Base electoral issues are forefronted and the administration seeks to capitalize on the support of a war-time president to push forward with an off-center agenda.\textsuperscript{16} Further, political maneuver can become the overarching goal of the advisers, particularly as an election approaches. Presidents are then likely to focus on issues with which the other party strongly disagrees, the so-called ‘wedge’ social and cultural issues that appeal to the base of the party, where reaching across the aisle cannot be achieved.\textsuperscript{17}

In the case of George W. Bush, such an environment helped produce a polarizing presidency and instead of working towards compromise and trying to capture the political


\textsuperscript{16} Hacker and Pierson, \textit{Off Center: The Republican Revolution and the Erosion of American Democracy}.

center on issues where both sides can find common ground, Bush and his advisers forefronted base issues which helped make him “a divider, not a uniter.” Bush is a classic example of a president who had advisers geared towards a very narrow reelection effort but largely failed in developing a lasting legacy that appealed to the national interest.

A Theory of Presidential Adviser Selection

This dissertation sets out a working theory where presidential adviser selection, or the set of advisers a president selects on assuming office or on being reelected, is broken down into the four categories (See Figure 1.1). The diagram below represents the processes that can account for presidential adviser selection. The factors that can affect adviser selection are 1) divided government; 2) pressure from the base (on specific issues); 3) perceived electoral threat which is determined by the size of the electoral college and popular vote victories; and a tendency to firm views dependent on the decision making style of the president and whether they are: 4a) a selective purchaser or, 4b) a passive consumer of advice, and 4c) the saliency of issues to the president (on specific issues).

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Divided government is a strong determinant, especially for an incoming president. If a president knows he will be facing a Congress of the opposing party, it is likely he will not inundate his White House advisory system with an overwhelming number of those representing the party’s base. If he did saturate his staff with ideologues, it is likely many of the president’s policies would simply be shot down by Congress. However, if a president faces a unified government, and/or if his party picked up one or both houses in the
presidential election year, he may be inclined to add more of these off-center advisers, given that Congress is likely to be more favorable to party base positions and the momentum of the party in light of the recent election. An example of this was Reagan’s 1980 election and the Republican pickup of the Senate. Reagan responded with an advisory system that included a number of ideologues in key positions that he brought on board to deliver on his campaign promises.

Core constituency pressure affects adviser selection as well. If a president is beholden to the base on particular issues, he may be inclined to include off-center entrepreneurs in his White House with specific tasks to develop and formulate policy to appeal to this core group. Bush’s establishment of the White House Office of Faith Based Initiatives is an example of this kind of adviser selection for the purposes of placating the base on specific issues. Further, the Clinton health care task force and some of the key advisers on that issue represented the Democratic Party’s base issue of establishing universal health care coverage.

The electoral threat is also another key factor. A president winning a large Electoral College victory and/or a majority of the votes and claiming a clear mandate from the voters (although all presidents claim a mandate) can affect adviser selection. A big win should encourage a president to bring more off-center advisers on board or increase their strength in the White House given the public mandate he received in the general election. A second electoral win for incumbents, or midterm elections in which the president’s party increases in support, can increase or stabilize the number of ideologues as well. The opposite is also true. A president who declines in support or public opinion but retains office may have to move to the center, as Clinton did after the 1994 midterm elections. Presidents who win narrow
election victories pursue off-center policies and advice from ideologues at their peril especially when concerning legacy. They may be politically successful in appealing to their party’s base but they will not expand their legacy as a leader who pursued the national interest. A prime example of this is George W. Bush.

Finally, a tendency to firm views is the other influence on presidential adviser selection. This factor acts as a proxy for the president’s level of engagement in the policy debate. It will impact the kind of advice he will seek and to which kinds he will listen. For instance, do political advisers, policy advisers, or ideologues win out more often when the president functions as a passive consumer of advice (Reagan Term 2, Bush II Term 1 and Term 2) as opposed to a selective purchaser of advice (Carter, Reagan Term 1, Bush I, Clinton Term 1 and Term 2)? Whether a president is a selective purchaser or passive consumer of advice on a particular issue area will affect the kinds of advisers he selects and ultimately to whom he listens.

For example, on the first set of George W. Bush tax cuts, the president campaigned on this issue, and once in office, sought off-center cuts far deeper than what the public or the median lawmaker had in mind. Given that the issue was a top priority, he enlisted his new National Economic Council Director Lawrence Lindsey and other advisers to push for the deepest cuts possible, and then once they came back with what they thought they could extract from Congress, he cut off debate, made his decision regardless of how doctrinaire his advisers’ tax policy positions were, and let the Congressional Republican leadership push it through.

Alternatively, Bill Clinton often appeared to be more indecisive than the more resolute Ronald Reagan and George W. Bush by not only seeking multiple viewpoints on
every policy issue but analyzing and scrutinizing policies to the point of indecision. As a classic selective purchaser of advice, off-center positions would be heard but more often than not rejected in favor of triangulated positions, lacking a clear philosophically left wing orthodoxy, but ones that Clinton could negotiate through a Republican Congress to win a political and perhaps Pyrrhic policy victory.

These four major factors can influence presidential adviser selection and the mix or set of advisers a president will select. Once the mix of advisers is understood for an administration, and within an administration for an individual policy area like tax and budget policy, determining the access and influence advisers have in specific policy areas, and ultimately, the outcomes of policies, whether they are off-center or not, whether they are successful or not, and the president’s legacy on the issue area, becomes clearer.

*Scope Conditions*

Presidential policies that leave the federal government consistently bankrupt is under-investigated. In terms of evaluating the effectiveness of the mix of presidential advisers, fiscal policy is selected for testing because it is consistently the most important and dominant domestic policy area, occurring every year, and with institutional regularity. It is also the economic policy area in which the president and his staff have a great deal of control, as opposed to monetary policy and national industrial policy. Whether the United States government pursues budget surpluses or deficits or increases or decreases taxes to give the government sufficient funds in order to operate and pursue its various roles and tasks is set by each president’s fiscal policy agenda. More often than not, contemporary presidential administrations have pursued policies that lead the federal government into debt and the role
of presidential advisers in encouraging presidents to adopt often irresponsible and economically damaging policies is worth investigating.

Fiscal policy is also comparable across administrations as it is non-episodic, and is something every president has to face every year. Presidents are required to set both tax and budget policy and therefore because of regularity and routine, it provides a policy area that can be looked at across time. The bankruptcy thesis then provides an ideal way to evaluate presidential advisers.

Tax and budget policy also represents a divide in parties’ traditional philosophies of governing, about what government is about, namely low taxes, fiscal prudence and small government as keystones of the Republican Party base versus higher taxes on the wealthy and an expansionary welfare state as keystones of the Democratic Party base. Tracing adviser selection and the roles played by the four types of advisers on this issue across five administrations should allow for an adequate test of a theory of presidential adviser selection.

The study goes back only as far as the Carter administration for three reasons. First, these past five administrations represent a good sample of presidents: two Democratic presidents (Carter, Clinton) and three Republican presidents (Reagan, Bush I, Bush II); two one-term presidents (Carter, Bush I) and three two-term presidents (Reagan, Clinton, Bush II); three presidents with unified government (Carter 1977-1981, Clinton 1993-1995, Bush II 2001, 2003-2007), three presidents whose party held the Senate but not the House of Representatives (Reagan 1981-1987, Clinton 2001, Bush II 2001-2002), and four presidents that faced divided government (Reagan 1987-1989, Bush I 1989-1993, Clinton 1995-2000, Bush II 2007-2009); two presidents with a large electoral college victory and a large majority of the votes (Reagan 1980, 1984, Bush 1988), two presidents with a large electoral college
victory but a small majority or plurality of the votes (Carter 1976, Clinton 1992, 1996), and one president with a small electoral college victory and either a small majority or a minority of the votes (Bush 2000, 2004).

Second, after the institutional effects and upheaval of the Nixon era, both the fallout from the Watergate scandal and the Congressional pushback in tax and budget policy that occurred, as well as the increased politicization of the presidency through staffing changes in the EOP, particularly in the Office of Management and Budget, the dust finally settled on the Carter presidency, which was the first complete administration under which the changes to executive tax and budget policymaking took full effect.19

Third, in the thirty-two years from Carter to Bush II, from the economic problems of the 1970s, through Reaganomics and the supply-side policies of the 1980s, into the fiscal prudence of the 1990s, and then finally to the economic mismanagement of the 2000s allows for an ideal exploration of the government bankruptcy thesis. In terms of data collection and feasibility, making the historical cut at Gerald Ford and Jimmy Carter is logical. Gleaning an appropriate level of granularity for each case and each administration becomes increasingly difficult without the benefit of elite interviews conducted with current and former advisers or those conducted by other scholars for different projects that are accessible for use in research.

**Research Questions and Adviser Propositions**

In this comparative case study, two major questions are posed. Firstly, what are the effects of the mix of advisers a president selects on the decision making process? Secondly,

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why have presidents been unable to devise fiscal policies that have government living within its means? Both of these questions open up a unique opportunity to investigate presidential advisory systems and answering them is essential to understanding the important role that advisers play over the course of an administration. Knowing the specific conditions in place when a president assumes power, one can try to predict the combination of adviser types a president is likely to choose. However, whether this team of advisers is ultimately successful depends on how well a president utilizes the advisory system over the course of an administration and whether that mix reflects the conditions a president is forced to operate under on assuming office.

The combinations of factors lead to different possible results in the initial selection of presidential advisers, with a president perhaps relying more on advice from political advisers, policy advisers, ideologues, and occasionally honest brokers. These are termed ‘adviser propositions.’ The patterns of adviser choice, based on the theory of presidential adviser selection, are as follows:

1. Presidents facing a divided government (both Houses of Congress) and with a strong perceived electoral threat (i.e. a small mandate) rely on policy and political entrepreneurs more than ideologues.

2. When an issue is important to a president and there is significant pressure from the core constituency on that particular issue, a president will rely more on ideologues.

3. A president who is a passive consumer of advice on a specific issue and has a tendency to firm views relies more on ideologues and on political advisers.

4. Presidents with a strong perceived electoral threat rely on political advisers.

5. Presidents with a strong perceived electoral threat and whose party loses seats in a midterm or a second presidential election, and/or lose one or more Houses of Congress in the middle of a president’s term, rely on honest brokers.
1.3 Presidential Studies: A Review of the Literature

*Why Case Studies and Statistical Tests and not Formal Modeling?: Positioning this Research within the Confines of Presidential Studies*

Presidential studies have been the domain of quantitative behavioralists, qualitative institutionalists, historical institutionalists, and those with personal theories of the president. Scholars employing the political economy approach and formal modeling have become more dominant in recent years following Terry Moe’s influential chapter on the politicized presidency and after criticisms were levelled at presidential research for not keeping up with methodological trends occurring in other sub-disciplines. Among the standouts in presidential studies that use the political economy approach are research on

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vetoes,26 executive orders,27 public appeals,28 presidential proposals,29 and agency insulation.30 These scholars have added a layer of complexity absent in earlier work and have shifted the locus of research from the president himself to the decisions and actions that presidents make and take. They have also moved away from attempts of providing general treatments of the presidency, attributable to the influence of the behavioral paradigm in presidency research, and have honed in on specific delineated actions and decisions. This has brought some clarity to debates around presidential power and presidential influence in policymaking.

Some scholars influenced by Terry Moe (including Moe himself) are hostile to methodology other than developing formal models that are tested quantitatively and distrustful of those scholars who persist with a kind of empirical richness—of personality, style and character of presidents—that political economy approaches tend to assume away. But there is one major problem with the type of research Moe is advocating: when trying to fit formal modeling to presidential advisers, a researcher needs items to count. Vetoes, executive orders, appeals, proposals and agencies are all quantifiable, and can generate workable data-sets. Go beyond these areas, and formal modeling and political economy approaches can become more difficult to incorporate.

Further, these studies have forefronted the unilateral or prerogative powers of the president and a perceived rigidity has crept into some presidential research, as if executive orders and vetoes are the only ways to study the presidency.\textsuperscript{31} This is a somewhat limited methodological avenue to pursue because it ignores some of the basic functions of the president. That is not to say that scholars pursuing formal modeling view the presidency within a vacuum, but their work has a tendency to hyper-enunciate what can be used to create parsimonious models that have the analytic power to generate a range of expectations about behavior. Even some scholars influenced by Moe have argued for a correction and have pursued a more mixed approach to formal modeling.\textsuperscript{32}

Case studies are therefore well-suited to research on presidential advice, and have been successfully employed in major qualitative studies in presidential literature on staffing and advising.\textsuperscript{33} Since the number of cases is limited, a researcher can hone in on issues that repeat themselves over time and then investigate this particular case longitudinally, tracing the historical development, and checking for signs of path dependence and feedback.

mechanisms. Case studies are the most useful method for giving an accurate account of the role played by advisers over the course of an administration and in building a theory of presidential adviser selection.

The analytical chapters in this study are organized thematically around policies that failed politically, successful policies that had government living within its means, and off-center policies that resulted in increased economic instability. Each chapter then does two things; it offers insight into the selection of advisers the president made on assuming the presidency, and it evaluates the macroeconomic fiscal policy decisions of an administration.

Recent Research on Presidents and their Advisers

A handful of scholars have recently looked at the impact and influence presidential advisers have on presidential decision making. Dickinson, Haney, and Ponder have made significant strides in revisiting hypotheses and ideas of earlier scholars, and have worked to test these in different and perhaps better ways. Daniel Ponder focuses exclusively on Carter’s domestic policy staff, Patrick Haney compares cases of foreign policy crises among modern presidents, and Matthew Dickinson develops a theory of presidential advice in Franklin Roosevelt’s administration. He also uses Haney’s cases, in another article, to test his argument. Each of these scholars tracks presidential decisions through the policy process, tracing how they are developed and how a president ultimately decides. None of them specifically develop formal models and therefore are prone to criticisms from scholars such

Of the three studies above, Ponder’s study is perhaps the closest to the kind of research this study hopes to emulate. His thesis argues that although presidents tend to centralize policymaking authority in the White House staff, the dynamic of staff participation and consequent policy success vary from issue to issue. The dynamic nature of centralization changes not just from one presidency to another but within an administration, and from issue to issue.

Ponder argues that presidents seek advice from myriad sources to maximize the chances for policy and political success. But his focus on Carter’s domestic policy staff pays particular attention to external participants in the formulation of policy. He argues that the participation levels of staff members shift depending on factors such as scope and breadth of the policy under consideration, the nature of the political contagions surrounding the issue and the level of presidential interest. His major contribution is a concept known as “staff shift” which concerns the level of participation exerted by presidential staff members. Depending on the degree of policy formulation exhibited by the staff, staff can act as director of policy, in which it is fully centralized, as facilitator, where it acts in tandem with bureaucracy and affected groups, or as monitor, in which policy has been delegated to bureaucracy.

Ponder’s tracing of policies through various participants offers a compelling understanding of how policy works its way to the president. Unlike Ponder, this research does not wish to explore the entire policy process. Instead, it concentrates specifically on the

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WHO and EOP advisers, their folkways and their specific roles within the domestic advisory system of the president. The reason the WHO and EOP in-house advisers are so important, and require specific attention, is that they can restrict, temper, and ultimately present policy ideas to the president through their own policy lenses. They are the last stop along the policy line, and investigating what they do with and how they present policies to the president is the focus of the research.

The work of Matthew Dickinson and Andrew Rudalevige stakes out a middle ground of sorts, between adapting the ideas of scholars from the behavioral era and utilizing some political economy methodological techniques. Rudalevige employs both particularly well in his study on managing the president’s policy program.37 Dickinson outlines what ails presidential studies currently.38 Adding to his full length study of Franklin Roosevelt’s advisers, Dickinson uses transaction-cost economics to argue that presidential staff growth reflects not a presidential demand-side growth that came about with the post-World War II increase in government size and complexity but a supply-side growth in presidents’ search for information and expertise with which to reduce bargaining uncertainty. He essentially builds on Richard Neustadt’s insights into presidential staffing and offers a dynamic interpretation of staff structures and staff practices that might best suit the president. His theory and test are important because they incorporate work by earlier scholars while paying heed to political economy approaches. Dickinson systematizes the earlier findings of Neustadt but his research is extremely limited and as noted above, relies only on re-testing Haney’s foreign policy cases.

37 Rudalevige, Managing the President's Program: Presidential Leadership and Legislative Policy Formulation.
Dickinson’s article is useful for this dissertation because he sets out a future research agenda for presidency scholars interested in how presidents utilize advisers in the decision making process. The problems he articulates with respect to current presidential research in political science are threefold. First, research should look more closely at the types of information presidential advisers and staffs have provided. Second, traditional typologies of staff organization and decision making should be reformulated into testable hypotheses. Third, to test these hypotheses systematically, scholars need to compile and examine a representative sample of presidential decisions, much of which exists in a rich body of case material on presidential decision making. Dickinson believes that scholars who follow this research agenda will be better positioned to judge the efficiency and effectiveness of different presidential advisory structures. This study takes into account Dickinson’s concerns and aims to remedy a number of the aforementioned shortcomings.

1.4 Research Design: Methodology, Case Selection and Data Collection

Methodology and Case Selection

A comparative case study of presidential adviser selection and the role played by advisers in tax and budget policy (macroeconomic fiscal policy) is conducted across the last five presidential administrations (1977-2009). Cases of important tax and budget enactments are selected, as defined by David Mayhew’s list of important Congressional enactments, from Carter through Bush II. They include major budgets and budget legislation, reconciliation acts with Congress and major tax legislation. There are at least thirty possible observations.

The data yields comparability among and across administrations because the policy area is held constant, and consequently is restricted to time-limited incidents, or statics, that

are bracketed by historical processes. While the comparative case study addresses how a president selects advisers, further analysis is required to explain how those advisers interact day-to-day and across the course of a presidential term or an administration. For example, how can the tax and budget policy efforts of the Bush II administration be thoroughly analyzed and studied without placing them in the context of the focusing event of the 9/11 terrorist attacks, the global war on terror, and the Iraq war that has ensued.

What is missing are the historical dynamics and factors, the thick description and context that come into play in how a president utilizes his advisers. This case study seeks to incorporate the basic research agenda of the new institutionalism, as defined by March and Olsen, and the rich, empirical tradition of presidential studies literature based on thick description, archival material, elite interviews, and firsthand accounts. In this way, it pays debt to the American political development and historical institutional research, in constructing a coherent and compelling narrative of institutional developments of fiscal policy in the presidential inner circle advisory system. This nexus of new institutionalist and historical institutionalist approaches within this research program will yield a nuanced and granular understanding of the inner circle. This is necessary to get to the heart of this apex of the White House world, that complex relationship between presidents and their inner circle.

Data Collection

For data sources, elite interviews have been conducted with current and former presidential advisers. In this type of case study research, and research in which qualitative methodology is essential to understanding and testing causal explanations, elite interviewing

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is perhaps the best source of data.\textsuperscript{41} The study relies also on a large set of interviews conducted by Colin Campbell, from a previous project on the Carter and Reagan administrations, and on the Miller Center of Public Affairs at the University of Virginia’s Presidential Oral Histories Project, which has an extensive set of interviews with presidential advisers in their publicly accessible database.

Close inspection and analysis of original documents, such as the actual legislation and policy proposals, is also essential to understand what ideas generated by staff were included in the final product. In choosing the area of tax and budget policy and selecting the five most recent presidential administrations, there is a multitude of previous academic work that has been conducted, and this research is utilized as well. Further, archival sources are used; newspaper reports and editorials and magazine articles, firsthand accounts, biographies and autobiographies,\textsuperscript{42} and in particular definitive journalistic insider accounts of presidents and presidential administrations.\textsuperscript{43}


Finally, the hypothesis that ideologues and political advisers, when in control of White House decision making on fiscal policy, can help push the president off of a fiscally competent path, is tested quantitatively. Difference of means tests and regression analysis is done to show that the economic advisers that presidents select can and do impact tax and spending policy.

_Categorization of Presidential Advisers_

1.5 Conclusion and Outline of this Study

This study focuses on presidential advisers across five administrations, and on how well presidents utilize their advisory system on tax and budget policy. It will present a theory and a test of presidential adviser selection, and will attempt to explain how the access and influence of inner circle advisers affects how the president makes decisions. This project will further the research in an under-developed area of presidential studies, namely the


relationship between presidents and their closest advisers, and will add to the strong research on presidential advisers done by Dickinson, Ponder and Rudalevige.

This study is broken down into two theoretical and three analytical chapters. The next chapter focuses on the president’s role in tax and budget policy, and provides a history and review of the literature. It also explains and delineates the key economic advisory roles in a president’s domestic policy advisory system.

The third chapter focuses on politically unsuccessful attempts at controlling spending and striking balance in taxation. These are the presidencies of Jimmy Carter and his struggles with both his advisers and tax and budget policy in the late 1970s, and the first Bush administration and the limitations of continuing the Reagan legacy in tax and budget policy.

The fourth chapter concerns off-center approaches to taxing and spending that resulted in massive deficits and economic instability. This looks at Ronald Reagan and his two terms presiding over a shift in fiscal policy in the 1980s, and on the Bush II administration and its reversal of the fiscal prudence practiced by Clinton.

The fifth chapter looks at successful attempts to develop fiscal policies government can afford. It focuses on the eight years of Bill Clinton’s presidency and the ways in which a centrist ‘New Democrat’ navigated fiscal policy in a hostile political environment.

The sixth chapter looks at advisers quantitatively and analyzes their impact on tax and budget decisions, testing the impact of advisory selection on the fiscal policies presidents pursue. It also looks at whether the advisory arrangements described in detail in the three preceding chapters are accurate.
Finally, it concludes with a chapter that develops an argument about the beneficial consequences of mixed adviser sets, and the need for future presidents, and in particular the current Obama administration, to ensure that they structure their advisory system in such a way that they do not get cut off from certain types of advice. It also links presidential advisory systems to the larger theoretical debates about democracy and the concentration of power in the hands of unelected individuals.
Chapter 2: The Fiscal Policy Inner Circle and Presidential Stewardship of the Economy

Over the course of the past five presidential administrations, the American economy has expanded and contracted five times, bracketed by five periods of recession. The first was between 1980 and 1982, following limited economic growth under Jimmy Carter, and occurring under Ronald Reagan’s watch. It went into a decline in 1987-1988 as well. Climbing out in the late-1980s, the American economy continued to expand until well into the George H.W. Bush administration, in which a contractionary period lasted from 1990 to 1992. Sustained peace and prosperity under Bill Clinton as the technology sector dramatically drove the American economy continued until 2001, when as George W. Bush took the helm, the American economy contracted for a fourth time, from 2001 until 2003 following the events of 9/11. Finally, with economic indicators expanding, driven by housing sales, the economy again took a steep dive in 2007-2008, brought on by a combined credit and mortgage crisis partly as a result of inadequate financial oversight and leading to a major stock market readjustment. The economic turmoil of the 1970s, and arguably the 1920s and 1930s, has returned again as a period of severe recession in 2009 continues to linger.

The responses by presidential administrations to managing the economy have differed in a number of ways. Operating in a political environment, presidents have for the most part followed policies that help them politically but have not been of great benefit for improving the economy. Reckless and irresponsible fiscal policies have exacerbated the effects of recessions, most notably during the presidencies of Reagan and Bush II. Presidents Carter and Bush I both attempted to manage the economy by applying prudent and economically
sound fiscal practices of deficit control and increased taxes. But their execution of these policies helped cost them second terms.

Only Clinton was able to chart a fiscal policy course that tackled long-term economic problems by eliminating the federal government’s annual deficit. His economic stewardship was pivotal in making him a politically successful two-term president. Partly as a result of smart first term policy decisions, Clinton was able to enjoy a period of sustained economic growth. He also benefitted from an ability to focus on fiscal policy that had government living within its means. Clinton ironically was helped in the long term by a Republican Congress that had been calling for fiscal prudence and smaller government and for a brief time a Democratic president and a Republican Congress aligned on fiscal policy. That bipartisanship however was not to last.

Reagan and Bush II adhered to far more ideological policy choices, buying into a low tax ethos that twice led to periods of massive government deficits while failing to cut spending in the aggregate. By the conclusion of Bush II’s second term, annual budget deficits had returned to a level of 3% of gross domestic product, reversing the fiscal prudence of the Clinton years. The record deficits of the Reagan years were bettered at the end of the Bush II years, with a deficit in 2009 well over $1 trillion. Since 2002, there has also been an explosion in public debt, averaging about 5% of GDP per year and escalating even more in 2008 and 2009.

How did this happen? How did two politically successful two-term Republican presidents representing a political party that supposedly believed strongly in fiscal discipline, lower taxes, and small government dramatically increase government spending while doing little or nothing to curtail government deficits? How did a Democratic president whose party
believed in increasing the size and scope of government programs and spending balance the budget and incorporate fiscally responsible measures over a decade? And how did a Democratic and a Republican president, who each tried to adhere to economic management that responded appropriately to changes in the economy, ultimately lose support with members of their respective parties over fiscal policy which in part demonstrably hurt their reelection bids? The answers to all of these questions are bound up with presidents and the advice they received from their economic policy inner circle.

In his memoir of the 1990s and 2000s, former Chairman of the Federal Reserve Alan Greenspan called this era ‘the age of turbulence.’44 While it may not live up to the upheavals that occurred in the 1920s and 1930s, the economic policies of the 2000s and 2010s offer a dramatic warning to current and future executives. Simply put, no matter what crisis, foreign or domestic, is occurring during the course of an administration, stewardship of the economy is a presidential responsibility at all times. Lose that focus, give in to economic policies that do not benefit most of the people most of the time, and presidents risk undermining everything they hope to achieve.

Unfortunately, presidents do not have direct control over large sections of the American economy or even control over areas of government responsibility such as monetary policy. Further, trying to navigate the economic business cycle within a four year term timeframe is difficult. Presidents want to time economic policies to have the most positive effects in a reelection year. Sometimes they are able to benefit and sometimes they face the consequences during an economic downturn. In the federal government’s macroeconomic fiscal policy, presidential involvement equates to agenda setting status and tremendous influence over the final outcome. Presidents set tax policy and presidents introduce the

federal budget, and with the support of Congress, they guide the stewardship of the American economy. But that is both a blessing and a curse since presidents can have the upper hand institutionally in negotiating fiscal policy on their terms but when the economy suffers, they are the first to be blamed.

In this chapter, the key economic advisory roles in a president’s advisory system will be delineated and the president’s role in tax and budget policy will be explored. The two key themes referred to throughout this chapter are one, that the kinds of fiscal policy decisions presidents make are enormously influenced by those they select for their economic inner circle and two, that while economic stewardship is part of a president’s responsibility, contemporary presidents have made poor fiscal managers. Those presidents who veer away from policies which reflect sensitivity to prevailing economic conditions do so at their own peril, both politically and in terms of their legacy. On fiscal policy issues, presidents whose key advisers on the economy lead them astray from fiscal competence risk their entire presidency. If government is not living within its means, that is if policies do not work towards balancing the budget, eliminating structural deficits, paying down the national debt, and providing responsible taxation, presidents risk irreparable damage to their presidency.

2.1 The Economic Advisory System in the White House

In the 1970s, Hugh Heclo described a Washington that was increasingly captured by open issue networks of people looking to influence policy direction in government at all levels.45 Heclo’s term re-evaluated the notion of the central importance of the iron triangle but also had implications for the presidency and how and where advice can enter the inner sanctum of the Oval Office. Presidents can seek and utilize advice from anywhere. Close

friends and associates might help them work out policy details, structure political messages, even write speeches. The president, too, has an issue network, diffuse and ill-defined as the ones Heclo described. But he also must rely on a core set of advisers to control access to him, to guide him in the decision making process at all times, not just on an individual issue. Most importantly, advisers need to help the president navigate through all of the potential roadblocks, opinions, and institutional constraints that will impede on him in making virtually any decision.

For our purposes, a distinction is made in which ‘inner circle advisers’ are those within one or both of the White House Office and the Executive Office of the President. While the president has other key sources of economic advice, most notably his Treasury Secretary, inside the White House there are four key sources to which the president will turn for economic advice: the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, the Director of the National Economic Council, and a president’s various White House advisers that assist with the formation of economic policy. The final of these sources can vary in title and stature depending on the administration. On fiscal matters, the Office of Management and Budget (OMB) and the Council of Economic Advisers (CEA) are within the EOP. The National Economic Council (NEC) and the assistants to the president for economic and domestic policy are within the WHO. Both the OMB director and the Chairman of the CEA require Senate approval. The other key economic positions do not.

The cabinet, including the Treasury Secretary, are excluded in this definition precisely because they have responsibilities not just to the president but to their own departments such as managing a large bureaucracy. Although a crude measure in many
respects, in making this cut with the WHO and EOP the research can be focused on principal
or inner circle advisers, those that come to represent the president’s cadre of closest and most
trusted people from policy, political, ideological and honest broker perspectives.

The inner circle also shifts over the course of the presidency, as advisers come and go
or their influence ebbs and flows with the president. For example, when Jimmy Carter
became president, his first OMB Director was a key inner circle member but as his star faded
after a scandal, other advisers took his place. These examples appear in every administration
so charting the changes within the inner circle is necessary to glean how influential particular
advisers are when they arrive in the White House and then how influential they still are when
they leave.

**Categorization of Presidential Advisers**

Advisers can be classified in one of the four ideal type categories based on the way in
which they performed their duties in the White House. Throughout the next three chapters,
the economic advisers in each term of each of the five administrations are broken down in
tables to differentiate one adviser from another. Where the adviser is an inner circle adviser,
this is noted. The process of categorization was based on extensive discussion with experts
as well as a formula for determining where each adviser fit. First, we can determine how an
adviser will behave at the point of being chosen, with only the facts about the person
available to the president at the time of the individual’s appointment. But how advisers act
during an administration may not be in keeping with how a president expected them to
perform. For example, a policy person may end up being far more effective as a political
adviser. Generally, the advisers studied here tend to perform as selected but note that
advisers can change types over time. Very few actually do, and usually only when their role
or job shifts from one term or administration to another. Where it is obvious in matters of tax and budget policy, the advisers that change over an administration will be noted.

Second, for two of the categories, ideologue and honest broker, the classification is straightforward. Their input in the economic policy process and how they conducted their advisory role are taken into account. Most ideologues and honest brokers often self-apply themselves as such so the distinction with these advisers is clear. Third, for the political and policy advisers, a distinction is made based on the actual job description of the adviser. Many are predetermined given their role in the White House. For example, Congressional Liaison is an inherently political position and all the advisers that have played the role of conduit between the White House and Congress are political advisers. While it can be argued there is some arbitrariness to the categorization, and as noted, there can be some overlap in an adviser matching two or more ideal types, the key advisers are classified based on as much data available.

2.2 The OMB Director

Richard Nixon created the Office of Management and Budget as part of a larger attempt to restructure not only the White House but the top levels of the public service.46 This culminated in Reorganization Plan 2 of 1970 which created the OMB in the EOP and a Domestic Council within the WHO. Nixon envisioned that the Domestic Council would

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decide “what we do” while the OMB would decide “how we do it, and how well we do it.”

He then appointed George Shultz, his Labor Secretary, as OMB director. This made the agency “more overtly political” with Shultz moving “his office into the West Wing and a layer of six newly appointed Program Associate Directors (PADs)” added to oversee the reworked program divisions. The alteration helped make the OMB director’s priority ‘responsive competence,’ budget forecasts and fiscal judgment linked to Nixon’s best interests in the political environment.

Dickinson and Rudalevige argue this politicization was rooted in the philosophies of government of the two parties. In their historical case study of the Bureau of the Budget under Truman, they contend that “simply put, Truman believed that government could help solve public problems, while Nixon and his Republican successors more often viewed government programs as a source of these problems.”

The relabeling of BOB as OMB was approved by Congress partly because of a general consensus in Washington that the budget process was broken. By 1974, following Nixon’s resignation and after the impoundment and spending controversies, the president’s free hand in budgeting would be tempered by more oversight from Congress with a more

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49 Heclo, "Office of Management and Budget and the Presidency: The Problem of Neutral Competence."
active leadership watching over presidential budgeting and an OMB equivalent working on behalf of Congress, the Congressional Budget Office (CBO).\textsuperscript{51}

Gerald Ford inherited a damaged presidency in which the OMB was seen as one of the worst legacies of the Nixon era. Despite the watchdog mentality of Congress and a period of more open government in the immediate post-Watergate years, Nixon’s institutional changes remained in place and the OMB continued to be politicized, and would even be made further responsive by successive administrations.\textsuperscript{52}

Ford’s senior White House advisers, Donald Rumsfeld and Dick Cheney, “singled out OMB for playing too dominant a role during the Watergate period and recommended that OMB’s powers be curtailed.”\textsuperscript{53} Under James Lynn, director once Ford found his footing, the OMB would rebound but with the CBO, the House and Senate budget committees, statutory curbs on impoundment, and confirmation requirements for the director and deputy director, the responsive OMB Nixon had envisioned was constricted. But it was not to last as the impulse to politicize OMB made it a powerful weapon in the presidential arsenal. Since Reagan, the OMB Director is no longer a neutrally competent position.

\subsection{2.3 The Chairman of the CEA}

The Council of Economic Advisers (CEA) was founded under Harry Truman and given Congressional approval in the Employment Act of 1946. The Act called for the president to transmit a comprehensive economic report to Congress at the beginning of each

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\item \textsuperscript{51} Nixon’s changes coincided with the Watergate scandal as his closest advisers became mired in the cover-up and in protecting the president. The OMB, and its second director Roy Ash, began coordinating the day-to-day operations of the government from within the EOP. Referred to as “the Office of Meddling and Bumbling, an appellation characterizing its almost intolerable interference in the internal management processes of departments and agencies,” Ash also took over the duties of the Domestic Council, as the investigation closed in around John Ehrlichman and other Domestic Council advisers. See Berman, \textit{The Office of Management and Budget and the Presidency, 1921-1979}, ix, 125, 127.
\item \textsuperscript{52} Frederick C. Mosher, \textit{A Tale of Two Agencies: A Comparative Analysis of the General Accounting Office and the Office of Management and Budget}, (Baton Rouge: Louisiana State University Press, 1984), 134-135.
\item \textsuperscript{53} Berman, \textit{The Office of Management and Budget and the Presidency, 1921-1979}, ix, 125, 127.
\end{itemize}
regular session, with other reports to be transmitted at his discretion.\textsuperscript{54} The CEA’s duties were to focus on fiscal policy and economic forecasting and allow the BOB to concentrate on expenditure issues. As Naveh summarizes, the CEA’s charge was to assist and advise the president in the preparation of the economic report; to gather, analyze and interpret information on economic trends and developments; to appraise the various programs and activities of the government; to take the pulse of the economy; and to produce studies and reports when required by the president.\textsuperscript{55}

The CEA’s influence still rises and falls with how the personal relationship between the chairman and the president develops. Its role as the integral depository of economic analysis can be strengthened or weakened depending on who is on the three person council. A chairman seen as out of touch with the president’s needs loses influence vis-à-vis the other sources of economic advice in the White House. The first CEA Chairman, Edwin Nourse, stressed that the CEA was to be a nonpolitical entity:

> Its advice is in terms of economics, not politics...The President has always had ample sources of political advice. In setting up the Council, Congress saw no need for adding another. It did see the need for establishing an agency on the professional plane to place before the President the best advice obtainable from objective economic analysis inside and outside the government.\textsuperscript{56}

The urge to politicize the CEA was resisted for a time but as Widmaier argues, even Leon Keyserling, the second Chairman, altered the role to serve more as an administration spokesperson rather than a neutral academic.\textsuperscript{57} In the 1970s, as the OMB became more responsive to the political needs of the president, the CEA maintained a degree of autonomy

\textsuperscript{56} Nourse and Gross, "The Role of the Council of Economic Advisers," 290.
and neutrality but this was more bound up with its institutional position. Unlike the BOB and later the OMB, which sits “astride a flow of business that supports them from below,” the CEA chairman was “suspended from above” with direct access to the president ensured without the divided and competing loyalties that plagued BOB directors. The CEA is newly created with each administration; in other words, there is no institutional memory, it is a council as opposed to a bureaucracy, and it established a reputation for neutrality that survived attempts through President Ford to politicize it. As Walter Heller and Roger Porter both suggest, it is precisely these attributes that made it unique in the White House advisory system. Its honest broker status contributed and reinforced its powerful position in the economic advisory network. But that changed when the Keynesian consensus fell apart in the 1970s and different kinds of economists were selected for the CEA.

That perceived academic independence has not changed in the last thirty years. But there is no longer a neutrality among the CEA and the Chairman has assumed a politicized direction akin to the OMB Director despite admirable defenses of the independence of the position. The politicization was made definitive when Reagan’s first CEA Chairmen Murray Weidenbaum resigned because he could not support presidential policy on taxes and

the long term fiscal direction of the administration.62 Today, some CEA Chairmen have been more influential than others, some operating in the background and others, like Charles Schultze under Carter and Michael Boskin under Bush I, more prominent.63

2.4 The National Economic Council

Since the early 1990s both the OMB Director and the CEA Chairman are now part of a more organized economic team within the National Economic Council that includes the key White House economic advisers and the Treasury Secretary. As economic stewardship plays the key domestic role for every administration, Bill Clinton created the NEC by executive order to oversee all White House economic policies. It functions as the coordinating body for the president’s economic advisers and since its inception the NEC Director has assumed the role as lead adviser on the economy.64

The creation of the NEC actually began under Gerald Ford who instigated the first of a series of presidential attempts at this type of coordination. With two key sources for economic advice in the EOP, the WHO lacked a formal mechanism or institutional arrangement for economic policy coordination. Ford created the Economic Policy Board (EPB), directed by William Seidman, to help coordinate the economic affairs of the White House. The EPB was preceded by Nixon’s Council on Economic Policy which was located within the White House and headed by George Shultz and then Kenneth Rush. While its influence waned with the Watergate investigation, it rematerialized as the EPB which was

62 Campbell, Managing the Presidency: Carter, Reagan, and the Search for Executive Harmony, 118.
much more useful at coordinating between the economic agencies and utilized a multiple advocacy approach to decision-making.\(^{65}\) Porter describes its role:

While the EPB’s primary function was organizing the flow of information and advice to the President for his decisions on economic policy issues, the Executive Committee also... exchanged information among the administration’s leading economic officials... resolved disputes between member departments and agencies, coordinated the activities of several statutory councils and committees, and served as the place where the major White House policy-making entities responsible for advising the President met and coordinated their activities.\(^{66}\)

But its policy decision execution proved cumbersome with too many centers of advice and no one economic adviser able to speak for everyone. Former CEA Chairman Alan Greenspan suggests that the CEA and the inner circle advisers actually played a larger decision making role. “On macro policy questions [the EPB] was not an efficient mechanism, and therefore we really worked around it in the key decision making processes.”\(^{67}\)

Each subsequent administration would change the title and the functions of its economic policy coordinating unit. Carter established the Economic Policy Group, co-chaired by the Treasury Secretary and the CEA Chairman. Reagan abolished that in favor of several cabinet councils, of which only two met with regularity, one of which was Economic Affairs. In Reagan’s second term, the councils were reconfigured into two councils, the Economic Policy and Domestic Policy councils, both of which survived through the George H.W. Bush administration. Clinton then established the NEC, which George W. Bush continued. The NEC Director is now seen as the major White House spokesperson on economic policies and the central coordinator of both the OMB and CEA as well as Treasury.

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Former Reagan OMB Chairman James Miller argues that there has been a significant power shift to the NEC since it was created:

I don’t think there’s any question that the most important economic advisor today is Larry Lindsey and he’s on the White House staff. He’s not the chairman of the Council of Economic Advisers and he’s not the Secretary of the Treasury, he is part of the White House staff. That’s new. In a way, when Laura Tyson left the chairmanship of the CEA to go over to the White House to head the [NEC]…that should have been a sign that it was more prestigious and more important job than CEA chairman.68

2.5 Grappling with Congress and Relying on Advisers

There can be no doubt that the economy weighs heavily on the minds of every incoming president or incumbent president reelected. Without the public’s faith in the president’s ability to manage the economy, little else can be accomplished. Power and control over fiscal policy is an ebb and flow between the president and Congress and much of this power sharing depends upon the economic climate in which a president finds himself. It also depends upon party control in Washington and whether there is a period of unified or divided government. In this sense, the contemporary era of tax and budget policy is one characterized as ‘Congress versus the president,’ interlinked with the contingent centralization of the presidency.69

The extent today of a president’s ability and influence in fiscal policy is a result of the institutional development of the budget process, of institutionalized presidential tax and budget policymaking, and by the political development of the president’s central role in this policy area as presidential advisers have assumed more responsibility over economic and fiscal policy planning vis-à-vis Congress and the Cabinet. In money matters generally, the Constitution provides in Article 1, Section 8: The Congress shall have the Power To lay and

collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common defense and general Welfare of the United States. Although taxation authority originally rested with Congress, over time that power became shared with the president.

The presidential budget in the United States is a peculiarity of the twentieth century, which came about as a “relatively modern technique for coordination of the executive branch.”\textsuperscript{70} As Schick notes, “while the Constitution does not prescribe any particular budget outcome, it was accepted that each year’s spending should not exceed that year’s revenues.”\textsuperscript{71} Congress managed the coordination of revenues and expenditures in the nineteenth century, but the rise in federal spending and the fragmentation of the political environment led to a movement for more centralized control. Budget and tax decisions may be reached in concert with Congress, but in the sixty plus years since Franklin Roosevelt, the president has become the agenda setter on fiscal policy.\textsuperscript{72} Despite first move status, a presidential budget may be received on Capitol Hill with derision, often deemed ‘dead on arrival,’ and subsequent negotiations are necessary to pass the annual federal budget.

National budget policymaking constitutes an annual, continuous, and non-episodic presidential policy area.\textsuperscript{73} The president must decide every year how big the deficit in the presidential budget will be and how much of a burden that is going to place on the national debt and on the economic well-being of the country. Decisions to raise, lower, or maintain personal income tax levels also factor into the budget equation. While tax policy is not

\textsuperscript{70} John H. Kessel, Presidents, the Presidency, and the Political Environment, (Washington, D.C.: CQ Press, 2001), 146.
\textsuperscript{71} Schick, The Federal Budget: Politics, Policy, Process, 10.
\textsuperscript{73} Kessel, Presidents, the Presidency, and the Political Environment, 146.
necessarily an annual occurrence, it is intertwined with the budget process, and is particularly important early in a president’s term, when he decides his fundamental tax policies.

Discussion of federal budgeting has been dominated by the concept of incrementalism, associated with Lindblom and Wildavsky, with annual budgets drifting instead of shifting abruptly. As Jones, Baumgartner and True suggest, “budgets seem to have been powerfully affected by the concepts of “base” and “fair share,” which assume that each year’s budget should be based on the previous allocation and that any increment should be shared relatively equally across categories and agencies.” Even as the incrementalism thesis waned and was largely abandoned by Wildavsky, new evidence suggests that federal budgeting has become even more incremental. The almost permanent deficits of each fiscal year have been the result of the failure of expenditure within means, dramatic changes in revenue brought about by major changes in policy, most notably tax cuts, and changes in economic performance that administrations do not factor into fiscal policy making.

White House advisers have come to play a crucial role in fiscal policy making. The decisions by the CEA, the OMB and more recently the NEC, along with the Treasury Department’s senior staff, will dominate the presidential decision making process. It is with fiscal policy where presidents have the most influence over economic matters. In other areas such as interest rates and monetary policy, the president is much less in control since those are the domains of the Federal Reserve. Most other economic activities require active participation, coordination, and compromise with the private sector, with other nations, or

with various international bodies and organizations. The only challenger to a president’s power over the purse and over taxation is the Congress, and by extension, of course, the American voting public.

Further, the shrinking of federal government programmatic spending as a percentage of the national economy suggests that presidents and their advisers have less room to manipulate and control the economy than they once had. Over the last thirty years, many argue the U.S. Federal Reserve Chairman exerts greater influence on the economy day-to-day than does the president.77 Despite academic attention paid to the political business cycle thesis which purports that presidents use their authority to improve the economy prior to a reelection campaign,78 empirical evidence suggests that presidents have little consistent and direct impact on the economy.79 The president however still reaps the benefits and shoulders the blame for economic conditions, notably in regards to personal income tax levels, the annual budget deficit and the national debt, which often reflect the prevailing economic situation and are linked to presidential success and popularity.

Given the institutional structure of decision-making between the president and Congress, there is significant leeway for the president to implement his own policy ideas about taxation. Although most budgetary money is already allocated for entitlements, national defense, and interest payments on the federal debt, presidents still have significant

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power over the size of the federal budget.\textsuperscript{80} That leaves the president and his various sources of economic advice with significant control over macroeconomic fiscal policymaking. Many of these key advisers are not only unelected, but unchecked, without statutory approval requirements from Congress. And therein lays the real power wielded by these advisers—the folkways of advice and information in the White House and how those ideas make their way to the president.

2.6 The Institutional and Economic Context

The conflict between the president and Congress inherent in the doctrine of separation of powers spilled over to fiscal policy in the twentieth century. Between the passage of the Budget and Accounting Act of 1921, which created the annual executive or presidential budget, and the passage of the Congressional Budget Act and Impoundment Control Act of 1974, the president’s power in the budget process gradually increased. Following the New Deal and World War II, taxes helped double federal outlays by the 1950s. The need for increased revenue during the war years legitimized the increased taxation, and allowed for the president and Congress to produce budgets at or near balance following the war boom. With spending under control, as Schick has argued, “the new money transformed the president’s budget role…to program planner.”\textsuperscript{81} But the 1970s brought about fundamental shifts in the budgetary process between Congress and the president, changes in the public psyche with respect to levels of taxation, culminating most notably with tax revolts in states that began in California, and fiscal changes in the White House advisory system brought about by the Reagan Revolution.


\textsuperscript{81} Schick, The Federal Budget: Politics, Policy, Process, 17.
In four sections below, the institutional and economic context leading up to Carter’s presidency will be summarized, explaining first the role of the president as manager of the economy, second the institutional authority over budgeting, third the unique aspects of and the institutional authority over taxation, and finally, the economic conditions in place by the mid-1970s.

*The Stewardship Role of the President as Manager of the U.S. Economy*

Presidents are responsible for maintaining a strong economy and acting prudently to restore the economy if it falters. As Eshbaugh-Soha has summarized, “the public expects the president to provide the good life, as presidents are called upon to assure consumers in times of economic strife and encourage continued growth when the economy is strong.”

When they are unable to remedy economic conditions or when the economy falters at the wrong time in the election cycle, presidents can suffer the consequences. This proved to be one of the failures for Presidents Carter and George H.W. Bush in the lead-ups to the 1980 and 1992 elections.

Timing is of particular importance. MacKuen has argued that “the public’s quadrennial chance to formally judge the president may not be used to evaluate the totality of a president’s performance.”

A president that experiences an economic downturn early in his term has time to recover and resurrect his support as an economic manager. Conversely, if economic conditions worsen late in the term, the president must convince the public that the conditions are not entirely his fault, or hope there is another focus to the election campaign.

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82 Eshbaugh-Soha, "Presidential Signaling in a Market Economy," 718.
The budget speech the president delivers and the release of the executive budget each year signal his spending intentions to the public. His announcement also presents a platform for signaling his taxation plans, if changes are to be made in the upcoming fiscal year, or if the current tax rates will remain the same. Presidential rhetoric on the economy, on the federal deficit, and on taxes is the central way for the president to convey to the public how the executive branch is attempting to manage the economy.\(^8^4\)

*The President versus Congress: Authority over Budgeting*

In the seven years prior to Jimmy Carter’s inauguration, known as the so-called “Seven Year Budget War,”\(^8^5\) the president and Congress clashed repeatedly on the budget, on the best way to deal with the economic conditions of the country, and on the jurisdiction over fiscal policy. The battles between Nixon and Ford and a Democratic Congress set the tone for the fiscal policy that would follow in the current tax and budget era. As Pfiffner has described, Nixon “attempted to change fiscal priorities from the expansive domestic spending of Lyndon Johnson’s War on Poverty to a greater emphasis on defense and foreign policy, by cutting social programs.”\(^8^6\) A Democratic Congress balked at these attempts, and in a series of oversight displays, sought to rein in the “imperial presidency,” as Schlesinger termed the excesses of the Nixon years.\(^8^7\)

Nixon challenged Congress by impounding funds and appointing political advisers in critical budget positions within the White House hierarchy insensitive to the constitutional role of Congress in the budgetary process.\(^8^8\) His constitutional argument for impoundment

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stemmed from a narrower interpretation of Article 1, Section 8, the Congressional power of the purse. From a president-centric perspective, this constitutional power was in place to ensure the president was accountable to Congress by not giving him an independent source of revenue. Nixon, however, filtered this article of the constitution through the Employment Act of 1946 which he believed gave presidents discretion to modify appropriations measures to control inflation. He also believed that since Congress had passed spending ceilings in the past, with specific authority for the president to cut spending when appropriate, Nixon felt entitled to impound funds when the president deemed necessary.  

But a major problem with Nixon’s use of impoundment was that his cuts affected programs. Charles Schultze has argued that a guiding principle in budgeting is to “do no direct harm.” For Congress, this was one of the principal reasons that both Democrats and Republicans came together to oppose Nixon’s use of impoundment and instead “opted for spending ceilings enforced by the president” because they do not require a vote against any particular program or constituency.

The need for budgetary reform on Capitol Hill was also motivated by the complicated and lengthy Congressional budgetary process. As Pfiffner has summarized, “revenue and expenditure bills were considered by different committees at different times with no institutional link between the two.” The budgetary process was inefficient and decentralized, with budgetary power over mandatory spending spread across numerous

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89 Pfiffner, The President, the Budget, and Congress: Impoundment and the 1974 Budget Act, 27, 57, 59, 61.
92 Pfiffner, The President, the Budget, and Congress: Impoundment and the 1974 Budget Act, 5.
committees, and discretionary spending associated with the Appropriations Committees and Subcommittees, the traditional “Guardians of the Treasury.”

With the expanding size of the federal budget and without an overall mechanism within a single committee to control spending that was characterized by across-the-board incremental increases in program funding, the complex congressional budgetary process virtually assured an era of budget deficits. The passage of the Congressional Budget Act and Impoundment Control Act of 1974 (CBA) streamlined the legislative process for budgeting “while prohibiting presidents from unilaterally manipulating how, and whether, budgetary appropriations were actually spent.”

In brief, the CBA contained three provisions worth note: 1. it created new budget committees in the House and Senate to formulate budget ceilings for revenues and expenditures, the result of which led initially to a reining in of discretionary spending; 2. it established deadlines for completion of the various stages of the budgetary process culminating in a reconciliation procedure; and 3. it created the Congressional Budget Office (CBO) to provide Congress with its own budget expertise, score the fiscal impact of proposed initiatives, and act as a check against the budget assumptions of the Office of Management and Budget (OMB). As President Ford assumed the presidency, Congressional oversight on the budget was in full force and this left Ford and his advisers in a weakened position than Nixon had, one in which budget decisions would have to be worked out in tandem with Congress.

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96 Ibid., 129-130.
The mid-1970s oversight by Congress has been characterized as a reassertion of Congressional power over what was constitutionally already their responsibility. But Rudalevige argues that the president’s continued role as chief budgeter was an expansion of prerogative or discretionary authority. While often not included among the president’s more obvious prerogative powers, such as executive orders, proclamations, national security directives, presidential signing statements, executive agreements, and unilateral actions as commander in chief, Shull makes a convincing argument that “Congress’s decision to share the power of the purse with presidents in annual budgeting” constitutes an exercise of presidential prerogative power.

In terms of veto points and sequence within the system, the president has the upper hand, despite the CBA’s attempt “at channeling information—and authority—through new procedures and veto points.” Congress annually responds to the president’s “first move” budget initiative which does not allow the Congressional bodies to organize themselves prior to the legislation. With less than perfect information and with representatives reacting to as opposed to initiating the budget, partisanship becomes the simplest and easiest alternative for Congressional bodies. But Congressional parties also do not want to get the blame if they cannot reach a resolution and agreement with the president.

With centralized policy control and the upper hand in the budget sequence, presidents do not have to face the same number of veto points through which more decentralized policies must be navigated. This presidential control, ironically, was further extended by the streamlining of the Congressional budgetary process, which “reasserted the authority of congressional committees to act as decision-making units. Unfortunately, these reforms also

97 Ibid., 138.
98 Shull, Policy by Other Means: Alternative Adoption by Presidents, 7.
undercut the strength of the party leadership and this further decentralized power within Congress.”

As Gilmour argues, with the fragmentation of Congressional authority between newly empowered budget committees and subcommittees and the party leadership, it became more difficult for Congress to disagree with and vote down a presidential budget after the passage of the CBA. Since “Congress lacks the power to implement a budget policy unilaterally and requires the president’s cooperation in passing legislation, the administration is often consulted closely in the course of drafting a resolution, particularly when the president’s party controls at least one chamber of Congress.”

Finally, both Congress and the president gave up significant power over the budget with the rise of automatic indexation of entitlement programs, and the exemption of trust funds such as Social Security and Medicare hospital insurance from mandatory spending controls and sequestrations. By tying entitlement programs to an external index, most notably the Consumer Price Index, to adjust for inflation, legislators gave up the “credit-claiming possibilities of election-year raises in benefits and put these programs on financial autopilot.” Since most indexation took place in the 1970s, as Weaver explains, its effect on mandatory spending was similar to the CBA’s effect on reining in discretionary spending: it removed much of the mandatory spending from budgetary politics.

Entitlement spending thus is insulated from annual appropriations control. Social Security, pensions, and Medicare trust funds, generally financed by earmarked payroll and

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101 Gilmour, *Reconcilable Differences?: Congress, the Budget Process, and the Deficit*, 70.
excise taxes, have become the third rail of American politics. Reforms proposed to ensure their continued solvency have ultimately failed to be supported because they have become earned rights for most Americans. Despite efforts by presidents and legislators through George W. Bush to significantly alter these trust funds, even the threat of bankruptcy and insolvency has yielded no change in the ways dedicated revenues are to be spent.

Authority over Taxation

Congressional fragmentation and the unique separation of powers doctrine are integral to understanding the distinctive American system of taxation. Steinmo believes that this tax system came about as a result of the unique structure of American political institutions and through the peculiar dynamics of the decision-making process:

The fragmentation of political authority in the United States has shaped America’s tax policy development. President after president has attempted to reform the tax system by eliminating loopholes, broadening the tax base, and introducing national consumption taxes, yet their efforts have repeatedly been rejected by Congress.

Rather paradoxically, there is a comparatively heavy taxation of the corporate sector. This seems to fly in the face of established theories which suggest that the pluralist decision-making process yields power to the well-organized and well-financed interests. But as Steinmo notes, the difference is that “the U.S. tax system contains literally hundreds of tax instruments designed to benefit quite specific corporate interests and even specific companies.” Furthermore, “very broad tax write-offs designed to promote corporate savings

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107 Steinmo, Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State, 135.
and investment have generally been much less common [in the U.S.] than in Europe.”^{109} The structure of the American tax system has come to be defined by the literally thousands of “tax expenditures” or “tax subsidies,” or simply “loopholes” embedded largely by Congress and approved by the president in the tax system.^{110}

Out of the taxation battles of the Reconstruction Era, and in the wake of the McKinley Tariff in 1890, a permanent system of progressive income tax was passed by Congress. But it took until 1913 for the states to ratify the 16th Amendment and by the 1920s national personal and corporate income taxes became the principal sources of revenue for the federal government as tariff revenues declined.

The political development of taxation would have an extraordinary impact on how taxation evolved in the contemporary era.^{111} The New Deal coalition was unable to streamline tax policy and the overall result coming out of World War II was a system that resisted high taxes and catered to special interests. The pay-as-you-earn system of progressive income tax established during the war was continued and it expanded the tax base to the vast majority of income earners, in which taxes were taken out of each paycheck. This helped cement a new political logic on Capitol Hill: increases in government spending could be financed while politicians cut taxes because they no longer had to be funded specifically through tax increases since payroll taxes were already in place. A system of taxes taken out of paychecks shifted blame for tax increases away from politicians. In

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^{111} As soon as Congress had the power, tax rates on the wealthy skyrocketed to pay for the costs of American involvement in World War I, while the poor and middle classes had fairly low rates of taxation. As the war ended, Congressional tax committees were lobbied heavily by wealthy interests to reduce levels of taxation. Instead, because tax cuts on the wealthy were politically unfeasible in the populist/progressive climate, they decided to open loopholes for corporations. Marginal rates on the very wealthy would eventually fall but not before the tax code would become the most complex in the world.
addition, non-payroll tax issues, like tax expenditures and tax incentives were expanded to many industries, corporations and groups which ushered extensive cronyism into the politics on the Congressional revenue committees.\textsuperscript{112}

Presidential efforts to bring coherence to the tax system were usually non-starters, and remedies to the most egregious examples of cronyism and abuses of the tax code were not pursued largely because Congress had no incentive to give tax policy management control to the executive. Rather than concede tax authority to the president, Congress created and then expanded an elaborate committee system and devolved political authority for particular policy decisions to individual committees and subcommittees.\textsuperscript{113} Its answer to committee power cronyism was “to distribute responsibility for taxation ever more widely” and shift power from committees to subcommittees, essentially decentralizing tax policymaking authority among hundreds of subcommittees.\textsuperscript{114}

The overall effect of the porous nature of the system of Congressional tax policymaking described above was to help institutionalize chronic deficits. Program spending increased incrementally, defense spending increased so long as Congress agreed with the funding levels the president had in mind, and entitlements expanded with the economy, but taxes could scarcely be increased to pay for it. The president was somewhat helpless against the Congressional log roll. When legislators arrive in Washington, they come to terms with “the ultimate incompatibility of widely dispersed power within Congress, on the one hand, and a strong role for Congress in national decision making, on the other.

\textsuperscript{112} Steinmo, "Why Is Government So Small in America?."  
\textsuperscript{113} Nelson W. Polsby, "Institutionalization in the U.S. House of Representatives," \textit{American Political Science Review} 62 (1968).  
This inherent tension generates an explosive dynamic within Congress as an organization and between Congress and the executive.\textsuperscript{115} 

The difficulty with the American tax system by the 1970s was not that policymakers were unaware of the problems tax expenditure and tax incentive policies create for the tax system.\textsuperscript{116} Rather, the electoral incentive presented to members of Congress encouraged them to act on the short-term interests of their constituencies, even when this compromised the longer term interests of the country as a whole.\textsuperscript{117} Members of Congress can be held responsible for voting to increase personal income taxes while finding it difficult to claim credit for an increase in spending on a popular program.\textsuperscript{118} This paradox “has made the American tax code by far the most complicated and particularistic in the world.”\textsuperscript{119} 

While the president has a freer hand in budget expenditures, Congress often has the advantage when it comes to broader tax policy, or more specifically, Congress more frequently challenges the president if tax policy is detrimental to their short-term electoral interests. In other words, presidents can offer broad-based personal and corporate income tax cuts and receive little opposition from Congress. But tax increases are likely to be resisted and therefore fundamental but necessary tax decisions are often avoided because of the inevitable stalemate that would result.

\textsuperscript{116} Steinmo, \textit{Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State}, 144. 
\textsuperscript{119} Steinmo, \textit{Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State}, 144.
Setting the Stage for Today: Uncertainty in the 1970s

The shift from an active interventionist welfare state that characterized the New Deal to Watergate period, to a post-Keynesian *laissez-faire* monetarist economic philosophy has been a gradual phenomenon. Over the last thirty years, there has been far more emphasis on personal wealth management and responsibility, on de-funding of social programs, and, in theory, fiscal responsibility through deficit reduction and balanced budget legislation. And it is during the last thirty years in which economic philosophies have taken hold in the White House, in the 1980s and again in the 2000s, that have placed the U.S. federal government in a state of fiscal irresponsibility.

The emphasis on small and limited government is rooted in the social ideology and intellectual traditions of the eighteenth century, as is the belief that the budget should be balanced. Those economic theories became Republican Party gospel by the late twentieth century, however, while its rhetoric proved useful in elections, its execution by Republican presidents was a disaster. Both Reagan and Bush II chose to pursue the most politically advantageous parts of these economic theories but failed to do the necessary hard work to achieve small government. Consequently, the government’s fiscal house is in the most serious disorder since the Great Depression.

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Classical political economy formed the basis for government finances for over 150 years, from independence until the Great Depression. Keynesian interventionism altered this view in most Anglo-American democracies. Keynes argued that economies are demand, as opposed to supply, driven and federal government spending forms an integral part of this demand, stimulating private demand as opposed to simply providing public services. As Wood summarizes, Keynesianism “provided a rationale for exponential growth in government spending after World War II…It also suggested that deficits are not necessarily to be avoided, but should even be pursued during times of economic contraction.”

One of the results of the embrace of Keynesianism was chronic deficits, institutionalized for a number of reasons. First, there was scholarly rationale for deficits by Keynes. Second, presidents embraced Keynesian solutions and tried to manipulate the federal government’s share of the economy to combat the effects of inflation and unemployment. Third, war spending on Vietnam and domestic spending on Great Society and War on Poverty programs outweighed incoming tax revenues. This ended the run of post-World War II peace dividend budget surpluses. Finally and most importantly, the peculiar institutional situation, with fiscal power shared between a fragmented Congress and a president seeking centralized control, strongly discouraged balanced budgets. Gilmour argues that support for a balanced budget is never a legislator’s first choice:

"Balancing the budget is everyone’s third priority, but nobody’s first. Although presidents frequently voiced support for the goal of balancing the budget, as have nearly all members of Congress from both parties, there is reason to question their..."

124 In Fiscal Year 1969, there was technically a balanced budget as a result of a “guns and butter” economy climbing out of recession, but deficits would result for the next thirty years.
commitment to that goal…Nearly everyone has some program or component of the budget that he or she would not reduce in order to lower the deficit—Social Security, agriculture, housing, food stamps, veterans, or whatever. Many representatives—perhaps all—regard a cut in their favorite programs as worse than having a large deficit.\textsuperscript{125}

Further, ideological fragmentation in Congress and divided government made it more difficult to reach compromise and reconcile conflicting preferences over fiscal policy.\textsuperscript{126}

By the 1970s, classical economics made a recovery, as evinced by presidents turning away from Keynesian economic advisers and embracing a neo-classical monetarist school of economic thought associated with economist Milton Friedman.\textsuperscript{127} This coincided with a return to a core belief in smaller government and low taxes, especially among the middle class, that took shape with a series of tax revolts at the state level. In the case of President Ford, this shift to monetarism began with the selection of Alan Greenspan as his CEA Chairman. Reflecting the fragmentation of the economics profession, Greenspan’s appointment was the first clear sign in the United States that the Keynesian consensus had broken apart.\textsuperscript{128}

Just as classical economic theories failed to respond to the effects of the Great Depression, Keynesian theories could not explain the peculiar phenomenon of stagflation, characterized by high unemployment and high inflation.\textsuperscript{129} With the OPEC oil embargo and

\textsuperscript{125} Gilmour, \textit{Reconcilable Differences?: Congress, the Budget Process, and the Deficit}, 190-191.
\textsuperscript{129} The Phillips Curve, the Keynesian theory that postulated that there was a tradeoff between inflation and unemployment, no longer explained the American economy. This economic uncertainty was further exacerbated by a split between the two parties. Democrats naturally gravitated towards controlling
oil price increases, soaring federal expenditures, rising food prices, declining labor productivity, and high interest rates, Ford was handed an economy in peril with the highest inflation rate in over fifty years (11 percent) and the highest postwar unemployment rate, which shot up months upon Ford taking office to 9.2 percent. Ford’s White House staff quickly moved to combat Nixonian impressions and “decentralization of executive authority became an organizational imperative.”\textsuperscript{130}

Alan Greenspan became Ford’s most important economic adviser, trying to wean White House advisers off of Keynesian solutions and to emphasize a long-range view of the economy. Conservative economics was “cautious and promised no miracles.” It emphasized inflation cutting and economic as opposed to political solutions.\textsuperscript{131} By 1976, unemployment had declined and inflation was halved yet the economy still lagged behind and the recovery was not enough for Ford to win the 1976 election. But Ford, unlike a number of his predecessors, listened to and utilized the advice of a balanced group of economic advisers through the Economic Policy Board.

Ford left Jimmy Carter with a modestly improved American economy but Carter was on the precipice of a political order in stark decline. The New Deal coalition and the welfare state liberalism it fostered had fallen apart, which left Carter a “disjunctive president.”

unemployment first, because of union pressure and a strong belief in full employment that was the cornerstone of the Employment Act of 1946, and then controlling for inflation if necessary. Republicans under Nixon wanted it the other way, to get inflation under control. See McCracken, "Economic Policy in the Nixon Years," 167-168.

\textsuperscript{130} Hess and Pfiffner, \textit{Organizing the Presidency}, 115. Ford established the Economic Policy Board (EPB) to coordinate the OMB, the CEA and his White House advisers. Meeting some five hundred times, the EPB tried to design an economic program that would pull the country out of deep recession. The response to the economy was to hold down government expenditures, which required a series of presidential vetoes of Congressional legislation, to work toward a balanced budget, to promote moderate growth with a temporary tax cut and short-term rapid growth of the money supply, and to do everything possible to get inflation under control. See Hess and Pfiffner, \textit{Organizing the Presidency}, 118, Herbert Stein, \textit{Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond}, (New York: Simon and Schuster, 1984), 214.

assuming office at the end of a regime cycle, with a return to responsible political parties, and with his own party’s legitimacy in decline. In four short years, Carter would experience the tail end of a Democratic Party advantage in Congress. The fragmentation of solid support for the domestic tax and spending priorities that had expanded American social programs in the postwar era ended as tax revolts in states, beginning with Proposition 13 in California, and Ronald Reagan’s candidacy changed Americans’ perceptions of what government should take from and should provide people.

The impact of the tax revolt in Washington would be its articulation as the prominent campaign issue on which the former Governor of California, Ronald Reagan, would base his campaign against Jimmy Carter.

2.7 Conclusions

After President Carter and Congress negotiated the first reconciliation budget act for Fiscal Year 1981 and through 2009, this era has been characterized as the president versus Congress in the area of tax and budget policy. The era from Roosevelt through Gerald Ford was largely about Congress coming to terms with the president as the nation’s chief budgeter; an authority over which Congress had long been constitutionally responsible. That ended with congressional actions taken to curb the worst excesses of the imperial presidency. Today, and over the last thirty years, there is an ebb and flow in power over fiscal policy, largely dependent on which party controls Congress and the presidency. In eras of unified government, power flows to the president; in eras of divided government, tax and budget policy is more of a shared responsibility. The analysis in this study will demonstrate that there has been a series of ebbs and flows since Carter.

Power over fiscal policy is also inevitably bound up with the president’s ability to command fiscal competence, which concerns the balance between spending and taxing during an administration. Presidents can have responsive competence from advisers as well as strategic competence from the federal public service. But they also require fiscal competence to achieve a general policy competence, a blend of all three competences, in order to govern effectively and make fiscal decisions that have government living within its means.

The contemporary era is characterized by a contingent centralization and politicization of the presidency, that is, aggrandizement of the presidency has not followed a linear course. Instead, it varies from issue to issue, from Congress to Congress, and from president to president. This is also true of fiscal policy. The limits of presidential control over government were highlighted in the Nixon years and since that time there have been incentives and an impetus for presidents to strive for a blend of responsive, strategic and fiscal competence, a policy competence, among their inner circle advisers. Policy competence is captured in the incentives for mixed adviser sets and balanced advisory systems.

While these ebbs and flows in institutional power sharing and control of issues in government have occurred, so too has an ebb and flow phenomenon native only to the presidential advisory system. The presidential advisers themselves have accreted and relinquished power vis-à-vis the president from issue to issue and episode to episode, largely dependent on the interest levels of the president on a particular issue area. This is true of tax

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and budget policy as well. Therefore, in looking at the roles played by advisers across these five contemporary administrations, one must keep in mind the power dynamics that are occurring while budgets and tax policy are being designed and implemented.
Chapter 3: Carter and George H.W. Bush: One Term Failures at Fiscal Policy

As stated earlier, the analytical chapters are organized thematically around presidents whose policies that failed politically, off-center policies that resulted in increased economic instability, and successful policies that had government living within its means. Each chapter then does three things; it offers insight into the selection of advisers the president makes on assuming the presidency, evaluates the macroeconomic fiscal policy decisions an administration makes, and looks again at the advisory balance and fiscal numbers to provide a more nuanced understanding of these decisions. This chapter looks at the Jimmy Carter and George H.W. Bush administrations.

While they are often not grouped together, except as one-term presidents, the fiscal policy experiences of Jimmy Carter and George H.W. Bush provide a study in executive failure. Both succeeded in dividing the electoral coalition that had voted them in, and both saw their party split over their fiscal policies in attempts to rein in deficits and control spending. Both became victims of their advisory system and are exemplars of the dangers of relying on advisers that fail to balance presidential objectives. In each case, Carter and Bush attempted a fiscally restrained approach but at the expense of their political capital. They wanted longer term solutions to complex budget and tax problems, which is noble in American executive politics, but when the initiatives did not go accordingly, they were held accountable by the voters and their economic legacies contributed to their defeats.

3.1 Staffing the White House

Campaigning to restore some economic stability to the nation, Carter selected advisers who lacked an understanding of the need to develop, pass and implement a set of
economic policies early in his first term that would get the nation on the right course. This was further complicated by the fact that Carter himself was a pragmatic centrist outsider, a problem solver, as opposed to a traditional liberal presidential candidate. The need for advisory balance, of selecting an equal mix of political, policy and ideological entrepreneurs, and replacing those advisers with seasoned veterans and fresh faces when mistakes are made, has never been more apparent than in the case of Jimmy Carter.

Carter’s first error in judgment was selecting a group of Georgians in the key inner circle and economic positions. His closest campaign adviser, Hamilton Jordan, was made key White House adviser, the “Assistant,” although not Chief of Staff, which Carter believed he did not need and felt was a remnant of the worst excesses of the imperial presidency. Jody Powell became his White House Press Secretary, Stuart Eizenstat became Assistant for Domestic Policy Affairs, and Bert Lance became Director of OMB. Jack Watson took on the roles of Assistant to the President for Intergovernmental Affairs and Secretary to the Cabinet, Robert Lipshutz became Carter’s White House Counsel, Gerald Rafshoon became Assistant for Communications, and Frank Moore became Assistant for Congressional Liaison (Table 3.1). There was no real Assistant to the President for Economic Policy in the White House and Ford’s Economic Policy Board was replaced with the Economic Policy Group, headed by the Treasury Secretary and the CEA Chairman. Only Carter’s CEA Chairman, Charles Schultze, a Brookings Institution economic specialist and former BOB director under Lyndon Johnson, was a Washington insider, but of the policy and not political stripe. In fact, as Burke has pointed out, six of the top seven presidential assistants in the White House were
Table 3.1 The Carter Economic Advisory System

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
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<tbody>
<tr>
<td>Ideologue</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Stuart Eizenstat (Inner Circle) – Assistant to the President for Domestic Affairs and Policy 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Charles Schultze (Inner Circle) – Chairman of Council of Economic Advisers 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Bertram Carp – Deputy Assistant for Domestic Affairs and Policy 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Alfred Kahn – Special Adviser on Deregulation; Inflation 1977-1978</td>
</tr>
<tr>
<td></td>
<td>Robert Strauss – U.S. Trade Representative 1977-1980</td>
</tr>
<tr>
<td></td>
<td>Reubin Askew – U.S. Trade Representative 1980-1981</td>
</tr>
<tr>
<td>Political</td>
<td>Hamilton Jordan (Inner Circle) – Assistant, Chief of Staff 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Jody Powell (Inner Circle) – Press Secretary 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Bert Lance (Inner Circle) – Director of Office of Management and Budget 1977</td>
</tr>
<tr>
<td></td>
<td>Frank Moore (Inner Circle) – Assistant for Congressional Liaison 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Gerald Rafshoon (Inner Circle) – Assistant for Communications 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Walter Mondale (Inner Circle) – Vice President 1977-1981</td>
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<tr>
<td></td>
<td>Robert Lipshutz – White House Counsel 1977-1979</td>
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<td></td>
<td>Lloyd Cutler – White House Counsel 1979-1981</td>
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<td></td>
<td>Landon Butler – Deputy Chief of Staff 1977-1981</td>
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<td></td>
<td>Rex Granum – Deputy Press Secretary 1977-1981</td>
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<td></td>
<td>James Fallows – Speechwriter 1977-1979</td>
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<tr>
<td></td>
<td>Ray Jenkins – Speechwriter 1979-1981</td>
</tr>
<tr>
<td></td>
<td>Tim Kraft – Assistant Secretary for Political Affairs and Personnel 1977-1978</td>
</tr>
<tr>
<td></td>
<td>Midge Costanza – Assistant for Public Liaison 1977-1978</td>
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<tr>
<td></td>
<td>Pat Caddell – Pollster 1977-1981</td>
</tr>
<tr>
<td>Honest Brokers/Fixers</td>
<td>James McIntyre (Inner Circle) – Director of Office of Management and Budget 1977-1981</td>
</tr>
<tr>
<td></td>
<td>Van Ooms – Assistant OMB Director for Economic Policy 1978-1981</td>
</tr>
<tr>
<td></td>
<td>Anne Wexler – Assistant for Public Liaison 1978-1981</td>
</tr>
<tr>
<td></td>
<td>Alonzo McDonald – Director of White House Staff 1979-1981</td>
</tr>
<tr>
<td>External</td>
<td>Michael Blumenthal – Secretary of the Treasury 1977-1979</td>
</tr>
<tr>
<td></td>
<td>William Miller – Chairman of the U.S. Federal Reserve Board 1977-1979, Secretary of the Treasury 1979-1981</td>
</tr>
<tr>
<td></td>
<td>Paul Volcker – Chairman of the U.S. Federal Reserve Board 1979-1981</td>
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</tbody>
</table>

Georgians and close Carter associates (Jordan, Powell, Watson, Eizenstat, Moore, Rafshoon).\(^{135}\)

Carter’s second error was not learning from mistakes until it was too late. Although he did try to self-correct with more seasoned Washington advisers, Carter did not appoint a

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\(^{135}\) Burke, *Presidential Transitions: From Politics to Practice*, 43. Midge Costanza, former Vice Mayor of New York, was the seventh as Assistant for Public Liaison. Costanza was replaced in 1978 by Anne Wexler.
Chief of Staff until 1979, well beyond the time this position could prove useful. He also did not learn from making promises he could not possibly keep or imposing deadlines that could not be met, and went ahead and announced a series of economic projections and goals that would ultimately be worse than expected. Whether in budget speeches, states of the union, or cataclysmically in the famous ‘malaise’ speech in July 1979, Carter never was able to clarify his economic goals nor how the country would be better because of them.

The inability of Carter to consistently learn from those advisory and communication missteps contributed to the conditions that led to his defeat in the 1980 election. While nobody in the administration could have foreseen the media concentration on the hostage crisis in Tehran, and the economic fallout from a second OPEC oil shock, all of which contributed to deteriorating economic conditions in 1979, Carter’s advisers had already set in motion a poor decision-making apparatus. The roles these advisers played must be highlighted because Carter could have had a successful presidency, both from a policy and political standpoint, but let poor advice mangle economic messages that contributed to his 1980 defeat.

His third major error was a failure on his part to recognize how important Congress would be in implementing any presidential agenda. His experience in working with the Georgia legislature was not in the same league as dealing with a Congress pulled and swayed by constituency pressures and party loyalties, and which had assumed a more aggressive stance vis-à-vis presidential power. As a candidate that did not represent the Democratic Party base on many of the near and dear liberal social and domestic policy issues, Carter must have known that he would be required to use enormous powers of persuasion to convince Congress to implement some of his ambitions. Time and again he would not reach
out and cultivate the necessary relationships with key members of his own party in order to pass his agenda. Further, Frank Moore had no Washington experience and was out of his element as Congressional Liaison. It also did not help matters that key inner circle advisers like Jordan did not extend olive branches to the Democratic leadership in Congress which lead to minor incidents that became magnified in the media.

Finally, Carter had a tremendous tendency to over-analyze and to not make any decisions until after any moment had passed where decisions could have benefitted him politically. No shortage of ideas allowed Carter to immerse himself in the minutiae of government and this tendency to remain indecisive was indicative of his economic decisions. Where more ideological advisers may have helped move the president to stake out positions early and ready them for public and Congressional approval, ideas and policies would be left to fester with the president and no movement would occur until after it was too late to capitalize on his position at the center of the political system. This was further complicated by Carter’s belief in cabinet government. In this respect, Carter sought to decentralize the decision-making process and move it away from the inner circle and towards the heads of departments. It had mixed results as Jack Watson’s ad hoc cabinet clusters proved cumbersome and produced little change in the economic and fiscal policy area. Ultimately, the inner circle staff-based model would win out.

Many of these errors in judgment could have been corrected if proper planning and selection of advisers had occurred from the start. In hindsight they seem more obvious but in 1976, Carter must have believed that Georgians could simply do it better than others and that the public would see the open and honest corrections he had made to a Nixon-style imperial presidency. He may have been right, if he had given those loyal regional advisers a group of
professional policy and party people to help craft an effective agenda. Jimmy Carter represents an example of a president who could have benefited from a more balanced advisory network and a more mixed adviser set.

George H.W. Bush, in selecting a group to replace Ronald Reagan’s second term advisers, sought a more streamlined White House (see Table 3.2). His closest adviser was foreign policy expert Brent Scowcroft, who with a group of consultants and family friends, helped vet those who would make up the inner circle. His deep concern with the unwieldy triumvirate of inner circle advisers in the Reagan first term, despite appeals from close confidante James Baker, moved him towards a more command and control model for his advisory system. Bush dampened down rumors of designing a triumvirate at the top when he made John Sununu, the Governor of New Hampshire, his Chief of Staff and decided against selecting close campaign advisers Craig Fuller and Robert Teeter. But Sununu’s nature, while it may have suited Bush’s organizational style, soon caused problems not just with the media and Congress where his abrasive nature made him an easy mark but in providing Bush with a semblance of vision.

Sununu was selected to perform an honest broker and policy role but did not have a counterpart in the White House that would challenge his ideas or decisions before he presented viewpoints to the president. He drifted quickly into a policy advocacy role with conservative credentials, although not an ideologue, in an increasingly hierarchical advisory system dominated domestically by Sununu and OMB Director Richard Darman. Like Donald Regan, he proved too strong a force in the White House which lacked the give-and-take of Reagan’s first term.

John Burke, James Pfiffner, and Ryan Barilleaux all describe a transition once Sununu was named chief of staff that became increasingly dictatorial although appearing to be quite collegial in public. This public collegiality demonstrated Bush’s eagerness to be involved in the management of the White House to a far greater degree than Reagan and to have disagreements hashed out in front of him. But in practice, the Bush White House did not operate this way. A chronic disinterest on the part of the president in non-foreign policy issue areas allowed Sununu to play not only the strong chief of staff role, like Sherman Adams, H.R. “Bob” Haldeman and Regan before him, but also to insert himself into the
policy process to an alarming degree. The result was that policy issues were not round-tabled, subordinate staff who may have disagreed with Sununu and Darman were silenced, and while Bush utilized Sununu as a lightening rod for unpopular and controversial presidential decisions, he let him run roughshod over domestic policy.

If Bush’s goal was to bring in economic advisers that appealed to the more conservative tax-cutting Republican base, his choices were at the very least antithetical. Both his OMB Director Richard Darman and his CEA Chairman Michael Boskin were known for their non-ideological beliefs. Darman, a former Reagan adviser, was not an ideologue of the supply side and joined Reagan OMB Director David Stockman in opposing the draconian tax cuts once it became clear they would not magically raise revenues. Boskin, while a classical economist and a tax reformist, was also no strong believer in the supply side doctrine. Together, Sununu and Darman would orchestrate the midterm budget deal for FY1991 that many in the Republican camp immediately criticized as giving into the demands of a Democratic Congress. Boskin did not object strenuously to caving on taxes and proved largely ineffectual in any of the major fiscal decisions as Sununu dominated access to the president and control of the domestic agenda.

Like Carter, Bush I did not have a large contingent of advisers, sticking with most of his inner circle for the entire four years, save for Sununu who was let go following a scandal.

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in late 1991. While Bush’s approval ratings remained high for the first three years of his presidency, largely as a result of the international upheaval and a Gulf War rally effect, Bush’s popularity proved fleeting once the economy and domestic issues were again the major concern of the public. It is these economic policies which provide an important focus on Bush’s advisers who, while reaping the benefits of high approval during Bush’s tenure as commander in chief, failed to capitalize over the course of his term on opportunities and positions that could have assured a second term.

Among the policy advisers, self-described honest broker Roger Porter and his deputy James Pinkerton, the only ideologue in the White House, proved ineffective in economic policy. While working out of a White House “think tank” for domestic policy issues but without the weight of Sununu’s position, Porter and his staff were in an ideal position to establish and set presidential policy in a variety of areas. Almost from the beginning, they would be quietly disregarded by the chief of staff. The Domestic Policy Council and Economic Policy Council as headed by Porter under the auspices of the Office of Policy Development, remnants of the Reagan administration, rapidly declined in importance and were effectively sidelined by Sununu and Darman who played both gatekeeper and policy advocate for Bush.

Andrew Card argues that

Darman and Sununu often conveniently kept Porter out of the game...I do not think that Sununu was as Machiavellian as Darman. Darman had a talent for withholding about 20 percent of the information necessary for a decision until the policy recommendation was ready to be sent to the President.

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141 David B. Cohen, "George Bush's Vicar of the West Wing: John Sununu as White House Chief of Staff," Congress and the Presidency 24, no. 1 (1997).
142 Card, "The Bush White House and His Presidency," 56. David Bates, Bush’s Cabinet Affairs assistant, confirms this Sununu/Darman freezing out of the Porter operation. See Burke, Presidential Transitions: From Politics to Practice, 243-244.
Sununu was also accused of information hoarding and holding back cards until late in the game. Card further elaborates that it was Darman and not so much Sununu who neutralized Porter’s shop, particularly Jim Pinkerton.

When [Pinkerton] became a threat to Dick Darman’s think tank, however—which essentially consisted of only Darman himself—Pinkerton was not invited to participate in the process. When he did participate, his personality tended to overshadow Roger Porter, so even Porter did not want him there.

On the political side, Sununu’s deputies, Card and Ed Rogers, along with David Demarest’s Communications office and its public face, Press Secretary Marlin Fitzwater, helped maintain Bush’s high approval while running the day-to-day operations of the White House. Bush I was seen as very prudent and presidential and although it was not nearly as choreographed as the Reagan years, the political advisers presented Bush as an active president especially in foreign policy. It was a streamlined White House staff, smaller than previous sets of advisers and largely free of open conflict, according to those who witnessed it firsthand. But the staffing problems that did arise were a result of Sununu’s managerial skills and the president’s characteristics, not unlike the dynamic that existed in the Carter White House, with a president who did not match his personal management and decision making weaknesses with advisory strengths in these particular areas. Without a White House ideological compass and even honest broker compass, given Porter’s lack of importance in the advisory system, Bush’s vulnerabilities came to the forefront in making decisions about economic policy.

For most of Bush’s presidency, all domestic and economic decisions were controlled by the Darman-Sununu axis, in which the planned sub-cabinet and cabinet-council process of

144 Card, "The Bush White House and His Presidency," 56.
Porter’s shop was simply jettisoned by the highly concentrated power base in the White House.\textsuperscript{146} Sununu steered to the conservative side but was no real ideologue on economic policy although he played the tough cop with the Democratic Congress on behalf of business interests and with respect to environmental policy. His attack dog style shielded the president, who preferred to avoid confrontation and present a public face of reasonableness and moderation, and consequently Sununu deflected blame away from Bush, most notably on environmental policy.\textsuperscript{147}

Darman worked well with Sununu, despite similar personalities that did not suffer fools gladly and that were demonstrably arrogant.\textsuperscript{148} Rather than undermine one another, they proved an effective team at freezing out other advisers in the policy process, particularly Boskin, and forcing some cabinet members and Bush confidants to get access to the president in alternative ways than through the door of the Oval Office.\textsuperscript{149} But Sununu’s positive effect began to wane and a scandal that involved government travel privileges for personal use engulfed him in 1991 eventually forcing his ouster.

For Bush, however, his loyalty to Sununu and his public defense of his chief of staff for months after the scandal broke proved costly as Sununu should have been removed much


earlier. Card argues that the biggest weakness of the president was his loyalty to friends and “because no one lost their job even when visible mistakes were made, people thought that they could not lose their jobs.” By the time Transportation Secretary Samuel Skinner, and nine months later James Baker, took over as replacement chiefs of staff, Bush’s high approval ratings were in freefall as attention shifted from the Gulf War to domestic and economic issues. Skinner’s interregnum was short lived because in seeking an open organization and a totally revamped White House, after the pitfalls of Sununu, the operation became ineffective. The advisory system during Bush’s first three and most productive years under Sununu and Darman proved to be a pyramid hierarchy for policy clearance that culminated in the politically disastrous budget agreement in late 1990.

3.2 Fiscal Legislation and Advisory Influence

Jimmy Carter’s problems as a Washington neophyte began during the transition in 1976. John Burke suggests that it was a difficult and non-transparent process with the two staffing groups refusing to share information, and no clear lines of demarcation between the domestic and economic issues groups. The economic group working with Charles Schultze was less problematic. But complications arose early at the White House with turf wars between the economic advisers and the Domestic Policy Staff, headed up by Stuart Eizenstat. For the newly elected president, this image of advisory schisms, even advisers and cabinet members speaking out against or contradicting the president, would persist through inauguration and would prove to be a liability in building a coalition as a Democratic Party outsider.

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152 Cohen, "George Bush's Vicar of the West Wing: John Sununu as White House Chief of Staff."
Adding further liability to Carter’s economic team was the new OMB director Bert Lance. Carter wanted a modest program of economic recovery and Democratic spending control in Congress, with a slightly longer-term goal of balancing the federal budget. Lance was ill-equipped to demand the spending controls needed by government departments and by Congress, and by the time of the late-1977 banking scandal that engulfed him, his deputy, James McIntyre, who had been coordinating the administrative and reorganization effort at OMB, was more than ready to take over the reins. Lance was further handicapped because he did not choose an economic adviser in OMB. Without a chief economist, later filled by Van Ooms when McIntyre took over, OMB did little in policy formulation for the White House. McIntyre suggests that “Lance’s role was basically to be an emissary of the President, and to help him in making his policy decisions through the use of his good judgment and common sense. [Lance] was looking to me for the day-to-day management of the agency.”

Another concern that quickly became a White House problem was that Carter constantly revised his policies once he entered office, throwing many out there and hoping some would stick. His economic ideas were too many, even contradictory, and his vision proved too cumbersome even with a Democratic Congress. Carter sought to use zero-base budgeting, implement comprehensive tax system reform, push for spending reductions, and balance the budget all in his first term. Add to this a very ambitious domestic policy agenda and Carter was overloaded before he even entered office. While he understood that bold policy initiatives in domestic policy areas were necessary and that incremental changes

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would be insufficient to achieve his aims, Carter and his advisers seemed unaware of how to craft and implement a passable agenda.

In operating under Ford’s Fiscal Year 1977 and 1978 budgets, Carter’s own revised budget required hastily developing a relationship with Congressional leaders to support policies antithetical to their own core beliefs. It put Carter at a significant disadvantage because he was forced to demand from Congress budgets they did not necessarily want to pass. This would further affect the ability of the president to garner support for his other ambitions, something his successors, particularly Reagan, made sure to mitigate. As Eizenstat explains:

You’re living with the fiscal year that started in October of ’76, which is going to go to October ’77. If you don’t submit your budget revisions then, from October of ’77 ’til October of ’78, you’re living under the budget that Ford just set up. So you’re sitting there for two years under somebody else’s budget. But you’ve got to develop the budget revision while you’re still appointing people. You don’t have assistant secretaries and the departments on board and able to give their input, which, by the way, is why [David] Stockman was able to do what he did. I mean, there was nobody to argue with. You know, he just did it. 155

Each year of the Carter presidency had at least one economic and fiscal difficulty, beginning with a stimulus package that did not achieve what it promised, a new approach to budgeting that was circumvented by departments, an attempt to reform the tax system that was scuttled by Congress, and finally, alternating expansionary and contractionary budgets that failed to achieve his campaign promise of a balanced federal budget by 1981.

As a fiscal reformer, Jimmy Carter found few supporters in Congress for his policies on merit alone. Unveiling his economic package shortly after inauguration, few in his own party were pleased with what he had in mind. Corporate tax incentives, such as investment tax credits, to boost capital investment and stimulate the economy, displeased liberal

155 Interview with Stuart Eizenstat, Carter Presidency Project, Miller Center of Public Affairs, Jan. 29-30, 1982.
members and labor leaders. Stimulus spending upset some conservative Democrats. Rigmarole over what was to be included such as tax incentives and a stimulus package pitted Carter’s political advisers, like Jordan and Powell, against Bert Lance. The compromise two-year $31 billion economic stimulus package pleased no group entirely, and included a $50 tax rebate and some public works stimulus spending, the brainchildren of Charles Schultze.

Schultze was Carter’s most important economic adviser in the first year of his presidency. He argued strongly in favor of the public works stimulus, in keeping with a philosophy developed through the Brookings Institution’s Setting National Priorities series. But this package was developed amidst a federal budget deficit that was approaching $70 billion and it continued to cause more headaches as fellow Democrats criticized its limited size and its intentions.156

Carter’s course suggested an augmented cautious approach, like that of Ford, but with a stimulus in Fiscal Year 1977. His advantage was that the economy was picking up when he assumed office, not dramatically with a sharply declining unemployment rate, but moving towards recovery. He pinned these goals to a general economic dividend that would come about with increased economic growth.

Deciphering where the president stood on economic issues however plagued Carter’s presidency. He never found the right balance. He wanted to curb spending but Carter’s stimulus was from Schultze’s neo-Keynesian playbook that some government stimulation of the economy was needed. To the layperson that is contradictory. Still, Schultze also shared the president’s conviction that government spending be curtailed or slowed. Rises in government expenditures during recessions and external world crises, like oil price and world

156 Leon Keyserling, Truman’s CEA Chairman, believed the package needed to be doubled if it were to have any positive effect on the economy. See Hobart Rowen, "Advance Wage, Price Notice Called Necessary by Lance," Washington Post, February 25, 1977.
crop increases, contributed to the high inflation of the mid-1970s and Schultze continued the Ford administration view that there were no easy answers, and that government spending control combined with job growth would be the best option to curtail inflationary upsurges and increased unemployment.\textsuperscript{157}

Another idea Carter developed was tax reform, publicly put forward by his Treasury Secretary Michael Blumenthal the week of his inauguration. The proposal was that the system would be changed so that all income, including capital gains, would be taxed at a lower uniform rate. It would do away with many of the tax loopholes and incentives that were geared to only narrow constituencies. The tax revision would be the next step following the economic stimulus package, to be delivered in fall 1977 to Congress, for Fiscal Year 1979. The plan would provide no deductions or interest payments or contributions, no special treatment for capital gains, and no exemption of earnings on municipal bonds. The uniform tax rate is based on the idea of doing away with all preferences and special treatments that have been indicative of the U.S. tax system since the progressive era. Blumenthal liked the simplicity of “eliminating the distinctions between capital gains and normal income.”\textsuperscript{158} Deficit control was Carter’s other concern, given the public perception that they were imprudent and related to the twin ills of the 1970s, stagflation and economic stagnation.

In the economic stimulus, a $50-per-person rebate of the previous year’s income taxes was seen as a way to put money back into the system rather than focusing solely on a


public works program. Lance argued that “some priming of the pump was necessary to
revitalize the economy.”\textsuperscript{159} Within four months of inauguration, Carter got his supplemental
budget and stimulus package passed. As Eizenstat noted, “The first year is when you really
do get things done. Every President wants to repeat the first hundred days. If Roosevelt
could do it, why can’t they.”\textsuperscript{160}

Unfortunately, Carter abandoned the $50 rebate in April 1977, the centerpiece of
Schultze’s stimulus package even though it had passed the House in March, and was
approved by the Senate Budget Committee. Despite significant disagreement from Mondale
and his Georgia advisers, who argued strongly against backing out, Carter felt it was not
needed in light of the resurgent economic conditions. But the upswing was caused partly by
the anticipation of the rebate. The decision received negative media coverage and helped
cement the image of the president as a vacillating and non-resolute decision-maker. Despite
high approval ratings with his initial policy announcements in early 1977, support for Carter
declined. Coupled with the demands he made in his FY1977 revised budget to suspend
nineteen expensive water improvement and construction projects approved by Congress and
his later decision to back down on this, an extremely compromised energy policy proposal
that was just barely approved by Congress, as well as the Bert Lance affair in early fall,
Carter was vilified by a number of members of his own party for flip-flopping on issues. It
was made worse by the fact that the American public were led to believe they would get a tax
rebate back from government. Eizenstat recalled that “a terrible mistake was made…having

\textsuperscript{159} Bert Lance and Bill Gilbert, \textit{The Truth of the Matter: My Life in and out of Politics}, (New York: Summit,
1991), 121.
\textsuperscript{160} Interview with Stuart Eizenstat, Carter Presidency Project, Miller Center of Public Affairs, Jan. 29-30, 1982.
gone through all the pain and suffering of doing [the alternate budget], if we didn’t just veto the legislation when we had gotten 194 votes in the House supporting our position.”  

The rebate withdrawal highlighted the difficulty with a spokes-in-a-wheel advisory system which did not serve a president with penchant-for-detail tendencies that needed to be reined in. As Campbell notes, “the presence or absence of a creative tension between divergent views appears to rest as much upon personality factors as structural ones. Thus a president’s temperament can severely limit competition in a spokes-in-a-wheel structure.”

Eizenstat suggests that the mistakes made early on were indicative of the inner circle set up. “I think what happened, in part, is a lack of internal organization. In part, it’s a lack of prioritizing.”

The compartmentalization of decision making manifested itself in these kinds of policy announcements and then retreats. Without an effective way to bring together the policy advisers, like Eizenstat, Schultze and Watson, with the political people, like Jordan, Powell and Moore, the only place, as Deputy Chief of Staff Landon Butler argued, “where politics and policy at the highest level came together was in the person of Jimmy Carter.”

Essentially, even as early as the transition, Carter had no outlet among his inner circle in which policies and decisions could be brought together and presented to him in a less disjointed and more coherent way.

On the spending side, budgets beginning in FY1979 (starting Oct. 1, 1978) were to reflect zero-base budgeting, in which all federal programs were to require justification every year. Carter pinned a balanced budget on both government reorganization and zero-base

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[161] Interview with Eizenstat.
[163] Interview with Eizenstat.
budgeting, which in theory would have forced government agencies and departments to justify spending and thus reduce waste and inefficiency, and the fiscal dividends that would come about from an improved economy. He sought a balanced budget by 1981 and became synonymous with that broken promise as the economy worsened in 1979. Again, this stems in part from an advisory network made up of Washington outsiders. Campbell, Lynn and Whitman, and Wildavsky and Knott all note that Carter’s budgeting changes were adhered to in principle but worked around in practice, to the point where administrators refused to point out places in which cuts could be made in their own programs and instead highlighted the ineffectiveness of others.165

In late 1977, Carter’s other major fiscal policy area, tax reform, proved to be a non-starter. While it was an effective campaign issue, by the second year of his presidency, there was no longer support for it on Capitol Hill. Carter was a victim of not only bad timing, but advisers who were not providing him with the correct direction. He had an image as a vacillator, but the other reality was that he was stubborn and unwilling to change his mind on policy issues. As Light and Campbell both suggest, Carter maintained extremely fixed ideas of his policy options that did not lend themselves to give-and-take sessions, even among the Georgian advisers.166

Congress also balked at tax reform because of Carter’s inability to establish the relationships with top Democrats on the finance and economic committees he needed to unroll his agenda. Like his truncated spokes-in-a-wheel system among senior staff, little was

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shared directly between the White House and Congressional leaders. The tax revolts in 1978 suggested that Carter had missed his opportunity because Congress moved from tax reform to tax cuts. Eizenstat contends “the Hill wasn’t interested in traditional tax reform. They took our tax reform proposal and made a capital gains deduction out of it.”  

Carter himself argued that on tax reform, he failed to both convince the public of its merits and negotiate an agreement with Congress. “In the end, we considered ourselves fortunate that a massive tax giveaway program was not passed over my veto.”

After the disappointments of the inaugural year, the Carter budgets that followed tried to follow a line of spending prudence and restraint, the kinds of fiscal policies that Bill Clinton was able to sell successfully later. But Carter seemed to get the order incorrect, starting off with the FY1979 budget that was contradictory to his campaign. After promising to control government spending but then negotiating with Congress supplemental budgets in FY1977 and FY1978 with larger deficits and more spending than Ford’s, the FY1979 budget was even more expansionary. In April 1978, with two-thirds of the nation believing the president’s handling of the economy was unsatisfactory, the Carter administration gradually slipped into what Campbell has termed survival politics mode which “characterizes a presidency that attempts to establish total discipline within the executive branch.”

Twin advisory problems had manifested themselves in the Carter White House. The first was that his Economic Policy Group, the reformatted version of Ford’s Economic Policy Council, was frequently overshadowed and outmanoeuvred in the White House by Eizenstat’s Domestic Policy Staff. The EPG tended to discuss but not make any decisions. Like the weekly cabinet meetings, the EPG met regularly the first year, but then ceased to be

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167 Interview with Eizenstat.
a regular part of the budget review process. It was indicative, Hult and Walcott suggest, of the “Carter White House’s difficulty in coordinating across units.”\footnote{Hult and Walcott, \textit{Empowering the White House: Governance under Nixon, Ford, and Carter}, 151.} It also demonstrated that Eizenstat had risen above his economic peers as a trusted policy adviser, even on domestic economic issues, following Lance’s resignation and the inability of the EPG to formulate policy. Ooms elaborates on this lack of a coherent budget process:

> A regular fall and spring budget review process with other executive offices of the president, agencies sitting in on it, the other stuff, the EPG stuff, is more hit and miss…there isn’t much cycle to it…it has been organized in such a way that the Domestic Policy Staff takes a fairly important role and ends up chairing a lot of meetings.\footnote{Interview with Van Ooms, Campbell Collection, Georgetown University.}

The EPG framework, instead of bringing together policy and politics, resulted in standoffs between the economic advisers and the White House Office inner circle. Ooms characterized the problem as one in which because of the cleavages and disagreements in EPG, ranging from “Eizenstat on the liberal end, to [McIntrye] and others on the conservative end of the spectrum,” many issues never even were taken to Carter.\footnote{Van Ooms, in Interview with James T. McIntyre, Carter Presidency Project, Miller Center of Public Affairs, Oct. 28-29, 1981.} The second problem was with OMB itself. McIntyre did not instigate budget policy formulation. That rested with the inner circle of staffers and with Schultze in the CEA. Essentially, the inner circle in the White House and not the economic advisers took on the key decision making in fiscal policy as well.

The first Carter budget was perceived as a broken promise because recessionary fears that had been dominant in this budget’s preparation in early 1977 had receded. Another problem was that Carter needed to present a midterm election year budget that would please Congressional Democrats and smooth over frosty Congressional White House relations. The budget then received negative attention as the deficit continued to balloon. McIntyre argues...
that Carter made a tactical mistake by allowing the deficit to grow: “My theory was that the
President should have balanced the budget in 1979…And then he would have had more
flexibility in 1981.” The tax cut that was included, combined with the effects of the
stimulus program, helped contribute to new inflationary pressures caused largely by the
energy crisis that put the administration on an impossible footing for the next two years.

If FY1979 showed an administration struggling with how to navigate and guide an
economy out of recession, the FY1980 budget cemented Carter’s image as a president unable
to provide effective stewardship of the economy. It served as a telling reminder of the need
for some consistency in decision making. As Van Ooms suggests:

Our ‘79, ‘80, and ‘81 budgets concentrated on the problem of inflation…[but] there
was no consistent presidential view on the general problem of inflation, and we all
tried to get our own points of view across. We did not step back and try to define a
more comprehensive point of view and serve the President’s interests as a staff
should.

The 1980 budget was geared towards combating inflation and when put together the year
prior forecasted a modest deficit and was designed as a set up for his final budgets in which a
balanced budget would be possible. Carter publicly promised a deficit of no more than $33
billion in a televised address in late October 1978 but outlays ended up $48 billion above the
original January proposal of 1979. The budget was then perceived as out of control because
of automatic adjustments in program levels from higher interest rates and higher inflation
rates, reaching 13.5% in calendar year 1980. As Ooms recalls:

The inflation problem due to the energy crisis was simply not foreseen…We were
putting the ’80 budget together as Iran began to come unglued. By the time we had
to put it to bed, it was still too early to assume that you were going to have the kind
of energy shock we had in ’79.

173 Interview with McIntyre.
174 Ooms, in Interview with McIntyre.
175 Ooms, in Interview with McIntyre.
176 Ooms, in Interview with McIntyre.
The back-and-forth on a course either to combat recession or to combat inflation hurt Carter with the public and with business. Unfortunately, economic advisers had to go with economic predictions from the year before and in Carter’s last two-and-a-half years, they ultimately selected a middle ground between expansionary or contractionary budgets that did not address the underlying problems of the economy. Carter’s public discussions of his economic goals also put him at a disadvantage for his reelection when they would frequently be unable to be met.

The FY1980 budget exposed how much the public no longer trusted Carter to improve the economy. Part of this characterization of the president rested with Carter’s inability to correct his advisory network and demand fiscal restraint. During the budget process, McIntyre would work out with the OMB staff and Schultze budget goals that would then be overridden and expanded by Carter’s advisers, particularly Eizenstat and Vice President Mondale, who would justify increases from policy and political standpoints. As OMB Associate Director Frank Raines explained, “the only people you’ll find involved in everything are within the fence” of the White House Office.\footnote{Interview with Frank Raines, Campbell Collection, Georgetown University.}

OMB’s stature declined following Lance’s resignation because McIntyre and Ooms never had the personal relationship that Lance had with Carter. The Georgians then squeezed OMB out of the decision end game because Carter relied heavily on Eizenstat and the political advisers in the White House. This exposed the flipside of Carter’s failure to appoint ideologues. He also tended not to rely on the honest brokers that were brought in when his trusted advisers were replaced. McIntyre’s inability to offer a counterbalance to the White House staff suggests that he also had to get used to the fact that Carter wanted to be his own chief budgeter. One of the reasons that Lance had no chief economist was that he and the
president would work out the figures themselves. Carter continued that role after Lance left.

As Lance himself argues:

My leaving left a void…it just left a void that he didn’t have time or the inclination to try to fill. And as far as I know, he never filled it. Jim McIntyre…never had that sort of relationship with Jimmy Carter.178

For Carter, the FY1980 budget proved to be one of the last opportunities to reestablish trust with the public as the hostage crisis and the economy plagued the administration in the final eighteen months. Further, the Crisis of Confidence speech in July 1979 followed by the cabinet resignations of the Energy, Transportation, Treasury and HEW secretaries gave Carter an image of a president who offered no real hope to the public. Not only did it give Ronald Reagan an effective campaign strategy, but pushed Kennedy to challenge Carter in the Democratic primaries.

The FY1981 budget is notable for being the first budget worked out under the rules of the Congressional Budget and Impoundment Act guidelines that call for a reconciliation process between Congress and the president. After Carter’s announced budget in February was rejected outright for its failure to fight inflation, FY1981 offered a $16 billion deficit, half of earlier estimates, and was still perceived as yet another broken economic promise. The budget was supposed to be balanced.

With economic figures worked out in early 1979, the worsening conditions required a reworking of the numbers in early 1980, this time with direct involvement from the Congressional Budget Office. Carter in fact called on Congress to make the necessary revisions to bring in a balanced budget in FY1982. But the economy immediately tanked

178 Interview with Bert Lance, Carter Presidency Project, Miller Center of Public Affairs, May 12, 1982.
after his revisions were announced which sent the budget out of balance again.\textsuperscript{179} With pressure from Democrats in Congress to not cut spending, FY1981 was another expansionary budget, despite the president’s attempts to rein in his party. Stein argued that “Carter’s [FY1981] budget did not inspire confidence as a pillar of an anti-inflation program. The president revised the budget in March to meet some of the criticisms, but that was taken to indicate lack of steadfastness.”\textsuperscript{180} Carter basically gave away the budget to Congress after presenting his budget revisions and consequently the deficit again swelled. By 1980, Carter’s trusted advisers in the White House had shifted from policy mode to staving off Kennedy’s primary challenge and then into campaign mode for the general election. His FY1982 budget was set to be balanced but he never had the opportunity to capitalize publicly and campaign on his fiscal prudence triumph. As Reagan took over, Carter’s final budgets were massively overhauled and re-presented to reflect the principles of the Reagan Revolution.

Following inauguration, George H.W. Bush confronted the same recalcitrant Congress with which Reagan was saddled except that there were even larger Democratic majorities in both houses. As with previous administrations, Bush I was forced to filter his domestic and economic agenda through the looming budget deficit, but also through the Gramm-Rudman-Hollings budget sequestration procedure. As Charles Jones has argued, this could have been turned into the president’s advantage, in that the White House no longer had to decide the budget since the G-R-H sequestration process would determine the size of the


deficit. Unfortunately for Bush, he seemed too willing to make a deal rather than stick to Republican principles like his predecessor, despite the fact that Reagan repeatedly raised taxes. The problem was less sticking to principles and more the management of the message, something of which Reagan was a master.

The FY1990 budget revisions became known as the “slide-by budget,” because although the capital gains tax negotiation slowed down the process, it was not characteristic of the budget battles of the Reagan era. This was the last year of the G-R-H procedure since both Congress and the White House were avoiding the rules and increasing the structural budget deficit. Changes to the process were needed.

Bush I and his advisers cannot entirely be blamed for the failure of the administration to set a clear and concise economic agenda in the first couple of months. Majorities favored more spending and government expansion to deal with education, poverty, the environment and other domestic issues. But 1989 presented opportunities for the incoming president, not only as the foreign policy landscape significantly altered in the first year, but as the Democratic Party leadership in Congress seemed to be in a freefall, plagued by scandals and the resignations of House Speaker Jim Wright and House Whip Tony Coelho. Instead of capitalizing on this disarray, the first year produced a caretaker administration struggling with a vision and a coherent agenda for the remainder of the first term.

The Reagan-initiated, Bush-revised $1.2 trillion Building a Better America presidential budget presented in February was ratcheted up by Democrats and eventually signed as a $1.25 trillion budget for FY1990. In some respects, the larger federal budget


showed that Bush was responding to his own rhetoric, in wanting to be “the education
president” and “the environmental president” leading “a kinder, gentler America” into the era
of a lone superpower. But instead of highlighting this slight government expansion and
courting the middle class vote, Bush shied away from wanting to address this relaxation of
the Reagan legacy.

The budget summitry became stalled after the initial budget as the White House and
Congressional Democrats battled. Bush’s failures were compounded by a negotiating team
that did not seem to learn from the Reagan-style tactics of claiming victories in the
bargaining with Congress. Appearing as inflexible from the beginning, the administration
refused to back down on the capital gains tax cuts and on any major tax increases, refused to
make long-term post-Cold War defense cuts, and introduced a social policy add-ons package
which would cut into other program budgets. The reconciliation bill was delayed until late
November because of this White House intransigence and it was largely the administration’s
fault that a bipartisan process descended into conflict through the implementation process.\textsuperscript{183}

By the time an agreement was reached, with Bush’s economic team of Darman,
Sununu, Porter, Boskin, and Treasury Secretary Nicholas Brady meeting daily with the
president, the new fiscal year had already begun without a reconciliation bill. Opinion had
shifted and now the president was being blamed for the delay, as well as the G-R-H process-
induced across-the-board cuts of $16 billion.\textsuperscript{184} Bush gave up on the capital gains cuts and
signed a bill with just under $15 billion in budget cuts. The deal almost met the G-R-H


\textsuperscript{184} The sequestration likely would have been much larger had Secretary of Defense Dick Cheney not proposed shifting military pay from the first business day of the new fiscal year to the last business day of the last fiscal year, saving the administration almost $3 billion. See Stanley E. Collender, "The Budget Deficit," in \textit{Developments in American Politics}, ed. Gillian Peele, Christopher J. Bailey, and Bruce E. Cain, (New York: St. Martin's Press, 1992), 286-287.
requirements and did not raise taxes which should have been a victory for the president. Unfortunately, without the savvy Reagan public relations machine behind him, Bush and the White House failed to capitalize.

Darman suggests that under the circumstances, the 1989 budget agreement was as good as the administration was likely to get.

There had been no concession on read-my-lips. Supply-siders were happy with the push for capital gains...Some deficit reduction measures were moving forward, and we were ready to take a minor sequester to assure their progress.\textsuperscript{185}

But he also recognized that Democrats would use all of their institutional and political resources the following year to force Bush into a weakened position.

I knew this could not last. Time, the economy, and the budget numbers were moving against us...I wanted desperately to avoid the predictable problems of waiting until 1990...We had to wait until 1990. And that was bound to make a big difference.\textsuperscript{186}

Without quid pro quo negotiation with the Democratic leadership, Darman determined that he was obliged to produce a balanced budget without touching Social Security, risking significant political damage on other entitlements, cutting defense, or raising taxes! The chance of producing a credible budget, under these constraints, was close to nil.\textsuperscript{187}

Even with the impasses, it did not affect Bush’s poll numbers tremendously for the first year. While hitting a low of around 60% approval in late summer, the dramatic collapse of the Iron Curtain in the subsequent months gave Bush approval ratings in the eighties by the end of 1989. Although he did not celebrate much of a victory in the budget reconciliation, with Congress spending an additional $56 billion above the presidential request, the highest amount since the Carter years, Bush ended his first year more popular than every previous incumbent president after his first year.

\textsuperscript{185} Darman, \textit{Who's in Control?: Polar Politics and the Sensible Center}, 228.
\textsuperscript{186} Ibid., 228-229.
\textsuperscript{187} Ibid., 229.
For Darman and Sununu, Bush’s desire to be a statesman-like president required the
advisers to play the bad guys, shouldering the blame for failures to set out a comprehensive
agenda or for negotiating with Congress on sacrosanct Republican issues. Sununu’s
selection as chief of staff proved a shrewd choice for the first year in terms of placating the
Republican base. Sununu ran the White House operation with some efficiency, free of the
leaks and open in-fighting and bickering that characterized both the Carter and Reagan
administrations. It had the makings of an archetypal collegial advisory system. And unlike
Donald Regan, Sununu understood his role was to assume blame and deflect it from the
president. But Sununu’s abrasive nature and his ability to attack the press and members of
Congress alienated him from the Washington establishment. By 1990, Sununu had assumed
the duties of vicar of White House domestic policy, ostensibly filling the gap left by the
president’s lack of interest in the non-foreign policy areas.\textsuperscript{188} What appeared to be collegial
was far more hierarchical with Sununu essentially performing the Regan role.

Darman was never an ideologue in the early days of the Reagan first term, often the
bearer of modest expectations to David Stockman’s revolutionary pronouncements.
Darman’s selection as OMB Director fit perfectly with Bush’s prudence and Tory character.
Darman was a known entity, neither dogmatic nor radical, but effective and highly
recommended by Bush associates like James Baker. Unfortunately, Darman was also more
economically liberal. Like previous White House advisers Charles Schultze and James
McIntyre, he believed that balancing the budget and tackling the deficit came about through
targeted revenue increases and reductions in government spending. This was made clear
eyearly in 1989 when Darman and Treasury Secretary Brady attempted to levy a tax on

\textsuperscript{188} Cohen, "George Bush's Vicar of the West Wing: John Sununu as White House Chief of Staff," 38, Campbell,
deposits in bank accounts to offset the savings and loan bailout. Sununu and Bush were forced to dismiss the idea and defend Bush’s no new taxes pledge from the campaign.

In 1990, concern over the deficit began to dominate the news as the shock of the international upheaval wore off. Believing that a new approach was necessary to deal with the still-exploding fiscal situation, Bush called for a budget summit with Congress following what would be another dead-on-arrival presidential budget in the early year. He suggested that this time there would be no preconditions, which the media and the Democrats immediately interpreted as the no new tax pledge was off the table. In Bush’s haste to appear conciliatory and open to compromise, the right wing flank and the Democrats pounced on the perceived weakness in the president’s willingness to negotiate. The goodwill and gesture of compromise was further undone by Sununu’s heavy-handed tactics that suggested Bush would veto any major tax increases.189

The anatomy of the 1990 budget summit and subsequent agreement is worth examination for it reveals the apex of Sununu’s policy influence and the unbalanced nature of Bush’s advisory system. It also demonstrates the deal-making character of Bush, not wanting to appear indignant or ideological in his policy stances and searching for a compromise that would please everybody. It sounds very presidential but in execution, Bush alienated his own party. In analysis of Bush’s public and private veto threats, Richard Conley found that for President Bush,

highly salient legislation was the most difficult for the White House to negotiate…Democrats were most willing to provoke confrontation and cast such confrontation into the media spotlight. Although Bush was successful in halting all [veto] override attempts save one, he had a more difficult time claiming credit for the salient bills that passed and on which he was able to wrest concessions.190

This was true of the 1990 budget agreement, a difficult compromise and a significant achievement given the pay-as-you-go deficit legislation that accompanied it, but one that forced Bush into a defensive position and counterbalanced the gains he made as commander in chief during the Gulf War. Giving into deal-making subsequently was seen as weak and his flip flop on new taxes haunted him.

The budget agreement was largely negotiated and masterminded by Darman and Sununu. David Cohen cites one former Bush White House official who argues that “as Sununu himself probably would say, his and Dick Darman’s advocacy of the 1990 budget deal (and breaking the ‘no new taxes’ pledge) was politically disastrous. To this extent, then, he was ‘influential’ without being ‘effective’”191 As Bush prepared the FY 1991 budget, pressure mounted to reduce the budget deficit. Knowing that the agreement made with Democrats in 1989 could not last and that eventually Bush would have to take a hit on the tax pledge, Darman and Sununu suggested a budget summit.

The reality of having to address the bigger issues of the budget process and the economy and not simply reaching an agreement with Democrats should not be underestimated. Bush inherited a series of decisions that had been continuously deferred until next year. The first problem was that payments to individuals, particularly indexed entitlements, accounted for almost half the federal budget. The FY1989 Reagan budget included 27% for national defense, 15% for interest on the national debt and 47% for individual payments. That left only 11% of “the federal budget for everything else the

government does.”192 As Kettl argues, “presidents…have little flexibility in using the budget to steer the economy.”193 G-R-H also helped the economy steer the budget so that budgeting shifted from an exercise in how Democratic administrations could achieve full employment or how Republican administrations could foster a growing economy to an automatic pilot exercise in compromise between the executive and legislative branch.194

The second problem was that in moving to the G-R-H automatic pilot, fiscal policy became increasingly reliant “upon interest rate adjustments in managing the U.S. economy…This has made impossible demands on interest rates to simultaneously control domestic demand, to achieve equilibrium on the balance of payments, and to avoid a debt crisis.”195 Essentially, Greenspan, as Chairman of the Federal Reserve Board, continued the tight monetary policies of the Volcker era. Bush and subsequent presidents have had to share economic policy with the Fed Chairman at a much more significant level.

The third problem was deficit reduction. The presidential budget announced in February 1990 seemed deliberately written to be rejected by Congress. It proposed about a $64 billion deficit, in keeping close to G-R-H targets, with a capital gains tax cut to induce stockholders to sell shares and increase their taxable income, user fees and new Medicare taxes, as well as modest cuts in Medicare, entitlements and national defense.196 But it was based on the same kind of rosy scenario assumptions and black box gimmickry Reagan had used in 1981. After the G-R-H sequester the year before, administration officials knew they

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193 Ibid., 250.
would have to present a budget that at the very least avoided sequestration. It was therefore designed to be dead on arrival in order to launch summit negotiations. By May, the economy was slowing and Darman’s numbers forecast a much larger deficit, in the hundreds of billions, one that had to be tackled with revenue increases. A budget summit now became inevitable.197

Congressional leadership eventually winnowed down the participants in the budget summit and then the president agreed to take part, arguing that the meetings should take place in the Oval Office. Both Darman and Bryce Harlow, the Assistant Secretary of the Treasury for Legislative Affairs, have argued that this was the first in a series of tactical mistakes. The Oval Office setting effectively tied Bush to a successful negotiation and anything less would be seen as a presidential-initiated failure.198

Once the Bush budget team (Darman, Sununu and Brady) and the Congressional budget leadership199 began to negotiate, the White House seemed unable to control the negotiations and public relations around the tax pledge. Sununu tried to argue that new taxes could be vetoed by the president, which forced the White House to issue statements that the chief of staff was incorrect.200 Blunders like this occurred over the subsequent months, including even the president antagonizing the media.201

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199 Mitchell, Foley, House Majority Leader Dick Gephardt, House Budget Chairman Leon Panetta and Senate Budget Chairman Jim Sasser, Senate Minority Leader Bob Dole and House Minority Leader Bob Michel.
200 Goodgame and Duffy, "Big Bad John Sununu." Goodgame and Duffy suggest that Sununu’s tactics were in keeping with his bad cop image in protecting the president. Knowing that Bush would likely have to renege on the tax pledge, Sununu tried to strengthen the president’s position. Subsequent analysis contends that Sununu’s comments had the opposite effect, contributing to the White House being out of touch with the president and further alienating the negotiators on both sides.
Although he could come across as a conservative attack dog, particularly on social issues like abortion and on the environment, Sununu was a contradiction. He was “never a Reaganite, antigovernment conservative”\(^\text{202}\) and unlike stalwart ideologues, he could be inflexible on a policy stance but then reverse course and advocate the opposite. This was no more apparent than when Sununu suggested that the no new tax pledge should be reneged on in order to complete budget negotiations with Congress. This nullified his ideologue credentials. One of Cohen’s respondents argued that Sununu was indeed hard to categorize.  

I believe that, substantively, his record was mixed; some very good, sagacious advice on some domestic and environmental issues, generally from a conservative viewpoint, offset by some real bloopers…interpreted as a mixture of neutral brokering, when he believed a wide range of views needed to be explored with the President, and advocacy, when he believed that some constituency inside and/or outside government was lining up to foist off on President Bush some position or agenda that might be either bad policy or bad politics.\(^\text{203}\)  

Jim Pinkerton is even more critical. “How could someone who hated taxes and loved activism come to embrace a pact that institutionalized the opposite?”\(^\text{204}\) But Sununu, despite his conservative credentials was an incrementalist like Bush, not an ideologue.  

False starts led to impasse after a month and a half of negotiation. Finally, in late-June, Bush sat down with his team and the Democratic and Republican leadership. Speaker Foley suggested the need for an agreed statement of bipartisan negotiation, including “entitlement reform, defense and domestic discretionary spending reduction, budget process reform, and tax increases.”\(^\text{205}\) Surprisingly, Bush simply agreed to the conditions and this group of politicians and economic advisers, without any input from communications or  

\(^\text{202}\) Goodgame and Duffy, "Big Bad John Sununu."  
\(^\text{205}\) Darman, Who's in Control?: Polar Politics and the Sensible Center, 260-265.
speechwriting staff, redrafted the statement, submitted it to Press Secretary Marlin Fitzwater, and the tax pledge was effectively reneged upon.\textsuperscript{206}

On the day Bush agreed to “tax revenue increases,” the budget team in the Bush White House dropped the ball.\textsuperscript{207} The problem was optics which the advisers failed to roundtable so that control of discussion on the agreement rested not solely with Demarest, Fitzwater and the presidential communications staff but with Democratic leadership who immediately exclaimed that the read my lips pledge was finished. This public relations problem plagued the entire negotiation.

Presidents before and after Bush have made campaign promises that they could not keep and have walked away unscathed and often with a second term and a popular and successful legacy. Bush’s problem was one of issue mismanagement and the fault lies with the members of the negotiating team and the communications staff. The 1990 budget deal was a major piece of legislation, not only in terms of the budget deficit but in improving the inefficient budget process. Yet Bush was on the defensive about the entire package before it had even passed, let alone before Gingrich and the Republican base rejected the agreement in the House on October 5. Presidencies can hinge on just a handful of decisions or indecisions, and with Bush I, like in the case of Carter, management of the budget issue became a bigger problem than the issue of the budget.

\textsuperscript{206} Harlow, "The Budget Process," 74-75. The actual White House statement was: It is clear to me that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform; tax revenue increases; growth incentives; discretionary spending reductions; orderly reductions in defense expenditures; and budget process reform to ensure that any Bipartisan agreement is enforceable and that the deficit problem is brought under responsible control. The Bipartisan leadership agrees with me on these points.

Bush did three things wrong in negotiating with the Democrats and agreeing to
summitry with “no preconditions.” The first was not a policy or ideological problem; it was
simply one of handling the issue. Issuing a joint agreement to negotiate with the caveat that
revenue increases would result should never have been released without being written and
rewritten by the president’s staff. The Democrats were playing hardball and the White
House staffers were in another league, blinking when forced to make a decision and being
outplayed by Congressional Democrats who thrived on and sought confrontation.208 Darman
argues this was the fundamental tactical mistake that led to the undoing of Bush’s popularity
and the unity of the Republican Party.

It was a matter of timing and presentation. We should not have allowed the press release to
go out when we did, the way it did…We weakened the President politically. And we reduced
our leverage considerably for the negotiations that were to follow. I regret that deeply.”209

Harlow was even more exact in his criticism

The President was very poorly served that day. When President Bush indicated that he would
approve a statement, someone in that room…should have said, “Mr. President, can I see you
alone for a second in the study?”210

Bush gave away too much even before the negotiations started so that not only was this a
tactical mistake but also a bargaining error. He continued to give away his bottom line
before negotiations were complete, in order to get the deal.211

Secondly, Bush should have courted the Republican base from the start of the
negotiations, meeting one on one with Gingrich, Gramm and other conservative leaders, in an
effort to bring them on board and in full compliance with the resulting compromise. The

208 Pious, "The Limits of Rational Choice: Bush and Clinton Budget Summity," 624, Daniel P. Franklin,
211 Brady and Volden, Revolving Gridlock: Politics and Policy from Carter to Clinton, 96, Pious, "The Limits
defection and subsequent political firestorm opened the door for Democratic strategists to define the 1992 presidential campaign, helped allow a populist independent into the presidential race and forced a conservative to openly challenge Bush for the 1992 Republican nomination. Harlow elaborated

A huge tactical mistake…was the failure of administration officials to heed, stroke, caress, and keep the Republicans in Congress and across the country informed on what was happening.212

This was at its worse the day of the tax pledge reversal when most Republicans, including many White House staffers, found out about it second hand after it had been posted on the press bulletin board. Darman recalls that

The statement had been released, and the predictable firestorm was raging…I told [the president, the First Lady, and Fitzwater] of Gingrich’s reaction when Sununu tried to persuade him that “tax revenue increase” meant growth incentives. Gingrich hung up.213

Harlow suggested that the damage done on that day decided the 1992 election

The alternative was to let Republican Party faithfuls around the country feel terribly betrayed by the President’s not telling them of this statement. As a result, those Republicans walked away from the President and stayed away.214

Over the coming months, anecdotes about Sununu and Darman’s heavy-handedness with Republicans suggest that Gingrich and the conservatives had every right to be angry with the White House.215 Pinkerton is perhaps the most insistent that their tactics destroyed Bush’s reelection chances

Darman’s elitism, control freakery, and fetish for deal-making evoked echoes of Henry Kissinger, another smart player obsessed with secrecy. But the joke was on him: Darman

orchestrated a multivariate, gothically nuanced surrender when the Republicans were winning.\textsuperscript{216}

Rejecting the budget summit agreement in early October in the House was a protest against the administration’s treatment of the right wing. Unfortunately, it only strengthened the Democratic position and forced Bush to court liberal Democrats for the final mid-October agreement that passed both houses. He not only reneged on “tax revenue increases” but on income tax increases as well.

Thirdly, the president never sold the package to the American public. Here was his only major domestic legacy and the White House did little to champion it, as if the tax cut reversal was more of a disaster than an historic budget agreement.\textsuperscript{217} The advisory inaction on defending it only exacerbated the notion that the White House caved in and alienated the Republican base. Bush should have been able to sell himself as a fiscally responsible leader, making necessary decisions and reaching effective solutions. Instead, he was perceived as a wimp by his own party and a weakened leader by the opposition.

Following the agreement’s defeat in the House in early October by a coalition of conservative Republicans and liberal Democrats, the revised budget deal, supported by more Democrats than Republicans, was much worse for Bush than the agreed terms Darman and Sununu had worked out with Congressional leaders in summit negotiations. The longstanding impasse in the original agreement was over Democrats wanting income tax increases on wealthy individuals in exchange for a cut in the capital gains tax. Democrats simply delayed, forcing the reconciliation bill into late summer, pushing it to the beginning of the new fiscal year and the threat of a government shutdown in a midterm election year. With an estimated deficit of nearly $300 billion, no deal would have triggered the G-R-H

\textsuperscript{216} Pinkerton, "Life in Bush Hell," 26.
cuts and could have significantly cut defense spending just as the administration was planning its response to the invasion of Kuwait. Their inaction forced Bush into a fall-back budget process: the White House would have to make a deal, or under the GRH law Bush would be required to sequester funds totaling 20 percent of domestic discretionary spending and 27 percent in defense expenditures. Spending cutbacks of this magnitude ($90 billion or more) might trigger a recession and would be politically unsustainable.

After a series of continuing resolutions and a weekend of nonessential government services suspended, the agreement saw a capital gains freeze but no income tax increases. This agreement, had Gingrich not revolted, could have been sold to many more Republicans since income taxes were left untouched. Furthermore, the president was riding high in the polls with the rally effect of the war. But once the agreement was defeated in the House, Bush did not actively take part in the remainder of the negotiation, arguing that it was now a Congressional matter, and Democrats quickly came to agreement on tax changes. Bush lost both capital gains and income taxes and in November, Republicans lost eight House seats and a seat in the Senate.

With the Iraqi invasion of Kuwait in August 1990 and pending American military intervention in the Middle East, the actual specifics of the budget deal were overshadowed. But the agreement was seen by economic analysts as a significant achievement. The negotiators worked out a budget that would avoid the sequestration process and adhere to deficit reduction targets by dramatically increasing excise taxes and user fees. A separate

221 The budget agreement’s final passage in mid-October prompted Ed Rollins, co-chair of the Republican Congressional Campaign Committee, to suggest that midterm congressional challengers for House seats openly oppose the president’s deal. See Ryan J. Barilleaux and Mark J. Rozell, Power and Prudence: The Presidency of George H.W. Bush, (College Station: Texas A&M University Press, 2004), 34.
piece of legislation, the Budget Enforcement Act, was incorporated as Title XIII of the final deal which completely reworked GRH. Since conservatives rejected this first version of the bill, this left Bush with either taking a massive sequestration and across-the-board budget cuts or courting congressional Democrats and reaching agreement. As Barilleaux and Rozell explain, he chose negotiation which resulted “in a package that included tax increases on wealthier citizens.”

The final result, the Omnibus Budget Reconciliation Act of 1990 (OBRA), increased the top income tax rate to 31% from 28% for the highest income earners and increased the individual alternative minimum tax from 21% to 24%. It ratcheted back the number of excise tax increases from the summit budget package, lowered entitlements slightly, and slightly lowered the total deficit reduction to $492 billion over the FY1991-FY1995 period. It provided for $137 billion in revenue increases over the projected five years. On the expenditure side, defense and nonentitlement spending was cut by $182 billion and interest payments on the debt were reduced by $165 billion, leaving the FY1991 budget $270 billion in deficit.

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222 Along with the agreements reached on taxes and the budget, the budget process was revamped to reflect the concerns over the blunt tool of deficit reduction known as Gramm-Rudman-Hollings. The new budget procedures attempted to stop the backsliding and gimmickry on deficit reduction agreements and replace deficit reduction targets with spending limitations to be worked out when a new program proposal, tax change, or expenditure was considered. Future legislative initiatives were from now on to be considered in tandem with proposals for compensatory cuts in other programs within the same portion of the budget or for new taxes or fees. With focus now on adjustable deficit targets, deficit problems were divided into those caused by economic downturns and those caused by legislation. The pay-as-you-go or PAYGO rule would now force any tax changes or new expenditures to not increase the deficit. Therefore, any new programs or spending proposals would have to be offset with cuts or spending decreases in other existing programs; in other words, be budget neutral. In its initial incarnation, increases in the deficit were offset by across-the-board sequestration of non-exempt mandatory spending programs.


224 OBRA also raised the cap on taxable wages for Medicare to $125,000 and cut Hospital Insurance by about $40 billion, increased gasoline taxes by 5 cents a gallon, increased sin taxes on alcohol and tobacco, increased luxury excise taxes, increased airport and telephone services taxes, and capped capital gains at 28% but did not cut them despite the feverish efforts of the administration. It further added income tax reforms, including two substitute bubbles in the form of a phase-out of the value of the personal exemption and a phase-out of some itemized deductions, and a reduction in itemized deductions for the wealthy. And rather than increase minimum...
The excise tax hikes increased taxes on middle-income earners by about $100 a year but the bottom 40% of families saw an increase in income with new taxation more than offset by the increase in EITCs. Ironically, the “Bush tax increase” actually lowered taxes for a significant portion of the American public, particularly earners in lower tax brackets and those whose income was augmented by government welfare programs. Unfortunately, they tended not to vote Republican.

What the 1990 budget deal demonstrated is that Bush lost the upper hand in the budget process. He had been outplayed by Congress in FY1991. There is little excuse for Sununu, Darman and the other domestic and political advisers being unable to control the eventual budget agreement. Following FY1991, the FY1992 and FY1993 budgets were simply continuations of the agreed-upon terms set down in 1990. In fact, the only tax legislation following OBRA were Bush’s election year veto of the Tax Fairness and Economic Growth Acceleration Act and the threatened veto of the Urban Aid Tax Bill of 1992, both Democratic attempts to further increase revenues or raise taxes.

The FY1992 budget process started amidst the Gulf War in early 1991. While it insulated the defense budget from attempts by Congress to meddle, Bush did not pursue an aggressive economic policy, despite approval ratings in the nineties. He adopted a go-slow attitude and as the country drifted into recession, public perception was that the president was doing little to help those suffering from the declining economy.\textsuperscript{225} The major difference between administration and congressional proposals in both FY1992 and FY1993 was over wages, it expanded the earned-income tax credit from $994 to $1,228 for low-income working families to offset increases in excise taxes. See Pious, "The Limits of Rational Choice: Bush and Clinton Budget Summitry," 618-619, Eugene Steuerle, "Tax Policy from 1990 to 2001," in American Economic Policy in the 1990s, ed. Jeffrey Frankel and Peter R. Orszag, (Cambridge: M.I.T. Press, 2002), 143-145, Windsor, "The 1990 Deficit Reduction Deal," 30.\textsuperscript{222} Barilleaux and Rozell, Power and Prudence: The Presidency of George H.W. Bush, 35.
discretionary domestic spending, with back-and-forth battles over small amounts in

Matters for Bush became worse as the Gulf War triumph faded and Sununu was snared in a scandal that occupied the administration for months in late 1991. His replacement, Sam Skinner, was even more of a problem than Sununu with the White House staff becoming completely dysfunctional through the first half of 1992 as a massive and ill-advised restructuring attempt occurred amidst the beginnings of Bush’s reelection bid.\footnote{David B. Cohen and George A. Krause, "Presidents, Chiefs of Staff, and White House Organizational Behavior: Survey Evidence from the Reagan and Bush Administrations," \textit{Presidential Studies Quarterly} 30, no. 3 (2000): 432, Cohen, "From the Fabulous Baker Boys to the Master of Disaster: The White House Chief of Staff in the Reagan and G.H.W. Bush Administrations," 474, 477, 480.} Skinner, who had earned the nickname “the Master of Disaster,” was replaced by James Baker, brought in to coordinate Bush’s faltering reelection effort. Sununu’s ouster did allow Michael Boskin to play more of a hand in economic decisions, working with Darman to craft the limited FY1993 budget. But no further tax changes were negotiated despite calls for tax cuts in the 1992 election year. Unfortunately, the economy went into recession after the Gulf War and Bush’s poll numbers dropped steadily, all the more intensified by Sununu’s imbroglio.

With no move to capitalize in fiscal policy on the president’s popularity in mid-1991, the Democrats found the key weakness to defeating Bush.\footnote{The Democratic Party was given a by-election of sorts to test economic messages of running against the president’s record. Pinkerton argues that “not long after, James Carville, using Harris Wofford as a decoy, defeated Dick Thornburgh in the contest for Pennsylvania’s Senate seat. Still, no domestic agenda emerged. Its absence became dramatically apparent after the Los Angeles riots. The predicted right-wing backlash never} Once the focus was back on
domestic issues, Bush had little incumbent record to run on for reelection. He was forced by the right wing to appear tough on any future tax increases which made negotiation with Congress on a bold election year initiative impossible. His 1992 vetoes were out of political necessity but by then Perot had entered the race, Buchanan had already challenged Bush in the primaries signifying the split in the party, and the Democrats had selected a centrist southern Governor with an almost savant-like grasp of domestic and economic issues.

The FY1993 budget that passed was another victory for Democrats. As Ippolito argues, Democrats wanted to avoid a protracted battle over the budget so they agreed to the administration’s domestic spending freeze and applied the freeze to all the regular appropriations measures. They also agreed on the post-Gulf War defense cuts Darman outlined in early 1992. Democrats could not be accused of appearing weak on defense or out of control on spending in an election year and since Bush vetoed their tax cut bills, the president could hardly run for reelection on taxes. It set in motion a 1992 presidential campaign in which Bush started behind in the polls and never recovered.

3.3 Advisory Analysis: The Fiscal Numbers

Jimmy Carter left behind a mixed fiscal record as his alternating budgets that increased then decreased spending can attest. As Table 1 shows, his best year was in the middle of his presidency, FY1979 in which the deficit shrunk to just 1.6% of GDP. But by the time of the 1980 election, those numbers had floated back up to inauguration levels and his gains were perceived as temporary. Like Bush, Carter maintained relatively constant outlays as percentage of GDP but he could not control non-defense spending as it increased over the course of his presidency. Carter also had the fiscal restraint problem of a steady

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materialized. People worried instead that under Republicans, the country was falling apart.” See Pinkerton, "Life in Bush Hell," 27.

increase in defense spending. Still, the modest increase to about $150 billion by 1981 would pale in comparison to the Cold War reinvigoration Reagan would enact.

His fiscal record is notable for its lack of ideological or dogmatic decisions. There is no dramatic increase or decline in most of the fiscal categories as Carter stayed away from supply side theories and dramatic tax cuts as well as spending increases on government programs. But it is that very lack of notable changes that made Carter’s fiscal record a liability because he was only perceived as managing the economy in a contractionary era. The perception of stagnation, reinforced by Carter himself in speeches, helped to shape

Table 3.3 Budget Deficit Containment (Deficit or Surplus in Billions of $ by Fiscal Year)

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<td>-1.6</td>
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<td>-2.6</td>
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<td>Excess Congressional Spending</td>
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<td>15.5</td>
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<td>17</td>
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<tr>
<td>Total Outlays (as percentage of GDP)</td>
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<td>20.7</td>
<td>20.2</td>
<td>21.7</td>
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Sources: Institute for Policy Innovation; Budget of the United States, Fiscal Year 2010; Office of Management and Budget
Carter’s fiscal record as one of failure. He managed the economy but Carter never fixed it and it was that very quality of visionless stewardship which Reagan defined in the 1980 campaign.

Bush’s economic legacy is certainly one of prudence and, like Carter, he did not receive credit for trying to make the right decisions. As Table 2 outlines, the annual deficit reached a pre-George W. Bush apex in FY1992, with a nearly $300 billion deficit. The budget deficit finally began to be contained in FY1993 which at $255 billion was actually lower than the previous two years. The budget deal in 1990 put into effect spending controls, most notably in defense where post-Cold War spending cuts took effect from FY1991 through FY1993, with a slight upswing in FY1992 for the Gulf War. Note also the increase in both individual and corporate income tax receipts which took jumps in FY1993. Total government spending continued to hover around 21% of GDP, a legacy of the Reagan years. But note the substantial percentage increase in non-defense outlays from 15% to 17% over the course of Bush’s term. A larger portion of the federal budget was devoted to domestic and entitlement spending during Bush’s tenure than the fairly steady 15% of GDP during the Reagan years.

Finally, take note of excess congressional spending above the total presidential budget request, which reached highs in FY1990 and FY1991. These are both legacies of the Bush economic team’s negotiations with Congress in which Reagan’s post-1982 ‘legislative deal-making with a fight’ became just simply “deal-making” under Bush. The average annual amount of excess congressional spending during the Reagan years was only $30 billion. In FY1990 and FY1991, Bush’s team negotiated final budgets $56 and $91 billion higher than their initial budget requests. These figures turned around in FY1992 and FY1993.
as Congress followed BEA guidelines for deficit reduction and actually reduced the presidential budget request by $72 and $108 billion respectively.

**Table 3.4 Budget Deficit Containment (Deficit or Surplus in Billions of $ by Fiscal Year)**

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<td>Actual On-Budget Deficit</td>
<td>-205.4</td>
<td>-277.6</td>
<td>-321.4</td>
<td><strong>-340.4</strong></td>
<td>-300.4</td>
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<tr>
<td>Actual Off-Budget</td>
<td>52.8</td>
<td>56.6</td>
<td>52.2</td>
<td>50.1</td>
<td>45.3</td>
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<td>Total Deficit</td>
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<td>-221.0</td>
<td>-269.2</td>
<td><strong>-290.3</strong></td>
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<td>Gross Federal Debt</td>
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<td>3,206.3</td>
<td>3,598.2</td>
<td>4,001.8</td>
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<td>Gross Domestic Product</td>
<td>5,400.5</td>
<td>5,735.4</td>
<td>5,935.1</td>
<td>6,239.9</td>
<td>6,575.5</td>
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<tr>
<td>Deficit (as percentage of GDP)</td>
<td><strong>-2.8</strong></td>
<td>-3.9</td>
<td>-4.5</td>
<td>-4.7</td>
<td>-3.9</td>
</tr>
<tr>
<td>Federal Debt (as percentage of GDP)</td>
<td>53.1</td>
<td>55.9</td>
<td>60.6</td>
<td>64.1</td>
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<td>Total Individual Income Tax</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total Revenue Receipts</td>
<td><strong>445.7</strong></td>
<td>466.9</td>
<td>467.8</td>
<td>476.0</td>
<td><strong>509.7</strong></td>
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<td>Total Corporate Income Tax</td>
<td>103.3</td>
<td>93.5</td>
<td>98.1</td>
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<td>Social Insurance and Retirement Receipts</td>
<td>359.4</td>
<td>380.0</td>
<td>396.0</td>
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<td>Other Receipts</td>
<td>82.8</td>
<td>91.7</td>
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<td>Total Revenue Receipts</td>
<td>991.2</td>
<td>1,032.1</td>
<td>1,055.1</td>
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<td>1,154.5</td>
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<td>Total Revenue Receipts (as percentage of GDP)</td>
<td>18.4</td>
<td>18.0</td>
<td>17.8</td>
<td>17.5</td>
<td>17.6</td>
</tr>
<tr>
<td>National Defense Outlays</td>
<td><strong>303.6</strong></td>
<td>299.3</td>
<td><strong>273.3</strong></td>
<td>298.4</td>
<td>291.1</td>
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<tr>
<td>Non-Defense Outlays</td>
<td><strong>840.2</strong></td>
<td>953.8</td>
<td>1,051.0</td>
<td>1,083.2</td>
<td>1,118.4</td>
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<tr>
<td>Total Outlays</td>
<td>1,143.8</td>
<td>1,253.1</td>
<td>1,324.3</td>
<td>1,381.6</td>
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<td>Total Presidential Request Outlays</td>
<td>1,094.0</td>
<td>1,197.0</td>
<td>1,233.0</td>
<td>1,454.0</td>
<td>1,517.0</td>
</tr>
<tr>
<td>Excess Congressional Spending</td>
<td>49.0</td>
<td><strong>56.0</strong></td>
<td><strong>91.0</strong></td>
<td><strong>-72.4</strong></td>
<td><strong>-107.5</strong></td>
</tr>
<tr>
<td>Total National Defense Outlays (as percentage of GDP)</td>
<td>5.6</td>
<td>5.2</td>
<td>4.6</td>
<td>4.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Total Non-Defense Outlays (as percentage of GDP)</td>
<td>15.6</td>
<td>16.6</td>
<td>17.7</td>
<td>17.3</td>
<td>17.0</td>
</tr>
<tr>
<td>Total Outlays (as percentage of GDP)</td>
<td><strong>21.2</strong></td>
<td><strong>21.8</strong></td>
<td><strong>22.3</strong></td>
<td><strong>22.1</strong></td>
<td><strong>21.4</strong></td>
</tr>
</tbody>
</table>

Sources: Institute for Policy Innovation; Budget of the United States, FY 2010; Office of Management and Budget

The figures above show a president coming to terms with deficit control but also demonstrate what little Bush actually did for his own Republican cause. The national debt increased, both individual and corporate taxes increased, overall government and domestic spending increased, and defense spending decreased. With the considerable effort made to alleviate the deficit, these numbers would have likely reelected a Democratic president.
3.4 Conclusion: Unbalanced Advisory Systems

Both Carter’s and Bush’s advisory problems were a result of advisory imbalance, vesting too much control in either too few advisers, in the case of Bush with Sununu or too many like-minded advisers, in the case of Carter. Carter and Bush did not pursue fiscal policies that were dramatically off-center, as Reagan and Bush II did. Instead, apart from deficit reduction which became a Clinton hallmark despite its origins in the Bush I years, both Carter and Bush I can be characterized as visionless stewards of the economy. They understood the importance of prudent fiscal policies but their advisory networks failed dramatically in managing fiscal policy issues.

For Carter, the indecisiveness helped cost him the presidency. He presented no clear vision for the country and there was no voice among his advisers who could shape and sell that vision to the president. His vacillation year to year on budgeting, on taxes, and the economic direction of the country made him unpopular with a public eager to cast blame on the president and made Carter an easy target in the 1980 general election. Directionlessness and policy errors were also apparent in other areas, with domestic policy formulation and in foreign policy. It is a mischaracterization to suggest Carter was a victim of groupthink in the area of macroeconomic fiscal policy, as Janis and his progeny suggest he was on certain foreign policy efforts.  

But Carter was not able to achieve the kind of multiple advocacy

that Ford received from his economic advisers. His most trusted advisers from Georgia cut
off countervailing policy formulation and idea generation, not in any ideological sense, but in
a geographical and political one. As Campbell argued, “Carter struggled to strike the balance
his predecessor developed, providing a viable mix of countervailing scrutiny and
structure.”

   Carter needed a more mixed adviser set, from different regions of the country, with
different backgrounds and experience, and most importantly, from different constituencies
within his political party. He also needed more than a first among equals adviser to bring
together and commandeer ideas from both his political and policy advisers. But Carter was
also as undone by the way he sought out and utilized advice. Ironically, he was criticized
publicly for his vacillation on policies and campaign promises while privately was known for
his entrenched and non-wavering policy positions. As his own chief of staff for three years
and his own closest adviser, Carter could not harness the full benefits of an advisory network.
That is not a criticism of an otherwise engaged and intellectually curious president but one
who failed to submit his own fixed policy positions to give-and-take among varied advisers.
Without a coherent policy agenda to sell to Congress, much less the public, Carter
succumbed to his own worst tendencies because he was so doctrinaire in his policy positions.

    Burke suggests that Carter wanted a collegial system and that he thought he was an
effective delegator of responsibilities “yet what developed was almost exactly the opposite:

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Dynamics and Foreign Policy-Making, ed. Paul ’t Hart, Eric K. Stern, and Bengt Sundelius, (Ann Arbor:
University of Michigan Press, 1997), Jean A. Garrison, Games Advisors Play: Foreign Policy in the Nixon and
Carter Administrations, (College Station: Texas A&M University Press, 1999), Jean A. Garrison, "Framing
Foreign Policy Alternatives in the Inner Circle: President Carter, His Advisors, and the Struggle for the Arms

231 Campbell, Managing the Presidency: Carter, Reagan, and the Search for Executive Harmony, 49. See also
Interview with Frank Moore, Campbell Collection, Georgetown University.
compartmentalized rather than collegial; micromanagement rather than delegation.” With everybody singing from different song sheets, his own advisers did not know what Jimmy Carter actually wanted and consequently, the goodwill he amassed in the 1976 election quickly evaporated as the public grew tired of his vacillation.

Just prior to his Crisis of Confidence speech in July 1979, Carter’s former speechwriter James Fallows wrote an article as the new Washington editor of The Atlantic Monthly entitled The Passionless Presidency. He describes a White House that was lost precisely because the Carter administration had no organized passion or ideological thrust to shape and guide the president. Fallows argued he did not have the ability to explain his goals or “the passion to convert himself from a good man into an effective one, to learn how to do the job.” But Carter and his advisers were passionate, only without a central adviser or set of advisers who could coordinate policy and political advice and filter it through a coherent prism. That inability to self-correct by reworking the advisory system, particularly in the fiscal policy arena where polling even early in his presidency showed a public deeply unhappy with his economic efforts, weakened him. Fallows articulated this frustration:

If there is a single grievous flaw I find in Carter, it is his complacency about the people he has around him and the ideas that come to him. There’s no passion in him to find better people, to find better ideas. He is satisfied with those he has. A lot of them are good but always they could be better.

In effect, the energetic Georgians in 1976 became a White House staff of parochial veterans insulated from new ideas by 1980.

In a climate of unprecedented inflation and an economy that refused to perform as it should, with exogenous oil shocks and the destabilization of Iran, some would argue that

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232 Burke, Presidential Transitions: From Politics to Practice, 88.
233 Fallows, "The Passionless Presidency: The Trouble with Jimmy Carter's Administration."
Carter just had a good run of bad luck. Perhaps no president could have navigated the late 1970s and not received the back of the American public’s hand. But Carter had four years to at least show that he was capable of mastering just one aspect of the economy, be it unemployment, inflation, recessionary worries, or the deficit. He left office with higher unemployment, higher inflation and a larger deficit than Ford or Nixon. While Carter managed to fiscally restrain overall spending on domestic programs, which remained almost flat during his four years, he never received credit for making sound judgments in combating inflation. As he acknowledged, “the obvious inconsistency in my policy during this rapid transition from stimulating the economy to an overall battle against inflation was to plague me for a long time.”

Outgunned by Congress on fiscal restraint, by government agencies refusing to make necessary cuts, and by an impatient public waiting for an economy to recover, he never was able to convince a majority that his way of governing and of managing the government was worthy of being reelected. Reagan would take full advantage of this prevailing perception of the president in the campaign, and with his effective election question, “are you better off than you were four years ago?,” to end the presidential debate, he encapsulated the focus of the campaign. Reagan, unlike Carter, would craft a very specific and limited set of ideas on economic policy for the 1980 campaign.

In refusing to update his staff with fresh blood and ideas, Carter fell prone to inadequate debate and discussion of his policies. He severely limited his policy options by relying only on inner circle advisers who were preordained to offering the president views on which he already agreed. By not seeking stand-by wage and price control authority under the Congressional Budget and Impoundment Control Act in 1977, Carter was unable to

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235 Carter, Keeping Faith: Memoirs of a President, 78.
adequately prepare for the inflation that was to come. By making only minor year-to-year budget adjustments without a long range plan, by pushing forward with a sizeable stimulus package in his first year, by presenting expansionary budgets with larger deficits, and by not vetoing the tax cut in FY1979, he helped to generate inflation.\textsuperscript{236} It was part of his case-by-case planning mentality. Carter found it difficult to see the forest for the trees when his head was filled with endless policy ideas.

Politically, Carter’s whole macroeconomic philosophy was difficult for the Democratic Party to accept on merit. As Hargrove argues, Carter’s preference was to “restrain spending in order to keep budgets down and to fight inflation. But he experienced countervailing pressure from fellow Democrats…He usually ended up compromising, with no one happy.”\textsuperscript{237} Carter had, in effect, the political business cycle in reverse, with the only good economic news coming early in his term and a recession in his reelection year. This inability to command his own party contributed to the end of Keynesianism in the White House, and the breakdown in fiscal consensus that brought about the Kemp-Roth tax cut measures in Carter’s final year and subsequently the more aggressive Reagan tax cuts. Bill Clinton would enter the White House with a similar dilemma as Carter; a fiscally conservative Democratic outsider who believed in budgetary restraint and deficit control forced to bargain with a more liberal Democratic Congress that after twenty-five years of growing deficits and expansionary budgets understood only the politics of growth. While Carter has been reassessed in a more positive light than his 1980 election result would

\textsuperscript{236} Carter also inadvertently aided the Reagan Revolution when he sacked Michael Blumenthal at Treasury and replaced him with William Miller. Conservatives in Washington and Wall Street financiers argued successfully, over Carter’s Keynesian advisers like Schultz, for Paul Volcker to take over from Miller as U.S. Federal Reserve Chairman. Volcker’s philosophy was to suit the incoming president, but not Carter who was forced to deal with monetary restraint from the U.S. Fed and the end of interest rate manipulation to combat inflation. Volcker’s change in direction contributed to an election year downturn.

indicate, given the extreme economic conditions he faced, the way he structured his advisory system and the way in which he made decisions cannot be considered a success.  

In some respects, George Bush probably wanted to be like Eisenhower, disguising his role as political leader to maintain an appeal as head of state and to project “the inspirational and operational dimensions of the office.” But Bush was a remarkably ineffective political leader, de-unifying his party over taxes, and failing to recognize, despite numerous opportunities, that he needed to show more interest in economic and domestic policy. Wanting to be an incremental centrist deal-maker following a popular conservative as president was never going to please all Republicans. But in ignoring his party’s base, Bush put himself in the same spot as Carter, having more trouble uniting his own party than negotiating with the opposition. Failure to recognize the power of conservatives that had been waiting to take control of the party since Goldwater’s candidacy in 1964 was an avoidable mistake.

In warnings from advisers, from friends, and from Republican leaders, culminating in the October 1990 vote in the House that rejected the president’s own budget agreement, Bush still had two years to right his course and make peace with conservatives. He never did. Perhaps high approval ratings through mid-1991 convinced his White House and reelection teams that Bush did not need to pursue a conservative domestic agenda or pursue aggressive economic policies that appealed to the base. His failure to be reelected, unlike Hoover and

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Carter, who were as much undone by world economic and foreign policy problems beyond presidential control as domestic policy, was almost entirely Bush’s own fault. Skowronek correctly identifies Bush as a president engaging in the politics of “articulation,” operating in an environment that required him to articulate the Reagan legacy.240

As vice president, Bush was rarely intimately involved in the Reagan presidency, with a limited role in policy decisions. His attempt to make his presidency his own is not without merit. But the Republican Party wanted Bush to be Reagan’s heir. Instead, in charting his own course and in attempting to govern from the middle, Bush lost his party. Attempts to get it back in his reelection year came across as disingenuous. The recession required a president seen to be compassionate, involved, and working towards solutions to help those most affected by an economic downturn, the exact rhetoric on which Bush had been elected. This president also never materialized.

Bush was forced to choose between being a caretaker president of the Reagan legacy, aggressively pursuing a conservative agenda, something conservatives had hoped, or charting a new course of incrementalism and governing from the center. Bush tried to do the latter and then following his own party’s backlash, failed to do the former. He could not have been president without being Reagan’s successor but he could not keep being president without pretending to be his predecessor.

Bush’s advisory legacy was one of imbalance, with no effective ideologues or honest brokers able to break the Darman-Sununu axis. Barilleaux and Rozell suggest that the Bush administration’s ideologues were vastly outweighed by the large number of advisers who shared Bush’s preference for gradualism and caution. Most of the White House staff fell into

this category. The few true blue conservatives, Jack Kemp, William Bennett, Vice President Dan Quayle, and Roger Porter-assistant Jim Pinkerton, were simply unable to counter the incrementalists. The “people of ideas in the Bush administration” as Langston argued at Bush’s midterm, “have great ambitions but dim prospects for their realization.”

Pinkerton wanted a “new paradigm” in Washington and more specifically in the budget negotiations, one in which conservatives try to engage the remaining right-of-center conservative Democrats including those associated with the Democratic Leadership Council and come to some agreement on long-term vision for economic policy. Darman ridiculed “new paradigm” rhetoric and the few attempts by ideologues to help steer the agenda in the White House were repeatedly thwarted by the incrementalists.

The fault for the advisory imbalance lies with Bush, who eschewed ideologues and New Paradigm Republicans and failed to engage the conservative base. It also lies with Sununu and Darman, whose arrogance and control of policy making perverted round tabling of issues and prevented counterparts from offering other points of view. As Pinkerton recalled, “Bob Teeter once told me, “Jim Baker was smart enough to know that he needed a Dick Darman. But Darman wasn’t smart enough to know that he needed a Baker.”

Harlow put it into a larger context

The failure to handle [the tax pledge] issue properly is an indication of what was structurally wrong inside the White House. To put it bluntly, everything was at the top, and not enough bait was put in the White House apparatus to convince people to do the job they had been hired to do.

George Bush’s economic legacy, apart from the tax pledge reversal, was that the prudence of the deficit reduction measures included in the 1990 agreement led to eight years

of improved budget outcomes. To a president who preferred incremental leadership, the budget agreement made sense and the tax increases Bush signed were minimal. But it was not the issue that was the real problem. It was the value.
Chapter 4: Ronald Reagan and George W. Bush: From Ideological Pandering to Fiscal Disaster

Ronald Reagan reclaimed the mantle of presidential power, if not in real finite constitutional powers, then certainly in the perception of strength and the ability to command the center of the political system. And while the much-vaunted Reagan Revolution may be a political ruse in retrospect, from the November 1980 election until Reagan’s 1981 tax and budget legislation was signed into law on August 13, 1981, no president since Lyndon Johnson was able to achieve so much of his campaign vision and platform in such a short time. Reagan succeeded where Carter had failed by defining an achievable agenda prior to taking office, by selecting an economic and domestic policy advisory system that balanced ideological, political and policy perspectives while benefiting from remarkable strategic management of issues, and by sheer goodwill from the electorate and some luck with the economy.

Before the events of September 11th recalibrated the Bush II presidency on to a different trajectory, many believed that George W. Bush had the makings of a second Ronald Reagan. The belief was that because he eschewed the advice of his father’s key advisers and tacked towards Reagan-style policies in the 2000 campaign, most notably tax cuts, Bush could be expected to mold his presidency on that of Reagan’s. But it is here the comparison mostly ends since Reagan, with the help of sensible and pragmatic advisers, shrewdly changed course mid-first term and pushed back against ideologues in fiscal policy while Bush, without the benefit of competing strands of advisers offering more balanced views let

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unrestrained entrepreneurship of fiscal issues go unchecked until the nation’s fiscal ledger had tilted to disaster.

Both Reagan and Bush were elected in part to restore some faith in and dignity to the presidency after Carter’s ineffectiveness and Clinton’s personal indiscretions became part of the elections of 1980 and 2000. Reagan did restore faith in the institution, in spite of domestic policies to which the public largely never warmed; Bush II did for a short time before a decline in popularity unmatched in the modern era. While both Reagan and George W. Bush had tendencies to dwell only on the surface of policy debates, as a result of a keen lack of interest in the details and in the case of Bush, of a lack of deep understanding of complex issues, at least Reagan was seasoned enough to temper policies that were not going to suit him well in the long run. Their cases are worth exploring together, since so much was made of Bush II being Reagan’s heir to the presidency, and yet he followed a much different course.

By giving voice to those who had bought into the theory of supply-side economics, Reagan’s advisory system allowed for a brief but unrestrained domination of the fiscal agenda by ideologues. In the transition period and in the sixty days following inauguration, the OMB, key advisers in the CEA, and in the upper levels of the Treasury Department committed Reagan to the largest tax cut and largest budget reduction in U.S. history. But just as those ideologues achieved passage of their ideas, Reagan, and his inner circle political advisers, understood that he would not be able to sustain that kind of legislative deference for the long term. Once the supply-siders had their day and the administration could claim it fulfilled its campaign promises on tax and budget reduction, Reagan shifted advisory power back to those political and policy advisers who could assure him a second term.
Within six years, from the passage of the Economic Recovery Tax Act of 1981 (the Kemp-Roth cut) and the Omnibus Budget Reconciliation Act of 1981 (the Gramm-Latta II budget plan) to the last major fiscal achievements of the second term, the Omnibus Budget Reconciliation Act of 1987 and the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Gramm-Rudman-Hollings II), almost all of the initial tax cuts and budget reductions were rolled back or allowed to expire, following dramatic deficit increases from an economic theory that did not perform as its most ardent backers suggested and directly contributing to a much steeper recession than anticipated in 1982. But for all of the concerns with the ‘voodoo economics’ of the supply side,247 Reagan was able to capitalize politically because the tax cuts proved popular with the electorate despite the deep 1982 recession. Although Reagan was forced to raise taxes repeatedly after the 1981 cuts, his early legislation aligned mainstream Republicanism with tax cutting which is a legacy still in full effect today.248 Reagan’s fiscal competence legacy was not perfect, but he did understand the give and take required to achieve both responsive and strategic competence. For a time, in his first term, this mix proved successful before falling apart.


George W. Bush should have grasped the management lessons of the Reagan years. As the first MBA president, the younger Bush should have had a keen understanding of how to avoid similar mistakes when it came to policy while emulating the political skill and leadership style that had made Reagan consistently popular. But Bush was not Reagan. So enamored was he of Reagan’s tax cuts and the aura of conservative revolution they had inspired, as well as the sketchy economic rationale for them reinforced by his economic advisers in the campaign, that Bush did not consider the longer term ramifications of bad fiscal policies. He also did not fully comprehend the pitfalls of an advisory network so doctrinaire and ideological. While the 2001 tax cuts may have been a Bush campaign promise that the public lapped up even when it was not in the best interests for many of them, the post-9/11 fiscal policies were entirely the result of fiscal incompetence. Given the already declining government tax base, an economy recovering from both the bust of 1990s boom years and the terrorist attacks, and the military commitments made by the administration overseas, the follow-up series of tax cuts were likely something Reagan and his advisers never would have done. Unfortunately for the younger Bush, the blinders were on from the start as symbolic politics trumped fiscal competence and an underlying belief in starving the beast of government spending crept into the inner circle but as optics and rhetoric, not as follow-on budget cuts. By the end of the Bush years, the deficit had exceeded Reagan-era levels.

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4.1 Staffing the Reagan White House

In balancing his trusted Californian advisers with seasoned Washington veterans and younger Republican operatives, Reagan immediately avoided Carter’s problems of relying almost exclusively on advisers from his time as Governor. Instead he received a unique mix of opinions; his close associates that knew his governing style, like Edwin Meese, Martin Anderson and Michael Deaver, astute political people that understood Congress and Washington like George H.W. Bush operative James A. Baker III, Roger Porter and Edwin Harper, and young Turks with policy ideas like David Stockman and Richard Darman. The group would prove dynamic in galvanizing Reagan’s economic ideas during the campaign and more so when convincing the public of their merits.

Reagan’s advisory system developed into a modified spokes-in-a-wheel system, with a troika of power bases during the first term. The OMB, headed by David Stockman, and the CEA, chaired first by Murray Weidenbaum and then by Martin Feldstein, would feed into the advisory apparatus through James Baker as Reagan’s new Chief of Staff, and on the policy side through Edwin Meese as Counselor to the President. Meese was the natural pick for the Chief of Staff role, having been one of Reagan’s closest advisers while Governor of California. But Meese “was too doctrinaire” and “in terms of order and efficiency, he is not the guy to put in charge of the railroad.”251 But Baker was polished and a born manager. Michael Deaver, operating closest to the president, acted as Reagan’s public relations principal and as Deputy Chief of Staff, coordinating with the Baker and Meese operations.

Stockman was chosen as OMB Director because of his congressional reputation as a wizard with understanding the budget and legislative process. He also had an advisory role

during the 1980 campaign in preparing Reagan for debates against Carter and independent candidate John Anderson, Stockman’s former congressional mentor.\textsuperscript{252} Following the election, Reagan relied on Stockman to assemble a team to rework Carter’s last budget and present a new revised budget after the inauguration. Reagan also made the OMB Director an official cabinet position. The CEA, chaired by Murray Weidenbaum and later Martin Feldstein, provided the key economic forecasting for the fiscal legislation Reagan wanted to pass early on.

What resulted was a network throughout the first term that allowed the ideologues, political and policy people, and honest brokers to provide input, albeit gate-kept by the three principals of Baker, Meese and Deaver (see table 4.1).\textsuperscript{253} The design of a troika of advisory funnels allowed for multiple inputs into the economic policy process. The Legislative Strategy Group (LSG), headed by Baker, worked with the principals and Congress to coordinate Reagan’s policies in the White House with Republican efforts on the Hill. In economic affairs, it was particularly successful in keeping Republicans united behind the president’s tax and budget agenda, as well as maintaining close contact with conservative Democrats who were inclined to support the president. The LSG would work with Staff Secretary Richard Darman and coordinated with OMB in crafting the fiscal agenda.\textsuperscript{254}

\textsuperscript{252} Stockman, \textit{The Triumph of Politics: How the Reagan Revolution Failed}, 46.
\textsuperscript{253} Edwin Harper explained that the inner circle had a series of meetings each morning along these lines: 7:30, the troika of Meese, Deaver and Baker meet in Baker’s office. 8:00, troika meets with rest of senior staff in Roosevelt Room. 8:30, Meese meets with his staff in his office. 9:00, troika meets with the President in the Oval Office. I meet with Dave Stockman in Dave’s office. See Interview with Edwin Harper, Ronald Reagan Oral History Project, Miller Center of Public Affairs, August 13, 2002.
Table 4.1 The First Term Reagan Economic Advisory System

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ideologue</strong></td>
<td>Edwin Meese III (Inner Circle) – Counselor to the President 1981-1985</td>
</tr>
<tr>
<td></td>
<td>David Stockman (Inner Circle) – Director of Office of Management and Budget</td>
</tr>
<tr>
<td></td>
<td>1981-1985</td>
</tr>
<tr>
<td></td>
<td>Martin Anderson – Assistant for Policy Development 1981-1982</td>
</tr>
<tr>
<td><strong>Policy</strong></td>
<td>Richard Darman (Inner Circle) – Staff Secretary; Assistant to the President</td>
</tr>
<tr>
<td></td>
<td>1981-1984</td>
</tr>
<tr>
<td></td>
<td>Edwin Harper – Assistant for Policy Development 1982-1983; Deputy Assistant</td>
</tr>
<tr>
<td></td>
<td>for Domestic Affairs and Policy; Deputy Director of OMB 1981-1982</td>
</tr>
<tr>
<td></td>
<td>John Svahn – Assistant for Policy Development 1983-1985</td>
</tr>
<tr>
<td></td>
<td>Craig Fuller – Assistant for Cabinet Affairs 1981-1984</td>
</tr>
<tr>
<td></td>
<td>Murray Weidenbaum – Chairman of Council of Economic Advisers 1981-1982</td>
</tr>
<tr>
<td></td>
<td>Martin Feldstein – Chairman of Council of Economic Advisers 1982-1984</td>
</tr>
<tr>
<td></td>
<td>Edwin Gray – Deputy Assistant and Director of the Policy Development Office</td>
</tr>
<tr>
<td></td>
<td>1981-1982</td>
</tr>
<tr>
<td><strong>Political</strong></td>
<td>James A. Baker III (Inner Circle) – Chief of Staff 1981-1985</td>
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<tr>
<td></td>
<td>Michael Deaver (Inner Circle) – Deputy Chief of Staff 1981-1984</td>
</tr>
<tr>
<td></td>
<td>David Gergen – Assistant for Communications 1981-1984</td>
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<td></td>
<td>Max Freidersdorf – Assistant for Legislative Affairs 1981-1983</td>
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<td>Kenneth Duberstein – Assistant for Legislative Affairs 1983-1985</td>
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<tr>
<td></td>
<td>George H.W. Bush – Vice President 1981-1985</td>
</tr>
<tr>
<td></td>
<td>Lyn Nofziger – Assistant for Political Affairs 1981</td>
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<tr>
<td></td>
<td>Ed Rollins – Assistant for Political Affairs 1981-1983</td>
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<td></td>
<td>Richard Wirthlin – Pollster 1981-1985</td>
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<tr>
<td><strong>Honest Brokers/Fixers</strong></td>
<td>Roger Porter – Executive Secretary of Cabinet Council on Economic Affairs</td>
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<tr>
<td></td>
<td>1981-1985; Deputy Assistant and Director of the Policy Development Office</td>
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<tr>
<td></td>
<td>1982-1985</td>
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<td></td>
<td>Joe Wright – Deputy Director, Office of Management and Budget 1981-1985</td>
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<tr>
<td><strong>External Economic Advisers</strong></td>
<td>Donald Regan – Secretary of the Treasury 1981-1985</td>
</tr>
<tr>
<td></td>
<td>Paul Volcker – Chairman of the U.S. Federal Reserve Board 1981-1985</td>
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</table>

The Office of Policy Development and the Political Affairs office also allowed for multiple points of access into the senior staff triumvirate. Political Affairs was useful in insulating Reagan from partisan appeals during the budget revision and subsequent reconciliation process, with longtime Reagan associate Lyn Nofziger and later Ed Rollins serving as directors of the office in the first term. OPD was Meese’s policy group, headed by
Martin Anderson, then Edwin Harper and finally John Svahn, and they helped coordinate and
roundtable economic issues before Meese met with senior staff.  

There was also the cabinet council system, under Roger Porter and connected to
senior staff through Craig Fuller, the Assistant for Cabinet Affairs. This system insulated the
president from his cabinet, and created a forum for vetting cabinet and advisory policy issues
before they went to the Oval Office. The council allowed the T-2 tier of economic advisers,
deputies at OMB, CEA and Treasury, to resolve issues before they went to the T-1 tier of
Stockman, Baker, domestic adviser Martin Anderson, and Meese. This T-1 group, initially
called the Budget Working Group in 1981 and 1982, became known as the Budget Review
Board by 1983 and acted as a final clearinghouse for round tabling policies and ideas from
the cabinet councils, OMB and CEA before they went to the president.

In fiscal policy, this meant that cabinet, the OMB staff, the CEA, as well as Congress,
all had a funnel through which their ideas could make their way to the president. Fiscal
decisions were vetted at a number of different locations before being presented to the
president. Reagan, averse to large meetings with open disagreement, preferred that policy
disparities be worked out in private and clear options be presented to him in staff
meetings. Because Reagan was a superb delegator, but with little intellectual acuity, a
spokes-in-a-wheel or rigid hierarchical White House, like that of Carter or Nixon, could have
cut off an effective review of options, collegial consultation, and some advisory balance.
Credit the triumvirate for preventing Reagan from becoming captive of one advisory group,

255 Margaret Jane Wyszomirski, "The Roles of a Presidential Office for Domestic Policy: Three Models and
Four Cases," in The Presidency and Public Policy Making, ed. George C. Edwards III, Steven A. Shull, and
256 Campbell, Managing the Presidency: Carter, Reagan, and the Search for Executive Harmony, 183-184,
particularly after the early legislative successes of the ideologues. This system of a funnel with multiple points of access has not been replicated since Reagan’s first term.

For the first term, the fiscal decisions were being made largely by the four senior staff. Baker argues that “there was a period when we were sort of feeling our way…but we’d sit down and work things out where there was a problem.”258 Stockman had generated the fiscal plan during the campaign and the triumvirate worked to implement it in 1981. While it is convenient to label the Meese side the policy generating side and the Baker side the implementation side of the White House, in the passage of the 1981 tax and budget policies, both sides functioned collectively as implementers. Stockman had unfettered control over the policy process, even so far as to have the key Republican and Democratic Congressional supporters of the president’s economic policy, like Democratic Congressman Phil Gramm, working directly with the OMB.

The central role Stockman and the supply-siders in OMB, Treasury, and on Meese’s staff played suggest that the lead up to the passage of the economic legislation was unrestrained ideological entrepreneurship. Stockman was given basic guidelines to cut tax rates as deeply as possible and cut the budget as much as he could on the domestic side while working with Defense Secretary Caspar Weinberger to ratchet up the defense budget. He had significantly more leeway in his policy actions than had former OMB directors. But this brief period of entrepreneurial activity was tempered by the political machinations of the Baker side of the operation, which held out against the ideologues on the Meese side and within the OMB and the CEA. Certainly the ideologues could claim a legislative victory in 1981 but once the true accounting was apparent and the size of the deficit was made clear,

258 Interview with Baker.
prudence and ideological reversal took hold and 1982 legislation attempt to upturn much of the fiscal imbalance caused in 1981.

4.2 The Bush II First Term Advisers: Political Advisers and Ideologues

George W. Bush’s initial set of advisers had the makings of another Reagan first term. Like the troika model, Bush also originally set out his advisory system with three top people, Karl Rove, Karen Hughes and Andrew Card. Rove, the architect of both his election wins, was made Senior Adviser, a title that allowed him considerable latitude across all aspects of White House business. Not only did he have a hand in policy, but in communications and political strategy as well. His authority and influence over domestic and economic policy would grow steadily in the first two years of the administration. Rove was the dominant political adviser in the Bush White House. Hughes became Counselor to the President, his first communications and media relations manager, and his confidant during the transition stage. Rove and Hughes were considered Bush’s top two strategic thinkers but Hughes’s influence waned as Rove and Cheney asserted more control over policymaking.

Card was named Chief of Staff and given control over staffing decisions. Appointed very early in the transition, while the Supreme Court was still reviewing the Florida recount, Card tried to avoid the trappings of the strong chief of staff model that had not helped Reagan and Bush I. But he was also concerned about being too ineffectual and not strong enough to be an effective gatekeeper for the president. By all accounts, his White House

experience suited the gatekeeping role of chief of staff well and Card, along with Personnel Director Clay Johnson, was incredibly effective at completing almost all White House staffing decisions by the time of Al Gore’s concession.261

Downplayed by the new staff, the comparisons to the troika were understandable, with Card in the Baker role, Rove as Bush’s ideological conscience like Meese to Reagan, and Hughes as orchestrator of his image, like Deaver.262 On the surface, this appeared to be the power centers in the Bush White House but when it came to policy, specifically economic policy, it was illusory. While Rove played a key advisory role in all policy decisions, the vice president quickly became his equal. From even before the Florida recount and Supreme Court debacle had been settled, Dick Cheney was working towards considerable influence over economic policy. Cheney confidant Paul O’Neill was named Treasury Secretary, close Cheney associates Grover Norquist and Allan Hubbard served as economic advisers on the campaign trail in developing Bush’s signature tax cut campaign promise, and Cheney also made sure Lawrence Lindsey, the key economic strategist during the election cycle, had developed the tax cut details and plan long before this team entered the White House. The vice president also recommended the hiring of Indiana businessman Mitch Daniels for OMB Director and Sean O’Keefe, whom he knew at the Defense Department, as the Deputy Director. Cheney believed both would be loyal to the president’s agenda on budget policy and very helpful to his regulatory reform efforts across the government as a whole.


Cheney’s influence first over budget policy and then over fiscal policy generally would expand over the course of the Bush administration as he oversaw the ballooning deficit and was the chief enabler of the series of follow-on tax cuts. But his influence at the beginning stemmed from his own understandings of the budget process. Cheney was the White House’s expert, given his previous experience as a Congressman, cabinet member and inner circle adviser, and so he took responsibility for the internal budget appeals process by heading up the Budget Review Group, which included Daniels, Lindsey, Card and O’Neill. This was the Bush administration’s only serious attempt to deal with line department spending through the Performance Assessment Rating Tool (PART), administered by Clay Johnson. PART was an OMB creation that linked departments to performance budgeting to incentivize savings and budget increases based on specific criteria. Its benefits for fiscal restraint were most observed in the first two years and only in traditional Democratic departments but after 9/11, budgeting was a sideshow to the increases in defense, homeland security and war on terror spending. Overall, PART would have little effect on total government spending. For a vice president to administer and have such control over OMB was unprecedented. As Shirley Ann Warshaw suggests:

One is hard-pressed to imagine OMB directors David Stockman in the Reagan administration, Richard Darman in George H.W. Bush administration, or Leon Panetta and Alice Rivlin in the Clinton administration allowing the vice president to create a check on their budget decisions.

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No other set of advisers had ever been so well prepared to implement a first term agenda than the Bush team. Remarkable both for their efficiency in passing nearly all of the campaign agenda, including the massive $1.35 trillion dollar tax cut within the first six months, and for their on-message, closed door, no leaks protection of the president, much has been made of this group as a model of management skill and discipline from the transition to the end of the first term.266 As one former senior adviser suggested, “by the time we got around to about 2004…people underestimate, we got almost everything we wanted.”267

Unfortunately for Bush, this had a deleterious effect. The president was not inquisitive when it came to policy and he lacked the ability to develop a system with real competing viewpoints that would benefit him at key decision points. While his foreign policy decisions have been explored extensively in the case of this administration, the fiscal policy advisory system has not. It is unique in that this was arguably Bush’s strongest policy area, the one clearest in terms of campaign vision and identity. But he was unable to ascertain where this single-minded set of policy ideas might lead his presidency. The political impetus for tax cuts was perfectly apparent during the 2000 election and in the subsequent months when his tax cut and first budget were passed. But the political capital he spent on tax reform following the events of 9/11 would prove disastrous to his administration when the nation became enveloped in a deep and multifaceted recession partially caused by the fiscal example he had set and the fiscal environment in both the public and private sector over which he presided.

The Bush economic team was built around loyalty to the key advisers in the run up to his presidential candidacy (see Table 4.2). Lawrence Lindsey and R. Glenn Hubbard, both students of former Reagan CEA Chairman Martin Feldstein, had built reputations as conservative economists trusted in Republican circles. Feldstein had instilled in them a firm belief in the problems with expanding social insurance programs and high tax rates.\textsuperscript{268} Lindsey, Bush’s first NEC Director, had been brought down to Texas as early as 1997 to advise the then Governor and again in 1999 by Joshua Bolten, the campaign’s policy director, to build the Bush tax cut plan during the policy process to get then Governor Bush ready for a presidential run. Hubbard was also very well respected among Republicans, and was tapped as the new Chairman of the CEA. They were joined by Daniels at OMB, a former Reagan adviser and a corporate CEO with conservative think tank credentials, who worked with John Cogan, a Hoover institution domestic policy expert who helped head up the budget transition team.

Finally, Cheney friend and Alcoa CEO Paul O’Neill was installed as Treasury Secretary. Bolten, who organized most of Bush’s pre-election advisory workshops, also became a key player early on, as Deputy Chief of Staff, working with Rove and coordinating the Domestic Policy Council.\textsuperscript{269} He and Rove quickly moved to take over the domestic policy portfolios from other advisers. Michael Gerson became Bush’s chief speechwriter but he would take on a more powerful role, gradually moving into a domestic policy capacity as well by 2002.


\textsuperscript{269} Burke, \textit{Becoming President: The Bush Transition, 2000-2003}, 90.
### Table 4.2 The First Term Bush II Economic Advisory System

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
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</thead>
</table>
| Ideologue       | Dick Cheney (Inner Circle) – Vice President 2001-2005  
|                 | Karl Rove (Inner Circle) – Senior Adviser, Deputy Chief of Staff 2001-2005  
|                 | Lawrence Lindsey – Director of National Economic Council 2001-2002  
|                 | R. Glenn Hubbard – Chairman of Council of Economic Advisers 2001-2003  
|                 | Stephen Friedman – Director of National Economic Council 2002-2005 |
| Policy          | Andrew Card (Inner Circle) – Chief of Staff 2001-2005  
|                 | Karen Hughes (Inner Circle) – Counselor to the President, Director of Communications 2001-2002  
|                 | Mitch Daniels – Director of Office of Management and Budget 2001-2003  
|                 | Joshua Bolten (Inner Circle) – Assistant to the President and Deputy Chief of Staff 2001-2003, Director of Office of Management and Budget 2001-2003  
|                 | N. Gregory Mankiw – Chairman of Council of Economic Advisers 2003-2005  
|                 | Joe Hagin – Deputy Chief of Staff 2001-2004  
|                 | Dan Bartlett – Director of Communications 2002-2005  
|                 | Nicholas Calio – Legislative Affairs Director 2001-2005 |
| Honest Brokers/Fixers | Paul O’Neill – Secretary of the Treasury 2001-2002  
| External Economic Advisers | Alan Greenspan – Chairman of the U.S. Federal Reserve Board 2001-2005  
|                           | John Snow – Secretary of the Treasury 2002-2005 |

Apart from these few people, none of the other White House advisers had any real decision making role in fiscal policy and few others, beyond the triumvirate and National Security Adviser Condoleezza Rice, could be considered part of a George W. Bush inner circle. Margaret Lamontagne-Spellings became domestic policy adviser but she was largely focused on education and became Education Secretary shortly thereafter, Dan Bartlett became Communications Director but even as he succeeded Hughes he never had the personal relationship with the president, and Nicholas Calio was made the Legislative Affairs
Director, whose perhaps most notable moment was in not preventing Jim Jeffords to exit the Republican Party and hand Senate control back to the Democrats in 2001. All three were never part of the core policy inner circle.

Bush’s first year decision making team consisted of Cheney, Card, Rove, Hughes and sometimes Rice. Their strategy sessions occurred each morning during the daily meeting with the president. But Rove would also conduct long term strategy sessions once or twice a month, the so-called “strategery group” that planned ahead the president’s goals and schedule through Rove’s Office of Strategic Initiatives, and allowed Rove to tweak the presidential agenda on the campaign issues. Not surprisingly, it was these sessions which became the focal point for policy planning and decision making in the White House.

Even before 9/11, the inner circle was restricted to just a handful of people and by 2002, Cheney, Card, Rove, Rice and Bolten effectively became the policymaking apparatus within the White House. Unlike the first Reagan term, there was no set of funnels from which ideas could be transmitted to the inner circle to debate and discuss. There were only informal connections to the key players, a spokes in a wheel system but with many broken spokes, and soon it became an increasingly small group of advisers led by Rove and the vice president. All dissent, including those advisers with strains of Republicanism that objected to certain portions of the administration’s agenda, was cut out. For those outside of the inner circle, it was a truncated process, and as one former adviser described it, “the reality is that policy is usually made where there is no alternative and so there are ‘action forcing events’

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that cause the creation of policy and that’s either a campaign…or state of the union every year.”

The classic studies of small group dynamics in presidential decision making by psychologist Irving Janis gave rise to the concept of “groupthink” in which individuals in pressure-filled and non-transparent decision making capacities are capable of serious systematic mistakes. Archetypal examples of groupthink imply small groups working in an apex capacity, like those in the White House, that are prone to what James Pfiffner terms “the illusion of invulnerability and inherent morality.” The Bush administration’s handling of the counterterrorism effort before 9/11 should certainly have alerted those monitoring the administration to their disregard for roundtabling issues and policies. It is submitted here that not only did the Bush White House offer up examples of groupthink in key foreign policy decisions, which have been taken up by academics extensively, but in key fiscal decisions as well.

After a focusing event like 9/11, the presidential advisory network can be cut off more easily from an effective review or countervailance of positions staked out by the leadership. Colin Campbell invokes the term “unrestrained ideological entrepreneurship” to describe this environment. The George W. Bush administration in the aftermath of 9/11 provides almost a textbook case of this, in which policy decisions with serious long-term negative impacts on both the effectiveness of the policy enacted and the credibility of the administration were made.

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274 Campbell, "Unrestrained Ideological Entrepreneurship in the Bush II Advisory System: An Examination of the Response to 9/11 and the Decision to Seek Regime Change in Iraq."
The most obvious example of the unrestrained conditions were when Bush’s advisers tried to make the case for weapons of mass destruction in Iraq to justify going to war based on inaccurate evidence, and were overly optimistic in planning the invasion and occupation of Iraq, with a series of military decisions that helped further destabilize the country, such as the decision to dismantle the Iraqi army. That zeal for war contributed to a litany of problematic decisions approved by the president but made by like-minded advisers, including Vice President Cheney’s and Deputy Secretary of Defense Paul Wolfowitz’s initial ideas for regime change in Iraq, the go-it-alone unilateralism of the Bush Doctrine as articulated by Rice, and military tribunals for enemy combatants and elements of the Patriot Act that were constitutionally sketchy suggested by Attorney General John Ashcroft and Cheney’s legal staffers.

The Bush II economic advisory system had veered towards groupthink and shifted to unrestrained control by ideologues almost from the beginning. With the initial set of tax cuts where Rove’s influence allowed political advisers to shape and sell that tax cut package, groupthink was certainly present. But it became most apparent with the set of tax cuts after 9/11. The brainchild of Glenn Hubbard, the CEA Chairman, with influence from Rove and Cheney, the smaller 2002 and far larger 2003 sets of tax cut legislation were seen by most economists as an ill-devised post-crisis reaction to the weakness of the economy. It was not a stimulus package as the White House articulated so much as a further redefining of the tax code for the benefit of the wealthiest and the private sector.

Following the 2002 midterms, polls suggested that Bush’s support could weaken if the sluggish economy did not improve. Cheney, Rove, Bolten and Card suggested to the

president that O’Neill and Lindsey be removed and replaced by economic advisers more closely aligned with Wall Street and the administration principles of tax cuts. Stephen Friedman, co-chair of Goldman Sachs, became the new NEC Director and John Snow, a railroad CEO, became the new Treasury Secretary. Lindsey was loyal to a fault after his comments about the cost of the Iraq war skyrocketing to between $100 and $200 billion were seen as off-message.276 O’Neill on the other hand was furious at the way Bush and Cheney pushed him out and published a memoir of his treatment that offered perhaps the best inside view of the first term of the Bush administration. O’Neill’s descriptions, but more importantly those by John DiIulio, Bush’s first Director of the Office of Faith Based Initiatives, both interviewed by journalist Ron Suskind, painted a picture of a doctrinaire and politically heavy team of White House advisers, with little or no policy apparatus.277

O’Neill’s central concern was that the deficit was used as a political tool and the only advisers Bush was allowing into his inner circle were sold entirely on tax cuts. Further, as Sidney Blumenthal argues, O’Neill seemed genuinely angry at how incurious and political Bush was towards fiscal policies.278 O’Neill recounted to Suskind that “ideology is a lot easier, because you don’t have to know anything or search for anything. You already know the answer to everything. It’s not penetrable by facts. It’s absolutism.”279 As sour grapes as the memoir is and the fact that he was outside of the basic White House policy process as a cabinet secretary, O’Neill expresses genuine disbelief at how much his friend Dick Cheney

277 O’Neill argued that “there seemed to be no apparatus to assess policy and deliberate effectively, to create coherent governance.” Quoted in Suskind, The Price of Loyalty: George W. Bush, the White House, and the Education of Paul O’Neill, 97.
had bought into supply side and starve the beast ideology.\textsuperscript{280} There was no sound economic rationale for Cheney’s insistence on tax cuts and deficits.

This absolutism was also apparent in the outside advice from economists that Cheney sought out. As Ethan Harris, chief economist of Lehman Brothers argued, the “Bush administration has counseled with economists at various times…Basically 90 percent of the people are kind of preaching to the choir, and maybe they have one or two middle-of-the-road people. They really don't seem to want to hear opposing views.”\textsuperscript{281} With O’Neill and Lindsey gone, the new team was even more conservative than the first team. Stephen Friedman’s and John Snow’s ability to stay on message after 9/11 was remarkable for an economic team. The replacements benefitted the White House’s image with Wall Street because both Friedman and Snow had longtime ties to corporate America but they were easily influenced by the doctrinaire ideas of Cheney. It was also Hubbard’s tax policy expertise on display with the second Bush tax cut in 2003, which slashed corporate dividends.

Hubbard departed the White House to take over Columbia Law School as Congress took up the Bush stimulus package and left Snow, Friedman and new CEA Chairman N. Gregory Mankiw to help pass the new legislation. But this plan had already been in place before any of the new team was installed. As Elisabeth Bumiller wrote, “the current staff turnover has had little effect on the economic stimulus package…the economic plan was hammered out months ago by a small core of still-in-place presidential advisers—Vice President Cheney, Karl Rove, Andrew H. Card Jr., and Joshua Bolten—who control all

\textsuperscript{280} Ibid., 293.
domestic policy in an administration where power is ever more tightly held at the White House.”282

Daniels, whose OMB had been Cheney’s starve the beast workshop for program cuts and regulatory reform, left to start his Indiana gubernatorial campaign in 2003 and was replaced by Josh Bolten. Bolten’s transformation from policy adviser to head of OMB completed the Bush administration’s tightening of the reins over economic policy to a handful of trusted loyalists. Snow, Mankiw and Friedman could be used for financial and academic cover as the second series of tax cuts was passed. Moving Bolten to OMB Director only cemented the single mindset of economic advisers.

Tatalovich and Frendreis have termed Bush’s first term fiscal policy as “unidimensional.”283 Tax cuts were paramount to fiscal policy while spending and budgeting were deemed only a necessary part of the process but ultimately not a major priority. The restrictiveness of the Bush economic policy inner circle made them unrestrained entrepreneurs of a tax cut ideology. The immediate post-9/11 tax cuts prominently showcased Dick Cheney’s influence. After his ouster, O’Neill discussed Cheney’s transformation to ideologue in his memoir. It was made clearest in Cheney’s belief that deficits were not a political concern. As O’Neill related, Cheney argued that “Reagan proved deficits don’t matter…We won the midterms. This is our due.”284

As the budget deficit grew and the only spending that the administration tried to control was in smaller traditionally more liberal line departments and agencies, Cheney filled

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284 Suskind, The Price of Loyalty: George W. Bush, the White House, and the Education of Paul O'Neill, 291. As Schick argues Cheney, like other supply side supporters, believed that the deficit does not have much influence on economic development. See Schick, "Bush's Budget Problem," 94.
the void left by the absence of aggressive economic advisers. Snow and Friedman were committed to the supply side rationale and active in defending the administration’s tax cutting ethos. Friedman and Mankiw operated like Weidenbaum and Feldstein had, happy to go along to get along even if they were not influential in the policy process. But even Friedman managed to speak truth to budgets when he, like Lindsey before him, tried to accurately forecast the total cost of the Iraq war. Friedman chose to step aside and yet another NEC Director was appointed in 2005, Indiana businessman and former Bush classmate Allan Hubbard, a committed loyalist. The revolving door of NEC Directors, seemingly fired for discussing the costs of the war, were akin to Nixon’s firing of Attorneys General during the Watergate hearings. The difference here is that the Bush NEC Directors were all ideological loyalists.

Bush himself appeared not to be an ideologue on all economic policies in the first year. He liked tax cuts for political reasons although the first set designed by Lindsey was indeed an ideological series of tax cuts. But Bush was a superficial supply-sider. He understood their political rationale, as did Reagan, but the tax policies were shaped more by the ideologues than Bush’s own beliefs. Reagan carefully back peddled when the fiscal environment shifted in 1981. Bush seemed not to learn this key lesson from the Reagan era. Reagan was popular not because of these supply side policies but because he was Reagan and happened to preside over an economic boom just prior to his reelection that was largely the result of the Federal Reserve’s monetary policy and a preceding decade of slow economic growth. Bush’s inability to neither dig deep on issues nor understand whether the advice he was being given was representative of all, at least Republican, points of view damaged his presidency greatly. After 9/11, Bush not only became captured by ideologues in foreign
policy but by tax cut extremists in fiscal policy, particularly those advocating for a second and third round of tax cuts. By 2003, Bush had sacrificed his goal of being a center-right pragmatist president, whether he knew it or not.

The deficit was increasing in the first two years with the twin shocks of the recession and then the 9/11 recovery but it really started to take off under Josh Bolten’s watch, peaking in the first term in 2004 at $413 billion, the largest deficit to that point in American history.\textsuperscript{285} Unable to control spending, tax revenue declined and government spending increased with the two wars and the enlarged homeland security budgets. Any benefit from the PART performance budgeting, the small scale starve the beast work being done by Cheney and OMB, was dramatically offset by the military and homeland defense spending increases.

The second set of economic advisers could have been much more balanced. The hiring of Friedman and Mankiw suggested that there would be a little more variety than just Lindsey and Hubbard focusing entirely on taxes. Friedman was thought of as a closet deficit hawk and Mankiw had some non-conservative credibility going into his chairmanship.\textsuperscript{286} But Friedman showed no inclination or concern about lowering the deficit. In early editions of his textbook on macroeconomics, Mankiw described supply-side doctrines as “fad economics” that occurred when “a small group of economists advised presidential candidate Ronald Reagan that an across-the-board cut in income tax rates would raise revenue...When


politicians rely on the advice of charlatans and cranks, they rarely get the desirable results they anticipate.”

As a White House adviser, however, Mankiw spent most of his time as a mouthpiece for the president and fending off criticism from the right for the aforementioned slight. While his supply side credentials may have been challenged, his difference from the other economic advisers amounted to a splitting of hairs. As Robert Atkinson argues, Mankiw just “relied on Keynesian economics to justify the supply side tax cuts.” Eventually he too resigned and returned to teaching. The end result of this first term set of advisers was an economic team that advocated unsustainable deficit spending and tax reform that dramatically tilted tax incentives towards the wealthiest and the investor class.

4.3 Fiscal Legislation and Advisory Influence: The First Reagan Term

The Reagan campaign was based on four general themes; lower tax rates, domestic spending cuts, defense spending increases, and government regulation and government waste reduction to allow for private sector growth. Even before inauguration, Reagan’s advisory team had some institutional advantages with the economic legislation. The tax cuts Reagan wanted were already developed in a package that had made its way through Congress and had generated significant bipartisan support. The Kemp-Roth package was adopted for the campaign, as were the spending cuts that Congress had worked on during the Carter years. The troika also decided to use the budget reconciliation process as an up-and-down vote on the entire economic package which would help keep supporters in line and keep dealmaking

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between members of Congress and the White House to a minimum. This strategy forced Congress to vote out first concurrent reconciliation bills in the spring of 1981 instead of at the end of the process as the CBICA had envisioned. As Phil Hanna, Deputy Chief of Labor, Veterans, and Education for OMB recalled, “They knew they had this chance with the review committee—Meese and Baker and Stockman—and they did, they took advantage of it.”

Partisan and ideological influences coalesced over the tax and budget plans; the leadership of a revitalized Republican majority in the Senate did not want to be seen running interference against White House goals and strategy, and the focus on the economic legislation allowed the OMB to function as a legislative affairs operation. Congressional leaders were given access to staff while the OMB Director lobbied and worked with senior advisers to achieve the broadest spending cuts. As James M. Frey, Assistant Director of Legislative Reference for OMB, described:

This administration was just the reverse [of Carter]…almost the total emphasis, putting aside a few things in the foreign affairs field, was on the budget and economy, the new economic program that President Reagan was pushing, to the exclusion of almost everything else in terms of priority-setting. Very single-minded and from their point of view, very successful.

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290 Reagan did not have a penchant for programmatic detail and in the negotiations over budget reductions with departments and with Congress, this proved an asset. Direct lobbying of the president was cut off from the budget process by the triumvirate so that appeals on behalf of specific programs or government spending projects were thwarted.
292 Interview with Phil Hanna, Campbell Collection, Georgetown University. Gilmour summarizes the reconciliation technique the White House exploited: Reconciliation is commonly believed to have been initiated in 1981 by David Stockman, when the process was used to serve Republican purposes. Had the Democrats not inaugurated reconciliation [in 1980 under Carter] by shifting it to the first resolution, it would not have been available for Stockman in 1981. It is doubtful that the House parliamentarian, an appointee of the Speaker, would have allowed reconciliation on the first resolution, to the benefit of Reagan’s program, had the precedent not been set the previous year. See Gilmour, Reconcilable Differences?: Congress, the Budget Process, and the Deficit, 111.
293 Interview with James M. Frey, Campbell Collection, Georgetown University.
294 Interview with James M. Frey, Campbell Collection, Georgetown University.
A major reason they were successful at this early stage was that the inner circle were simply better managers than Carter’s senior staff. Further, Reagan decided on a going public strategy to get public opinion behind his economic package. In July 1981, Reagan presented the revised budget to the public prior to a vote on the package in the House. It proved to have a destabilizing effect on the Democratic majority that recognized the president had tremendous popular support following his assassination attempt with polling that showed two-thirds of Americans agreed with Reagan’s basic economic proposals and an overwhelming percentage of the public supported the president generally.295

The histrionics of the passage of the ERTA and the omnibus budget act are covered in detail in memoirs by David Stockman and Assistant Secretary of the Treasury Paul Craig Roberts. In the final Gramm-Latta II package, Reagan was able to cut $55 billion from the federal budget with a large increase in defense spending. It represented an enormous victory for the president, who could claim a cut in welfare state spending, and for Congressional Republicans, who managed to win a floor fight with Democrats on Gramm-Latta II.296

The actual specifics of the budget legislation were a full FY1982 $695 billion white paper federal budget, with over eighty programs cut and a FY1981 budget revision that included tax cuts and spending reductions. Only the defense budget was increased, by $7.2 billion of which every penny was fought over between Stockman and Weinberger. The Kemp-Roth cuts amounted to about a 23 percent tax cut for individuals for the three

295 Calling on the public to write their congressional representatives to support his package (the former Kemp-Roth and now Conable-Hance II bill) Reagan managed to get most southern Democrats behind his tax plan. As Stockman summarized, “the Kemp-Roth tax cut standing alone never had a chance. Only its merger with the business coalition’s 10-5-3 depreciation liberalization bill and the cornucopia of tax ornaments generated in June and July by the congressional politicians made it legislative viable.” See Stockman, *The Triumph of Politics: How the Reagan Revolution Failed*, 286.
subsequent fiscal years.\textsuperscript{297} To this was added the middle income exemptions and various savings incentives for married couples and charitable donations. The total revenue cost was about the same as the 30 percent cut in the original Reagan package.\textsuperscript{298} The maximum tax rate for the top bracket was cut from 70 to 50 percent and capital gains taxes were cut by one-third from 28 to 20 percent. Domestic spending cuts were inflicted most severely on the poor and on those relying on government grants and funding.\textsuperscript{299} In total, $280 billion was cut over the three years with a total savings of $130 billion in federal spending over that period.

The ERTA’s immediate effect was to help send the economy into a tailspin, as the recession hit hard in late 1981 and lasted through 1983. The OMB, which had been forecasting a balanced budget and a zero-annual deficit first by FY1984 and then by FY1986, was forced to abandon any claims that the budget could be balanced even during the second term. The flaws in logic of supply side economics quickly came to the foreground.

Stockman and Darman both understood by July 1981 that without draconian cuts to all entitlement programs in the budget, massive deficits would result. But they stayed quiet not wishing to derail the legislative victory.\textsuperscript{300} After the votes were secured, Stockman and

\begin{enumerate}
\item The initial Kemp-Roth thirty percent proved unattainable so the president publicly demanded a twenty-five percent cut and House Democrats responded with a series of tax proposals that failed to meet the objectives. Stockman worked with House and Senate leaders to develop a compromise proposal, which developed into the compromise Conable-Hance bill, then a tax indexing requirement that annually adapted all tax brackets, personal exemptions and standard deductions to the inflation rate, and finally an employee stock ownership plan. Antagonized by being outplayed on the budget negotiations, Democrats instead offered middle-class tax breaks and exemptions and scaled back the business and supply side tax cuts. This eventually led to a Congressional-White House showdown on a package known as Conable-Hance II. The president still managed to get about a 25 percent tax cut, 5 percent on October 1, 1981 and 10 percent on July 1 of 1982 and 1983. See Stockman, \textit{The Triumph of Politics: How the Reagan Revolution Failed}, 270-276.
\item Heclo and Penner, "Fiscal and Political Strategy in the Reagan Administration," 29.
\end{enumerate}
Darman determined that ERTA would “reduce the federal revenue base by two trillion dollars over the course of the decade.”\textsuperscript{301} The real problem with supply side calculating was the federal revenue base was scaled back to just seventeen percent of GNP but federal outlays, welfare state and defense spending, with inflation-adjusted indexation of entitlements, were over twenty-two percent of GNP. Chronic deficits would thus continue.

Furthermore, Congress would not allow massive follow-on spending cuts after already cutting the budget in 1981. Perpetual negotiation with Congressional leadership would take place a number of times during each year and result in bitter legislative struggles for the remainder of Reagan’s presidency. Without serious follow-on government expenditure reductions of all major programs, including the defense budget and entitlement programs, lowering tax rates created massive deficits. While some supply-siders, including Stockman, believed in these cuts to shrink the welfare state and ‘starve the beast’ to prevent government expansion, it proved difficult to cut the federal budget. There would be a triumph of politics, in Stockman’s assessment, in which only part of a supply side grand doctrine, the political windfall tax cut and a brief reduction in domestic government spending, was ultimately implemented. The president’s inner circle, Congress and interest groups then closed ranks and never allowed the kinds of cuts supply-siders wanted.

The numbers the OMB and CEA cooked up revealed the limitations of the ideological framework. As the economy changed, the ‘Rosy Scenario’ numbers the OMB and CEA calculated in 1980 and early 1981 no longer added up, which put the careerists in OMB on a path of no longer developing ideas but merely making the numbers fit the administration’s

\textsuperscript{301} Stockman, \textit{The Triumph of Politics: How the Reagan Revolution Failed}, 283.
ideological plans.302 The warnings Hugh Heclo heeded in the 1970s about the decline of neutral competence certainly rang true under Stockman and Weidenbaum, as all presidential budget decisions, previously a process of reconciliation between policy goals of senior staff and expertise and objective analysis of the budget and the economy from OMB and CEA staffers, were worked out in an excessively top-down fashion.303 The politicization proved dire in September as Stockman became overloaded in trying to rein in the deficit while his budget examiners and fiscal analysts tried to fit square pegs into round holes. He never had the ‘objectivity’ needed to see the supply side folly and present them accurately to the president before it was too late.304

The second concern for the administration was that Stockman offered up an insider account that outlined the economic and accounting improprieties that led to massive deficits.305 In The Atlantic Monthly, Stockman described the ‘magic asterisk’ unidentified savings accounting gimmicks the OMB was using and offered a complete record of the cooking of the books. He would never again have the unrestrained control over the tax and budget process he had had the first year, as the Baker side assumed increased responsibility over budget policy for the remainder of the first term. Further, Stockman tried to refashion himself an OMB honest broker from a supply side ideologue in calling for higher taxes and


305 During the entire review and reconciliation process he had met with journalist William Greider to tell the story of the 1981 economic plan. Released in a cover story in December 1981, Stockman’s account nearly got him fired and caused significant rumbles among Reagan’s closest associates who believed this once loyal subject had betrayed the cause. In its most accusatory, Stockman argued that the economic plan had been merely a ‘Trojan horse’ to make the rich even richer through trickle-down economics. See William Greider, "The Education of David Stockman," The Atlantic Monthly, December 1981.
cuts in defense spending. His credibility among many senior staff, particularly Meese, waned from September 1981 onwards. The CEA Chairman also had had enough of cooking the books. Expected to champion and sell the package, Weidenbaum eventually resigned:

As I had participated in developing the 1981 economic program, I initially felt very comfortable in carrying out this high-priority presidential assignment of economic “marketing.” In 1982, as the gap between the execution of policy and its original enunciation widened substantially, I reduced my public involvement. In August 1982, with the prospect of having to defend extended triple-digit deficits, I quietly returned to my academic position.307

As he described it, “in the Reagan Administration, the main role of the CEA has not been to develop additional, brave new programs, but to operate what we called an economic damage-limitation mechanism.” The CEA, operating in a go along to get along environment, sacrificed some of their academic honest broker cache. This became more pronounced under Martin Feldstein, who presented pessimistic scenarios of economic growth and deficit-related economic effects in the CEA’s annual economic report based on numbers

306 The ideologues would blame Stockman for compromising so much with Congress and that his transformation, as Meese argued, “into a tax-hike mole in a tax-cutting government” was disingenuous to the basic Reagan platform and had a deleterious internal effect on the ability of the triumvirate to work together. See Meese III, With Reagan: The Inside Story, 138, 140.
308 Ibid.: 240.
309 Senior staff like Baker knew that the president was uncomfortable in the face of hard economic realities in staff meetings and so the CEA’s influence was less significant from the start in battling the entrepreneurial Stockman. As Larry Kudlow, Associate Director for Economics and Planning for OMB, argued “it’s…a function of the fact that we’ve been very aggressive…OMB has, so we’ve wanted to be involved.” CEA was not excluded but, as Niskanen suggested, “we have very little contact with the president, and in fact that’s true even of the chairman.” From Interview with Larry Kudlow, Campbell Collection, Georgetown University and Interview with William Niskanen, Campbell Collection, Georgetown University.
1982 started with a severely troubled economy, increased unemployment, higher levels of poverty, and national debt surpassing one trillion dollars. ERTA had shrunk government revenues by nearly 3% of gross domestic product and the cuts in welfare and social programs in 1981 were made worse by increased unemployment and a subsequent surge in applications for government welfare benefits. More significantly, the deficit concern increased interest rates dramatically as stock and bond markets fluctuated during the recession. With deficits on everybody’s mind, the compromise tax package eventually agreed to between Congress and the White House, the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) raised almost $99 billion in increased tax revenue and proved to be the largest tax increase in history. While not rescinding the Kemp-Roth cuts, it repealed the business depreciation deductions, and doubled excise taxes on telephone service and cigarettes. But TEFRA’s revenue enhancements did not restore government coffers to offset both the Kemp-Roth cuts and defense spending increases. Triple digit deficits would now continue throughout the Reagan years.

TEFRA proved to be the end of ideologues dominating White House fiscal policy. As Ken Duberstein argues, Baker “was particularly good at taking Reagan’s philosophy and

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311 Altman, Neoconomy: George Bush's Revolutionary Gamble with America's Future, 33-34.
312 Ironically, TEFRA was not drafted by House Democrats, where money bills are constitutionally supposed to originate, but by the Republican Senate Budget Committee which, weary of the impact of deficits and the economy on their reelection chances, broke with the president. Congressional Democrats were more than willing to give credit to the Republicans for election year tax increases. See Samuel Kernell, Going Public: New Strategies of Presidential Leadership, 3rd ed., (Washington, D.C.: CQ Press, 1997), 144, Gilmour, Reconcilable Differences?: Congress, the Budget Process, and the Deficit, 124.
using it to decide, with Reagan, how to define victory in ways that were achievable. He tried
to help Reagan by running the White House staff as a partnership.”

TEFRA reflected Baker’s art of the possible; the tax cuts were maintained and Reagan could claim a victory by arguing he agreed to the revenue enhancements on the promise that Congress would cut spending by three dollars for every one dollar hike in taxes, which they adhered to briefly before increasing spending and taxes in future fiscal years.

Baker charted a moderate course while working with the Gang of 17, an ad hoc Congressional budget task force made up of top Republican and Democratic lawmakers on the budget committees, to maintain the tax cuts for individual taxpayers while forcing Congress to take some responsibility for the fiscal imbalance by cutting spending and allowing modest increases in corporate taxes.

But the ideologues were disillusioned with TEFRA and the White House response to the deficits. Meese contends that TEFRA “was a complete departure from our tax-cutting mandate, failed to reduce the growth of government spending, did not decrease the deficit, and divided the President from some of his most ardent supporters.”

TEFRA effectively ended future opportunities for tax-cutting by the White House in the first term. Edwin Harper suggests TEFRA was a turning point inside the inner circle:

I think there were tensions amongst the troika over time, but I think Meese realized we couldn’t get everything we wanted. But still, let’s not give up too soon—let’s keep pushing on it.


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314 Meese III, With Reagan: The Inside Story, 147.
315 Interview with Harper.
did little to control or keep down spending. Reagan repeatedly blasted the ‘credit card Congress’ for its failure to control domestic spending. No new tax policies were proposed by the White House in 1983 and Congress responded with another series of corporate tax increases and tax reforms in the Deficit Reduction Act of 1984 (DEFRA), which added $103 billion to government revenues by closing a number of corporate tax abuse loopholes.\footnote{316}

By early 1984, Reagan had run up deficits larger than all of his predecessors combined and economic growth, while better than earlier, was no better than any previous economic boom following a steep recession. The FY1985 budget consequently was another compromise; a Rose Garden resolution reached between Reagan and the Senate Budget Committee, which did nothing for deficit reduction as it was the peak year in budget authority for national defense and continued the incremental tax and spending levels changes.\footnote{317}

Running a campaign basically void of issues or significant policy ideas, Reagan defeated Walter Mondale in a landslide during the 1984 presidential election. A combination of choreographed optimism and an economy entering a long boom period allowed Reagan to claim a massive second term mandate.\footnote{318} But without clear domestic policy goals, Reagan’s legislative success would be less significant in the second term. Former Press Secretary Larry Speakes suggests that there was no real second term agenda in the campaign, and the strategy was to rock no boats and offend no constituency, essentially a campaign without

\footnote{316 The FY1984 budget was not even a presidential budget since the House committee refused to vote it out for consideration. Instead a coalition of Democrats and northeastern Republicans passed their own substitute budget, to which the president responded by threatening to veto any appropriations bills. Reagan eventually signed a congressional budget which limited growth of defense spending to 5 percent and raised $30 billion in additional taxes for FY1984. It also restored $11 billion in social program cuts from the 1981 and 1982 budgets.}

\footnote{317 Gilmour, Reconcilable Differences?: Congress, the Budget Process, and the Deficit, 116.}

\footnote{318 Reagan benefitted from claiming credit for the steep decline in the inflation rate largely due to the three year contraction of the money supply by the U.S. Federal Reserve following the huge deficits.}
issues. This set up a longer lame-duck second term than usual, with an emboldened Congress challenging Reagan’s few domestic priorities.  

4.4 The Reagan Second Term: Advisers and Fiscal Policy

The second term Reagan White House operated around Donald Regan, the former Treasury Secretary, who became Chief of Staff after he and Baker switched jobs. With Meese and Deaver out as well, Regan was excessively hierarchical in his White House restructuring. Where the first term gave Reagan a modicum of policy competence after Baker took more of a forceful role, Reagan’s advisers in the second term failed him. The problem with Regan’s domineering management style was that it proved ill-suited to Reagan’s increasing passivity on issues. Further, Regan cut Reagan off from that balanced advisory funnel. He essentially played all advisory roles (ideologue, policy and political adviser) as a one-man inner circle (like Sherman Adams before him and John Sununu after) without formally authorizing a deputy.  He “dominated the White House, controlling access to the president, scheduling, paper flow, public appearances, appointments and phone calls” and met with the president every morning, the only White House staffer that had face time with Reagan on a regular basis. Consequently, loose cannon advisers, such as those working for the National Security Council, would cost Reagan dearly. The politically sophisticated and policy savvy triumvirate of the first term was effectively replaced by “a

single aide who was neither Washington-wise nor disposed to provide the president with a sense of diversity of views within his team.”323

Fiscal policy was largely on autopilot so the inherent problems with the shift to the Don Regan domination of the White House were magnified more in other areas. This was particularly true of foreign policy due in large part to the discontinuation of the first term triumvirate to vet and screen policy ideas. Without the ideological underpinnings of Stockman and Meese, the vacuum in economic policy leadership among the advisers was filled by Regan (see Table 4.3). Unfortunately, this style allowed Reagan to drift away from the White House as he acquiesced to Regan presidential responsibilities and decision making that left his presidency prone to error.

Table 4.3 The Second Term Reagan Economic Advisory System

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideologue</td>
<td>None</td>
</tr>
</tbody>
</table>
| Policy                     | John Svahn – Assistant for Policy Development 1985-1987  
                           | Gary Bauer – Assistant for Policy Development 1988-1989 |
| Political                  | Donald Regan (Inner Circle) – Chief of Staff 1985-1987  
                           | Alfred H. Kingon – Cabinet Secretary 1985-1987  
                           | Pat Buchanan – Director of Communications 1985-1989  
                           | Ken Duberstein – Deputy Chief of Staff 1987-1988; Chief of Staff 1988-1989  
                           | Max Friedersdorf – Legislative Strategy Coordinator 1985  
                           | M.B. Oglesby – Assistant for Legislative Affairs 1985-1987  
                           | William L. Ball III – Assistant for Legislative Affairs 1987-1989  
                           | George H.W. Bush – Vice President – 1985-1989  
                           | Ed Rollins – Assistant for Political and Governmental Affairs 1985-1986  
                           | Mitch Daniels – Assistant for Political and Intergovernmental Affairs 1986-1987  
                           | Frank Donatelli – Assistant for Political and Intergovernmental Affairs 1987-1989 |
                           | Beryl Sprinkel – Chairman of Council of Economic Advisers 1985-1989  
                           | Howard Baker – Chief of Staff 1987-1988  
                           | Roger Porter – Director of the Policy Development Office 1985-1986 |

OMB Director James Miller and CEA Chairman Beryl Sprinkel would work together more as a set of advisers, as fiscal honest brokers, particularly during the economic shocks of 1987. The OMB entrepreneurship of the first term was gone and Miller played far more an honest broker than an ideologue, whose role was to guide the Reagan economic policies through a more antagonistic and recalcitrant Democratic Congress. But Miller also lacked the fight of Stockman who was prepared to push the supply side agenda through Congress.

The budget legislation for the second term was uncharacteristically middling. Reagan’s FY1986 budget (the Consolidated Omnibus Budget Reconciliation Act of 1985) was another compromise with Congress, as the reconciliation process continued more or less unchanged. Like the previous year no new tax cuts were planned, Congress worked in tax increases on corporate profits as well as permanent excise taxes but the deficit continued to balloon to over $200 billion.

In a White House environment devoid of the extensive and dramatic economic policy initiatives, the budget process remained a seesaw with Congress as the president became more removed from the legislative interactions. In the first term, Reagan had actively participated in the final fiscal decisions but as anecdotes reveal, the president was not present in the day-to-day affairs of the White House. In economic affairs, it meant that Regan shielded the president from the hard economic realities of chronically large deficits and the rollercoaster post-1984 economy which reached a low with the stock market crash of 1987. This was precisely the wrong advisory set up for Reagan because Regan kept the president...
from the reality of the impact his fiscal policies were having on the economy. Further, Regan’s appointment cleared out many of Reagan’s long time associates from whom he could get a straight answer, including Friedersdorf and Rollins, who left as part of a revolving door of legislative and political affairs directors. He also “neutralized two key surviving aides—John Svahn (policy development) and Patrick Buchanan (communication).”

A new economic advisory network evolved in the second term known as the Big Six, a group that formed the Economic Policy Council, one of the two more streamlined council leftovers (the other being the Domestic Policy Council) from the cabinet council system of the first term. This group consisted of Regan, his aide Alfred Kingon, Treasury Secretary James Baker, Secretary of State George Shultz, and Deputy Treasury Secretary Richard Darman. Miller, Sprinkel, OPD head John Svahn and Fed Chair Paul Volcker (and later Alan Greenspan) would sometimes join the group. Edwin Harper describes Regan as uncomfortable with the ideologues of the first term:

I don’t think Don Regan was ever a true-blue supply-sider. I think he was an independent-minded guy who enjoyed having the Economic Policy Council as a seminar that he held about once a week, and enjoyed educating people and hearing debate about economic policy.

The economic advisers, both in the EOP and in cabinet, held their regular meetings outside of the White House. Miller recalls that:

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324 In his memoirs, Regan suggested a second term president completely distant from the economic decision making apparatus. See Regan, *For the Record: From Wall Street to Washington*, 142. See also Morris, *Dutch: A Memoir of Ronald Reagan*, 627.
325 Campbell, "Presidential Leadership," 101.
328 Interview with Harper.
Almost weekly we had a breakfast at the Secretary of the Treasury’s office. Jack Svahn was typically invited over…but it was usually Beryl Sprinkel, Jim Baker and me. Occasionally we invited an outsider or two.\textsuperscript{329}

By the end of 1985, the budget deficit had reached over $220 billion. Congress finally passed deficit containment legislation, the Gramm-Rudman-Hollings Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings), which provided for sequesters if the deficit went above fixed targets. Deemed unconstitutional as a result of the deficit enforcement triggers, Congress was forced to rework the law into the Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Gramm-Rudman-Hollings II). Gramm-Rudman-Hollings II set in motion a new budget era not only by altering the 1974 Budget Act to streamline the process further and move up the presidential budget to January but as standard operating procedure for presidential-Congressional relations on the budget.\textsuperscript{330} Throughout the second term, Bob Dole, Senate Budget Committee Chairman, would negotiate a compromise with the White House, then fight the House Democratic resolution during reconciliation.

The Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) budget was another congressional animal, with White House ceding control to Dole to take up the cause. The White House and Senate Republicans agreed on a revised budget that provided for 3% real growth in defense, eliminated some domestic programs, and meddled with social security cost of living adjustments. The negotiations were highlighted by the anecdote of Reagan and House Speaker Tip O’Neill working out a budget ‘framework’ at a White House cocktail party in which Reagan and O’Neill agreed to accept slightly higher defense spending

\textsuperscript{329} Interview with Miller.
\textsuperscript{330} Gilmour summarizes that Gramm-Rudman-Hollings altered the timetable of the budget process, requiring both the president’s earlier submission of his budget and adoption of the budget resolution earlier in the year. It also formalized the use of reconciliation on the first resolution in the spring and enhanced enforcement procedures. See Gilmour, Reconcilable Differences?: Congress, the Budget Process, and the Deficit, 70.
levels, to do nothing to social security COLAs, and to forgo tax increases. The process undermined Dole’s negotiations and further eroded the ability of the White House and Congress to agree on budget numbers.

By surrendering the deficit and pandering in an election year, the White House had again shown that since 1982, ideologues no longer held sway with the president on fiscal matters. Apart from Reagan’s firm beliefs on taxes, he was malleable enough to understand that negotiating with Congress was the only way to maintain his first term legacy.

Surprisingly, 1986 proved to be another watershed year for the Reagan presidency. Unable to simultaneously prevent tax increases and initiate major spending reductions or introduce new tax cuts, while Congress resorted to debt ceiling legislation to tackle a still exploding deficit and would go on to pass three budget and deficit reduction measures, the White House turned to tax reform. Reagan had been interested in the idea of a flat tax in his first term but had not pursued legislation apart from endorsements of various Congressional bills and an outline of his plan in the 1984 State of the Union speech. With the 1984 election victory, the White House presented a new plan to simplify the tax code and reduce the number of tax breaks. Initiated by the president and based on a 1984 Treasury Department report, Tax Reforms for Fairness, Simplicity, and Economic Growth, few insiders believed tax reform had much of a chance of passage.

Reagan’s tax simplification plan introduced in 1985 called for three individual tax rates, 15%, 25% and 35% with the top rate for long-term capital gains at 17.5%. The eventual Tax Reform Act of 1986, which involved Congressional heroics on both sides of the

332 Birnbaum and Murray, Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform, 40-41, Appendix A.
aisle, especially by Dan Rostenkowski and Bob Packwood, reduced individual rates to just two, 15% and 28%, with a phantom top marginal rate of 33%, and capital gains to be as the same rate as ordinary income.\textsuperscript{333} Tax reform proved to be the major economic legacy of the Reagan second term as it dramatically lowered the top rate and simultaneously increased the bottom tax rate (previously 11%), giving the well-to-do another tax cut while increasing taxes on the working poor, although this was offset by an expansion of the earned-income tax credit for low-income working families. Corporate tax rates were also lowered but tax loopholes were closed which helped increase government coffers by $500 billion over five years as companies benefiting from supply-side initiatives in the first term were forced to finally pay up.

As White and Wildavsky suggest:

Reagan got a tax system that better fit his ideology, one that would be much harder to modify than the one he inherited. He traded short-term dissatisfaction among his constituents for a long-term policy structure that fit and favored his ideals.\textsuperscript{334}

Further, it demonstrated Regan’s ability to dominate the White House, having worked with the president in crafting and nurturing the tax reform plans in the first term and spearheading the White House effort, along with Oglesby in the Legislative Affairs office and Baker and Darman at Treasury, to get it passed by Congress.\textsuperscript{335}

Gramm-Rudman-Hollings I and II were the Congressional responses to the deficit. Despite automatic spending cuts, the first incarnation proved largely ineffective. Eric Patashnik suggests the “problem was that GRH completely exempted from sequestration many expensive items (such as Social Security, food stamps, and veterans’ pensions), thus

\textsuperscript{333} Ibid., Appendix A.
\textsuperscript{334} White and Wildavsky, \textit{The Deficit and the Public Interest: The Search for Responsible Budgeting in the 1980s}, 503.
requiring disproportionate cuts in the rest of the budget.” Over the course of the deficit legislation taking effect, Congress had to ratchet down defense spending over the shouts of the White House and deal head on with cutting non-entitlement domestic programs in order to meet the GRH deficit enforcement requirements. The budget was to be balanced by FY1991 but after the law was found unconstitutional, the 1987 version required a balanced budget by FY1993. Both proved ineffective at controlling the deficit, although the first year Congress managed some progress but 1986 was another election year and the Gramm-Rudman-Hollings discipline was abandoned. GRH would be augmented with new legislation in 1990. Reagan signed GRH I in December 1985 and GRH II in September 1987 despite continued public threats of vetoing any legislation that increased taxes. Still, Reagan was politically savvy enough to understand that he would lose face if he vetoed deficit containment legislation without providing an effective alternative.

FY1987 was another budget in which the president’s budget was dropped and replaced with a bipartisan resolution, a further negotiation with the White House to avoid a veto, and another federal budget without a specific and clear directive on deficit reduction. Continuing resolutions and omnibus money bills, including all thirteen regular appropriation acts, ruled the day. The FY1987 budget reduced Reagan’s defense request by $28 billion but is notable for adding $100 million in aid to the Contra rebels in Nicaragua. With the GRH sequestration no longer applicable, the deficit was lowered only slightly to below $200 billion but by this point, the federal debt had climbed to well over $2 trillion.  

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337 2010 Economic Report of the President, Table B-78, Federal receipts, outlays, surplus or deficit, and debt, fiscal years, 1937-2011.
Regan’s control over White House affairs began to unravel as the Iran-Contra dealings came to light in 1986 and the Tower Commission was appointed to investigate what had happened. With allegations in the Tower Commission Report that Regan had kept the president far removed from day-to-day White House operations and had been almost dictatorial in his control over White House operations, Regan resigned in February 1987 and was replaced by former Senate Majority Leader Howard Baker. Playing an honest broker role to help reestablish the prestige of the White House, Baker was forced to deal quickly with the chronic deficits and spiraling national debt that helped lead to Black Monday, on October 19, 1987, in which the Dow-Jones industrial average plummeted 508 points. Miller and Sprinkel, without Regan gate-keeping everything, were allowed to deal assertively with the economic effects of Black Monday.

The FY1988 budget (the Omnibus Budget Reconciliation Act of 1987) reflected a president finally willing to compromise on tax increases (but not personal income taxes) with a budget that was modest in its deficit reduction through increases in excise taxes and further corporate tax reforms and that did little to restore investor confidence. The underlying economy, despite increased foreign investment, an expanding trade deficit, and that Americans were consuming more than they were producing, as well as chronic consumer and government debt, was still in a boom as Reagan left office. By FY1989, the budget had been turned over to the incoming president George H.W. Bush, and Reagan spent his last years

338 Domestically, the savings and loan crisis demonstrated the fragility of many of the nation’s financial institutions. The president had a potential Watergate on his hands, with both the malfeasance of his NSC staff and in doing little to address the savings and loan problem, as well as allegations of financial and ethical improprieties dogging Reagan associates in Washington. See Sloan, The Reagan Effect: Economics and Presidential Leadership, 193.
largely riding a wave of goodwill at home and abroad without engaging at all in the policy or
decision-making process. As Miller argues:

When I engaged in the process, this was [Reagan’s] fifth budget or sixth budget. His interest
was not high as it would have been otherwise. The broad outlines of what we were going to
do were pretty evident. By then it had settled into a tussle over more defense or less defense,
more domestic or less domestic, and what to do about the deficit.340

4.5 The George W. Bush First Term: Tax Cuts, Then More Tax Cuts

George W. Bush cut his national political teeth working on his father’s four
presidential campaigns. One of the most important lessons that stayed with him from the
campaign trail was the bitter defeat in 1992 to Bill Clinton after Bush I had reversed his
position on cutting taxes.341 With advisers and confidants like Rove and the late Lee Atwater
coloring his views about tax cuts well before he ran for Governor of Texas, it was no wonder
that Bush II focused so much on a significant tax cut in the 2000 campaign.342 He also had
studied Reagan’s political success with the tax cut in 1981 and how angry conservatives had
been when the Reagan administration gradually rolled those back. Reinforced by Republican
Party rhetoric and ideological theories of the supply side, the lesson Bush took from the
Reagan years was not to capitulate to Congress after lowering taxes.

Karl Rove argues that Bush’s support for tax cuts was grounded in three major
themes:

First, he understood that money collected for the people belonged to them, not the
government…Second, Bush knew that while government cannot create wealth, it can affect
the environment in which entrepreneurs flourish and jobs are created...Third, Bush saw that
tax cuts would create new jobs and ease the financial burdens of average Americans.343

340 Interview with Miller.
341 Draper, Dead Certain: The Presidency of George W. Bush, 103, 110, 119, Minutaglio, First Son: George W.
Bush and the Bush Family Dynasty, 257-260, 273, Bruni, Ambling into History: The Unlikely Odyssey of
George W. Bush, 32-33.
342 Lou Dubose, Jan Reid, and Carl M. Cannon, Boy Genius: Karl Rove, the Brains Behind the Remarkable
343 Karl Rove, Courage and Consequence: My Life as a Conservative in the Fight, (New York: Threshold
Editions, 2010), 235.
By any account, this rationale does not include the ideological underpinnings of such a large tax cut, something Lindsey certainly inserted into the plan as a devotee of tax cuts as a cure all. Bush’s tax cut philosophy education may have been superficial through his gubernatorial run but once Bush had set his sights on national office, his beliefs were honed by advisers like Lindsey and Glenn Hubbard during Bush’s 1999 and 2000 policy education in Austin. Lindsey’s 1990 book *The Growth Experiment* offers many clues to the approach Bush took to fiscal policy as he became president. In it, Lindsey develops a more electable version of the supply side ideology by focusing on deep and permanent tax cuts for the wealthiest as a means of stimulating investment. While the rhetoric designed for the 2000 campaign may have been a glossed over ‘starve the beast’ idea supported by conservatives in his administration like Cheney, Lindsey suggests that it was less dyed in the wool and there was an element of equity in the tax cut rationale. He argues that, “the claim that the president’s tax cut was supply-side ideology is so misplaced. The tax cuts met a demand-side need while advancing sensible improvements on the supply side.”

But Lindsey’s vision of the Bush tax cut quickly became supply side no matter how one imagined it. This time, with specific permanent targeted tax cuts for the wealthy and modest tax rate decreases in all other economic levels, supply side thinking was at work again. The belief was the wealthiest would reinvest their tax savings in business and corporate entities, hire more people as the entrepreneurial and investor class, and stimulate the economy, something needed as recessionary forces took hold in mid-2001. But any

positive effect of the tax cut was not seen. After 9/11, the wealthiest did not spend this enormous tax savings; they saved it. And the result was that, like 1981, government revenues declined sharply.

Passing the tax cut proved relatively easy, with some Democrats signing on as well. Certainly, there was a fight with Congress but this was more political theater than an actual institutional fight between the White House and Congress. Majorities among Republicans were going to pass this regardless because tax cuts had become party gospel since the first Bush administration. Moderate Republicans may have voiced concerns over aspects of the entire package but only $25 billion was eventually cut from the original $1.6 trillion campaign proposal, a remarkable achievement for the administration. Bush also was given cover for the tax cut because of the declining economy and Federal Reserve Chairman Alan Greenspan’s suggestion during the week of Bush’s inauguration that the tax cut might actually do some good.

Bush was handed an estimated $5.6 trillion surplus over the next ten years when he assumed the presidency. But the economy was sliding in late 2000 and even the most optimistic estimates showed this surplus was considerably less in January 2001. Without adjusting his tax proposal to take into account the new economic climate, Bush pushed hard for his original campaign plan. Rove and Hughes worked with the president to frame the tax cut debate as much needed tax relief for families and the middle class. Bush successfully exploited not just his campaign rhetoric that this was taxpayer money that should go back to


the people but tapped into reasoning that most Americans would rather have a tax cut than to use government surpluses to pay down the national debt. The exploitation of the public’s lack of knowledge about basic fiscal policy, what Larry Bartels called “unenlightened self-interest,” and their desire for short term tax cuts allowed Bush to easily push this package through Congress. While the legislation cut marginal tax rates in every bracket, the tax cut heavily tilted the share of tax liability reduction to the wealthiest individuals, with the top rate being cut from the Clinton-designed 39.6% to 35%. About 70% of the total tax reduction went to the top 20%.350

Between inauguration and passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), public approval for the tax cut never fell below 50% but fewer than one in twenty people considered tax relief to be the nation’s most pressing concern. The EGTRRA was a $1.35 trillion conference committee report signed by Bush in June and it was bipartisan only “in effect rather than approach.” The tax cut not only altered and lowered the top rates but eliminated the estate tax by 2010, doubled the child tax credit, and lessened the marriage penalty for joint filers but did not bring about revisions to the expanding Alternative Minimum Tax for upper income middle class taxpayers. And in a stroke of political genius, it set ‘sunset’ provisions for many of the cuts that forced up-and-down votes in Congress on extensions in almost every year of Bush’s presidency, allowing

350 Jacobson, A Divider, Not a Uniter: George W. Bush and the American People, 76.
Republicans to portray votes against the cuts as tax hikes.\textsuperscript{353} The combined effect was to extend almost all the cuts until 2010 and help ensure that at least some of the sunsets would not be honored.\textsuperscript{354} So unlike Reagan’s 1981 legislation, this series of tax cuts would last more than a decade, not just a couple of years.

The cuts amounted to, as the National Journal’s John Maggs argued, “the most regressive major tax reform in history.”\textsuperscript{355} The top 1% received about 35% of the benefits from the 2001 cuts while the bottom 40% only received 9%.\textsuperscript{356} Gale and Potter offered even more dire projections as early as 2002, suggesting the distributional effects of EGTRRA raised annual income by less than 1% on the poorest households and less than 3% on the middle class as a result of the non-transparent increases in Medicare and Social Security payroll taxes over the 11 year tax cut period.\textsuperscript{357}

As real GDP declined after 2001, so too did the optimism of the Clinton fiscal arrangement. The Bush administration then tacked and charted a wholly fiscally incompetent path. Allowing the Congressional pay-as-you-go rules to expire, the often ineffective spending control mechanisms first enacted under Reagan and updated and revised through Bush I and Clinton, created an environment of anarchic budgeting. No rules meant discretionary spending could increase dramatically. Without the fiscal discipline in either Congress or the White House, within one year the government surpluses through the next decade had evaporated. Bush followed the campaign promise tax cut with a smaller stimulus, the Job Creation and Worker Assistance Act in 2002 which accelerated more of the

\textsuperscript{353} Hacker and Pierson, “Tax Politics and the Struggle over Activist Government,” 272, 274.
\textsuperscript{354} Ibid., 274.
\textsuperscript{356} Ibid.
tax breaks in the original package and cut business taxes further. The $128 billion surplus Bush was handed for FY2001 had become a deficit before the end of FY2002.\(^{358}\) Already stung by the economy, declining tax revenue from the 2001 tax cuts, and a massive recommitment to defense spending following 9/11, Bush decided to propose another $726 billion tax cut for 2003.

Once O’Neill had been removed as the only key adviser with deep reservations about follow-on post-9/11 tax cuts, there was nobody in economic advisory leadership willing to tell the president the potential deficit consequences that further tax cuts would create. Filtered through an ideological lens, Cheney and Rove never explained the potential for blowback on Bush’s overall legacy from repeated tax cuts. But the 2002 midterm victories proved too irresistible to Cheney and others. They viewed it as a mandate not only for the global war on terror but as a reaffirmation of the tax cut agenda. Glenn Hubbard pushed for the elimination of taxes on dividends for stockholders and for further acceleration of the 2001 tax cuts. But instead of selling it as a pro-business tax cut, the White House argued it was another anti-recession measure.\(^{359}\)

The Jobs and Growth Tax Relief Reconciliation Act of 2003 was originally a $726 billion tax cut proposed by the White House. It called for making the 2001 tax cuts permanent, beyond their expiration date of 2010, and for a dramatic increase in the amount people can put into tax-sheltered savings plans.\(^{360}\) It was only reduced to $318 billion after moderate Senate Republicans refused to pass such sweeping tax cuts on dividends for stockholders given the massive defense and military spending they were also approving. But

\(^{360}\) Schick, "Bush's Budget Problem," 91-93.
this acceleration of the 2001 tax cuts effectively sped up the reduction of capital gains and dividend tax rates, both of which were supported in large part because of Cheney’s influence in securing the unanimous support of White House economic advisers and then brokering the deal in Congress. 361 Once passed, it was a $330 billion tax cut. All told, almost $2 trillion worth of tax cuts were enacted between 2001 and 2004, which added $1 trillion to the national debt. 362 But their effect on the 2003-2004 economic recovery was ineffectual as the economy was improving at a much lower rate than previous post-recession rebounds and the tax cut provisions had been backloaded to the second half of their ten year lifespan. 363

Bush followed these tax cuts with the proposal for Medicare Part D, a massive expansion of the prescription drug entitlement for seniors, but was not forthright about the total cost of the program and with the unfunded parts added over $800 billion to the fiscal imbalance once it was passed by Congress in 2003. 364 The collective expansion of government from Medicare, the No Child Left Behind education program, military and war spending, and homeland security spending, combined with the follow-on tax cuts pushed the fiscal ledger well into the red. Within three years, the Bush administration had created deficits far larger than those of 1982 and 1983 after beginning with over a $100 billion surplus. By FY2004, the deficit was approaching half a trillion dollars and still Congress passed extensions of the 2001 tax cuts in early 2004.

As Steven Schier summarized at Bush’s midterm, “prioritizing tax cuts promises to downgrade balancing the budget as a hallowed policy goal…Bush, unlike Clinton or his father, hopes to push concern about deficits into the future in return for immediate economic growth through tax cuts.” The economy rebounded moderately in 2003 and proved to be an election topic nonstarter as the 2004 presidential campaign focused on the war on terror. Rove and Cheney had made a short term political calculation, that tax cuts would appeal to the Republican base and help drive supporters out to the polls, with the secondary belief that they would stimulate the economy in 2004 and helped them win reelection. There was no other rationale for them in 2003. It was pure politics.

Bush’s fiscal reasoning in the first term was largely a sideshow since public and media attention stayed focused on foreign policy and domestic security. But after the 2004 election, the cracks appeared first within conservative circles. Economists had already debated the 2003 cuts, with a vast majority encouraging Bush not to pass them. Only conservative economists and supply-siders agreed with the follow-on cuts. With massive deficits well into the future, it was conservative academics, journalists and think tank economic policy specialists on the right that started to publish a series of books and articles that concluded the Bush administration had defaulted on the Reagan legacy and massively increased government spending. The argument was that spending was out of control and

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the administration had done little serious policy work on controlling deficits. By 2005, the
Bush administration had already led the country towards fiscal disaster.

John DiIulio’s comment about the White House being controlled entirely by the
political advisers with little or no input from policy people was accurate for the first two
years of the administration. But what DiIulio did not get a chance to observe was the
increasing presence and control by the ideologues over economic policy after the 2002
midterms. Rove may have been the designer of Bush agenda issues in 2000 and 2001,
helping massage them through a Republican Congress, and focused on expanding the base,
but once the initial agenda was passed, Cheney exerted increasing control as Rove shifted to
reelection and polling. This is not to say the ‘Mayberry Machiavellis’ characterization is
incorrect but it transformed over the first term. By the 2004 election, it was a political
adviser and ideologue-controlled White House staff, with no policy advisers making the key
decisions. The economic team was used for academic cover. They went about their jobs,
they did the required work of the OMB and the CEA and organized meetings as designated
under the auspices of the NEC, but they did not make the decisions. They interpreted the
politicized fiscal policies, after Cheney roundtabled them and Rove sold them to the
Republican Party, but by the time the first set of economic advisers were replaced, the
economic advisory role was to back up the decisions with appropriate data and spin. Never
have a set of economic advisers in the White House been so used for political purposes only.

Unlike the influence that Schultze, Stockman, Miller, Darman, Rubin and Sperling
had on fiscal policies, the Bush advisers, with the exception of Lindsey before the election,

368 DiIulio argued that “Even quite junior staff would sometimes hear quite senior staff pooh-pooh any need to
dig deeper for pertinent information on a given issue.” See Suskind, "Why Are These Men Laughing?.",
were not influential in the decision making process. They had their hand in preparing
presidential budgets but budgeting was not a primary concern since the administration chose
not to focus on deficit reduction or even reducing spending. They developed tax policy,
particularly Lindsey and Glenn Hubbard, only after the basic strategy for tax cuts was
worked out by the ideologues. When it came to the Bush agenda issues, the economic
advisers were not even in the room. Rove’s and then Cheney’s increasing control over the
policy process cut most advisers out. As Jacob Weisberg characterizes:

> In the White House, Rove’s anger and competitiveness diverted Bush’s better instincts. He
> used his influence to steer Bush away from being the president he originally wanted to be—
> the kind of center-right consensus-builder he was as governor of Texas—and into a too close
> alliance with people both of them found a bit nutty.  

As more than one economist and commentator has mentioned, the tax cuts never achieved
even a modicum of success as a stimulator for the economy. They were not designed for
that. In that sense, they were not supply side. As Daniel Altman suggests, the tax cuts “were
supposed to raise the return to saving…and the rich had much more saving than the poor.”
But even Larry Lindsey continues to argue that the rationale for the series of tax cuts was
fiscally sound.

> In budgeting, keeping spending down was not a priority of the Bush administration.
Karl Rove’s polling suggested ambivalence about federal government expansion among
voters. The rhetoric around profligate spending sounded good but most Americans cared far
less about overall government spending, which had averaged around 18.5% of GDP until the

371 Lawrence Lindsey and Marc Sumerlin, *What a President Should Know (but Most Learn Too Late): An
Insider's View on How to Succeed in the Oval Office*, (Lanham, Md.: Rowman & Littlefield Publishers, 2008),
119-122, 213-217.
end of Bush’s first term. The tax cuts proved popular with the public but by cutting further in 2002 and 2003, while ratcheting up overall government spending to unprecedented levels, it doubled the deficit burden. Spending on homeland defense and the military pushed government outlays well over the 18.5% average at the same time as tax revenues declined to proportions well below those of 1983 and 1984.

The first two Bush budgets also massively increased non-defense discretionary spending, from $319 to $433 billion, and pushed the initial surplus in FY2001 to over a $400 billion deficit by FY2004. Budget policy had essentially become just institutionalized tax cut policy. The tax cuts and declining economy produced a $158 billion deficit for FY2002 that skyrocketed to $378 billion for FY2003 with the ramping up of the Iraq war and most of the provisions of the 2001 tax cut finally taking effect, and then finally peaking at around $413 billion in FY2004.

4.6 The Bush Second Term Advisers: From Ideological to Ineffectual

George W. Bush’s election win over John Kerry in 2004 was another very close campaign and despite the fact that the economy resonated as the most important problem with voters, the campaign was framed as a referendum on the global war on terror and the Iraq war. By November 2004, despite Karl Rove’s efforts at turning out the base to support their commander-in-chief, the Iraq war was increasingly unpopular and the economy had only increased marginally after the 2001 and 2002 recession.

Bush’s political capital was spent largely securing reelection. His second term became a catastrophic series of mistakes and an administration prone to expectations.

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mismanagement. The wars continued to produce unsatisfactory outcomes and Americans suffered from combat fatigue, the signature 2004 campaign promise of partial privatization of Social Security proved an overreach and non-starter with both the public and the Republican Congress, his Supreme Court nominee Harriet Miers was targeted by his own party as not a true blue legal conservative and was forced to step aside, and finally the government’s incompetence in mitigating the landfall of Hurricane Katrina on the Gulf Coast sealed the president’s fate by 2006.

As James Pfiffner argues, the response to the Katrina disaster shattered Bush’s “public image as a competent, MBA-type manager of the executive branch.” The Democrats recaptured both houses of Congress amidst a complete repudiation of Bush’s mandate midway through his second term, which ended Bush’s attempts at a second domestic policy agenda early. Attempts at making his first term tax cuts into permanent tax reform, and his major second campaign agenda items of tort reform, pro-industry environmental and energy policies, and cutting social welfare programs were never achieved. This all occurred prior to a global financial meltdown and the worst economic crisis since the Great Depression.

Part of Bush’s problem in reasserting stewardship of the American economy was an increasing disconnect from the underlying problems in the country after his initial 2000 campaign. No president since Herbert Hoover had failed so much in not recognizing that the economic advice he had provided himself was damaging his presidency. The machinations of Rove and Cheney effectively cut Bush off from honest brokers in fiscal policy and from even good policy advisers providing him with early assessments of the looming financial crises. They had convinced the president that the deficits and tax policy put in motion were

not problematic to his legacy or to his policy agenda in the second term so Bush kept
singularly focused on the tax side of the fiscal equation. One former adviser characterized
this as “pushing on an open door, the president is a tax cutter, he likes all tax cuts.”

Furthermore, Cheney’s and Rove’s ideological calibrations had ensured selection of
economic advisers already supportive of the supply side policies. As gatekeepers of key
staffing decisions, they made sure Bush could select only from off-center economists and
Wall Street-friendly corporate denizens. Bush could go with his instincts as ‘The Decider’
but those instincts were heavily influenced by his vice president and chief strategist.

This blind optimism among advisers that can allow off-center decisions to be made with little or
no discussion is part of an emerging debate over what Dan Lovallo and Daniel Kahneman
term “the planning fallacy” in which some business executives let “managers make decisions
based on delusional optimism rather than on a rational weighing of gains, losses, and
probabilities.” Bush’s gut instincts may also be a reflection of the optimism bias within
his advisory system.

376 This ‘gut instinct’ decision making rationale appears throughout books by former advisers and insider
accounts by journalists. Scott McClellan wrote, “He is not one to delve deeply into all the possible policy
options… before making a choice. Rather, he chooses based on his gut and his most deeply held convictions.”
Bob Woodward, in his final volume on the Bush presidency, reflected that Bush “spoke a dozen times about his
“instincts” or his “instinctive reactions,” summarizing once, “I’m not a textbook player, I’m a gut player… After
I counted these details in Bush at War, many readers and a number of reviewers and columnists thought I’d
portrayed Bush as a strong, inspirational leader. But my account also showed that he didn’t want an open, full
debate that aired possible concerns and considered alternatives. He was the “gut player,” the “calcium-in-the-
backbone” leader who operated on the principle of “no doubt.” Robert Draper summarizes this snapshot
decision making, “And though Bush could in fact be challenged with bad news or a differing point of view, and
acquiesce, and even ultimately reward the bold dissenter…it was very hard, to stick one’s arm into the fiercely
whirring gears of Team Bush’s institutionalized optimism and say, Let’s… slow… down. And rethink this.” See
McClellan, What Happened: Inside the Bush White House and Washington’s Culture of Deception, 127,
Presidency of George W. Bush, 417.
377 Quoted in Altman, Neoconomy: George Bush's Revolutionary Gamble with America's Future, 45-46. See
The second term president also had a problem recruiting economic advisers who would stand behind his tax cut agenda. Even William Niskanen suggested that “Bush has centralized policy decision-making much more than any president in years…The Council of Economic Advisers has been somewhat bypassed.” Harvey Rosen, already on the Council, was selected as the initial second term CEA Chairman but he returned to teaching within the year (see Table 4.4). Ben Bernanke was then selected. By this time, there were no clear economic policies to enact. The tax cuts had been pushed to their fullest extent in

Table 4.4 The Second Term Bush II Economic Advisory System

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
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<tbody>
<tr>
<td><strong>Ideologue</strong></td>
<td>Dick Cheney (Inner Circle) – Vice President 2005-2009</td>
</tr>
<tr>
<td></td>
<td>Karl Rove (Inner Circle) – Senior Adviser, Deputy Chief of Staff 2005-2007</td>
</tr>
<tr>
<td><strong>Policy</strong></td>
<td>Andrew Card (Inner Circle) – Chief of Staff 2005-2006</td>
</tr>
<tr>
<td></td>
<td>Joshua Bolten (Inner Circle) – Director, Office of Management and Budget,</td>
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<tr>
<td></td>
<td>2005-2006, Chief of Staff 2006-2009</td>
</tr>
<tr>
<td></td>
<td>Joel Kaplan – Deputy Chief of Staff for Policy 2006-2009</td>
</tr>
<tr>
<td></td>
<td>Joe Hagin – Deputy Chief of Staff 2005-2008</td>
</tr>
<tr>
<td></td>
<td>Rob Portman – Director, Office of Management and Budget, 2006-2007</td>
</tr>
<tr>
<td></td>
<td>Jim Nussle – Director, Office of Management and Budget, 2007-2009</td>
</tr>
<tr>
<td></td>
<td>Keith Hennessey – Director of National Economic Council 2007-2009</td>
</tr>
<tr>
<td></td>
<td>Harvey Rosen – Chairman of Council of Economic Advisers 2005</td>
</tr>
<tr>
<td></td>
<td>Ben Bernanke – Chairman of Council of Economic Advisers 2005-2006</td>
</tr>
<tr>
<td></td>
<td>Ed Lazear – Chairman of Council of Economic Advisers 2006-2009</td>
</tr>
<tr>
<td></td>
<td>Michael Gerson – Director of Speechwriting and Senior Policy Adviser 2005-2006</td>
</tr>
<tr>
<td><strong>Honest Brokers/Fixers</strong></td>
<td>John Snow – Secretary of the Treasury 2005-2006</td>
</tr>
<tr>
<td><strong>External Economic Advisers</strong></td>
<td>Henry Paulson – Secretary of the Treasury 2006-2009</td>
</tr>
<tr>
<td></td>
<td>Alan Greenspan – Chairman of the U.S. Federal Reserve Board 2005-2006</td>
</tr>
</tbody>
</table>

Congress and Bernanke’s role seemed to be as a rubber stamp for the economic status quo Bush had legislated in the first term. Taking over from Alan Greenspan as Federal Reserve Chairman, Bernanke left the CEA chairmanship to Ed Lazear. But the CEA role, which had been diminished further without their needed support of the tax cuts, would be at best a third tier advisory committee once attention shifted to shoring up financial markets.

At the OMB, Bolten continued on as Director but without an election agenda for controlling spending. Both ineffectual as budget director and fiercely loyal to Bush, his tenure was marked by a persistent bending of the books to favor Republican Congressional requests by circumventing budgetary procedures in supplemental and omnibus bills.\(^{379}\) His lack of deficit hawkishness is perhaps because Bolten was conflicted in his new capacity. He went from a policy generating role as Deputy Chief of Staff, to a policy blocking role as head of OMB.\(^{380}\) The turnabout in budget deficits was caused mostly by a rebounding economy in 2005 and 2006 as government revenues finally increased after the prolonged series of tax cuts had dramatically reduced them. There were no serious changes to budgeting decisions in the OMB that brought about lower deficits. Rob Portman, who succeeded Bolten when he took over from Card as Chief of Staff, similarly offered up budget advice that supported the Rove and Cheney pre-decisions. Portman did preside over the newly empowered Democratic Congress’s attempts to ratchet up spending for the poor and those adversely


\(^{380}\) Respondent, April 15, 2009.
affected by Hurricane Katrina. In the lone serious budget fight of the Bush era, the only people really hurt were those who already had their lives destroyed by Katrina. Jim Nussle took over from Portman amidst the declining economy in which the final FY2008 and FY2009 budgets required no spending control mechanism from the OMB.

Only after a wartime economy three years in did tax revenues start increasing and helped reduce the deficit in FY2005, FY2006 and FY2007. Bolten and Portman presided over the only notable fiscally competent achievement of the Bush years. In FY2005, the deficit fell to $318 billion, in FY2006, to $248 billion, to just $161 billion in FY2007. Because of the growing economy, the OMB demonstrated a modicum of fiscal competence and their deficit rationale seemed decidedly Keynesian. As one former Bush adviser argued, “as long as the economy is growing faster than the budget deficit, so for example, if your economy is growing at 3% [of GDP] and you’re running a 2% deficit, you’re actually doing OK…it is economically negligible.”

The deficit however rose again in the initial presidential budget request in FY2008 to $213 billion, partly because of $70 billion in early 2006 tax cut recommitments authorized by the Republican Congress. Shortly thereafter, all of those gains in deficit control were lost in the final year. By the end of Bush’s second term, the OMB estimated that fully one quarter of the collective deficits from FY2002 to FY2008 could be contributed directly to the tax cuts. When you factor in the manipulation of the tax burden those cuts also brought about, that percentage increases to over one-third.

End of term fiscal concerns finally caught up to the Bush administration. The deficits don’t matter rationale had survived Bush’s reelection and were a secondary concern during

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381 Respondent, April 15, 2009.
382 Tatalovich and Frendreis, "The Persistent Mandate: George W. Bush and Economic Leadership."
the 2006 midterms but when the government was forced to intervene to shore up the financial and banking markets, the fiscal incompetence of the first six years would increase deficits to astronomical proportions. The Iraq War, which two NEC Directors had conservatively estimated at under $200 billion, had ballooned to an estimated long term cost of between $600-700 billion if lifetime disability and health care costs of returning veterans is also factored in. In October 2008, the annual deficit soared to $459 billion. Following the housing market collapse, the credit crisis that ensued, and the government efforts to rescue the financial system through a series of bailouts, most notably the Troubled Assets Relief Program, as well as an early 2008 stimulus package of about $170 billion and a much larger $787 billion stimulus as Obama was being inaugurated, the FY2009 deficit finally peaked at around $1.41 trillion, about 10% of GDP, returning deficits to levels unseen since Roosevelt and Truman were president. The economy that began to go into recession in 2008 and continued through most of 2009 has been plagued by static jobless growth in 2010, with unemployment above 10%. Annual deficits are expected to be in the trillions through a potential Obama second term.

Al Hubbard and Keith Hennessey presided over the National Economic Council during the second term. Little to no major policy work even occurred under their watch as the Bush administration rested on the laurels of the first term. Daniel Altman argues that the “neoeconomists” of the Bush era rapidly and successfully implemented their program in the


The credit crisis that overran the financial system increased government outlays because of the costs of protecting the depositors of failing banks. The government was forced to buy stock from financial institutions to shore up their balance sheets and also buy up bad assets currently on financial books. This was designed to relieve the strain on banks so they could resume more normal lending.
first term. Satisfied by the tax reform efforts, they simply went away in the second term, leaving Cheney and Rove to mind their achievements in an echo chamber advisory system. By 2007 however, all three White House advisory groups, the NEC, the OMB and the CEA were playing second fiddle to the Treasury Secretary Henry Paulson and the Federal Reserve Chairman Ben Bernanke as the administration attempted to mitigate the financial collapse brought on by the subprime mortgage disaster.

Josh Bolten, who had been at the main table in the administration for nearly six years and had played such a central role in many of the decisions, was unable to right the ship for the Bush presidency in the final two years in the way Howard Baker and Ken Duberstein had salvaged the Reagan presidency. After a brief economic recovery following the 2006 midterm elections, the decline starting in 2007 and continuing through 2009 was the worst economic downfall since the 1930s. Remarkable for its multifaceted depth and persistent financial sector collapse, the Great Recession was in part the result of a series of regulatory and political miscalculations over the course of four presidencies. So much of the focus has been on Wall Street and banking sector greed and corruption. But the neglected narrative of this financial collapse was the stewardship of the Bush White House and the nagging concern that the economic advisers Bush had in place were incapacitated until Congress, Paulson and Bernanke finally pushed the president to act and implement regulatory reforms and a series of bailouts, albeit reactively and over a year too late to stave off a collapse of financial and housing markets.

Following Bolten’s ascension to Chief of Staff and Rove giving up the domestic policy portfolio, the White House seemed to develop a more effective and elaborate advisory system process. Bradley Patterson outlines a more developed economic policy making

apparatus with Al Hubbard and later Hennessey being assigned policy ownership of issues which would be then roundtabled and presented to the president in a far less doctrinaire Cheney-Rove fashion.\textsuperscript{386} And even earlier, if policy proposals were low enough on the agenda, White House advisers could appeal directly to the president. One former adviser recalled:

\begin{quote}
Because I had access, I could sell him on ideas, kind of get him enthusiastic about ideas, and then if I could manage to get it high enough, get it to a presidential decision, at a policy time in the Oval [Office] or the Roosevelt Room, he was very good on it. The ability to do that became more constricted over time just because of budget realities.\textsuperscript{387}
\end{quote}

But without serious efforts in fiscal policy, this late second term tweaking of the advisory process only reinforced the mistakes made earlier.

In fiscal policy terms, the White House advisers were almost non-existent in the key economic decisions at the end of second term. Unable to control spending or with little desire to do so, the already astronomical deficits of the first six years would explode with the bailout money. And in a continuation of the ideological agenda, the initial response to the financial collapse in late 2007 was a poorly envisioned tax stimulus devised by Josh Bolten and in early 2008, to make the dividends and capital gains tax cuts permanent after their 2010 expiration in the president’s annual budget proposal.\textsuperscript{388} As a compromise, a one-time tax rebate stimulus of about $168 billion was agreed upon in January 2008, yet another tax policy filtered through an ideological lens.\textsuperscript{389}

\begin{flushright}
\textsuperscript{386} Bradley H. Patterson, \textit{To Serve the President: Continuity and Innovation in the White House Staff}, (Washington, D.C.: Brookings Institution Press, 2008), 110-119. \\
\textsuperscript{387} Respondent, May 17, 2007. \\
\end{flushright}
Inadvertently, even Karl Rove acknowledges a fatal flaw in the advisory process and the inability of the Bush White House to develop an advisory system in which key issues were effectively roundtabled. Rove suggests that after Bolten wanted his deputy, Joel Kaplan, to take over as Deputy Chief of Staff for Policy:

The change was a relief. Reading every single piece of domestic policy paper that went to the president—often several times as they went through drafts—made my days very long, and forced me to hold my opinion in check, at least at the beginning of the process. If I didn’t, it tended to bend in my direction which short-circuited robust discussion.\textsuperscript{390}

Rove’s characterization of policy debates in the White House suggested that if it was a political issue, as tax cuts and spending were, his opinion would usually win out. In other words, the economic policy advice likely would always be reworked by Rove as overseer of issue management within the administration.

The 2006 midterms dramatically diminished Rove’s standing with Bush and the Republican Party. But the damage had already been done, and Rove’s role as architect of the Republican Party brand name in the 2000s and coordinator of policy efforts within the party came to an end. He left the White House in August 2007. Rove’s unchecked control over issues had left Bush unprotected. Like Regan and Sununu before him, and along with Cheney, he sidelined advisers and cabinet members he opposed and pursued policies that pushed Bush to the far right, often cloaked in the politicization of the war on terror. From 2002 to 2006, “Rove’s Office of Strategic Initiatives had effective oversight over Bush’s entire domestic policy shop, such as it was.”\textsuperscript{391} Even Rove acknowledges that Cheney was like minded and that “often, we found ourselves on the same side of policy disputes being argued out in the Roosevelt Room or the Oval Office.”\textsuperscript{392}

\textsuperscript{390} Rove, \textit{Courage and Consequence: My Life as a Conservative in the Fight}, 461.
\textsuperscript{391} Weisberg, \textit{The Bush Tragedy}, 136.
\textsuperscript{392} Rove, \textit{Courage and Consequence: My Life as a Conservative in the Fight}, 172.
In the lead up to and aftermath of the 2006 midterms, Cheney’s influence also waned. The subsequent investigation of the White House over who leaked information about Valerie Plame as a CIA operative, which eventually fell on Cheney’s chief of staff Scooter Libby, severely damaged the vice president’s reputation. For the first time in both foreign and domestic affairs, Cheney was no longer winning out all the time and Bush’s instincts were starting to push out the vice president. But Cheney’s stamp was on all of Bush’s signature achievements and he could not be removed as vice president. Cheney’s ideological tunnel vision had made him a darling of the far right but despised by the vast majority of the public. As Michael Duffy asks, “How did Cheney, a man once considered by members of both parties to have a feel for the golden mean, create a culture in which his top aide perjures himself?”  

In terms of second term fiscal policy, all Bush effectively had as an economic legacy was the series of first term tax cuts. When the sharp economic decline occurred in 2008, the Bush presidency became irredeemable. From January 2008 until he left office, Bush finished with approval ratings no higher than 34%, even hitting a low of just 25% in October of that year, among the lowest in history of Gallup polling the public perception of the president. 

No administration since Herbert Hoover had so badly dropped the ball on the economy, and even more than Hoover, it could be held directly responsible for some of the worst effects of a deep and prolonged recession. The economic damage caused by Reagan’s policies paled in comparison to the reckless, ideologically driven fiscal incompetence of cutting taxes deeply.

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when times were bad. In Bush’s eight years, over $4 trillion was added to the national debt and by 2010, 9% of federal spending is set aside just to pay interest on the debt.\(^{395}\) Further, there was an $8.2 trillion deterioration of the cumulative deficit from 2001 through 2011 when the sun sets on the last of the Bush first term tax cuts.\(^{396}\)

As Barack Obama completed the first year of his presidency, the estimated deficit approached $1.5 trillion for FY2009, of which a fair proportion is a legacy of Bush-era balance sheets and not just the bailouts and additional government spending in 2008. Bush’s last fiscal year deficit was more than the total national debt when Reagan was inaugurated. Only days into his presidency, Obama passed the American Recovery and Reinvestment Act of 2009, the “boldest countercyclical fiscal stimulus in American history.”\(^{397}\) It pumped hundreds of billions of dollars into the economy to stave off a depression, as well as attempted the first in a series of reversals of Bush-era tax policies. In 2010, the deficit continues to skyrocket, with the passing of Obama’s revised FY2009 and complete FY2010 and FY2011 budgets, as well as a series of revenue neutral middle class tax cuts and upper class tax hikes. Add to this burden the comprehensive health care reform of 2010 and Obama’s presidency should have annual deficits of at least a trillion dollars annually.

4.7 The Reagan Legacy: An Ideological Agenda Achieved Through Advisory Balance

If tax reform was a victory to be added to the 1981 legislation as a successful presidential legacy, in terms of policy, politics, and ideology, the failure to address deficit reduction in any meaningful way is also Reagan’s failure. Veto threats of tax increases and defense spending reductions became a legacy as well for future Republican presidents and


\(^{396}\) Alan J. Auerbach, Jason Furman, and William G. Gale, "Facing the Music: The Fiscal Outlook at the End of the Bush Administration," (Brookings Institution, 2008), 2, Figure 2.

Reagan’s recalcitrance and refusal to compromise on individual tax rate cuts subsequently forced Congress to take the lead on deficit reduction. With the White House failure to address the problem and its decision to shift the blame to Congress, Gilmour argues that:

When Reagan said that he would not balance the budget on the backs of taxpayers by increasing tax, he indicated that he ranked balancing the budget as a lower priority than maintaining low tax rates. When he argued that defense should not be cut to reduce the deficit, he stated implicitly that for him defense ranked above deficit reduction.  

Miller believes that Reagan “saw [the deficit] as a worthwhile tradeoff. He didn’t blame us, he blamed Congress.”

To his critics, the real legacy of Reaganomics was an increasing gap between the haves and have-nots as poverty rose to the highest levels since before World War II and government programs to benefit those truly in need of assistance were slashed as the major spending items (defense, entitlement programs) were immune to cuts in deficit reduction legislation. Debt at all levels, federal government, corporate and personal debt, reached massive proportions as well.

Two themes of his economic legacy are worth exploring with respect to advisory selection. The first is that median family income increased markedly during his tenure as president, a key pocketbook indicator that helped him win a landslide in 1984. The inner circle must be acknowledged for designing first term policies that benefited Reagan voters, and for allowing Reagan to publicly claim credit for the policies that worked. The second theme is Reagan’s economic dealings with Congress and his ability to partially control

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399 Interview with Miller.
401 Critics also suggest that it was not Reagan’s economic policies but the cyclical swings of the economy as well as oil deregulation and the mid-1980s energy glut that were more responsible for the longest boom in American history with indicators showing economic growth no better than other periods in which the United States was pulling itself out of recession.
government spending. Even when he was not in a position of strength, such as in the years following the 1981 legislation, Reagan always battled Congress on every taxing and budgeting initiative and then utilized the White House staff to spin defeats into small setbacks or even victories articulated and communicated to the public that stressed the president’s commitment to specific goals and ideas as well as his terminal optimism.

As Peterson and Rom suggest neither the president’s economic policies nor Congress’s first drafts of legislation were ever adopted in full. A middle ground was always reached which reflected “that in most respects the American political system seems to have worked.” Only Reagan was able to substantially increase the defense budget and then preside over a shift to arms control in foreign policy and defense build-downs in the second term as Congress demanded spending reductions to counter the deficit, without serious backlash. One of the key lasting legacies of the Reagan years was that “Orthodox Democratic domestic spending went out of style. Reductions in spending and, among those who had the courage to seek new taxes, finding new revenues, became the priority.”

Reagan’s advisers forced Congress to approach spending differently and in the process created a legacy in which both political parties embraced a retooling of the government with emphasis on cost savings and efficiency.

The table below outlines the budget deficit explosion that occurred under Reagan. The accounting by Stockman and Weidenbaum in 1981 failed to address the gravity of declining government revenues when the economy went into recession. FY1983 shows the effects of the initial legislation; declining individual tax receipts, dramatically lower corporate tax receipts, declining government revenue, increased defense outlays, increased

402 Peterson and Rom, "Lower Taxes, More Spending, and Budget Deficits," 236.
403 Greenstein, "In Search of a Modern Presidency," 344.
non-defense outlays, and a deficit over $200 billion that rose to 6% of GDP. The years following show a return to pre-1981 levels in tax revenue as the economy improved and as social insurance taxes increased but overall spending was not dramatically curtailed as total outlays remained around the 21-22% percentage of GDP.

Table 4.5 Reagan Budget Deficit Explosion (Deficit in Billions of $ by Fiscal Year)

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<td>February 1981 Budget Deficit (Stockman/Weidenbaum Rosy Scenario)</td>
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<td>28.0</td>
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<td>February 1981 Budget Deficit (Actual Stockman Economics)</td>
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<td>November 1981 Budget Deficit (without Magic Asterisk or Tax Bill)</td>
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<td>-232.0</td>
<td>-244.0</td>
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<td>-221.5</td>
<td>-237.9</td>
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<td></td>
</tr>
<tr>
<td>Actual On-Budget Deficit</td>
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<td>-73.9</td>
<td>-120.6</td>
<td>-207.7</td>
<td>-185.3</td>
<td>-207.7</td>
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<tr>
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<td>-7.4</td>
<td>-0.1</td>
<td>-0.1</td>
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<td></td>
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<tr>
<td>Total Deficit</td>
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<td>-79.0</td>
<td>-128.0</td>
<td>-207.8</td>
<td>-185.4</td>
<td>-212.3</td>
<td></td>
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<td>1,371.7</td>
<td>1,564.6</td>
<td>1,817.4</td>
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<td>Gross Domestic Product</td>
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<td>3,227.6</td>
<td>3,440.7</td>
<td>3,840.2</td>
<td>4,141.5</td>
<td>4,412.4</td>
<td></td>
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<tr>
<td>Deficit (as percentage of GDP)</td>
<td>-2.7</td>
<td>-2.6</td>
<td>-4.0</td>
<td>-6.0</td>
<td>-4.8</td>
<td>-5.1</td>
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<tr>
<td>Federal Debt (as percentage of GDP)</td>
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<td>32.6</td>
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<td>40.7</td>
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<td>Total Individual Income Tax Receipts</td>
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<td>288.9</td>
<td>298.4</td>
<td>334.5</td>
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<td>56.9</td>
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<td>Total Revenue Receipts (as percentage of GDP)</td>
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<td>17.4</td>
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<td>17.4</td>
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<tr>
<td>National Defense Outlays</td>
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<td>157.5</td>
<td>185.3</td>
<td>209.9</td>
<td>227.4</td>
<td>252.7</td>
<td>273.4</td>
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<tr>
<td>Non-Defense Outlays</td>
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<td>520.7</td>
<td>560.4</td>
<td>598.5</td>
<td>624.5</td>
<td>693.7</td>
<td>717.0</td>
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<td>Total Outlays</td>
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<td>678.2</td>
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<td>990.4</td>
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<td>Excess Congressional Spending</td>
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<td>62.0</td>
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<td>35.0</td>
<td>4.0</td>
<td>21.0</td>
<td>16.0</td>
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<td>Total National Defense Outlays (as percentage of GDP)</td>
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<td>5.2</td>
<td>5.7</td>
<td>6.1</td>
<td>5.9</td>
<td>6.1</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Total Non-Defense Outlays (as percentage of GDP)</td>
<td>16.8</td>
<td>17.0</td>
<td>17.4</td>
<td>17.4</td>
<td>16.3</td>
<td>16.8</td>
<td>16.2</td>
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<tr>
<td>Total Outlays (as percentage of GDP)</td>
<td>21.7</td>
<td>22.2</td>
<td>23.1</td>
<td>23.5</td>
<td>22.2</td>
<td>22.9</td>
<td>22.4</td>
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Sources: David Stockman; Institute for Policy Innovation; Budget of the United States, Fiscal Year 2009; Office of Management and Budget

A key indicator of Reagan’s legacy is the total non-defense outlays as a percentage of GDP. That level fell significantly over the course of his administration, as domestic government spending was reduced in specific areas to attack the deficit. This is a result of lower discretionary spending by Congress and targeted cuts in domestic programs outside of entitlement spending. It demonstrates the leaner and more efficient government Reagan campaigned on and while he was unable to control large parts of government spending, his
policies or at least the deficit he created helped force Congress to reduce the size of certain areas of the federal budget.

As an advisory legacy, Reagan made smart choices early on in allowing his inner-circle advisory system access points for a variety of adviser types. But those very design perfections that allowed him to be both protected from unrestrained advisory entrepreneurship that could have easily derailed his legislative agenda and to achieve notable policy victories with a Congress not in lockstep were no longer in place during his second term, with Regan allowing poor and almost disastrous ideas to consume his foreign policy advisory side.

Budgeting was largely put on autopilot in the second term as agreements between the White House and Congressional leaders produced taxing and spending compromises to contain the deficit. Reagan’s fiscal policy could be described as ‘legislative deal-making with a fight’ since the tax increases after 1982, while not directly impacting individual tax rates, largely offset the federal revenue decreases that the 1981 legislation had produced. The cumulative effect of all the Reagan-era tax legislation lowered government revenues by just less than 1% of GDP, a significant amount, but two-thirds less than the immediate revenue reduction as a result of the ERTA.\textsuperscript{404}

Taxes over the course of the Reagan years were about the same as the Carter years, despite the marginal cuts in personal and corporate income tax rates, because built-in tax increases, Social Security payroll taxes, bracket creep and energy taxes, helped keep the federal tax rate the same.\textsuperscript{405} Reagan however is credited still as cutting taxes even though


most individuals were still giving about the same percentage of their income to the federal
government.

Reagan achieved more of his economic vision than perhaps any modern president and
these achievements were a result of the best first term set of inner circle advisers (Baker,
Deaver, Meese and Stockman) of the contemporary era. Much of the success was a result of
strategic management of issues among the triumvirate. Heclo and Penner argued early on in
the administration that the “Reagan presidency developed a capacity to deal with its
economic ideology in a strategic rather than ideological manner.”406 Reagan advisers were
able to capitalize in an environment that required a major shift as “lower economic growth,
rising inflation and increasing tax rates led to a popular demand for some change in
economic policy.”407 The several conditions (Watergate, economic stagflation, and falling
levels of trust in government) that led to a reduced popular confidence in the government
increased the appeal of policy changes that would reduce the role of government in the
American economy. There was thus bipartisan support in Congress, Niskanen argues, for
“the direction of change in each of the major dimensions of federal economic policy. All that
was missing was a president who could shape a coherent economic program and articulate
the rationale for this program to Congress.”408

Despite the lack of grand fiscal legislation passed in 1985, Reagan’s second term was
still notable because of White House-initiated changes in tax policy largely engineered and
guided through Congress by Don Regan (see table below). Although embroiled in Iran-
Contra at the time, the Reagan-led tax rate changes passed with bipartisan support in
Congress and dramatically altered and streamlined the tax code, with the top personal tax

407 Niskanen, Reaganomics: An Insider's Account of the Policies and the People, 22.
408 Ibid.
bracket falling from 70% to 28%. By 1988, Howard Baker and Ken Duberstein had helped right the ship enough to ensure a largely positive legacy. But Reagan’s legacy among ideologues is not necessarily that of a true believer. Reagan used their ideas to secure a key legislative victory but after that triumph, as James Miller argues, he “recognized the different politics of the day.”409 He was, in Beryl Sprinkel’s words, “a pragmatist with respect to settling for less than what was demanded…in order to achieve most of what he wanted.”410

Table 4.6 Reagan Second Term (Deficit in Billions of $ by Fiscal Year)

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<tr>
<td>Actual On-Budget Deficit</td>
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<td>-237.9</td>
<td>-168.4</td>
<td>-192.3</td>
<td>-205.4</td>
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<td>-152.6</td>
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<td>Gross Federal Debt</td>
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<td>2,346.0</td>
<td>2,601.1</td>
<td>2,867.8</td>
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<tr>
<td>Gross Domestic Product</td>
<td>4,141.5</td>
<td>4,412.4</td>
<td>4,647.1</td>
<td>5,008.6</td>
<td>5,400.5</td>
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<td>Deficit (as percentage of GDP)</td>
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<td>-5.0</td>
<td>-3.2</td>
<td>-3.1</td>
<td>-2.8</td>
</tr>
<tr>
<td>Federal Debt (as percentage of GDP)</td>
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<td>48.1</td>
<td>50.5</td>
<td>51.9</td>
<td>53.1</td>
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<tr>
<td>Total Individual Income Tax Receipts</td>
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<td>349.0</td>
<td>392.6</td>
<td>401.2</td>
<td>445.7</td>
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<td>Total Corporate Income Tax Receipts</td>
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<td>63.1</td>
<td>83.9</td>
<td>94.5</td>
<td>103.3</td>
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<td>Social Insurance and Retirement Receipts</td>
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<td>283.9</td>
<td>303.3</td>
<td>334.3</td>
<td>359.4</td>
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<td>Other</td>
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<td>Total Revenue Receipts</td>
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<td>854.4</td>
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<td>18.4</td>
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<td>282.0</td>
<td>290.4</td>
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<td>Non-Defense Outlays</td>
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<td>Total Outlays</td>
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<td>974.0</td>
<td>994.0</td>
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<td>Excess Congressional Spending</td>
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<td>16.0</td>
<td>10.0</td>
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<td>49.0</td>
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<td>15.5</td>
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<tr>
<td>Total Outlays (as percentage of GDP)</td>
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<td>22.4</td>
<td>21.6</td>
<td>21.3</td>
<td>21.2</td>
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Sources: Budget of the United States, Fiscal Year 2009; Office of Management and Budget

409 Interview with Miller.
Rather than going out on a limb for moral victories in long-term spending policy or on conservative social issues, Reagan turned to pragmatic advisers who balanced his ideals with smart politics. But he allowed ideologues not only access to senior staff but to be an integral part of the inner circle. Langston suggests that “what happened in economic and more generally domestic policy in the 1980s was largely the result of elites manoeuvring in a political environment in which ideological entrepreneurs are able to swing into action with both haste and forethought.”

In my analysis, Reagan utilized ideologues better than his predecessors or his successors in appealing to his party’s base because rather than designing policies for only their benefit, he projected a presidency concerned about the broader public interest. But to the Republican base he remains a hero for deftly standing tall against Congress on individual tax rate increases and for never signing a bill that increased marginal tax rates, an issue that became Republican gospel after his tenure, so much so that today conservative organizations like the Club for Growth and Americans for Tax Reform insist all Republican candidates, not only for the presidency but for Congress and statewide offices as well, take a Taxpayer Protection Pledge.

While the initial three year tax cut in 1981 was a short-term political win, the legacy of that legislative triumph was tremendous, as Reagan’s Republican presidential successors grappled with taxes as a political and electoral issue, an issue which George H.W. Bush managed poorly and inflamed the Republican base, while George W. Bush sought even bigger permanent tax cuts than Reagan and had the cuts extended over the course of his two terms.

411 Langston, Ideologues and Presidents: From the New Deal to the Reagan Revolution, 162.
4.8 The Bush II Legacy: Fiscal Incompetence, Blowback and the Decline of the American Economy

While the overall deficit to GDP ratio was lower during the Bush years than the Reagan years, Bush had started with a fiscal clean slate and then became fiscally undisciplined. Reagan was still contending with the institutionalized deficits of the past. Further, the deficit in Bush’s last year simply skyrocketed making the rationale for a lower GDP to deficit ratio over his entire term moot. Christina Romer, Obama’s first CEA chairwoman, has made a convincing case that the Reagan and Bush supply side policies had no starve the beast effect on government spending.\textsuperscript{412} In fact, government spending increased in both instances following the 1981 and 2001 tax cuts with little or no follow-on cuts to the overall size of government. But Hacker and Pierson’s research suggests something more is at work here. They believe that there continues to be a long-term starve the beast strategy that began in 2001 in order to push federal government fiscal policy to the breaking point, in which there can be no other option but programmatic cuts including entitlement programs.\textsuperscript{413}

Given the inability of either party to maintain a permanent majority in both Congress and the White House for more than six years, the patchwork tradition of taxing and budgeting suggests that the true impact is likely somewhere in the middle. The Bush-created deficits are unsustainable so either Obama or his successor will have to eventually deal with the spending side of the fiscal equation but that is not to say that administrations will necessarily


\textsuperscript{413} Hacker and Pierson, "Tax Politics and the Struggle over Activist Government," 275-277.
touch the third rail. The bottom line is that the Bush II deficits erased any notion of the
traditional Republican Party ethos of fiscal discipline.\textsuperscript{414}

| Table 4.7 Second Budget Deficit Explosion (Deficit or Surplus in Billions of $ by Fiscal Year) |
|-------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actual Off-Budget Deficit                       | 86.4            | -32.4           | -317.4          | -538.4          | -568            | -493.6          | -434.5          | -342.2          | -641.9          |
| Total Deficit                                  | 149.8           | 160.7           | 159.7           | 160.8           | 155.2           | 175.3           | 186.3           | 181.5           | 183.3           |
| Gross Federal Debt                             | 236.2           | 128.2           | -157.8          | -377.6          | -412.7          | -318.3          | -248.2          | -160.7          | -458.6          |
| Gross Domestic Product                         | 5628.7          | 5769.9          | 6198.4          | 6760            | 7354.7          | 7905.3          | 8451.4          | 8950.7          | 9986.1          |
| Deficit (as percentage of GDP)                 | 2.4             | 1.3             | -1.5            | -3.4            | -3.5            | -2.6            | -1.9            | -1.2            | -3.2            |
| Federal Debt (as percentage of GDP)            | 57.3            | 56.4            | 58.8            | 61.6            | 62.9            | 63.5            | 63.9            | 64.4            | 69.2            |
| Total Individual                                | 9821            | 10225           | 10544           | 10980           | 11686           | 12446           | 13224.9         | 13896           | 14439           |
| Income Tax Receipts                            | 1004.5          | 994.3           | 858.3           | 793.7           | 809             | 927.2           | 1043.9          | 1163.5          | 1145.7          |
| Total Corporate                                | 207.3           | 151.1           | 148             | 131.8           | 189.4           | 278.3           | 353.9           | 370.2           | 304.3           |
| Income Tax Receipts                            | 652.9           | 694             | 700.8           | 713             | 733.4           | 794.1           | 837.8           | 869.6           | 900.2           |
| Social Insurance and Retirement Receipts       | 160.6           | 151.8           | 146             | 143.9           | 148.4           | 154             | 171.2           | 164.7           | 173.8           |
| Other                                          | 1004.5          | 994.3           | 858.3           | 793.7           | 809             | 927.2           | 1043.9          | 1163.5          | 1145.7          |
| Total Revenue Receipts                          | 2025.2          | 1991.1          | 1853.1          | 1782.3          | 1880.1          | 2153.6          | 2406.9          | 2568            | 2524            |
| National Defense Outlays                        | 294.4           | 304.7           | 348.5           | 404.7           | 455.8           | 495.3           | 521.8           | 551.3           | 616.1           |
| Non-Defense Outlays                             | 1494.6          | 1558.2          | 1662.4          | 1755.2          | 1837.1          | 1976.7          | 2133.3          | 2177.4          | 2366.5          |
| Total Outlays                                   | 1789            | 1862.9          | 2010.9          | 2159.9          | 2292.9          | 2472            | 2655.1          | 2728.7          | 2982.6          |
| Total Presidential Request Outlays             | 1789            | 1863.9          | 2052.3          | 2140.4          | 2318.8          | 2479.4          | 2708.7          | 2784.3          | 2931.2          |
| Excess Congressional Spending                   | 0              | -1              | -41.4           | 19.5            | -25.9           | -7.4            | -53.6           | -55.6           | 51.4            |
| National Defense Outlays (as percentage of GDP) | 3              | 3               | 3.3             | 3.7             | 3.9             | 4               | 3.9             | 4               | 4.3             |
| Total Non-Defense Outlays (as percentage of GDP)| 15.2           | 15.2            | 15.8            | 16              | 15.7            | 15.9            | 16.2            | 15.6            | 16.4            |
| Total Outlays (as percentage of GDP)           | 18.2            | 18.2            | 19.1            | 19.7            | 19.6            | 19.9            | 20.1            | 19.6            | 20.7            |

Sources: 2010 Economic Report of the President Tables B-78, B-79, B-80.

Unlike Reagan, family income remained stagnant over Bush’s tenure, with real
income for the poorest and most of the middle class rising very little while the rich received a
massive jump. The top 1% accounted for 17% of total pre-tax income in the whole economy
at the end of the 2000s.415 This was a legacy repeat of the Reagan years and yet another
decade in the widening of the income gap between the top 10% and the rest of the
population. Income inequality is such a serious problem that in the 2010s, traditional
Orthodox Democratic economic populism and class-based social legislation were again
palatable to Democratic majorities in Congress to sell to the public and campaign on.

Table 4.6 above shows the fiscal results of the Bush years. Of particular interest is
the total deficit as a percentage of GDP. It only took three years for deficits to return to the
levels of the end of the Bush I years, a 36 month elimination of the fiscal competence Clinton
had engineered. Despite three years in which the deficit returned to 2002 levels, the final two
years wiped out those gains and returned the deficit back to levels higher than Reagan in
1983. To put it in historical perspective, the 2009 deficit numbers are comparable to 1946,
the last year of the postwar recession. The decline in total tax revenue as a percentage of
GDP is also remarkable. From a high of 20.6 in 2000, still much lower than comparable
OECD advanced democracies, but the highest point since World War II for the U.S., the
taxing capacity of the federal government fell to under 15%, the lowest since the postwar
boom years of the early 1950s. These numbers are a result of the combination of the
staggered backloading of the first term tax cuts and the deep recession, producing a
disastrous fiscal environment. In fact, the 2000 total revenue receipts are about equal to the
2009 total revenue receipts; in other words the same amount of tax revenue collected in

Clinton’s last year was collected in Bush’s last year, despite the largest expansion of federal government spending and most prolonged tax cuts in history.

Note also that defense spending increased to the same levels at the end of the Cold War, and non-defense spending almost doubled, despite no increase in tax revenue. By 2009, total outlays were almost 25% of GDP while revenue receipts were under 15% of GDP, the largest discrepancy since 1945. All told, the gross federal debt burden increased by a staggering 26% from 56.4% in 2001 to 83.4% of GDP in 2009, the highest total since 1950.416

There have been bad economic decisions made in the White House, with theories that did not work, such as the Coolidge and Hoover policies before and after 1929, there has been manipulation of the economy in attempts to tame the economic business cycle to benefit an incumbent administration, but never has there been so blatant a disregard for fiscal competence that set the national government on an unsustainable course for purely political and ideological reasons. As Barack Obama grapples with the Bush fiscal legacy, many Republican political advisers will look on this strategy as an unmitigated success: Karl Rove’s successful appeal to the Republican base in the 2004 campaign with a series of beneficial tax cuts, handicapping Bush’s successor with astronomical deficits and shifting the rhetoric back to painting the Democrats as tax and spend liberals. Unfortunately, the American economy, not the Democrats, was the real victim here.

The Bush II fiscal policy agenda was a deliberate attempt to throw the government off of a fiscally responsible footing to achieve ends that had nothing to do with cutting the size of government or stewardship of the economy that appealed to the national interest. It was an eight-year reconstruction of the tax burden, a shift from a more equitable formula in the

1990s to one skewed heavily in favor of the wealthiest that created a massive reduction in the taxing capacity of the federal government. Naturally, when Wall Street crashed after eight sluggish years, bracketed by the dot-com bubble, 9/11, the corporate malfeasance of Enron and others, and the end result of the repeal of portions of the Glass-Steagall Act, with the mortgage and banking deregulation disasters, it was corporate culture and greed that foot the blame. But the Bush administration played equally fast and loose with the American government’s share of the economy. Advisers like Michael Gerson and Karl Rove can defend the tax cuts and argue that nobody expected the collapse of 2008 but what they will not admit is their own culpability in the fiscal incompetence that helped generate a multi-trillion dollar bailout of the American economy and deficits well into the 2020s.417

The Bush fiscal policies hurt the United States far more than Ronald Reagan’s experiment with supply side economics ever did. One major reason is because of the type of people that Bush let advise him. Andrew Rudalevige rightly asserts that Bush’s advisory system and style of issue management was “marked by both strong politicization and centralization.”418 Without a group of people that could offer the president unvarnished assessments of how policies would play out in the long run, beyond the political exigencies to enact them, and without people from different points-of-view arguing vehemently from different sides, not just as a role playing exercise, but as a matter of principle, Bush’s economic advisory system never was freed from unrestrained advisory entrepreneurship by ideologues. He never had an honest broker, with the exception of Paul O’Neill who was sacked before he could really speak his mind, in fiscal policy inside his White House. Ron

Suskind’s description of the Bush-style echo chamber policy meeting as told to him by O’Neill is a classic example of both groupthink and disciplined hierarchical control of policy points by the inner circle.\textsuperscript{419}

Bush never had a policy group that could temper the tax and budget policies to reflect economic concerns, despite recruiting top economists, as opposed to Republican base concerns. Historian H.W. Brands’ recent book on Franklin Roosevelt was entitled \textit{Traitor to His Class} to reflect how Roosevelt’s New Deal policy agenda closed the gap between the ultra rich and the poor. George W. Bush, more than any president since, maintained almost total loyalty to his class, with disparities in after-tax incomes widening remarkably under his economic stewardship. As a result, Bush never offered up a strategically competent set of fiscal policies that appealed to the national interest. His legacy was an extraordinary undoing of the American economy, not just a reversal of the fiscal competence of the Clinton years. And the great tragedy was that he seemed to do it with a remarkable disdain for policies that might benefit the vast majority of the public. As Matt Bai succinctly puts it, “the same ideologues who railed against the profligacy of liberal government ended up running federal deficits that would have been unimaginable to Jimmy Carter.”\textsuperscript{420}

Chapter 5: Bill Clinton: Fiscal Competence and Advisory Effectiveness

Bill Clinton’s victory in the 1992 presidential election returned unified government to Washington with Democrats holding majorities in both houses. It also marked an important opportunity for the Democratic Party to reclaim the mantle of policy leadership, particularly in domestic policy, which had been neglected for over a decade. The decline of the welfare state and the social values Democrats had previously championed had put the party on the defensive, forced into reducing the size and scope of government, and championing fiscal responsibility. Clinton’s ascendancy was as much about a new governing coalition at the center, conservative Democrats and moderate Republicans reaching consensus on a limited set of issues and trying to move forward on a number of fronts, as it was about liberal Democrats finding their place in Washington. It is that tension between the two major factions of the party, traditional liberal Democrats and the Third Way conservative Democrats, often associated with the Democratic Leadership Council of which Clinton was a member, which would play itself out during the Clinton era.

A cynical retrospective interpretation suggests that Clinton paid lip service to liberal reforms (health care, employment stimulus packages, program expenditure increases) while settling for, supporting, and passing Republican initiatives in domestic and economic areas (welfare reform, balanced budgets) in order to win reelection. For some, it represented a betrayal of principles and a president negotiating not with his own party but with Republicans and, following the 1994 midterms in which the largest number of members of
Congress lost their seats, on Republican terms.\textsuperscript{421} But Clinton, unlike Carter, was well aware of the pitfalls of not attempting to reach consensus across the aisle. After the completion of his two terms, Clinton’s policy legacy is unmatched in the contemporary era, with more legislation and movement in more issue areas than any other president. That he was unable to achieve comprehensive health care reform is one legacy, but his significant contribution to restoring fiscal responsibility to Washington and for making limited gains in domestic policy, should not be underestimated.

In this chapter, Clinton’s tax and budget policy will act as a lens from which to glean an understanding of his advisory system and how well he utilized his set of advisers. It begins with a breakdown of his first term advisory system, followed by his fiscal achievements in his first term, and then the second term advisory shakeup and battles within an extremely partisan environment.

5.1 Clinton’s First Term Advisory System: Learning to Self-Correct

In inheriting a presidency in which the defeated incumbent had the lowest percentage of the popular vote in over eighty years and the winning candidate received less than 50% of the vote, Bill Clinton might have opted for a presidency without a clear mandate. But with Democrats in control of Congress, Clinton embarked on an ambitious domestic policy agenda, engaging campaign themes such as health care and welfare reform, and in fiscal policy, a renewed push for deficit reduction as well as infrastructure and training investment. While preparing to rollout his agenda, Clinton’s transition team spent a great deal of time between the November election and inauguration day discussing policy options. The president was a policy wonk and would approach an issue from a number of sides, often \textit{ad-}

nauseum, to determine its relative merits from a policy and political standpoint. This was both an asset and a curse because it meant that Clinton rarely embarked on a policy course without extensive discussion but it also suggested that he was prone to over-thinking an issue and being unable to pull the decision trigger when necessary. In this sense, Clinton was his own adviser, and already had what Burke and Greenstein term “a well-developed personal capacity to test reality.” In the transition, his ability to see an issue from all sides proved an asset because extensive roundtabling of all the campaign and national issues made it clear that the economy and a comprehensive budget and deficit reduction package should be the number one priority. Once that succeeded, the administration could then pursue individual domestic policy areas.

But before this could begin the Clinton White House was forced to face an early-1990s economic reality check as it took office. Firstly, Clinton had promised a middle class tax cut in the campaign and as the transition team reworked the budget books, it became less and less feasible given further budgetary restraints. The deficit was going to be $50 billion higher than anticipated and could approach $350 billion for FY1993. After November, it became a game of decreasing expectations given that so much of an ambitious agenda would have to be pushed back. The economy was recovering but not quickly and not as rosy as Bush had argued in the campaign. Secondly, Clinton had been influenced as Governor of Arkansas by the Democratic Leadership Council, a centrist group of Democratic politicians and policy experts, who strongly advocated deficit reduction and to produce real balanced budgets. The DLC and the deficit hawks weighed heavily among Clinton’s advisers and so

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movement in policy areas or expansion of programs would be vetted through this group. It suggested that his campaign which heralded New Democrat and Third Way themes might actually produce the kind of broad consensus and leadership that could develop policies that appealed to the national interest.

Thirdly, the new president was going to face a tradeoff between an economic stimulus package which invested heavily in building projects and workforce training programs, or a budget agreement that attacked the deficit head-on to ensure long-term economic stability. Either direction caused considerable political problems for Clinton, in alienating the Democratic Party base and falling prey to the same issues Carter and Bush I faced. He also risked angering Republicans and DLC Democrats who believed the president was looking for middle-ground positions and appeasing the Democratic base with tax increases to achieve what Aaron Wildavsky called egalitarian leadership.424 Either course would prove difficult for Clinton. Fourthly, despite Democratic majorities, Clinton, like his predecessor, would have to appeal across the aisle for any broad consensus. This task would be even more difficult given that the Republican leadership had been taken over by the same conservatives who had caused so much trouble for Bush I. Compromise could be completely off the table and force the president to reposition and adopt a Democrat-only strategy. Finally, Clinton had been cognizant of recommendations for the establishment of a National Economic Council, a brokerage advisory group similar in scope to the National Security Council, which would vet economic policy recommendations made by the OMB, the CEA and Treasury.

Clinton’s task in late-1992 was more difficult politically than his Republican predecessors. Not only did he lack a true mandate based on a healthy popular vote majority,

he also did not have a Washington-based transition team working prior to Election Day to ensure a smooth inauguration. Despite a real concern not to be like Carter, to the point where the president specifically vetoed advisory positions that might have gone to former Carter advisers, Clinton’s transition was just as poorly run and prone to error as Carter’s. One major concern was that he based it out of Little Rock, as opposed to Washington, and like Carter, spent an inordinate amount of time focused on potential cabinet members while not paying enough attention to the kind of advisory dynamics he would want for his White House staff.425 This resulted in an Arkansas- and campaign-centric group that was selected, some with little Washington experience. Their collective inexperience would manifest itself most notably when presenting Clinton’s agenda, which was severely mangled. They also antagonized a Washington press corps accustomed to accessibility in the White House, whom then in the absence of a real connection to the inside of the Oval Office would focus on all of Clinton’s mistakes.

With the economy looming so large in Clinton’s strategy, focusing on first term macroeconomic fiscal policy provides tremendous insight into the mechanisms at work in the Clinton White House. Bill Clinton, when it came to his advisers, understood that loyalty only went so far. If the administration found itself in difficulty, inevitably Clinton brought in new help and fresh faces. His advisory legacy is one of self-correction, not only in attempting to utilize an array of adviser types which fit well with his obsessive interest in policy ideas and decisional input, but in recognizing the limitations of his initial set of advisers and making changes when needed. Throughout both of his terms, Clinton regularly updated his advisers, shifted people around, demoted those that were not producing desired

results, and brought in fixers to help right the ship or advance new strategies. The result was that Clinton, like Reagan’s first term, utilized his advisers very well to achieve what was needed to win a second term and advance enough policy ideas and make necessary adjustments, if not wholesale changes, to specific domestic and economic policies, in order to leave his presidency with a positive legacy. Clinton, like Reagan’s first term, balanced his advisory system with both talented policy and political advocates, but also with honest brokers and some ‘radical centrist’ ideologues which allowed Clinton to appeal to almost the same percentage of the population that had elected him the first time.

Clinton selected his longtime Arkansas friend Mack McLarty as his first Chief of Staff, eschewing early on the strong chief of staff model that had got Reagan’s second term and Bush I into trouble. McLarty’s loyalties were never in doubt but his effectiveness as a manager quickly was shown to be a drawback, failing to rein the president in during marathon policy sessions, rarely able to keep the president on schedule, and completely unable to act as a gatekeeper from senior staff’s attempts to meet face to face with Clinton.\footnote{Charles E. Walcott, Shirley Anne Warshaw, and Stephen J. Wayne, "The Chief of Staff," \textit{Presidential Studies Quarterly} 31, no. 3 (2001): 472, 475.}


Another early concern was how Clinton would utilize his campaign team in the White House. Like Bush, he opted to keep many of his strategists and pollsters out of White House operations, retaining only George Stephanopoulos, one third of his Little Rock campaign inner circle. Both James Carville and Paul Begala did not join the initial White House team although Begala would return twice, in the first term as an outside adviser, and again to help...
get the presidency back on track in the second term following allegations of the president’s affair with Monica Lewinsky. Stephanopoulos was selected as the Director of Communications for the incoming president, a position that he had no specific training and one in which amplified his relative inexperience. Those left out of the inner circle were not left out entirely. Pollsters and War Room veterans Stan Greenberg, Mandy Grunwald as well as Carville all advised Clinton throughout his presidency even if they did not occupy the top positions.\textsuperscript{428}

A further power base in the White House were the collective staffs of Vice President Al Gore and First Lady Hillary Clinton. Both were given not only access to the president but decisions initially were thought to be a collective agreement between Clinton, Hillary and Gore.\textsuperscript{429} This created an atmosphere in the White House which represented the opposite of the advisory system under Regan and Sununu. Without virtually any gatekeeping, White House decision-making could descend into long policy sessions in which any number of advisers offered insight. It was often so nebulous that discussion would continue with or without the president and get to a decision point in which Clinton would be forced to select between two or three options, and still he would want to debate and discuss it. One former Clinton adviser considered these policy sessions as a “free-for-all” and would often result in days of discussion with nothing achieved at the end.\textsuperscript{430} This was particularly problematic when it came to the larger domestic policy issues like health care reform.

Lastly, Clinton had a number of DLC members advising him throughout the campaign. Individuals like Bruce Reed were also given positions in the White House. So,

\textsuperscript{429} Woodward, \textit{The Agenda: Inside the Clinton White House}, 216.
\textsuperscript{430} Respondent, May 10, 2007.
with Hillary Clinton and close friend Ira Magaziner representing the party base side of domestic issues like health care, Reed coming from a DLC centrist ideologue background with advisers like Rahm Emanuel, and the political staff of Stephanopoulos, McLarty, Bruce Lindsey, John Podesta and Howard Paster, Clinton was able to design an advisory group in which all sides were represented. Unfortunately, they lacked an effective political issue management collective intelligence and were responsible for failing to devise a strategy after Clinton passed the first budget that could orient the president to the electoral concerns of Congressional Democrats.

This failure to hit the ground running was magnified in the disorganization in securing Democratic votes for the budget reconciliation. Clinton wisely pivoted and became more strategic in the summer of 1993, bringing in seasoned veteran David Gergen to handle communications issues and working with Congressional Democrats to secure the initial piece of legislation. Without passing that, his presidency could have easily veered towards that of Carter. But just as he had cemented an image as a centrist Democrat, he pushed for health care reform at all costs, and as the management of that issue unfolded, he was tagged as a typical tax and spend liberal. By mid-1994, Clinton was more preoccupied with finding his own style and image for reelection than concerning himself with the difficult position he had put many Democrats in when forcing the budget compromise. His failings as party leader were one of the low points of his presidency.

The economic staff was to work with and around these various inner circle factions. Robert Rubin, a Wall Street veteran and not a politico, was named the first Director of the National Economic Council. His honest broker mentality on assuming the NEC directorship

certainly helped make the new coordinating position effective. Complementing him was longtime California Congressman Leon Panetta, a deficit hawk, as the new Director of OMB, Gene Sperling became Rubin’s deputy, Laura Tyson was the new Chair of the Council of Economic Advisers, Alice Rivlin, another deficit hawk, became Panetta’s deputy and Alan Blinder became Tyson’s deputy. This team was in many respects the most balanced group of economic advisers of the contemporary era. While no supply-siders were among the group, they were not strictly Keynesians either, but a good cross-section of economists and specialists. And in keeping with Clinton’s style, there was not a real hierarchy or voice that drowned the others out. Rubin may have been NEC Director but his advice was primus inter pares. Certainly, Rubin’s influence would grow as he was elevated to Treasury Secretary but this economic team was far less hierarchical than previous sets. All were deemed important.

This group was also augmented by two powerful cabinet secretaries who had tremendous influence during the first year. Treasury Secretary Lloyd Bentsen was included in the White House debates and his long history of understanding the complexities of Congress helped navigate the first term policies. Bentsen was integral in tweaking both the budget deal and the longer term fiscal policy set down in the first few months. Labor Secretary Robert Reich, a proponent of strategic trade theory which argued for significant investment in skills and training and infrastructure, was also important. Long a friend of the Clintons and one whose liberal ideas on economic policy Clinton was particularly taken with, Reich nonetheless was not placed in the economic inner circle. But he still had the president’s ear and while on the institutional matters of budget intricacies and spending, he might not have been inner circle, Reich’s ideas certainly were considered in Clinton’s larger
economic thinking. Having Reich and Rubin allowed Clinton’s advisory system to have both poles of the Democratic Party, liberals and moderates, represented. It was a unique mix of Wall Street and Main Street thinking immediately after the election and this team was able to roundtable and get ideas together at a well-publicized two-day economic summit in Little Rock as Clinton assumed the presidency in January. But the advisers were still split between deficit hawks, like Rubin, Panetta and Rivlin and more moderate deficit-reduction ideas from Sperling, Tyson, Reich and Stephanopoulos. Over time, the hawks would win out in the initial legislation but only after a series of internal agreements over other economic goals were reached.

The histrionics of the passage of Clinton’s first budget, ultimately coming down to a single vote in the House, have been well documented in two journalistic insider accounts by Elizabeth Drew and Bob Woodward. Both of them placed a great deal of emphasis on the personal battles among the advisers competing for the attention of the president. Both accounts also portray the advisory system as a dysfunctional apparatus, with no management of issues and little gatekeeping by seasoned aides. This image of ‘management in a sandbox’ is correct insofar as discipline and timing in decision making are seen as the most important goals of advisers. It was certainly true of the White House’s handling of health care reform in which the mixture of Clinton-induced paranoia of the media, lack of a clear checkpoint in which the advisory process allowed issue management to descend into marathon policy sessions with literally hundreds of staff and limitless debate of the merits of

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432 Reich, Locked in the Cabinet, 63-65.
436 Campbell, "Management in a Sandbox: Why the Clinton White House Failed to Cope with Gridlock."
even minuscule parts of the process, helped create a disastrous midterm defeat for the
Democrats. And it is also true of the day-to-day operations of the White House throughout
the first term, where the president’s daily itinerary rarely ran on schedule and allowed
Clinton to become distracted from key issues. But this process was not necessarily
problematic in fiscal decisions.

Allowing both political and policy people full access to the decision making process,
along with DLC deficit hawks calling for fiscal restraint, permitted Clinton to submerge
himself in honest debate and while it lacked the structure and funnels of advice that
characterized Reagan’s advisory system, it suited this president well. Further, Clinton was
actually spending hours with the advisers, meeting with them outside of White House
working hours, to develop the budget strategy. The sheer number of advisers allowed for
redundancy in roundtabling issues as different groups came back with different assessments
of presidential goals. This type of advisory strategy had been utilized before, as Roosevelt
did with critical New Deal and economic legislation in the 1930s. Having parallel systems
of advice operating gave Clinton a series of lenses from which to consider different opinions
and ultimately make sounder fiscal decisions. As John Harris characterizes:

It was a feature of Clinton’s governing style…that he allowed factions to fester. Then, he
would leave all sides with the conviction—though never a completely secure conviction—
that they were representing his real beliefs and interests against other advisers who, for
reasons of ignorance or selfishness, were tugging the president someplace he did not want to
go.

While this haphazard management style proved ill-suited to most of the other domestic
agenda items, in fiscal policy it actually benefitted the president because that policy area was
conducive to the extended sessions of the advisers.

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439 Harris, *The Survivor: Bill Clinton in the White House*, 23.
After the first two years in office, Clinton had won the battle on the deficit but lost the war. His single-minded pursuit of the budget deal was a midterm election burden for many Democrats in swing districts. But the health care implosion in 1994, as well as a Clinton White House lacking strategic management of issues and objectives, sealed the Republican takeover of Congress. As Clinton himself argued, “I made all those Democrats walk the plank…and the Republicans took the Congress away.”440 In many respects, this was devastating to the Clinton domestic agenda. Forced to negotiate on much different terms, Clinton could have been hamstrung by Newt Gingrich and a revitalized Republican majority. But his signature achievement, fiscal competence, proved durable and he was mindful to update and rework his advisers to reflect the party dynamics in Washington.

Daniel Altman termed Clinton’s economic advisers a “crazy quilt of economic thinkers,” thanks to a team that offered up different policy prescriptions but that were not entirely incompatible. For single-minded focus on deficit reduction while balancing spending cuts and tax increases to benefit as great a number of people as possible, this team demonstrated that fiscal competence could be achieved even with enormous pressures after 1994 from a recalcitrant and reinvigorated Republican majority in Congress. And despite the haphazard management style of the Clinton White House, the economic advisers developed into a disciplined team.

When Tyson took over from Rubin, the cohesiveness of the first two years, and the new NEC format that created an environment for effective roundtabling of fiscal issues, allowed Clinton to have balanced advice for the remainder of his two terms. It was a case of getting it right the first time and smart, well-calculated policy followed. Tyson’s tenure as

NEC Chair beginning in 1995, with Rivlin as head of OMB and Stiglitz the Chairman of the CEA, ensured that the OBRA outline would be followed and that a balanced budget would actually happen early in the second term. Both Panetta and then Rivlin continued their deficit hawk stance to get to the needed deficit reduction. Rivlin’s tenacity to hold her ground despite political exigencies helped make the CBO such a nonpartisan force prior to the Clinton years. Her continued focus on the deficit, as the most vocal deficit hawk, helped keep the administration from compromising on that goal. Rivlin and Stiglitz made an excellent team, coming from vastly different viewpoints. Their principled and sometimes opposing ideas gave Clinton a real debate on budgetary issues and gave Tyson time to modulate those ideas when battling and negotiating with Congress. The middle ground solutions that were developed would be a model for the triangulation Clinton used in other policy areas.

When he listened to the base, as he did on the health care reform issue, Clinton was unable to claim a policy victory even when he had Democratic majorities in Congress. In this respect, Clinton would adhere to his centrist ideology and therefore listened to advisers who did not represent the Democratic Party’s left wing, but shared Clinton’s own middle ground. There were, in effect, centrist ideologues among Clinton’s advisers, who rejected both the liberal and conservative base values. This belief in middle ground solutions led to the appointment of David Gergen as Communications Director in mid-1993, demoting Stephanopoulos, shifting Leon Panetta to Chief of Staff in 1994, and then to the infusion of Dick Morris throughout 1995 and 1996, a Republican strategist who had helped Clinton

retake the Governorship of Arkansas in 1980, to rework the agenda once Republicans took over Congress.

Table 5.1 The First Term Clinton Economic Advisory System

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
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<tbody>
<tr>
<td>Ideologue</td>
<td>Bruce Reed – Deputy Assistant for Domestic Policy 1993-1996</td>
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<td></td>
<td>Rahm Emanuel – Deputy Director of Communications 1993-1994</td>
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<tr>
<td>Policy</td>
<td>Laura Tyson – Chair of the Council of Economic Advisers 1993-1995;</td>
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<td></td>
<td>Director of the National Economic Council 1993-1996</td>
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<td></td>
<td>Joseph Stiglitz – Chair of the Council of Economic Advisers 1995-1996</td>
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<td></td>
<td>Gene Sperling – Deputy Director, National Economic Council 1993-1996</td>
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<td></td>
<td>Alan Blinder – Council of Economic Advisers 1993-1994</td>
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<td></td>
<td>Alice Rivlin – Deputy Director, Office of Management and Budget 1993-1994;</td>
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<td></td>
<td>Director, Office of Management and Budget 1994-1996</td>
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<tr>
<td></td>
<td>Franklin Raines – Director, Office of Management and Budget 1996</td>
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<td></td>
<td>Al Gore – Vice President 1993-1996</td>
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<tr>
<td>Political</td>
<td>George Stephanopoulos (Inner Circle) – Senior Adviser to the President 1993-1996</td>
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<td></td>
<td>Thomas F. “Mack” McLarty – Chief of Staff 1993-1994</td>
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<td></td>
<td>Leon Panetta – Director, Office of Management and Budget 1993-1994;</td>
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<td></td>
<td>Chief of Staff 1994-1996</td>
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<td></td>
<td>John Podesta – Staff Secretary 1993-1995</td>
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<td></td>
<td>Bruce Lindsey – Assistant to the President and Senior Adviser 1993</td>
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<td></td>
<td>Hillary Clinton (Inner Circle) – First Lady 1993-1996</td>
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<td></td>
<td>Howard Paster – Assistant to the President for Legislative Affairs 1993-1995</td>
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<td>Mark Gearan – Deputy Chief of Staff, Director of Communications 1993-1995</td>
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<td></td>
<td>Dee Dee Myers – Press Secretary 1993-1994</td>
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<tr>
<td></td>
<td>Mike McCurry – Press Secretary 1994-1996</td>
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<tr>
<td>Honest Brokers/Fixers</td>
<td>Robert Rubin (Inner Circle) – Assistant to the President for Economic Policy</td>
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<td>David Gergen – Counselor to the President 1993-1995</td>
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<td></td>
<td>Dick Morris – Counselor to the President 1994-1996</td>
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<tr>
<td></td>
<td>Robert Rubin – Secretary of the Treasury 1995-1996</td>
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<td>Robert Reich – Secretary of Labor 1993-1996</td>
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<tr>
<td></td>
<td>Alan Greenspan – Chairman of the U.S. Federal Reserve Board 1993-1997</td>
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</table>
5.2 The First Term Fiscal Legislation: From Deep Red into the Black

When Clinton assumed the presidency, the U.S. economy was still in recession and the policies of twelve years of Reagan and Bush had increased inequality between the rich and the middle class, thanks to regressive tax increases and tax reform that benefitted the wealthy. More so, the deficit control process initiated during Reagan’s second term and continued through Bush’s presidency had not achieved success. Structural deficits were still present despite Congressional efforts at controlling spending. But without presidential leadership on deficit control, making hard choices on spending and re-working taxes, the economic concerns of fiscal imbalance continued through the Bush I years.

Unlike Reagan’s team, which presented rosy scenario numbers to justify the tax and spending cuts and unlike Bush II’s team, which ignored deteriorating economic conditions and pushed ahead with irresponsible tax cuts, Clinton constantly revised economic projections and the fiscal agenda from November 1992 through inauguration. Carefully tying the Federal Reserve Chairman Alan Greenspan to policies of deficit reduction, Clinton’s economic advisers charted an economic plan that also tried to focus on middle class productivity. Reversing the Reagan and Bush I era policies however ran the risk of being politically unpopular because any choice they made required tax increases. In risk adverse conditions in the White House, Clinton’s own attitude about embarking on deficit reduction was less than positive. He expressed outrage that he would have to pay politically for the fiscal incompetence of his predecessors and outlined the limitations of having government live within its means and that his reelection was determined by the fluctuations in the bond

market and interest rates. Clinton also expressed exasperation with having to rely on external factors, like the performance of the Federal Reserve’s monetary policy on the markets.

His initial budget, the Omnibus Budget Reconciliation Act of 1993 (OBRA), garnered not a single Republican vote in the House or Senate. After the 1990 budget compromise, Republicans determined that they were better off voting no on a Democratic president’s initiated fiscal decisions than opting for sensible fiscal policy of raising taxes and decreasing government spending. The bill raised the top marginal tax rates back up to 36% and 39.6%, an increase from the Reagan-Bush era top tax rate of 31%, still much lower than other countries and much less than it had been before the 1970s but it effectively reversed the worst excesses of tax rates for the rich brought about during the Reagan years. Discretionary spending caps were still in place through the pay-as-you-go deficit reduction legislation of the Budget Enforcement Act of 1990.

OBRA included an almost half a trillion dollar cut in the deficit over four years, an equal mix of tax increases and spending cuts. Republicans of course balked at supporting any of it but because they did this fairly early in the process, Clinton’s advisers were able to craft a package that was less draconian than he had even campaigned on. By equaling spending cuts to tax increases, OBRA was a success in maintaining essential government programs and returning top marginal tax rates to the pre-Reagan era. The close Congressional votes were systematic of the new tax cut philosophy that plagued Washington. Compromise was off the table as long as Democrats tried to increase taxes on the wealthy. Unfortunately for the president, the first of Clinton’s budget battles removed much of the stimulus package he and Reich had envisioned in the campaign, killed the BTU energy tax championed by Gore, effectively made the promised middle class tax cut more indirect
through incentives like the earned income tax credit, and generally obstructed spending increases in traditional Democratic areas of government. But the tax increases were concentrated on the wealthy while tax reduction targeted working families and the middle class.

While OBRA was a first year success for the president, it did not sit well with Democrats in Congress, managing to offend almost all liberal and moderate constituencies because of the tax increases and spending cuts even on entitlement programs. But it set in motion both an end to the idea of Democratic spending policies of the past and of the Republican low tax and high deficit ideas of the 1980s and it tied Clinton to a policy of economic improvement by deficit reduction. There was no guarantee this would work but he did have the business cycle and a forthcoming technology boom on his side. OBRA placed Clinton on a reelection path and gave him a vision and purpose for his presidency but it did little to help Democrats in the political short-term. It was the very model of fiscally competent legislation that incorporated a healthy mix of advisory viewpoints. It was not liberal, it was not conservative but it was pragmatic and set out a goal for deficit reduction. The problem was that it was Clinton’s only real first term goal after health care reform imploded.

Following the Republican takeover of Congress in 1994, Clinton recognized that he would have to adapt his agenda in order to achieve a modicum of campaign promises and

446 Campbell, "Management in a Sandbox: Why the Clinton White House Failed to Cope with Gridlock," 64.
even in this regard, they would be severely limited and skewed to the right. But Clinton had some advantages. The Republican leadership in Congress was not as united as it seemed during the first 100 days of 1995. The 98% unity was impressive but also somewhat optical and did not incorporate deep divisions among the leadership. This was largely a House verses Senate divide. Gingrich wanted to complete the Reagan revolution by dramatically cutting spending and lowering taxes but Bob Dole, who was serious about a run for president in 1996, had misgivings for that kind of deep retrenchment, given that attacking entitlement programs head on would invariably paint him as out of touch with the mainstream. While Clinton understood that the playing field had shifted under his feet, the House Republicans were novices at issue management and soon Clinton was able to reclaim the policy agenda, at least in terms of economic policy albeit more on Republican terms. It ultimately benefitted his presidency but did not benefit the Democratic Party.

In 1995, the House Republican proposals for deficit reduction were incendiary not just to Democrats but to moderate Republicans. Gingrich wanted to eliminate three government departments, massively reduce social program spending and cut upper income tax rates. Sensing that Republicans had overplayed their hand, the Clinton White House, with consultant Dick Morris’s constant advice, painted the Republican proposals as out of the mainstream.\textsuperscript{447} The stalemate that ensued ultimately titled to the president. With the president threatening a veto of any legislation that did not protect core elements of government, the Republican House refused to approve the FY1996 budget. Consequently, government closed down for two weeks in a game of institutional brinksmanship through November 1995 and January 1996. Clinton prevailed thanks in large part to majority

consensus in public opinion that blamed the Republicans for unnecessarily forcing the federal
government shutdown. This emboldened Clinton, not in pushing through a ‘new order’ style
domestic agenda, but in his negotiating position with Congress in all future budgets and on
tax policy.

Clinton’s advisers, now seasoned from the 1993 and 1994 fights with Congress,
employed a series of tactics that allowed Clinton to take the high road on deficit reduction
while appearing to fight for the lower and middle classes. The Republican strategy of
demanding the president respond to their plans ironically gave Clinton’s economic team the
upper hand. So out of touch were some of their proposals that Clinton’s key advisers crafted
middle range policies that without much grandstanding proved durable and popular. While
Morris, whom Clinton would turn to after the midterm defeat, would call this approach
triangulation, in taking Republican proposals palatable to moderates and filtering them
through Clinton’s well-honed appeals to the middle classes and the center, it was mostly
about common sense.

The rest of Clinton’s first term was much like Reagan’s third and fourth years.
Budget battles ensued in which the president would have to compromise on some issues but
ultimately achieve a semblance of a policy victory. This is most notable with the FY1996
budget, Clinton’s first full budget. The fight through 1995 was both a White House exercise
in careful issue management in responding to a new Republican majority and diminishing
expectations of the rest of Clinton’s 1992 campaign promises. Morris, his team of pollsters,
and the economic advisers framed the debate over the budget about protecting middle class
families. The Clinton White House responded with tax cuts for the middle class that tried to
usurp the Republican agenda, he reduced domestic spending in some areas, and he pushed for
continued adherence to the deficit reduction timeline. Both Stiglitz and Rivlin opposed the
tax cuts, as did his more liberal advisers. But Morris’s ideas and opinion were paramount
at this stage.

Clinton’s first move was to announce his own tax cut plan in December 1994 in order
to upstage Gingrich as Congress rolled out the Contract with America. Stiglitz argued that
Clinton’s toying with capital gains tax loopholes after his budget compromise had effectively
raised taxes on upper-middle class taxpayers but not on the ultra-rich. This amounted to a
Democratic president disregarding the people who had actually put him in office. Despite
CEA attempts to make the 1995 tax cuts more equitable, Republicans were not listening and
Clinton could not defer to trusted liberals like Stiglitz and Reich in the face of the new
political environment. While the left-of-center advisers were gradually removed from the
Clinton inner circle, Clinton himself still held on to many of their principles and would try to
work them into the major legislation for the rest of his two terms. But the 1996 budget
planning finally pushed advisers like Stephanopoulos and Reich out of the inner circle.

Morris called the middle class bill of rights, unrolled in the 1995 State of the Union
speech and the umbrella name for the FY1996 presidential budget proposal “his first effort at
triangulation in this new political world…Clinton felt able to propose tax cuts and keep his
‘92 election promise. But he wanted them to be his tax cuts, his vision, his initiative, not the
Republicans.” For the remainder of his presidency, Clinton would wage a subtle class war
with Republicans compromising on some issues to ultimately get what he generally wanted.

of Oklahoma, 1999), 151-152.
After a rocky start, he would match Reagan in terms of an ability to claim small victories from policy defeats. Clinton did modest tax reduction for the FY1996 budget to appease the new Congress and even then, Republicans refused to support it. With his basic themes still in place, Clinton announced a balanced budget plan in June 1995 that split the difference between his initial request and the Republican proposals. Despite the first stages of a nasty five year fight with Republicans, the passage of the balanced budget plan signified a return to fiscal discipline and competence in Washington, both with the executive and legislative branches.

5.3 Clinton’s Second Term: Maintaining Fiscal Discipline in a Lion’s Den

Some have labeled the second term economic policies of the Clinton administration Rubinomics, based on Robert Rubin’s economic thinking that “a robust economy requires a pool of savings to permit investment and productivity gains.”453 And while Clinton’s achievement of a balanced budget and across-the-board prosperity should not be underestimated, the pool of savings Rubin and others hoped to use to shore up entitlement programs and pay down the national debt never got protected. Late term politics and the Lewinsky scandal prevented Clinton’s team from insulating the surplus and earmarking that money for their vision of economic security.

But his economic team proved remarkably balanced, with both policy experts and political advisers, despite changes from the first term. Gene Sperling took over as NEC director after the 1996 election and oversaw the balanced budget years of the second term, with Franklin Raines and Janet Yellen at OMB and CEA. Sperling’s acumen with numbers and as one of Clinton’s closest advisers had made him a natural NEC chair. He had seen the NEC coordination function operate under Rubin and Tyson in the first term and was able to

453 Schick, "Bush's Budget Problem," 95.
harness that institutional knowledge in the second.\textsuperscript{454} Arguably, the second term economic team coordinated by Sperling was the best group of second term advisers of any of the modern presidents.

Clinton also allowed his second term advisers more leeway to negotiate with the Congressional leadership. New chief of staff Erskine Bowles also understood the problems with inserting the president directly in negotiations, which had sometimes polarized the issues and often led to Clinton negotiating away too much. This new delegation of negotiating authority was notable in early 1997, when the FY1996 budget agreement came together fairly quickly and without the protracted hostility that had led to government shutdowns the previous year largely because the White House used the economic and political advisers as the primary negotiators. The more relaxed atmosphere helped allow speedier resolution of the issues.\textsuperscript{455} The 1997 Balanced Budget Act and the Taxpayers Relief Act took advantage of the economic boom at Clinton’s midterm, lowered overall spending and lowered middle class taxes. Clinton’s ability to outlast Republicans in early 1997 enabled the tax cuts to be far more progressive than Gingrich had sought. But Republicans had won modest victories to shift emphasis back to tax cutting.\textsuperscript{456} Capital gains tax rates were relaxed, estate tax exemptions were increased and corporate tax breaks were increased.


\textsuperscript{455} Harris, \textit{The Survivor: Bill Clinton in the White House}, 260-263.

<table>
<thead>
<tr>
<th>Type Of Adviser</th>
<th>Name, Position</th>
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<tbody>
<tr>
<td>Ideologue</td>
<td>Bruce Reed – Director, Domestic Policy Council 1997-2001</td>
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<tr>
<td>Policy</td>
<td>Franklin Raines – Director, Office of Management and Budget 1997-1998</td>
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<td>Jacob Lew – Director, Office of Management and Budget 1998-2001</td>
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<td></td>
<td>Janet Yellen – Chair of the Council of Economic Advisers 1997-1999</td>
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<td>Al Gore – Vice President 1997-2001</td>
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<td>Political</td>
<td>Erskine Bowles – Chief of Staff 1997-1998</td>
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<td></td>
<td>John Podesta – Chief of Staff 1998-2001</td>
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<td></td>
<td>Doug Sosnik – Director of Political Affairs 1997-1998; Counselor to the</td>
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<td></td>
<td>President 1999-2000</td>
</tr>
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<td></td>
<td>Mike McCurry – Press Secretary 1997-1998</td>
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<td></td>
<td>Joe Lockhart – Press Secretary 1998-2000</td>
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<td>Jake Siewart – Press Secretary 2000-2001</td>
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<td>Hillary Clinton – First Lady 1997-2001</td>
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<td>Mark Penn – Pollster 1997-2000</td>
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<td>Gene Sperling (Inner Circle) – Director of the National Economic Council 1997-2001</td>
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<td>External Economic</td>
<td>Robert Rubin – Secretary of the Treasury 1997-1999</td>
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<td>Advisers</td>
<td>Lawrence Summers – Secretary of the Treasury 1999-2001</td>
</tr>
<tr>
<td></td>
<td>Alan Greenspan – Chairman of the U.S. Federal Reserve Board 1997-2001</td>
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</table>

On finally reaching a certain détente with Gingrich over the budget, or at the very least a mechanism with which to move forward with negotiations each year, the battle shifted from the deficit to the surplus and competing visions of what to do with the excess money. Clinton wanted both debt reduction and to use future surpluses to make social security solvent. The newer conservatives immediately wanted tax cuts. But Gingrich’s position after 1997 was precarious as he needed moderate Republicans to hang on to the speakership. The surplus matter was inching towards compromise, wherein Gingrich would support some sort of social security framework that the White House was suggesting. If Clinton could
accomplish this as well as deficit elimination, the concerns among liberals of a limited presidency could be drowned out. But then the Monica Lewinsky scandal enveloped Washington and Clinton’s entire presidency.

After all of the sacrifices Bill Clinton’s advisers had made to navigate such partisan waters and achieve success despite fierce opposition and to learn from the political mishaps of 1993 and 1994 to guide Clinton to an easy reelection victory and a second term of noticeable fiscal achievements, it was Clinton himself that nearly toppled his presidency. The real tragedy of the Lewinsky scandal and follow-on impeachment proceedings was that the remaining parts of a new fiscal framework were left unresolved.457 The surplus debate which the president could have won had he been in a stronger position shifted to the Republican option of using the money for tax cuts. Furthermore, despite the surpluses in the final three fiscal years, as Irene Rubin argues, supplemental appropriations began to increase again in 1998 when the Budget Enforcement Act was relaxed.458 Without Clinton’s deadeye focus on Congressional spending, the brief restraint in both institutions began to falter.

By the end of 2000, Clinton could claim a legacy of two terms of peace and prosperity. Unemployment and inflation were at their lowest levels in decades and job growth matched the Reagan years. His second term use of the veto also held off Orthodox Republican tax and budget proposals, in Gingrich’s attempts of either massive retrenchment or massive upper income tax cuts.459 As a final fiscal legacy, Clinton vetoed a $792 billion

Republican tax cut proposal in 1999. Many Republicans had thought he would pass it, given his weak standing after the Lewinsky scandal. Instead the Medicare, Medicaid, and State Children’s Health Insurance Program Balanced Budget Refinement Act of 1999 completed the Clinton era fiscal policies, winning short-term budget victories after vetoing a series of Republican tax cut proposals. Credit the economic advisers for seeing through deficit cutting until the end of the term and for ensuring the policies appealed to the vast majority of the middle class. This was not fiscal accounting gimmicks, tax cuts as a panacea to economic problems, or relaxation of corporate taxation in order to expand the economy. These were carefully reasoned, hard-fought, both among advisers and with Congress, and ultimately utilitarian and pragmatic policies.

Unfortunately for fiscal competence in federal government, Clinton handed George W. Bush his central campaign issue. Al Gore could not run on a record of fiscal competence and deficit reduction alone given the distance he put between him and Clinton after the impeachment trial was completed. George W. Bush proposed an even larger tax cut than the one Clinton had vetoed. The feat of having returned the federal government to living within its means and balancing the budget was short-lived. But this says less about Bill Clinton’s achievement and more about the institutional factors that easily allowed the federal government to veer off a fiscally responsible course.  

Bush II deliberately moved away from deficit and debt reduction. But the real story is how easily Congress and the two political parties allowed him to pursue that course of action.

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5.4 Clinton’s Legacy: Fleeting Fiscal Competence and a Model for Mixed Adviser Sets

Bill Clinton, unlike his immediate predecessors or successors, achieved fiscal competence across his two terms in office. Through a balanced team of economic advisers, aware of the polarizing Washington environment and the limitations with pushing more ideological change in taxing and spending, Clinton was able to build a series of small victories and maintain an economically prosperous presidency.

Table 5.3 Clinton's Deficit Control (Deficit or Surplus in Billions of $ by Fiscal Year)

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<tr>
<td>Actual On-Budget Deficit</td>
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<td>-300.4</td>
<td>-258.8</td>
<td>-226.4</td>
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<td>66.6</td>
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<td>123.7</td>
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<td><strong>-255.1</strong></td>
<td>-203.2</td>
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<td>-107.4</td>
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<td><strong>69.3</strong></td>
<td><strong>125.6</strong></td>
<td><strong>236.2</strong></td>
<td><strong>128.2</strong></td>
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<td>Gross Federal Debt</td>
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<td>5478.2</td>
<td>5605.5</td>
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Sources: Budget of the United States, Fiscal Year 2010; Office of Management and Budget
In the table above, Clinton’s major fiscal triumph, deficit control, is outlined. Perhaps the most obvious figure is the decline of the total annual deficit from FY1993 to FY2001. This prudence in budgeting enabled four fiscal years of federal budgets in the black. It even allowed for a paying down of the expanding federal debt. Debt figures expanded only modestly in Clinton’s second term and the debt as a percentage of GDP actually fell. Further, it demonstrated a balance between taxing and spending. Allowing the top marginal personal rates to increase back to pre-Reagan levels, increasing corporate rates, and completing a post-Cold War buildup of the military allowed the budget to be brought into balance. This despite increased social insurance and retirement receipts and more domestic spending.

Clinton was also kept in check institutionally by Congress, which demanded cuts to the presidential budget request almost every year. Excess congressional spending was virtually not there in the Clinton years. The numbers above demonstrate how difficult an achievement this was, given inherent demands of elected representatives not to cut spending. Almost every budget battle was framed in utilitarian terms for Clinton, trying to balance Republican initiated demands for spending controls and less taxes with policies that were more beneficial to the majority of Americans, especially middle class taxpayers. The rise in total outlays represented increases in domestic program spending that were hard fought small victories for Clinton. In 1995, the new Republican majority was demanding closure of government departments, massive tax cuts and increased military spending. By 2001, government spending had quietly increased but not by more than the revenue brought in, tax revenue had increased but in a much more progressive way, and military spending had declined. Clinton’s last six years were a victory of sound and principled fiscal policy in a
hostile partisan environment. For all the posturing and brinksmanship in the second term over economic policy, Clinton achieved notable successes and could justify, without splitting hairs on policies, that he achieved fiscal competence that appealed to the larger national interest.

But his victory over spending and taxing moderation was not for the long term. The 2000 election campaign changed the focus from debt reduction and shoring up entitlement programs to taxpayer relief. It took the George W. Bush administration less than a year to return fiscal incompetence to the White House. Clinton failed to insulate his fiscal policies for the long term and ultimately, his two terms must be viewed with a sense of disappointment. The impeachment proceedings and the subsequent toll they took on the White House left Clinton’s advisers in a position in which hard fiscal choices like major debt reduction legislation, which would have had bipartisan support earlier, proved non-starters. Further, the awkward transition of the Clinton legacy from Clinton to Gore in the 2000 campaign did not allow the vice president to articulate a longer term fiscal competence vision and sell it to the voters. Consequently, the campaign was defined by tax cuts, proposed by both candidates. After 2001, those hard-won spending sacrifices and a balanced, more progressive tax system were gone again.

Both George H.W. Bush and Bill Clinton pursued similar fiscal prudence and budgetary restraint. Where Bush failed politically, Clinton succeeded, positioning himself as a Third Way fiscally responsible Democrat and riding an economic boom through two terms. Despite haphazard advisory management, with a poor system of presidential gatekeeping that helped undermine the health care reform effort and even less effective presidential time management with Clinton often bogged down over obscure policy details while indulging his
penchant for wonkish tangents, he still managed to pass a first year budget that placed the administration on a fiscally competent course from the outset.

That document, a one vote victory in Congress after protracted negotiations between Congressional Democrats and the White House economic team of Robert Rubin, Leon Panetta, Laura Tyson, and Lloyd Bentsen, showed a dogged determination to follow through on his major campaign issue. But it revealed a personalization quality that would not endear Clinton to his own party. He pursued responsive competence through the lens of his own political fortune and not that of his party. Despite many vulnerable members of Congress repeatedly arguing the budget deal would sink their chances for reelection, Clinton still pushed for it at all costs.

After the 1994 Democratic midterm shock, Clinton was forced to share power with an invigorated Republican congressional leadership. But he was able to maintain fiscal competence by finding common ground on economic issues through an adopted strategy of ‘triangulation’ that he gravitated towards with the support of political consultant Dick Morris.461 Even with drawn out policy scuffles, Clinton was essentially battling the Republicans on their own fiscal conservative turf and it culminated in the first balanced budget in three decades. But in those battles, he protected key elements of the federal government budget, held off doctrinaire tax cuts for the wealthy and with shrewd and disciplined advisers with an ability to see the bigger picture, could claim victory in most of these institutional standoffs.

Clinton’s second term, even before his impeachment, was designed to be limited, almost an antithesis to a ‘new order’ presidency. But he did achieve a middle ground in

fiscal policy, restoring the United States to economic balance amidst an economic boom. This was textbook fiscal competence, and contributed directly to public approval numbers that prevented his impeachment conviction in the Senate. His economic policies also walked a fine line between deficit reduction and rational decisions on spending and taxation. With the balance among the economic advisers, he was able to project policies that reflected a larger national interest and not a narrower ideology. The policy choices were remarkably non-ideological and in fact suggested a utilitarian concern with the greatest good for the greatest number, a principled philosophical reasoning behind Clinton’s appeal to middle class values.
Chapter 6: Quantitative Analysis of Presidential Advisers and Fiscal Policy

Although presidents have little direct control over macroeconomic conditions, management of the economy is one of the main criteria by which a president is judged. As the previous chapters make clear, poor economic conditions can result in high political costs for presidents both electorally and as part of their ongoing legacy. Presidential focus on economic conditions demands most executives’ full attention. Choosing to lose focus or to hope other accomplishments will be enough to assure reelection or a legacy as a successful president is politically naïve at best and catastrophic at worst. The 1992 election provides a prime example of an administration that believed it could rest on its foreign policy laurels only to see economic conditions worsen and undercut everything it had achieved. When Bill Clinton defeated George H.W. Bush during a campaign that gravitated to Clinton’s “It’s the economy, stupid” sloganeering, there was no question that regardless of personal party predilections among the electorate, a significant proportion still vote with their pocket book.

Yet despite the relationship between presidential approval and the economy, most modern presidents have turned out to be poor fiscal managers. Presidents have tended to pursue fiscal policies that are politically advantageous, but do little or nothing to create or maintain sensible fiscal policies. Further, when presidents have tried to pursue fiscally competent policies, they have paid enormous political costs from alienating their own party to sacrificing a demonstrable short term improvement in economic conditions during an election cycle.

As was discussed earlier, while there still is an annual battle over taxes and spending in Washington between the executive and legislative branches, the influence of the president’s inner circle of advisers is significant in this area. Congress, however, still plays
an important role in spending decisions and often views the presidential budget with hostility. The ebbs and flows of this political control between the White House and Congress sometimes lead to fiscal policies that are inconsistent with established theory. With competing institutional agendas, Congress and the presidency often are at loggerheads about what each wants out of fiscal policy, even when both branches are controlled by the same party. Naturally, the balance of power is a key factor in determining what kinds of fiscal policy decisions are pursued.

This chapter presents empirical evidence on the influence of presidential advisers and their role in crafting fiscal policy. First, summary statistics for five administrations show changes in tax revenue, spending, budget deficits or surpluses, as well as whether the houses of Congress were controlled by the president’s party, and which adviser type was dominant in fiscal policy in the White House during each presidential term. Box plots then will show the relationship between the different fiscal policy outcomes and types of advisers. OLS regressions will examine the relationship between fiscal policy outcomes and presidential advisers. Finally, tests for the differences in means will address the hypothesis that of the main types of presidential advisers, political advisers and ideologues have significantly more negative effects on fiscal outcomes than do policy advisers.

Recall from the first chapter the theory of presidential adviser selection. In the quantitative test here, the determinants for how presidents select advisers are taken into account based on the qualitative data conducted in the previous chapters. In this test, the focus is on those adviser types that proved to be the most dominant in fiscal policy in each presidential term and the control of the houses of Congress. The purpose is to see if those adviser types have some influence over the fiscal policies that ensued.
6.1 Data

Data are collected from the first year of the Carter administration (1977) through the first year of the Obama administration (2009). Three variables represent the outcomes of presidential decision making about fiscal policy: tax revenue (receipts), government spending (outlays), and budget deficit or surplus. These were collected from the Economic Report of the President; each are measured as a percentage of Gross Domestic Product (GDP). These variables represent measures of the direct impact of presidential decision making concerning fiscal policy.

Presidential advisers are separated into three mutually exclusive categories: policy advisers, political advisers, and ideologues. Note that ideologues here are coded as Republican ideologues since Democratic ideologues, those who would theoretically spend more and tax more, have not been in control of fiscal decision making in either of the Democratic White Houses studied here. Honest brokers, while present in a number of administrations, have not dominated or have been in control of the fiscal decision making process in the White House during this 32 year period. A series of dichotomous indicators were hand coded based on whether policy advisers are in control or as lead on fiscal policy in the White House (policy = 1), political advisers are in control or as lead (political = 1), or ideologues are in control or as lead (ideo = 1). Dichotomous indicators for presidential party (1 = Republican), control of the House (1 = Republican), and control of the Senate (1 = Republican) were hand coded to reflect the balance of power between the executive and legislative branches.

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462 2009 estimates are based on the 2010 Economic Report of the President, representing the final economic decisions of the Bush II administration.


6.2 Summary Statistics

Table 6.1 presents summary statistics of fiscal policy outcomes and political control for each presidential term from Presidents Carter through Bush II.463 The first three rows of figures represent the annual tax revenue as a percentage of GDP, the annual total spending as a percentage of GDP, and the annual budget deficit or surplus as a percentage of GDP, each of them averaged across the four years of each presidential administration. For example, the Carter administration’s average annual tax revenue was 18.38% of GDP.

The next three rows show which particular adviser type was dominant in the fiscal policy process in each presidential term based on the categorization of advisers developed over the previous three chapters. Although only Reagan’s first term and Clinton’s two terms had anything approaching a balanced advisory system, there were still particular adviser types that tended to dominate White House fiscal policy. For example, Carter’s fiscal policy advisers were largely policy people, Reagan had ideologues dominant in his first term but shifted to political advisers by his second, Bush I also had political advisers in control, Clinton did as well for his first term, and then shifted more to policy advisers in his second, and Bush II had ideologues in control for both terms. The final two rows show whether the president’s party was in control of the House of Representatives and the Senate.

Average tax revenue fell by about half a percent of GDP during the Reagan and Bush I years before increasing over one percentage point under Clinton. Tax revenue under George W. Bush declined to levels similar to his father’s presidency. Government spending as a percentage of GDP reached its highest levels during the Reagan presidency and has declined by about two percentage points, remaining relatively steady under Clinton and Bush II until the final year (2009) when the economic collapse forced a series of government

463 All regressions and quantitative analysis was conducted using Stata 10.
bailouts and an economic stimulus that dramatically increased government spending. The budget deficit nearly doubled under Reagan and Bush I. President Clinton balanced the federal budget during the late 1990s, but deficits, and more importantly, the percentage of deficit to GDP returned to Reagan and Bush I levels under Bush II. On leaving office, the Bush II administration had increased GDP share of the federal deficit to above the highest levels of the 1980s with 2010 fiscal estimates of a deficit over 14% of GDP.

**Table 6.1 Summary Statistics**

<table>
<thead>
<tr>
<th></th>
<th>Carter</th>
<th>Reagan</th>
<th>Reagan</th>
<th>Bush I</th>
<th>Clinton</th>
<th>Clinton</th>
<th>Bush II</th>
<th>Bush II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>18.38</td>
<td>18.40</td>
<td>17.93</td>
<td>17.93</td>
<td>18.23</td>
<td>20.05</td>
<td>17.65</td>
<td>18.15</td>
</tr>
<tr>
<td>Spending</td>
<td>20.83</td>
<td>22.75</td>
<td>22.05</td>
<td>21.85</td>
<td>20.85</td>
<td>18.98</td>
<td>19.45</td>
<td>20.40</td>
</tr>
<tr>
<td>Budget Surplus/Deficit</td>
<td>-2.43</td>
<td>-4.35</td>
<td>-4.10</td>
<td>-3.98</td>
<td>-2.60</td>
<td>1.08</td>
<td>-1.83</td>
<td>-2.23</td>
</tr>
<tr>
<td>Ideologues</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Political</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Policy</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>House</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Senate</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

Presidents tend to keep the same types of fiscal advisers throughout an entire term in office. While changes may occur at the top, policies tend to reflect the initial sets presidents select upon taking office. Overall, political advisers were most common across administrations. Only twice from 1977 through 2008 did a two-term president change fiscal leadership and alter adviser types between their first and second terms (Reagan and Clinton). Both Presidents Carter and Bush I, the only one-term presidents during this time, kept the same types of advisers with Carter employing policy experts and Bush I employing political operatives at the top. Only Bush II consistently kept ideologues as his lead fiscal advisers.
The balance of power in Congress shifted from Democratic control of both houses under President Carter to Republican control of both houses for the majority of the Clinton and Bush II presidencies. Presidents Carter and Bush II are the only presidents to have their party in control of Congress for most or all of their time in office. Presidents Bush I and Clinton had little or no time when their party controlled Congress. President Reagan’s two terms are unique, whereas he had a majority in the Senate for 6 years, but faced a Democratic majority in the House throughout his presidency. Reagan did however have a working majority on fiscal policy matters in his first term as southern boll-weevil Democrats tended to vote with the Republican minority in the House.

6.3 Box Plots

Box plots can graphically display the location and spread of variables as well as give some indication of the data’s symmetry and skewness. The three box plots below show the spread of data for each of the dependent variables: tax revenue as a percentage of GDP, spending as a percentage of GDP, and budget deficit/surplus. In general, box plots depict the sample minimum, the first quartile (25th percentile), the median (50th percentile), the third quartile (75th percentile), and the sample maximum. The median for tax revenue is greater for policy advisers than for both political advisers and ideologues. The data are spread out by about 3 percentage points in the median quartile range for policy advisers and ideologues, but show less variation for political advisers (about 1.5 percentage points). Spending is highest among political advisers, but only slightly higher for ideologues when compared to policy advisers; however, there is a wider range in spending among ideologues than the other types of advisers. The budget deficit (surplus) is lower (higher) for policy advisers, yet tends to be lowest (highest) for political advisers. The spread of the data, however, are lower for
political advisers when compared with ideologues. Ideologues range on a deficit of 6 percent to a surplus of 1 percent (which was the first year of the second Bush administration). The box plots suggest that political advisers and ideologues are considerably higher in terms of both spending and deficits and lower in terms of tax revenue, which is what the hypothesis suggests. But differentiating between political advisers and ideologues is less clear since they are not very statistically different.

Figure 6.1. Box Plots of Dependent Variables
6.4 Determinants of Tax Revenue, Spending, and Budget Deficits (Surpluses)

The method of least squares is used to estimate separate models for each outcome. \( Y \) is a \((n \times 1)\) column vector, \( A \) is a dichotomous indicator of the type of presidential adviser, \( X \) is a \((n \times k)\) column vector consisting of \([1 x_{1i} x_{2i} \ldots x_{ki}]\) independent variables, \( \beta \) is a \((k \times 1)\) vector of the regression coefficients, and \( \epsilon \) is a \((n \times 1)\) error term.

\[
Y_i = A_i + X_i \beta + \epsilon_i
\]

The classical OLS model assumes a linear relationship between the dependent and independent variables and correct specification (e.g. no omitted variables).\(^{464}\) The small sample size (n=32) also presents some methodological challenges. Insufficient degrees of freedom limit the amount of covariates that can be included in the model. Although including irrelevant variables will not bias the OLS estimators, a correctly specified model eliminates the need to include these covariates.

\(^{464}\) A violation of the classical assumptions that are potentially encountered in these models is heteroskedasticity, the result of non-constant variance in the error term. White tests are used to detect the presence of heteroskedasticity. The OLS estimators remain consistent, but the standard errors are not reliable and may lead to false rejections of the proposed hypotheses (e.g. higher probability of Type I error). Robust standard errors are used to correct for heteroskedasticity in each model. See Jeffrey M. Wooldridge, *Introductory Econometrics: A Modern Approach*, (Cincinnati: South-Western College, 2000).
Table 6.2 (below) summarizes the OLS regressions of tax revenue, spending, and budget surplus or deficit on types of presidential advisers. Policy advisers are the omitted category since they tend to produce more fiscally competent policies but ones that are not necessarily politically viable or “sellable.”\footnote{Hypothesis tests for the differences in means among policy advisers, and political advisers and ideologues show significant differences between policy advisers, and political advisers and ideologues. The null hypothesis that $\mu_{\text{policy}} = \mu_{\text{political/ideologues}}$ is evaluated using t-tests with unequal variances, by using the Welch-Satterthwaite equation to perform Welch’s t-test. In all three instances, in testing the difference of means of tax revenue, spending and budget surplus/deficit between policy advisers, and political advisers and ideologues, the null hypothesis is rejected at a 5% level of significance based on the corresponding p-values of the t-tests. All three are statistically significant (i.e. significantly different from zero) at the 95% level of statistical significance. The t-tests suggest that in the regression analysis to follow, where a statistical test of the difference in means outcomes was conducted, and although limited as a result of small number of observations, the difference in fiscal policy pursued by policy advisers on one hand and political advisers and ideologues on the other is significant in the aggregate.} This will be further considered in the discussion at the conclusion of the chapter.

### Table 6.2 OLS Regressions

<table>
<thead>
<tr>
<th></th>
<th>Tax Revenue</th>
<th>Spending</th>
<th>Surplus/Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$\beta$</td>
<td>SE</td>
<td>$\beta$</td>
</tr>
<tr>
<td>Policy</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Political</td>
<td>-1.171***</td>
<td>0.385</td>
<td>1.683***</td>
</tr>
<tr>
<td>Ideologue</td>
<td>-1.146**</td>
<td>0.484**</td>
<td>0.967</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>F</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>32</td>
<td>32</td>
<td>0.256</td>
</tr>
<tr>
<td></td>
<td>32</td>
<td>7.26</td>
<td>0.247</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.331</td>
</tr>
</tbody>
</table>

* $p < .10$ ** $p < .05$ *** $p < .01$

The results of tax revenue regressed on political advisers and ideologues show that tax revenue decreases by 1.17 percentage points for political advisers and by 1.146 percentage points for ideologues, suggestive of a decline in tax revenue generated when either are in control of the fiscal policy process in the White House. The results of spending regressed on political advisers and ideologues show that spending increases by 1.68
percentage points for political advisers and 0.97 percentage points for ideologues, again suggestive of higher spending levels than policy advisers. The results of budget deficit/surplus regressed on political advisers and ideologues show that deficits increase by 2.88 percentage points for political advisers and 2.13 percentage points for ideologues, consistent with the hypothesis that both will produce larger budget deficits than policy advisers.

Tax revenue is likely to be lower, while spending and deficits are likely to be higher under presidents who seek council on fiscal policy from political advisers. The results are significant across each measure of fiscal policy at the one percent level. The pattern for ideologues shows a similar trend, yet the effects on reduced tax revenue, higher spending, and budget deficits are not as a great in magnitude as when political advisers are compared to policy advisers. Tax revenue falls by about 1.3 percent, spending increases by about 0.9 percent and the budget deficit is about 2 percent of GDP, but the coefficients are only significant on tax revenue and budget deficit at a 5 percent level.

The findings generally support the hypothesis that political advisers and ideologues in control of fiscal decisions in the White House have resulted in poor fiscal competence for the administration. The results are surprising insofar as political advisers show more negative effects than ideologues on each measure. This suggests that the assumption that ideologues should have greater effects on tax revenue and budget deficits, given the results of supply side fiscal policies, is misleading. However, two possible explanations for this are that both Democrats and Republicans have appointed political operatives to be the lead advisers in fiscal policies that cover a large part of the last 32 years, while only Republican presidents
(Reagan and Bush II) relied on ideologues for fiscal policy advice. This suggests that controls for political party are needed to analyze the effects of presidential advisers.

Table 6.3 (below) summarizes the results of OLS regressions that add controls for the balance of power to the models presented in Table 6.2. Controls for political party of the president and the balance of power in the House and the Senate (Republican = 1) account for differences in the philosophies of how the two major political parties approach fiscal policy. Historically, the Democratic Party has been associated with higher taxes and higher spending while Republicans seek lower taxes and less spending. But during the 32 years of this study, that has really not been the case. There is no statistically significant difference in tax revenue, spending, or the budget deficit based on party of the president. Presidents have the most control over setting tax policy. As controls for political party are added to the model, tax revenues decline by 0.94 percentage points for political advisers and 1.07 percentage points for ideologues. Control of the House and the Senate has no statistically significant effect on tax revenues.

**Table 6.3 OLS Regressions with Controls**

<table>
<thead>
<tr>
<th></th>
<th>Tax Revenue</th>
<th></th>
<th>Spending</th>
<th></th>
<th>Surplus/Deficit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>SE</td>
<td>β</td>
<td>SE</td>
<td>β</td>
<td>SE</td>
</tr>
<tr>
<td>Policy</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Political</td>
<td>-0.937</td>
<td>0.326 ***</td>
<td>0.950</td>
<td>0.307 ***</td>
<td>-1.925</td>
<td>0.508 ***</td>
</tr>
<tr>
<td>Ideologue</td>
<td>-1.083</td>
<td>0.531 *</td>
<td>0.546</td>
<td>0.440</td>
<td>-1.650</td>
<td>0.820 *</td>
</tr>
<tr>
<td>Presidential Party</td>
<td>-0.158</td>
<td>0.316</td>
<td>0.116</td>
<td>0.298</td>
<td>-0.270</td>
<td>0.480</td>
</tr>
<tr>
<td>House</td>
<td>0.195</td>
<td>0.488</td>
<td>-2.557</td>
<td>0.339 ***</td>
<td>2.745</td>
<td>0.645 ***</td>
</tr>
<tr>
<td>Senate</td>
<td>0.381</td>
<td>0.356</td>
<td>1.218</td>
<td>0.309 ***</td>
<td>-0.819</td>
<td>0.493</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td></td>
<td>32</td>
<td></td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>3.66</td>
<td>25.5</td>
<td>13.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.321</td>
<td>0.812</td>
<td>0.650</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* p < .10 ** p < .05 *** p < .01
Tax revenue regressed on political advisers and ideologues while controlling for the president’s party and control of the House and Senate shows a decline in tax revenue by 0.94 percentage points under political advisers and a decline of 1.08 percentage points under ideologues. The relationship between tax revenue and president’s party, House, and Senate are not significant in this model. Spending regressed on political advisers and ideologues while controlling for the president’s party and control of the House and Senate shows spending increases by 0.95 percentage points under political advisers. There is no significant relationship between ideologues and spending. The relationship between tax revenue and president’s party is also insignificant, but it does show a significant decrease of 2.58 percentage points in spending when Republicans control the House and a 1.22 percentage point increase when they control the Senate. Budget deficit/surplus regressed on political advisers and ideologues while controlling for the president’s party and control of the House and Senate shows deficits are 1.92 percentage points higher under political advisers and 1.65 percentage points higher under ideologues. The relationship between tax revenue and president’s party is not significant. Deficits are 2.74 percentage points lower when Republicans are in control of the House, but are 0.82 percentage points higher when Republicans control the Senate, an indication of the institutional divide between the Congressional bodies and the more ideological beliefs of House members.

Two important findings from the statistical test suggest that spending decreases and the budget deficit shrinks when Republicans controlled the House of Representatives. These results are most likely driven by the fiscal policies during the Clinton administration, which marked the first time in over forty years that Republicans controlled the House. The results on control of the Senate, however, show the opposite on spending and deficits. The effects
of six years of Republican control of the Senate during the Reagan administration when both spending and deficits increased rapidly are most likely overriding the reductions during the Clinton years.

The results for tax revenue support the hypothesis that ideologues show more negative effects than political advisers. The results for spending and budget deficits, however, provide evidence to the contrary. Political advisers increase spending by 0.95 percentage points and deficits are higher by 1.9 percentage points; both results are statistically significant. Ideologues have no significant effect on spending and only show higher deficits of around 1.5 percentage points.

One possible explanation is that on spending, ideologues, at least those in the Republican administrations, have wanted to control government spending and pursue fiscal policies that focus on lower taxes and smaller government. Another more likely explanation is that presidential advisers will have little effect during their first year in office as an administration’s agenda is developing. Notably, both tax revenues and deficits during the first year in office under Reagan and Bush II largely reflect the policies of their predecessors, Carter and Clinton, respectively.

The next section runs the same regression model, but forwards the measures of tax revenue, spending, and budget deficits/surplus by one year to account for the time an incoming president’s policies will take effect and to take into consideration the difference between fiscal year and actual year since presidents are operating in the first year under their predecessor’s budget.
6.5 Forwarded Dependent Variables

Table 6.4 OLS Regressions with Forwarded Dependent Variables

<table>
<thead>
<tr>
<th></th>
<th>Tax Revenue_{t-1}</th>
<th>Spending_{t-1}</th>
<th>Surplus/Deficit_{t-1}</th>
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<tbody>
<tr>
<td></td>
<td>( \beta )</td>
<td>SE</td>
<td>( \beta )</td>
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<tr>
<td>Policy</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Political</td>
<td>-1.3</td>
<td>0.363 **</td>
<td>1.358</td>
</tr>
<tr>
<td>Ideologue</td>
<td>-1.933 ***</td>
<td>0.444 **</td>
<td>1.742</td>
</tr>
</tbody>
</table>

| N      | 32 | 32 | 32 |
| F      | 9.98 | 3.23 | 6.54 |
| R\(^2\) | 0.454 | 0.153 | 0.309 |

* p < .10 ** p < .05 *** p < .01

Table 6.4 above provides a summary of the results of forwarding the dependent variables. The results of tax revenue forwarded one year regressed on political advisers and ideologues show that tax revenues decrease by 1.3 percentage points for political advisers and 1.93 percentage points for ideologues, suggestive that forwarding tax revenue by a year is more revealing and better confirm the hypothesis. The results of spending forwarded one year regressed on political advisers and ideologues show that spending increases by 1.4 percentage points for political advisers and 1.74 percentage points for ideologues, again indicative that political adviser and ideologues tend to increase spending. Finally, the results of budget deficits forwarded one year regressed on political advisers and ideologues show that deficits increase by 2.7 percentage points for political advisers and 3.7 percentage points for ideologues, further indicative of the hypothesis and a now noticeable difference between political advisers and ideologues, suggesting that ideologues are even more inclined to lead to more extreme tax, spending and deficit results.
Again, in adding in further variables to account for party control of the House and Senate and party of the president, we get perhaps the most revealing regression from this data. Table 6.5 summarizes these results.

**Table 6.5 OLS Regressions with Forwarded Dependent Variables and Controls**

<table>
<thead>
<tr>
<th></th>
<th>Tax Revenue, t</th>
<th>Spending, t</th>
<th>Surplus/Deficit, t</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td>SE</td>
<td>β</td>
</tr>
<tr>
<td>Policy</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Political</td>
<td>-0.775</td>
<td>0.251 ***</td>
<td>0.450</td>
</tr>
<tr>
<td>Ideologue</td>
<td>-1.671</td>
<td>0.477 ***</td>
<td>1.708</td>
</tr>
<tr>
<td>Presidential Party</td>
<td>-0.487</td>
<td>0.290</td>
<td>0.013</td>
</tr>
<tr>
<td>House</td>
<td>0.145</td>
<td>0.364</td>
<td>-2.738</td>
</tr>
<tr>
<td>Senate</td>
<td>0.900</td>
<td>0.365</td>
<td>0.079</td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>F</td>
<td>12.22</td>
<td>32.02</td>
<td>19.9</td>
</tr>
<tr>
<td>R²</td>
<td>0.721</td>
<td>0.638</td>
<td>0.692</td>
</tr>
</tbody>
</table>

* p < .10 ** p < .05 *** p < .01

Tax revenue regressed on political advisers and ideologues while controlling for the president’s party and control of the House and Senate shows a decline in tax revenue of 0.78 percentage points under political advisers and a decline of 1.67 percentage points under ideologues. The relationship between tax revenue and control of both the House and Senate are also not significant in this model. Spending regressed on political advisers and ideologues while controlling for the president’s party and control of the House and Senate yields insignificant results for both political advisers and ideologues. The relationship between tax revenue and president’s party is also insignificant, but it does show a significant decrease of 2.74 percentage points in spending when Republicans control the House. Budget deficit/surplus regressed on political advisers and ideologues while controlling for the president’s party and control of the House and Senate shows deficits are 1.24 percentage
points higher under political advisers and 3.33 percentage points higher under ideologues, suggestive of a further confirmation of the hypothesis.

As with all statistical analysis, one has to ask if there are any other alternative explanations for the results such as those above. While it is impossible to rule out all sources of bias or all potentially omitted variables, one concern about the previous results is that the models do not tell us too much about divided government, when one party control the White House and another controls both Houses of Congress. They look at party control in each of the three institutions (presidency, House, Senate) because of the differences in policymaking in each branch of Congress. But in every major case of tax and budget policy change for a new administration (1981, 1993, 2001), the president’s party was in control of one or both Houses of Congress. Still, further use of different dummy variables, by using dummies for each combination of party control of the three bodies, or adding multiplying or interacting variables might tell us more about the Congressional side of the fiscal equation. Another dummy variable that could be considered would be the Clinton administration and all of the others, given that Clinton was the only president to balance the budget during these years. This would add further credence to the hypothesis that ideologues lead presidents away from fiscal competence.

In returning to the original hypothesis that of the main types of presidential advisers, political advisers and ideologues have significantly more negative effects on fiscal outcomes than do policy advisers. But it was unclear whether there was much difference between ideologues and political advisers when in control of fiscal policy. This needs to be explored further in additional research on presidential advisers. This is made clearer as the fiscal cycle of the president is taken into account, particularly the first year of a new administration.
which is usually operating under the previous administration’s fiscal program. Once the dependent variables are forwarded, the hypothesis seems to be validated. When presidents select policy advisers as the key fiscal policy decision makers in the White House, it results in more tax revenue, stabilized spending and smaller deficits. When presidents select ideologues, or combinations of ideologues and political advisers, as the key fiscal advisers, tax revenue declines, and deficits increase.

6.6 Discussion

The empirical component of this dissertation demonstrates that different types of presidential advisers show significant effects on key outcomes of presidential decision making regarding fiscal policy. At first glance, political advisers, and not ideologues, show somewhat more negative effects on the differences in tax and spending outcomes conditional on the type of adviser. But after dependent variables are forwarded to account for inaugural year conditions in which incoming presidents are operating under the previous administration’s fiscal decisions, a clearer and perhaps more accurate picture is brought to light. Ideologues, when in control of fiscal policy in the White House, have significantly more negative effects on tax revenue and budget deficits. This suggests that supply side fiscal policies push presidents who adhere to that economic rationale toward poor fiscal competence or even ‘fiscal incompetence.’ While not tested here, Democratic ideologues would, if effects are symmetric, have more negative effects on budget deficits and on spending.

The difference between the Reagan and Bush II administrations, both of which employed ideologues as lead advisers on fiscal policy, is that while the ideologues in control during Reagan’s first term certainly reshaped economic policy in Washington, Reagan’s
political advisers moderated some of the ideological rigidity by his second term and even by halfway through his first. The Bush II administration’s fiscal policies were guided and controlled in both terms by ideologues who continuously pushed for lower taxes with no controlling for spending. The result, as critics of supply side economics warned back in the 1970s, were decreases in tax revenue and, without the follow on cuts in government spending, massive increases in the deficit.

Only the Clinton administration, in combination with effective oversight of spending by a Republican Congress, particularly the House of Representatives, and a mix of political and policy advisers in the White House guiding fiscal policy across both terms, achieved a semblance of politically successful fiscal competence. While the narrative of the Clinton advisers balancing the budget is important and is discussed at length in Chapter 5, divided government during the 1995 to 2001 period should not be forgotten as a key reason why the Clinton policies were successful.

If one compares the annual presidential budget outlays (see Table 6.6 below) in billions of dollars announced each year during Clinton’s presidency with the actual budget outlays in billions of dollars after Congress had the chance to mark up the annual presidential budget, the Clinton administration is unique in the contemporary era.

**Table 6.6 Clinton-Era Budget Outlays**

<table>
<thead>
<tr>
<th>Year</th>
<th>President</th>
<th>Actual</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>1445.9</td>
<td>1381.6</td>
<td>-64.3</td>
<td>-0.04</td>
</tr>
<tr>
<td>1994</td>
<td>1474.9</td>
<td>1409.5</td>
<td>-65.4</td>
<td>-0.04</td>
</tr>
<tr>
<td>1995</td>
<td>1483.8</td>
<td>1461.9</td>
<td>-21.9</td>
<td>-0.01</td>
</tr>
<tr>
<td>1996</td>
<td>1518.9</td>
<td>1515.9</td>
<td>-3</td>
<td>-0.00</td>
</tr>
<tr>
<td>1997</td>
<td>1612.1</td>
<td>1560.6</td>
<td>-51.5</td>
<td>-0.03</td>
</tr>
<tr>
<td>1998</td>
<td>1631</td>
<td>1601.3</td>
<td>-29.7</td>
<td>-0.02</td>
</tr>
<tr>
<td>1999</td>
<td>1687.5</td>
<td>1652.7</td>
<td>-34.8</td>
<td>-0.02</td>
</tr>
<tr>
<td>2000</td>
<td>1733.2</td>
<td>1702</td>
<td>-31.2</td>
<td>-0.02</td>
</tr>
</tbody>
</table>
Every actual set of budget outlays is between $3 billion and $65 billion dollars lower than the presidential request, a phenomenon rarely seen in American politics, indicating that Congress, guided by the 1994 Contract with America and the Republican focus on fiscal responsibility and decreased government spending, actually kept the president in check and helped produce a balanced budget. The deficit hawk prudence of Congress keeping the presidential budget outlay request in check cumulatively saved at least $300 billion over the course of Clinton’s presidency. The years of budget battles produced an environment during the Clinton years when presidential and Congressional priorities on spending were in line. In combination with astute political advisers guiding fiscal policy in the first term through initially a combative but Democratic Congress then the Republican majorities in 1995 and 1996, by the second Clinton term, the administration was able to show tremendous fiscal policy accomplishments and actually balanced the federal budget. Clinton’s advisory balance and divided government proved to be the best model for fiscal competence.

The quantitative analysis above then provides the groundwork for the two key narratives in fiscal policy of the last three decades. The first is that supply side ideologues in two Republican administrations succeeded in pushing the federal government way off of a fiscally competent course. Despite the removal of many ideologues in the Reagan inner circle during the first term, Reagan’s political advisers failed to rein in expenditures and consequently helped drive up deficits. Bush II never even compensated for the ideological direction of fiscal policy and pursued disastrous tax and spending policies through both terms. At least in the case of Reagan, there was some self-correction in terms of advisory balance.
The second narrative is that the Clinton administration managed to steer the government back on course, in not only charting fiscally competent tax and spending policies but through determined effort managed to balance the federal budget only to see almost a decade of fiscal competence slip away again with the Bush II administration. A third and often neglected narrative is the one-term Carter and Bush I administrations, whose policies, while tacking toward fiscal competence, proved politically unresponsive and in both cases, alienated their political base.
Chapter 7: Conclusion - The Need for Mixed Adviser Sets and Balanced Advisory Systems

This chapter has two main objectives. It intends to distill the important findings and analysis in this study of how presidents have both dealt with the arrangement of advisers to best suit their needs and how presidents have navigated the tricky waters of presidential fiscal policy. It also seeks to extrapolate from the presidential adviser experience lessons for future presidents and executives who invariably will confront the limitations of taxing and spending. But this rests on the question of whether the miscalculations and triumphs examined across this period of time offer lessons that incoming administrations can look to as examples of what to do and what not to do. The most recent fiscal crisis suggests that it should. But party politics and the Herculean efforts to bridge a polarized Washington lead to an inevitability that learning from the past, even the recent past, is not highly prioritized for new presidents.

This study has looked at advisory systems through the lens of presidential fiscal policy in order to develop a better understanding of how modern presidents utilize their advisers and how advisers compete among each other for the president’s attention and time. Given the events of 2007 and 2008, as the global economic meltdown upended financial systems and political control of Washington shifted from Republicans to Democrats, there is little doubt that fiscal policy is a timely and important topic. But the focus of that crisis, in popular media and by academics, has been on the Wall Street and international market side; the greed, the incompetence and the mismanagement. The federal government involvement in this has been, if not ignored, then at most a sideshow to the main stage of the corruption of financial institutions. But presidential policies are a major part of the problem.
Governments, by definition, cannot go bankrupt because of sovereign control over its currency and money supply. But there is a bankruptcy in national governance concerning economic policy and that is a narrative and a lesson future executives need to understand.

At the beginning of this study’s timeframe, the 1970s, stagflation, high unemployment and stagnant growth, were very real concerns. Economic growth but also economic stewardship befuddled three administrations. While booms in the 1980s and 1990s suggested that these hard times were in the past, they did not disappear. And economists and leading experts in fiscal policy warned throughout these thirty years that they had not disappeared. This study has tried to tell another side of the story, how presidential advisers are complicit in the overall economic fluctuations of the last four decades. By tracing fiscal policy decision making across five administrations and developing a model of adviser staffing and a typology of presidential advisers, this study offers an important perspective that has been sadly neglected in the attempts to explain what happened to the prosperity and good times and who, ultimately, is to blame. Using a qualitative case study approach, with elite interviews, and a quantitative test of ideal adviser types on fiscal policy, this research provides a view of the decision making process inside the White House that often gets submerged in larger institutional studies of how Washington works.

Presidential advisory systems matter a great deal to the policies that get passed through Congress. Leaving aside the horse-trading and institutional battles that ensue, the policies themselves are the mark of what presidential advisers, unelected and not responsible to anybody except the president, decide is best for the country. The bickering and fighting over policy is tilted to the terms the president and his advisers set down. Therefore providing the background and narrative of the roles they play gives us tremendous insight into how
presidents confront their economic realities and how designing policies that appeal to the
*national interest* can be sometimes, at best, a second or third priority behind satisfying the
party faithful and taking care of the base.

The case of presidential advisers and fiscal policy from Jimmy Carter through George
W. Bush provides instances of fiscal competence, when an administration crafts ways to have
government live within its means and design policies that for the most part appeal to and
benefit the majority of Americans. It also provides instances of fiscal incompetence, in
which presidents ignore long-established truths and principles to push the country off of a
sensible economic footing often for the benefit of those who elected them, and instances in
which administrations aim for fiscal prudence but alienate the public in doing so because the
policies enacted do not reflect the campaign promises made by the incumbents.

Indeed, in chapter 1, I set out and develop four ideal types of presidential advisers—
policy advisers, political advisers, honest brokers or fixers, and ideologues. This was based
on both how advisers talked about their roles in the White House and how academics viewed
the organization of advisory systems to help presidents. My initial observation and argument
is that it is in a president’s best interest to design an advisory system that is *balanced*, in
which different ideal types of advisers are in the mix so that an executive does not get cut off
from particular kinds of advice. I then set down a theory of presidential adviser selection that
showed the ways in which presidents think about how they develop an advisory system. It
pointed to the many ways in which presidents choose imbalanced advisers that skew heavily
to their own beliefs and ideals. It also warned of the dangers of this imbalance because
inevitably ideologues, those who share and reinforce a president’s own beliefs, can become
dominant and can sever the advice of other types of advisers.
In chapter 2, I offer an overview and definitional explanations of how fiscal policy is conducted in the White House. It explains the major economic advisory roles and how the tax and budget process has evolved over time and is today a shared responsibility between the president and Congress. It also reinforces why fiscal policy is a useful case study largely because of its regularity and repetition.

The next three chapters provide a narrative of fiscal policy making across five presidential administrations. These were broken down into a chapter on the two one-term presidents Jimmy Carter and George H.W. Bush and their failed attempts at dealing with tax and budget policy, then a chapter on the two-term Republican presidents Ronald Reagan and George W. Bush and the off-center policymaking engineered by ideologues in the White House that pushed the federal government on to an unsustainable fiscally incompetent track, and finally a chapter on Bill Clinton which outlined his two terms of fiscal competence and controlling the deficit. This research is based on a combination of interviews with former advisers, some conducted by myself and others from transcript notes of other interviews, and on many books and articles, of academic and journalistic nature and memoirs, that offer different views inside an administration.

Taken together, this marks the first sustained look at presidential advisers and the fiscal policies they enacted. It focuses on their folkways, the types of decisions they made, and some of the thinking behind how and why they sought these policies. Some of the reasons are purely political, others ideological and still others just practical. But what it demonstrates, particularly in the chapter on Reagan and George W. Bush, is that presidents often design their advisory system to reflect their own biases, which one would expect, but without due consideration for other points of view to temper those biases, policies can veer
considerably off-center to the detriment of the administration’s overall legacy. George W. Bush provides a textbook case of being captured by ideologues who reversed the sensibility of previous fiscal policies and embarked on an ideological course that helped run both the country and Bush’s presidency into the ground.

Bill Clinton, while a divisive figure in national politics and one who is unlikely to be considered a great executive, is nonetheless an exemplar when it comes to confronting the challenges of economic stewardship in the contemporary presidency. While he was helped in this regard by a recalcitrant Republican Congress, he implicitly understood the dynamics at play in Washington and the art of the possible when it came to taxing and spending. His administration provided the conditions under which the majority of the public benefitted in balancing government program spending with sensible taxation. Those are the only years, 8 of 32, that can be considered a success in terms of fiscal competence.

In chapter 6, I then tested the influence of advisers on the fiscal policy decisions using OLS regressions and found that ideologues in the Reagan and George W. Bush administrations had guided both presidents towards fiscal decisions that pushed the federal government off of a fiscally competent footing. It also found that Clinton eschewed an ideologue-only advisory arrangement in fiscal policy and opted for a balanced group of economic advisers that steered the administration towards policies that appealed to the national interest. The quantitative work reinforces the narrative and adds credence to the theory that off-center policies stem from unbalanced advisory systems skewed to one adviser type. It shows that presidents who think strategically beyond their recent election or reelection and guard against becoming trapped by their own beliefs will do better in the long run than those who value being resolute. Reagan showed this by reversing course early on
and letting an astute group of balanced advisers guide him to a second term. Their legacy almost outweighs the early first term and second term advisory problems that made Reagan less popular than he could have been.

7.1 Linking to the Presidential Advisory Research

Based on my findings, presidents do in some cases design an adviser set that is mixed, in that a healthy balance of political and policy people formulate policy that can temper more extreme ideological positions. The president is then better positioned to be provided with balanced advice where ideas have been roundtabled, debated and effectively argued out. In other cases, presidents can pick like-minded advisers, of one adviser-type, and are prone to being captured by a single mindset. This may appeal to their political and ideological positions but it can and often does harm their legacy. There is also an entrepreneurial aspect to presidential advisers; some can persuade the president to move in a specific direction and can isolate other advisers and staff. In fiscal policy, effective presidents have shown an understanding that these entrepreneurial dynamics will play out and therefore must guard against being cut off from reality or from different viewpoints that could help lead to better decision-making.

Future presidents need to consider strongly the benefits of ensuring their advisory systems are balanced with different types of advisers. The fiscal policies of the past thirty-five years offer an excellent historical and political lesson for those aspiring to the White House. Detailed examination of the folkways of economic advisers and their interaction with professional staff in the executive branch has demonstrated some remarkably divergent ways in which presidents construct their advisory systems. Presidents have developed staff organization that has benefitted them tremendously and fit their style, as Reagan and Clinton
both did. Others have selected a group of advisers that were not beneficial to their longer term legacy and consequently suffered the damage of bad presidential policy.

This study has built upon the literature of presidential advisers but has shifted the discussion from how presidents organize their advisory systems administratively to the types of advisers presidents should choose. Richard Tanner Johnson’s initial look at how presidents structure their staff produced a durable typology that Alexander George and Roger Porter later adapted. This dominant paradigm in a sub-discipline of presidential studies changed little in three decades, even with the infusion of more critical rational choice analysis. Johnson, a former White House adviser, looked at the advisory system as a formalistic, competitive or collegial managerial approach. Thinking about staffing in these terms helped explain the process behind structuring and configuring advisory systems to benefit the managerial style of each president that would “complement his personal preferences and values.” It was easily linked to how presidents think psychologically, a natural extension of the work on presidential character by James David Barber and endured through more extensive examinations of individual administrations.

Alexander George expanded on Johnson’s ideas in his groundbreaking work in 1980 in which he argued the best way for presidents to activate a range of alternatives was to design a system of multiple advocacy. Roger Porter, another White House staffer, presented this type of approach in his analysis of the Gerald Ford era Economic Policy Board, arguing that presidents would be wise to employ honest brokers in order to maximize

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467 Barber, *The Presidential Character: Predicting Performance in the White House*.
468 George, *Presidential Decisionmaking in Foreign Policy: The Effective Use of Information and Advice*, George, "The Case for Multiple Advocacy in Making Foreign Policy."
the potential for good policy.\textsuperscript{469} Since then, both Johnson’s typology and George’s ideas of multiple advocacy and the honest broker type of adviser, have been incorporated into many studies. This is particularly true of presidential foreign policy analyses. George’s progeny have skillfully adapted his ideas and have created a durable sub-discipline that now incorporates both his work and Irving Janis’s pioneering work on groupthink.\textsuperscript{470}

The concepts of multiple advocacy and honest or neutral brokerage, while important in understanding advisory systems, need to be refined. Multiple advocacy implies that the president has advisers from all political stripes and all different viewpoints in the room, so that the whole system collectively operates as an honest broker. Porter’s argument in favor of honest brokers suggests that advisers need to present sober, apolitical advice to presidents who then can interpret policy choices free of the restraints and bias of politics and advocacy. But the White House, indeed the world, does not work this way. Presidents have political biases and they often have firm beliefs on policy issues.

George’s idea of multiple advocacy had its origins in coming to terms with the advisory problem known as groupthink, Janis’s theory of small groups of like-minded advisers that work together to reach the wrong conclusion. Multiple advocacy is one method of trying to counter groupthink problems, in which similar minds come to the same wrong conclusions. Another method that Matthew Dickinson has highlighted is the advisory system of Franklin Roosevelt who would play advisers off each other, often putting opposing political advisers in separate rooms, getting each group to agree on a proposed policy and then selecting among the competing results.\textsuperscript{471} These parallel systems or redundancy staffing options offer another approach to organizing the White House. Presidents however

\textsuperscript{469} Porter, \textit{Presidential Decision Making: The Economic Policy Board.}  
\textsuperscript{470} Janis, \textit{Groupthink: Psychological Studies of Policy Decisions and Fiascoes.}  
\textsuperscript{471} Dickinson, "Neustadt, New Institutionalism, and Presidential Decision Making: A Theory and Test."
are under enormous pressure to select like-minded and loyal partisan advisers. Even those presidents that see the value in choosing advisers from other political stripes or from other parts of their own political party or who hold and advocate policy positions that are different from the majority of their party are unlikely to get many of them into their White House inner circle.

Notwithstanding Dickinson’s infusion of Rooseveltian ideas, two major problems with these avenues of research have developed over time. The first is that larger studies of advisory systems across the entire Executive Office of the President, not just in foreign policy, were limited by Johnson’s terminology around how best to design a White House. Colin Campbell’s study of the Carter and Reagan administrations shifted the discussion away from collegial, competitive and formalistic to spokes-in-the-wheel and hierarchical administrative strategies.472 Campbell’s study and others by Bert Rockman and John Burke offer an extensive look at how best to manage decisions and formulate and run efficient and effective White Houses.473 But this literature rarely delineated the types of advisers presidents should employ or how best to incorporate these ideal types into an administrative apparatus.

Further, studies on foreign policy decision making forefronted groupthink, multiple advocacy and honest brokerage but often did not take into account how those models would work within the non-foreign policy areas.474 They were also limited because foreign policy

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472 Campbell, Managing the Presidency: Carter, Reagan, and the Search for Executive Harmony.
decision making is different in each case. John Burke and Fred Greenstein’s seminal work on presidential reality testing in decisions on Vietnam pushed beyond these foreign policy frameworks and into a broader understanding of how presidents select and incorporate advisers into their decision making apparatus.\footnote{Burke et al., \textit{How Presidents Test Reality: Decisions on Vietnam, 1954 and 1965}.} But little follow-up has been done on their research.

Both avenues were somewhat limited in studying domestic policy decisions. Therefore, a need to reframe advisers is necessary to understand the White House in more realistic and more accurate terms. George, Porter and Dickinson all have contributed much to the scholarship and understanding of advisers, but the way in which advisory systems are studied has room for an augmented approach. Viewing advisers then as advisory entrepreneurs shifts the focus from studying individual advisers to studying how presidents utilize their advisory systems. It already presupposes that advisers are competing for the president’s attention, that they generally share the president’s viewpoints and vision for the country and that their loyalty and trust is not in question. My study attempts to incorporate both sets of thinking on advisory systems. A typology of adviser ideal types is developed, as opposed to reformulating administrative or managerial strategies, as the best way to think about how every president should design an advisory system. Advisers can be ideologues that hold firm views, policy advocates that focus on policy issues and campaign commitments, political advisers that concentrate on the president’s standing in the polls, reelection efforts and optics, and honest brokers, that try to offer presidents a neutral or sober
assessment of issues. Each of these ideal types, however, has to be proven effective by competing for the president’s attention. Hence, all advisers are entrepreneurs. The most effective of them not only become part of the president’s inner circle, in domestic policy, in economic policy, and in foreign policy, but the most effective or the best at playing the entrepreneurial game, become the most powerful presidential adviser.

Using fiscal policy as the conduit, this study moves away from notions of multiple advocacy, since the concept is often unrealistic in domestic and economic policy, and towards designing advisory systems with different adviser types. While it incorporates honest brokers, balanced advisory systems do not necessarily require honest brokers to be in control of policy decisions. Multiple advocacy implies presidents will have both liberal and conservative, or Democrat and Republican advisers, and while in foreign policy crises, this can and does happen, it is politically untenable for domestic and economic policy. The multiple advocacy approach is therefore not compatible in today’s partisan times.

The White House is politicized to a point in which even honest brokers who served presidents of the other party are less and less likely to be appointed by incoming presidents. This pushing and pulling of policy by advisers does not allow for effective long term economic stewardship to emanate from the White House. Voices of moderation and bipartisanship are drowned out by the incoming agenda and the need to appeal to the party base. This is problematic when it comes to economic policy because it leads to Democrat- and Republican-only strategies for passing tax and budget policy which invariably throw the country in different directions.

The trend is that Republicans undo fiscal competence, only to have Democrats try to restructure it and get it under control. The system will become unsustainable when a
Democratic president veers away from fiscal competence. Republicans then hope it will lead to a wholesale reduction in government, Democrats hope it will create a new impetus for changes in taxation and a return to the post-New Deal consensus of high tax rates for the wealthy. Even moderate Republicans like Peter Peterson lament the inability of either party to reach consensus. And while some argue that the deficit is the result of bad policies by Democrats and Republicans, it has overwhelmingly been Republican presidents, most notably Reagan and Bush II, and Republican members of Congress who have embarked on tax and budget strategies that are far off-center and can be detrimental to the national economic interest. This research has demonstrated that this can occur because of the types of advisers a president employs and in particular when Republican presidents give ideologues control over the economic policy process.

7.2 Linking to the National Bankruptcy and Economic Crisis Research

In chapter 1, I discussed at length the groundbreaking work by Richard Rose and Guy Peters on whether national governments can go bankrupt. Governments, in economic terms as a rule, cannot go bankrupt but economic bankruptcy was what they were interested in when stagflation and no growth economies were very real concerns in the late 1970s. That idea of bankruptcy is once again a useful term given the fiscal dire straits and economic downfalls that have occurred in the past few years. The intractable partisanship during the modern presidency has made taxing and spending in the national interest a difficult compromise. Achieving the sensible center, melding palatable economic suggestions from both left and right Congressional leaders with the White House’s priorities, rarely is achievable. Even centrist Democratic presidents have trouble finding sensible solutions

477 Rose and Peters, Can Government Go Bankrupt?
across the aisle. Instead, one party government can push the country way off its earlier course, only to have another party sweep in and try to return it to the previous status quo. These conditions make long-term, sensible policy difficult if not impossible across administrations. In this sense, there is a very real political bankruptcy in Washington.

It is to a point today, as Barack Obama reached the midpoint of his first (and potentially only) term, where neither party can seek national interest goals even if they wanted. Republicans made such a mockery of fiscal policy in the 2000s that it will take two administrations at a minimum to right the budget imbalance and return to debt reduction. Even today, they do not consider either a priority and oppose Democratic efforts to return to Clinton-era fiscal competence. It returns us to John Gilmour’s late-1980s axiom that budget balancing is an afterthought as opposed to a priority for both the median lawmaker and the president. That hamstrings an administration even with Clinton advisers helming all of the key economic policy positions. Following a fiscally prudent path will not necessarily help with reelection so why bother trying to achieve balanced budgets during the Obama presidency. This is precisely why the Obama advisers, operating within a post-1994 Clinton-era prism of polarization, opted for recapitalization of the financial industry and for propping up automakers instead of doing what Clinton did so well in 1993, which was tell the public that the economic conditions have not only changed, they are a nightmare scenario, and every promise made during the campaign now has to be filtered through a new way of thinking economically. That could have bought the Obama administration the whole first term to think through policies that made sense in the long run. Instead, they promised change and feel they have to deliver but that will not lead the country back to deficit reduction in the immediate future.

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478 Gilmour, Reconcilable Differences?: Congress, the Budget Process, and the Deficit.
George W. Bush’s economic arguments that somehow the U.S. economy will grow down the deficit seem ridiculous today. Presidential economic policy textbooks now must focus more and more on the dramatic fiscal turnabouts between 1993 and 2009 because thinking in terms of simply paying down the deficit no longer hold water.\footnote{See, for example, Dolan, Frendreis, and Tatalovich, \textit{The President and Economic Policy}, Allen Schick, \textit{The Federal Budget: Politics, Policy, Process}, 3rd ed., (Washington, D.C.: Brookings Institution Press, 2007).} Even the Brookings Institution’s \textit{Restoring Fiscal Sanity} series, which infused mid-George W. Bush era think tank research with some practical ideas at dealing with growing problems, now needs to be reoriented to the catastrophic fiscal conditions that exist today.\footnote{See, for example, Alice M. Rivlin and Isabel V. Sawhill, \textit{Restoring Fiscal Sanity: How to Balance the Budget}, (Washington, D.C.: Brookings Institution Press, 2004).} The fiscal crisis literature is short on long term ideas and long on the blame game, something that is inevitable after a collapse of this magnitude but ultimately unhelpful. Left wing thinkers like Paul Krugman are predisposed to polemical kernels in responding to the right wing media’s foolish consistency. But there is not much that can be gleaned about what to do next.

Obama wisely returned to the last set of advisers that achieved fiscally successful solutions to the problems of governing the U.S. but thus far they are not able to come to terms with the disaster that was left for them. The country then is verging on economic bankruptcy since there is no solution in the future to restoring fiscal competence.

Tax politics, as the excellent recent work by Paul Pierson and Jacob Hacker suggests, is equally as inflexible and detrimental to the long-term economic health of the country.\footnote{Hacker and Pierson, ”Tax Politics and the Struggle over Activist Government.”} Republicans are captured by base organizations that believe all taxation is wrong. This was apparent throughout the two wars in the 2000s as tax revenue plummeted while government spending skyrocketed. Democrats can only achieve incremental changes to upper income taxation because of the inevitable screams of concern that such oppressive tax hikes would
hurt investment. The rhetoric that more taxation prevents entrepreneurs and business from investing in jobs and stifles growth is so resonant and has been so effective when Republicans are in power that returning to an era in which upper income earners paid their fair share is a pipe dream.

A solution is not foreseeable to this bankruptcy of governance, both political and economic bankruptcy, because the rules that dictated taxing and spending prior to the modern presidency have changed. Rose and Peters’s work warned that this was likely. This is bound up of course with polarization of both parties and the electorate. There are very few moderate Republicans or conservative Democrats left in Washington. This makes the art of compromise incredibly difficult and has eroded deliberation and discussion to talking over one another as opposed to seeking bipartisan solutions. In its most jaundiced sense, making the other party look worse is more politically advantageous than getting credit for crafting something in the national interest. Presidents and their advisers know this and they know that the institutional advantages of first move status in budgets and taxing give them much more flexibility than Congress in designing economic policies in their image. Congress will inevitably declare a presidential budget dead on arrival and demand a litany of changes but Congress is already operating on and responding to the terms set out by an administration.

This polarization of both Washington and the electorate has vast implications for the future of governance since those entrusted with carrying out presidential policy are going to be responsible for navigating the partisan divide. Serving as a senior adviser to a president is obviously a position that demands enormous responsibility. But it raises serious concerns about how much authority and power is delegated to unelected advisers. The ability of presidential advisers to control decision making, without Congressional approval or any
check on their power, is understudied and has serious implications about who really controls
the policy process in an administration. Fiscal policy demands some continuity from
administration to administration or else each new president can pull the country in such
divergent directions as to undo the policies of the previous president, even when those
policies appealed to the national interest. This is precisely what occurred from Bill Clinton
to George W. Bush.

These concerns link directly to Marc Hetherington’s important work on democracy,
trust, and polarization. Hetherington offers insight into current trends in the American
political system that has implications for the future of presidential advisers.\textsuperscript{482} He argues that
davity has declined and that polarization is increasing with the American public. An
authoritarian streak has entered into American politics as the public takes sides, making
bipartisan solutions extremely difficult. This has further ramifications for presidential
agendas and the power delegated to unelected advisers in pushing policies. The political
environment tilts towards more extreme and off-center policy decisions drafted and decided
on by a group of people with tremendous power but who were not elected. The research in
previous chapters on fiscal decisions confirms what Hetherington is arguing.

\textbf{7.3 Linking Presidential Adviser Selection with Fiscal Competence}

This project sought to find a middle ground between the rational choice studies that
have pervaded presidential research of late and the historical institutional and qualitative
studies that developed into a formidable discipline within American political science. In a
recent symposium on presidential studies, Terry Moe argued that the expansion of and
revolution in the discipline to incorporate rational choice theories had made research more

\textsuperscript{482} Hetherington, \textit{Why Trust Matters: Declining Political Trust and the Demise of American Liberalism}, Marc J.
Hetherington and Jonathan D. Weiler, \textit{Authoritarianism and Polarization in American Politics}, (New York:
Cambridge University Press, 2009).
robust but that new approaches need to be considered. This is notable in that many of the areas in which larger scale rational choice theories could be developed have already been mined successfully. The future is, as Moe suggests, newer and growing concepts like behavioral economics and cognitive psychology or, as was done in this study, a mix of quantitative and qualitative approaches that allows for a deeper and more thorough investigation than rational choice limitations allow. This is what Bert Rockman argues in his response to Moe, that the two streams are not incompatible, that rational choice can exist alongside Neustadtian interpretations of the presidency and that individual leaders matter.

More than anything else, the notion that individual leadership plays a role in how we study presidents continues to divide the discipline. Despite the leaps and bounds of rational choice research, it needs to be accompanied by the thick description of individual leadership decisions because presidents, as Fred Greenstein has argued, are not starting from the same mix of strengths and weaknesses that make up presidential style.

Future research in the area of presidential advisers would do well to expand on current work being done by Stephen Weatherford, Andrew Rudalevige and David Lewis. These three scholars have all expanded the research on presidential advisers in new directions in the last couple of years that tracks with this study. Weatherford’s recent quantitative research comparing presidential economic policy leadership offers well-conceptualized, clear and accessible comparisons of performance across presidential administrations. Rudalevige has written about issue management and the presidency by

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484 Bert A. Rockman, "Does the Revolution in Presidential Studies Mean “Off with the President’s Head”?," *Presidential Studies Quarterly* 39, no. 4 (2009).
looking at the ways presidents structure advisory systems and how those advisers deal with the constant demands of the presidential agenda.\textsuperscript{487} He has also moved the discussion away from administrative arrangements to what advisers do and how they do it. Lewis’s award-winning study of presidential appointments offers an excellent mix of historical institutional and rational choice research, tracing the presidential appointment process back to the beginnings of the modern presidency.\textsuperscript{488} A study like Lewis’s, focused on advisers in the Executive Office of the President, is the logical extension of the research conducted in this study. More needs to be done to look broadly at the success of a presidency based on how well it deals with issues, most notably economic issues. This ties in neatly with how we evaluate presidents and how we can distinguish between effective leadership and mere political success. More robust and more extensive research will improve this immensely.

This study has been the first sustained look at fiscal policy advisers in the White House across five administrations. By focusing on the presidential advisers as opposed to tracing the economic policy process institutionally, it offers new insights into developing balanced advisory systems to mitigate the problems with selecting like-minded advisers. Iwan Morgan has written a full-length study of economic policy covering the same time period as this research.\textsuperscript{489} It offers a compelling historical narrative of the institutional battles over tax and budget policy and how presidents have initiated and then responded to Congress in an era of fierce partisanship. My study focuses far more on the White House side of the equation as opposed to the presidential-Congressional battles over fiscal policy. Morgan’s work however is an important tracing of the contemporary problems caused by off-center budget policy and the growth, contraction and rebirth of deficit politics.

\textsuperscript{487} Rudalevige, ”The Decider: The Bush White House and Issue Management.”

\textsuperscript{488} Lewis, The Politics of Presidential Appointments: Political Control and Bureaucratic Performance.

\textsuperscript{489} Morgan, The Age of Deficits: Presidents and Unbalanced Budgets from Jimmy Carter to George W. Bush.
There are some limitations with the research completed here. Comparisons across administrations are difficult because each new incumbent has a different governing philosophy. This limits the brushstrokes with which to paint the institution of the presidency. But fiscal policy offers an issue area that is replicated from administration to administration. A president might not face a major foreign policy crisis but they do have to annually produce a budget and set tax policy each term. Because of that, the ways in which presidents have structured their advisory systems can be compared. It is still not as ideal as one would want however because of the quantitative and qualitative limitations of comparing modern presidents. The numerical data offers a small-\(n\) study only but one with significant potential for further and more in-depth research. The initial findings in the previous chapter suggest there is considerable linkage between the types of advisers a president chooses and the fiscal decisions that ensue. These findings merit closer attention, something that has not been extensively studied beyond this research.

The qualitative work also has limitations. Elite interviewing offers great insight into the lives of those who work in the White House but it is often narrowly focused on what individual respondents can recall. The bigger picture is less clear and it falls on researchers to develop and think about the presidency beyond what White House veterans articulate. Work by journalists has proven invaluable in uncovering the folkways of presidential advisers while an administration is operating. Their access is often the first means of insight into how a president structures his advisers. But their work must be treated as a snapshot of the daily reality, reliant heavily on anecdotes and stories of conflict. Still, their work has often penetrated further into the White House world than work by academics. Therefore, this study utilizes some of the broader descriptions of White House interaction by journalists.
Future executives might begin to break away from the aforementioned alarming trends, both the bankruptcy of governance and the return of massive deficits, by better utilizing their advisory system and selecting advisers in a way that maximizes the potential for making good, long-term decisions, most notably in fiscal policy but in domestic policy as well. While there are ongoing institutional problems with the tax and budget process in the United States, there are plenty of experts, from the far left to the far right, professional economists and research-oriented political scientists, and entire think tanks devoted to the study of taxing and spending. This research has not pursued answers to economic questions about what tax rates should be or how the federal budget should be allotted. That is better left to the experts mentioned above, in particular the work done by the Peterson-Pew Commission on Budget Reform, watchdogs like Robert Greenstein and the Center for Budget and Policy Priorities, and the recent Choosing Our Fiscal Future programs sponsored by the National Academy of Public Administration. And while Obama’s debt and deficit commission grapple with these longer range problems, the tradeoffs between social security and health care reform sustainability and tax rates, one alternative step towards sustainable fiscal competence is in the structure of the National Economic Council itself and with the selection of advisers that can interact with economic experts and put country ahead of politics.

Matthew Dickinson offers such an assessment and has advocated the creation of a permanent staff body within the Executive Office of the President that protects the presidency from advisers who are not concerned with longer term implications or who are unseasoned with respect to the institutional constraints of the office.490 While there are no

guarantees presidents and their closest advisers would cotton to a permanent executive bureaucracy much less heed their advice, the institutional memory created would be invaluable and could allow temperance of policies that have in the past created the massive policy swings that thrust the government off of a fiscally competent footing. This idea sounds more reasonable than arguing in favor of pursuing multiple advocacy.

For fiscal competence to return to Washington and for bipartisan governance to once again be possible, Republican and Democratic leaders have to return to the center. The problem is that Democrats believe that the center shifted far right during the last three decades and Republicans believe they are the center. Even the defeats of 2006 and 2008 have not allowed moderate Republicans to retake their party, not in the slightest. Democrats, after twelve years out of power, governed to stay in control until the 2010 midterms returned divided government to Washington. Neither party, apart from Obama’s half-hearted attempts at reaching across the aisle, seems to want to end the polarization.

If we look back to the long history of budget battles that led to the Clinton course of deficit reduction, that took leaps of faith by Jimmy Carter and George H.W. Bush to push for policies that were unpopular and ultimately politically disastrous. Those advising presidents since 1992 hold each of them up as failures of what not to do to stay elected. So the sacrifices they made for the national good or in the national interest are not likely to come from future executives. That creates a real problem since fiscally competent leadership will require both bold spending reduction and tax increases to pay for the fiscal incompetence of the 2000s. But politically unpopular moves like that may cost Obama his presidency.

The best and perhaps easiest way forward for future presidents is to start with ensuring the presidential advisory system is balanced. Presidents need to design economic
policies that appeal to the national interest and make better arguments for why they are not only needed but are crucial to the success of the nation as a whole. Good advisers can design fiscally competent policies and this is where the public’s declining trust in Washington plays a key role. If a president sells fiscal competence right, it can break the deadlock of spiralling deficits. Unfortunately, only some Democrats seem willing to pursue this strategy. If presidents offer tax policies and budgets to Congress that are sensible, that are not just designed for the party base, Congress is forced to respond to fiscal policies on presidential terms. Time wise, Congress looks foolish and irresponsible if they get recalcitrant and refuse to negotiate. That gives the presidency an enormous advantage. But that rests on crafting policies that are not simply the work of ideologues pursuing mission-based reorienting fiscal policies.

These modest prescriptions do not offer an easy solution to the return of deficit government in the 2010s. Unlike the long slide into post-Lyndon Johnson era permanent deficits, the fiscal imbalance today likely will not resolve itself during an economic boom. The protracted fights over taxes and spending ensure that any solution will be piecemeal and incremental and maybe sped up if White House and Congressional priorities align. But if the past is any gauge, this has only happened with a centrist Democratic president and a deficit hawk Republican Congress. Today’s Republicans are the handmaidens of the anti-tax groups and today’s Democrats have a new health insurance system to fund. Neither offer long-term possibilities to control the size of the deficit and the mounting national debt. Balancing advisers however can help ensure policies way off-center and fiscally incompetent are mitigated and tempered in the White House before the institutional battles occur. That is the best solution for year-to-year presidential fiscal policymaking.
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