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The Process of Economic Policy-Making During the Clinton Administration

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"The Process of Economic Policy-Making During the Clinton Administration"

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By almost any standard, economic performance in the United States during the 1990s was impressive. Other papers prepared for this conference explore the various policy contributions to that performance. But whatever the outcome of the debate over the underlying causes of the economic boom during the 1990s, the Clinton Administration's economic policies clearly played some role. The overall effectiveness of the Administration's economic policies, in turn, reflected in part the overall effectiveness of its internal policy process.

The economic policy process in the Clinton Administration was coordinated by a new entity, the National Economic Council (NEC). The NEC coordinated the development and implementation of major economic policies in both the domestic and

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international spheres. The NEC also ensured that proposed policies were consistent with the Administration's "message," vetted appointments to economic positions, and, as the 1990s progressed, increasingly developed and used its own in-house analytical capabilities in the policy-making process. Reflecting these myriad roles, President Clinton identified the creation of the National Economic Council as one of his most important innovations. As he recently stated, "I believe that no President will be able to have a White House that doesn't have a National Economic Council that coordinates all the various parts that deal with economics."[2]

The NEC would thus appear both new and central to understanding the process of economic policy-making during the Clinton Administration. Yet appearances may be deceiving. Recent Administrations all had some mechanism akin to the NEC, albeit typically not as powerful or effective. And the true impact of the NEC may not be as obvious as it initially appears. As Paul Samuelson once wrote, "The leaders of the world may seem to be led around through the nose by their economic advisers. But who is pulling and who is pushing? And note that he who picks his own doctor from an array of competing doctors is in a real sense his own doctor. The Prince often gets to hear what he wants to hear."[3]

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for this paper. Statements in the paper that are not referenced to published sources were derived either from these interviews or from the authors' personal experiences.

[2] Michael Paterniti, "Bill Clinton: The Exit Interview," *Esquire*, December 2000, in full interview posted at http://www.esquire.com. Despite early suggestions that the NEC would be disbanded under the George W. Bush Administration, it has survived.

[3] Paul A. Samuelson, "Economists and the History of Ideas," *American Economic Review* 52 (March 1962): 17.

The purpose of this paper is to examine the roles of the competing economic doctors during the Clinton years, and how the decision-making process reconciled their (sometimes contradictory) advice. The NEC is understandably an important component of the story, but the paper does not focus exclusively on the NEC. Instead, our focus includes the entire economic policy team, including powerful cabinet agencies (such as the Treasury Department), White House policy councils (such as the National Security Council), Executive Office agencies (such as the Council of Economic Advisers and the U.S. Trade Representative), as well as forces outside the Administration (including Congress, the media, and academic economists).

The paper is organized as follows. The first section discusses the National Economic Council, including its historical context and its organization. The second section examines a series of "case studies" in economic decision-making during the 1990s, including the 1993 budget process, health care reform, the corporate responsibility debate, negotiations with Japan over automobile trade, the HOPE Scholarship tax credit, fast track trade negotiating authority, Social Security reform, and climate change. The third section explores the lessons from the case studies, such as the importance of a central coordinating body in the White House, the role of personality in policy-making, and the impossibility of separating "policy" from "politics." A final section offers conclusions.

Section I: Economic Policy Coordination

Recent Administrations all had some mechanism for coordinating economic policy, but the NEC was qualitatively different in its scope and power (with the possible exception of the Economic Policy Board under President Ford). The NEC was located in the White House, had significant staff resources, and wielded sufficient power to coordinate Cabinet-level decisions on both domestic and international economic policy. This section explores the NEC's predecessors, its creation, and its organizational structure.

Economic policy coordination prior to the Clinton Administration

Modern Presidencies have adopted various institutional mechanisms for exerting White House influence over policy.[4] Before the creation of the National Economic Council, previous Administrations had experimented with different methods of coordinating economy policy-making.[5] This section briefly reviews the history of economic policy coordination since the Kennedy Administration.

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[4] Steven Kelman, *Making Public Policy: A Hopeful View of American Government* (Basic Books: New York, 1987), pp. 79-83.

[5] Roger Porter delineates three basic models for such policy-making: centralized, multiple advocacy, and ad hoc. Under the centralized approach, power is concentrated in the White House staff, and the executive branch departments are used largely to implement (rather than propose) decisions. Under the multiple advocacy approach, an interagency coordination process facilitates input by the departments on policy choices. Under the ad hoc model, responsibility for decision-making evolves on a case-by-case basis. See Roger Porter, *Presidential Decision Making: The Economic Policy Board* (Cambridge University Press: Cambridge, 1980).

President Kennedy's administration largely relied on ad hoc coordination to formulate economic policy.[6] Kennedy eliminated the Advisory Board on Economic Growth and Stability and the Council on Foreign Economic Policy, both of which had existed under President Eisenhower.[7] In their place, Kennedy created a series of ad hoc committees and relied on personal relationships among his top advisors to promote sound policy-making. As Carl Kaysen, one of President Kennedy's top international economic aides, recently put it: "President Kennedy was not a man with an organization chart in his head. He paid no attention to organization charts. He did have, I think, a sense of what people were good for, usually accurate, not always."[8] Kennedy created ad hoc committees in areas including housing credit, labor-management policy, and small business.[9]

For guidance on international economic issues, Kennedy relied upon an Interdepartmental Committee of Under Secretaries on Foreign Economic Policy and upon Carl Kaysen, who directed a small NSC staff.[10] Despite his apparent dislike of institutions, President Kennedy created two that have survived to this day: the "troika" and the trade representative's office. The troika, comprising the Chair of the CEA, the Secretary of the Treasury, and the Director of the Office of Management and Budget (then the Bureau of the Budget), remains responsible for generating the Administration's

[6] Kenneth Juster and Simon Lazarus, *Making Economic Policy: An Assessment of the National Economic Council* (Brookings Institution Press: Washington, 1997), page 13.
[7] I.M. Destler, *Making Foreign Economic Policy* (Brookings Institution Press: Washington, 1980), page 9.
[8] Ivo Daalder and I.M. Destler, moderators, *The National Security Council Project: Oral History Roundtables,* "International Economic Policymaking and the National Security Council," February 11, 1999, Center for International and Security Studies at Maryland and the Brookings Institution, available at http://www.brook.edu.
[9] Kenneth Juster and Simon Lazarus, *Making Economic Policy,* op. cit., page 13.
[10] Ibid.

economic projections, which are incorporated into its budget proposals. The special representative for trade negotiations, now the U.S. Trade Representative (USTR), represents the United States in international trade negotiations.[11]

President Johnson adopted a more centralized approach to domestic economic policy coordination than President Kennedy. He largely eschewed cabinet involvement in economic policy-making, and relied significantly on Joseph Califano, his top domestic policy aide.[12] He did, however, set up several ad hoc groups of advisors.[13] Johnson relied, as had Kennedy, on a deputy in the NSC to oversee international economic issues. (Francis Bator took over that role from Carl Kaysen.)

In the Nixon administration, the Treasury Department initially wielded more power over domestic economic policy-making, while international policy was left without a clear coordination process. According to Destler (1980), the problem on the international side arose because Kissinger "did not designate an economic deputy and was both uninterested in economic matters and disinclined to delegate to his chief economic staff aide."[14] (That chief economic staff aide was Fred Bergsten, then in his

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[11] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 9.

[12] Califano's role and the importance Johnson attached to the telephone are illustrated by the following story related by Jeff Shesol. "When his chief domestic advisor failed to pick up his POTUS (President of the United States) line, Johnson was told Califano was away from his desk. 'Well, where the hell is he?' the President barked at Califano's secretary. 'He's in the bathroom, Mr. President,' she answered, mortified. LBJ paused a moment. 'Isn't there a phone in there?' After a second presidential outburst, a red POTUS phone was hurriedly installed in the lavatory." Jeff Shesol, *Mutual Contempt: Lyndon Johnson, Robert Kennedy, and the Feud that Defined a Decade* (W.W. Norton and Company: New York, 1997), page 153.

[13] Kenneth Juster and Simon Lazarus, *Making Economic Policy*, op. cit., page 14.

[14] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 10.

late twenties.) Neither Treasury Secretary David Kennedy nor senior State Department officials were particularly interested in international economic issues.

To address the institutional gap on international economic issues, President Nixon created the Council on International Economic Policy (CIEP) in 1971. The CIEP was designed as an economic analogue to the NSC, and Peter Peterson was named as its executive director.[15] But the CIEP was unwieldy and failed to live up to its promise.[16] At the beginning of his second term, Nixon therefore created the Council on Economic Policy (CEP).[17] He named the new Secretary of the Treasury, George Shultz, as the chair of the CEP and the CIEP.[18] Kenneth Dam was ensconced in a West Wing office to coordinate the work of the CEP.[19] Shultz also instituted a morning meeting of the troika, which was central to the coordination process.[20]

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[15] Ibid.

[16] I.M. Destler, *The National Economic Council: A Work in Progress* (Institute for International Economics: Washington, 1996), page 6.

[17] Near the end of his first term, Nixon also instituted the first White House review of environmental and other regulations. In 1971, he established the "Quality of Life" review program to examine how environmental regulations could be designed with minimal adverse impact on industrial activity. The program's activities were not particularly significant, but they did set the stage for later and more substantial White House participation in the regulatory process.

[18] Shultz was also named an assistant to the president for economic affairs, in addition to Secretary of the Treasury. Shultz played a particularly important role in Nixon's domestic economic policy. Even while OMB Director during the first Nixon term, he had occupied an office in the West Wing, rather than the traditional Old Executive Office Building. George Shultz, *Turmoil and Triumph: My Years as Secretary of State* (Scribners: New York, 1993), page 29.

[19] Dam has been nominated as the Deputy Secretary of the Treasury under President George W. Bush. (As of May 31st, the Senate had not confirmed Dam's nomination.)

[20] As Shultz and Dam note, "Despite the apparent complexity of the economic policymaking machinery (fortunately no one attempted to draw a formal organization chart), the new machinery was relatively simple. The heart of the coordinating process was a daily 8:00 am meeting attended by its Executive Office and Treasury members, representing all aspects of economic policy. These meetings were informal, but they were successful in permitting those who attended to grasp the interconnections between various economic issues and to form a common view of how to approach those issues." George Shultz and Kenneth Dam, *Economic Policy Beyond the Headlines* (University of Chicago Press: Chicago, 1998), page 176.

After Shultz left government in the spring of 1974, a power struggle arose between Roy Ash (the OMB Director) and William Simon (the new Treasury Secretary). To resolve the feud, Nixon named Kenneth Rush, who had been Deputy Secretary of State, to a position as counselor to the president for economic policy. Rush continued to hold the morning meetings, but they were apparently not nearly as effective as they had been under Shultz.

President Ford, concerned about the proliferation of interagency committees from previous administrations, asked William Seidman, his economic advisor, to simplify the coordination task. Seidman and Roger Porter found that the number of committees had reached approximately thirty.[21] After some negotiations between Seidman and Simon, who remained Secretary of the Treasury, the Economic Policy Board (EPB) was created with Simon as its official chair and Seidman as its executive director.[22]

The EPB included the secretaries of Agriculture, Commerce, Health, Education and Welfare, Housing and Urban Development, Interior, Labor, State, Transportation, and Treasury, along with the director of OMB, the chair of the CEA, and other officials.

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[21] Ivo Daalder and I.M. Destler, *The National Security Council Project,* op. cit.

[22] President Ford also established a Council on Wage and Price Stability (CWPS) within the Executive Office of the President. Although the original purpose of the CWPS was to review the inflationary effects of government actions, it soon evolved into a full-scale regulatory review organization. CWPS staff economists argued that a regulation was not "inflationary" unless its costs exceeded its benefits, thereby expanding their mandate to include cost-benefit analysis. The CWPS thus established the practice of having agencies undertake cost-benefit analysis on major regulatory proposals (i.e., those costing more than $100 million per year). A requirement of that general kind was perpetuated in succeeding Administrations. The CWPS staff employed some unconventional maneuvers. For example, the CWPS would comment on proposed agency regulations in the regular comment process required by the Administrative Procedure Act, a use of the public notice provision that was surely not contemplated by the framers of the Act. The CWPS would also release a press statement, providing a summary of its formal comments to the relevant agency. These strategies raised the profile of the review process, and helped stop some poorly designed regulations from taking effect.

It had responsibility for both "national and international" issues, and met every morning in the Roosevelt Room, following the White House senior staff meeting. According to Roger Porter, the EPB met 520 times at the cabinet level, and the majority of principals attended more than 90 percent of the meetings.[23] The President typically attended once a week.[24] By almost all accounts, the EPB was remarkably effective.[25] By 1976, media reports were calling it "perhaps the most important coordinating body in the Ford Administration."[26] Jules Katz, who held senior government positions in the Nixon, Ford, Carter, and Bush administrations, has noted that the EPB "was the best coordinating device of any administration that I ever served, and I've served in a few."[27]

Under President Carter, the EPB was disbanded. Instead, Carter created an Economic Policy Group (EPG), initially co-chaired by Secretary of the Treasury Michael Blumenthal and CEA chair Charles Schultze. The EPG was supposed to cover both domestic and international issues. Over time, however, President Carter relied increasingly on the policy staff directed by Stuart Eizenstat for domestic issues and the NSC policy staff under Henry Owen for international economic issues.[28] The EPG was weakened, in part, because it did not include a senior White House official responsible for economic coordination: Charles Schultze had insisted that there be no senior

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[23] Ivo Daalder and I.M. Destler, *The National Security Council Project*, op. cit.
[24] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 11.
[25] Some have criticized the EPB for pushing too many issues up to the Cabinet level and failing to handle some international issues effectively. See I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 221. Nonetheless, the general view is that the organization was remarkably effective.
[26] Daniel Balz, "Juice and Coffee and the GNP – The Men Who Meet in the Morning," *National Journal*, April 3, 1976, page 426.
[27] Ivo Daalder and I.M. Destler, *The National Security Council Project*, op. cit.
[28] Kenneth Juster and Simon Lazarus, *Making Economic* Policy, op. cit., page 17.

economic adviser distinct from the CEA Chair, and Schultze did not play a coordination (as opposed to substantive) role.[29]

President Reagan introduced a series of Cabinet councils, which were in turn coordinated by Ed Meese. Secretary of the Treasury Don Regan directed an Economic Policy Council that was part of this system. Problems arose, however, because the distinction between that council and other related councils (for example, one on commerce and trade) was unclear.[30] Furthermore, a White House Legislative Strategy Group, led by Chief of Staff James Baker, could effectively overrule the Economic Policy Council.[31] During the second Reagan term, after Baker became Treasury Secretary and took control of the EPC, it became more powerful and its lines of responsibility were clarified.[32] Many observers regard the EPC under Baker's leadership as having been quite effective in coordinating policy.[33]

President George Bush perpetuated the EPC, but it became a shadow of what it had been under Secretary Baker. For example, the President often went outside the EPC

[29] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 223. In regulatory matters, President Carter issued Executive Order 12044, which mandated cost-benefit analysis for proposals that "may have major economic consequences," in March 1978. To implement the Executive Order, Carter created the Regulatory Analysis Review Group, which was chaired by the CEA and included the OMB and other economic and regulatory agencies.

[30] Ivo Daalder and I.M. Destler, *The National Security Council Project*, op. cit.

[31] OMB Director David Stockman realized that in this setting, with nebulous arrangements within the Cabinet councils, OMB could be particularly powerful. As Stockman related to author Hendrick Smith, "Meese had a funny attitude. He thought that the Office of Management and Budget was where they did the technical auditing work to see if the motor pool had too many cars in it or something like that. They didn't understand that OMB is really the policy switchboard of the executive branch." Hendrick Smith, *The Power Game: How Washington Works* (Random House: New York, 1988), page 352.

[32] Kenneth Juster and Simon Lazarus, *Making Economic Policy*, op. cit., page 18.

[33] I.M. Destler, *The National Economic Council: A Work in Progress*, op. cit., page 6.

process to obtain advice.[34] In general, economic policy-making under President Bush was disorganized and ineffective. Indeed, Richard Darman, the director of OMB, apparently believed that OMB was the coordinating body for economic policy. Robert Reich asserts that Darman told him late in 1992, "Forget the Cabinet…They're out of the loop. This is where the loop begins. This is the loop. Right here. OMB. This is where all the centers of power meet up. It's power central."[35] Reporter Bob Woodward wrote a devastating article on the lack of coordination among Bush's economic advisers in late 1992.[36] The article, for example, revealed that CEA Chair Michael Boskin had difficulty obtaining a meeting with the President; Boskin finally had to threaten to resign before being granted the meeting.

Problems and shortcomings in previous approaches

The NEC was thus not quite as new a concept as some Clinton officials have suggested.[37] Nonetheless, the economic policy coordination process before the Clinton Administration, with a few possible exceptions, suffered from three significant problems. The NEC was designed to address these problems, and for the most part succeeded in doing so.

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[34] Kenneth Juster and Simon Lazarus, *Making Economic Policy*, op. cit., page 18.

[35] Robert B. Reich, *Locked in the Cabinet* (Random House: New York, 1997), page 27.

[36] Bob Woodward, "The President's Key Men: Splintered Trio, Splintered Policy," The Washington Post, October 7, 1992, page A1.

[37] As one example of the misconceptions about past coordination efforts, a December 1993 NEC memorandum to the President noted, "Someone familiar with past White Houses told me that the NEC has lasted longer than either of the two previous efforts to provide similar White House coordination of economic policymaking." See Robert Rubin, "Year-End Thoughts on the NEC," Memorandum for the President, December 27, 1993. At that point, the NEC was less than a year old. The Economic Policy Board under President Ford, by contrast, operated for more than two years (it was created in September 1974 and met through December 1976). Similarly, the Council on Economic Policy under President Nixon

1. *Resolution of disagreements over economic policy*. Major Cabinet agencies often disagree over crucial economic policy issues. If the process for resolving such disagreements is not perceived as fair, policy-makers will divert excessive resources into getting the last word with the President or devising creative ways of lobbying him. The NEC was designed to minimize such wasteful activities while providing the President the full range of Cabinet views. Many Clinton Administration officials viewed this NEC role as particularly important because disagreements among the principal economic players had interfered with the substance and message of economic policy in the Bush administration. As Bob Woodward reported before the Clinton Administration took office:

> "Bush has never established a permanent, effective structure for handling economic decisions…According to two sources, Bush has complained that it is hard at times to sort out or make sense of the advice he receives from his economic team of Treasury Secretary Nicholas F. Brady, budget director Richard G. Darman and Council of Economic Advisers Chairman Michael J. Boskin. 'This is not like the NSC [National Security Council],' Bush told one adviser this spring, according to one source. 'It doesn't come to me [in a decision memo] saying Brady thinks this, Darman that, Boskin disagrees.'"[38]

The NEC was designed to provide President Clinton with such decision memoranda summarizing the positions of all relevant economic agencies on major economic policy issues.

existed for well over one year following its creation in February 1973, although its role was diminished after Shultz's resignation in May 1974.

[38] Bob Woodward, "The President's Key Men: Splintered Trio, Splintered Policy," The Washington Post, October 7, 1992, page A1.

2. *Interaction between domestic and international policy.* The economic coordinating mechanisms adopted by previous Administrations faced particular difficulty in issues that involved both domestic and international components. For example, trade adjustment assistance involves both domestic policies (coordination with other types of unemployment insurance and training programs) and international policies (international trade). Reducing greenhouse gas emissions involves domestic economic adjustments (including potential shifts in the sources of energy production and reductions in energy usage) as well as international negotiations. Over time, a growing number of Presidential decisions on economic policy involved both domestic and international considerations, yet the policy apparatus imposed an awkward division between "domestic" issues and "international" issues. The international agencies had only limited economic expertise, and the domestic agencies had only limited international expertise. Observers of the decision-making process had long argued that the distinction between domestic and international economic issues was fading rapidly, if it had ever existed.[39] The NEC was designed to eliminate this increasingly arbitrary distinction.

3. *Political and communications issues.* In Washington, appearances can become self-fulfilling: Media leaks and other "communications" failures can undermine the effectiveness of an Administration, ensnaring it in unnecessary public battles

[39] I.M. Destler, *Making Foreign Economic Policy*, op. cit., Chapter 1.

and providing ammunition to its enemies.[40] One of the NEC's purposes was to promote consistency between the "spin" and the substance of policy: The NEC ensured that Cabinet officers had the most effective responses to criticisms of Administration policies, tried to enforce adherence to Administration "talking points," and reviewed documents that were to be released by Administration agencies for inconsistencies with Administration policy. As one of the co-authors of this paper noted when she directed the NEC, "We're really communicating the President's strategy as much as developing it. The NEC has increasingly become integrated, as I think it should be, with communications and the political and the legislative."[41] (Enforcement of the President's message can also, however, raise tensions with agencies: The CEA, for example, resented the pre-publication review of the *Economic Report of the President* that was undertaken each year by the NEC; many on the CEA believed that the NEC staff were too concerned about spin and not enough about substance.)

Economic Policy Coordination during the Clinton Administration

To address the shortcomings apparent in the Bush Administration's approach to economic policy-making, the Clinton Administration created the National Economic Council. The idea for the NEC developed during the 1992 Presidential campaign. Originally, the NEC was to focus only on international economic policy. Indeed,

[40] In the Woodward article mentioned above, for example, OMB Director Darman was quoting as calling Secretary of the Treasury Brady a "dolt" and "probably the weakest treasury secretary in the history of the country." Such leaks could not have improved the working relationship between the two officials.
[41] Ben Wildavsky, "Under the Gun," *National Journal*, June 29, 1996.

concerns over intensifying economic "competition" among the United States, Europe, and Japan, and a growing recognition of the links between economic security and national security in an increasingly interdependent global economy were a major impetus behind the original NEC proposal. *Putting People First*, the economic policy document that Bill Clinton and Al Gore issued during the campaign, called for the creation of an "Economic Security Council," which would be similar to National Security Council and would be responsible for coordinating "international economic policy."[42] President Clinton mentioned the idea of the NEC only once during the campaign, in a speech given before the World Affairs Council in Los Angeles on August 13, 1992. That speech suggested that his intention was to create a body to coordinate international economic policy.

After the 1992 election, Clinton's advisors changed the name and focus of the proposed agency; some thought that the name "Economic Security Council" sounded too protectionist.[43] They also broadened the scope of the council to include all spheres of economic policy, not just international economics. (Bruce Stokes of the Council on Foreign Relations proposed both the name "National Economic Council" and the integration of domestic and international economic policy in a 1992 article.[44])

[42] Bill Clinton and Al Gore, *Putting People First: How We Can All Change America* (Times Books: New York, 1992), page 13.
[43] Douglas Jehl, "Clinton Names Bentsen, Panetta to Economic Team," *Los Angeles Times*, December 11, 1992, page A1. See also Kenneth Juster and Simon Lazarus, *Making Economic Policy*, op. cit., page 3.
[44] Bruce Stokes, "Trade Policy," in Mark Green, ed., *Changing America: Blueprints for the New Administration* (Newmarket Press: New York, 1992).

The NEC was promulgated in Executive Order 12835 and Presidential Decision Directive/NEC-2.[45] The Executive Order listed the functions of the NEC: (1) to coordinate the economic policy-making process with respect to domestic and international economic issues; (2) to coordinate economic policy advice to the President; (3) to ensure that economic policy decisions and programs are consistent with the President's stated goals; and (4) to monitor implementation of the President's economic policy agenda. It also stated, "All executive departments and agencies, whether or not represented on the Council, shall coordinate economic policy through the Council."[46]

The broad scope of the NEC caused concerns that it would supplant other agencies. The Executive Order and Presidential Decision Directive reflect these various bureaucratic concerns. The Executive Order explicitly states that "the Secretary of the Treasury will continue to be the senior economic official in the executive branch and the President's chief economic spokesperson. The Director of the Office of Management and Budget, as the President's principal budget spokesperson, will continue to be the senior budget official in the executive branch. The Council of Economic Advisers will continue its traditional analytic, forecasting, and advisory functions."

[45] Officially, the "National Economic Council" included the President, the Vice President, the Secretary of State, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Secretary of Housing and Urban Development, the Secretary of Transportation, the Secretary of Energy, the Administrator of the Environmental Protection Agency, the Chair of the Council of Economic Advisers, the Director of the Office of Management and Budget, the Assistant to the President for Economic Policy, the Assistant to the President for Domestic Policy, the National Security Advisor, and the Assistant to the President for Science and Technology Policy. The Small Business Administration and the Department of Defense were subsequently added, and other Cabinet members or officials were to be included as necessary. In popular usage, however, the "National Economic Council" referred to the Assistant to the President for Economic Policy and his or her staff, not this Cabinet-level entity. (The nomenclature of the "National Security Council" is similar.)

NEC-CEA

The NEC-CEA relationship represented one challenge at the beginning of the Clinton Administration. As one observer asked at the time, “What’s left for the CEA if a National Economic Council becomes the top coordinating body for economic policy, integrating foreign and domestic economic issues?”[47] Nobel Laureate economists James Tobin and Robert Solow went so far as to oppose the NEC’s creation publicly because “as alumni of the Council of Economic Advisers, we worry particularly about the duplication and subordination of its function…If a national economic council supplants the current channels of advice to Presidents, the existing agency [CEA] will become a sideshow…Even a distinguished economist as chairman would find his message distorted by a bureaucratic and political filter.”[48]

During the Administration’s first months in office, Laura Tyson, chair of the Council of Economic Advisers, took steps to address these concerns. She negotiated a broad understanding with Robert Rubin, head of the NEC, that in addition to having a voice in all NEC decisions, the CEA would be responsible for providing economic analysis and advice to inform the NEC decision-making process. Rubin characterized this understanding as one in which the CEA would function as “the hand of economic analysis within the NEC glove”; the NEC was to serve primarily as a coordinating body and not as a source of policy development. Reflecting these different missions, Tyson

[46] The White House, “Establishment of the National Economic Council,” Executive Order 12835, January 25, 1993.
[47] Hobart Rowan, “Economics without Economists,” *Washington Post*, December 10, 1992, page A21.

and Rubin also agreed that most of the professional economists in the White House would serve on the CEA rather than on the NEC.[49]

Tyson also spoke with the Vice President about the need for the CEA to provide the President with analysis of national and international economic trends on a regular basis. In response to these conversations, the CEA worked with the Office of the Vice President (OVP) to develop a weekly economic briefing (WEB) document for the President. This document was not meant to supplant the memoranda developed by the NEC staff to summarize the recommendations of NEC participants on particular policy decisions, but rather was designed to present economic trends and analyses that would not generally be available elsewhere (such as in the press). In conjunction with the OVP, the CEA had sole authority over what would be included in the so-called WEB document, although the CEA was responsive to suggestions from other NEC participants.

President Kennedy's CEA had produced a similar weekly economic briefing document, but the one that emerged under President Clinton's CEA was somewhat longer and more substantial. Over time, the WEB grew to 10-15 pages and included both brief discussions of current economic news and the latest statistics, and a more in-depth analysis of broad economic trends, such as the determinants of productivity growth or national saving, relevant to policy. Preparation of the WEB quickly became a critical

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[48] James Tobin and Robert Solow, "Clintonomics Doesn't Need A Czar," *New York Times*, December 10, 1992, page A27.

[49] One exception was David Cutler, who was both a senior economist on the CEA and a director on the NEC. Since Cutler held a joint appointment, his NEC position was not seen as inconsistent with the agreement. But the agreement was ultimately broken a few years later when several Ph.D. economists joined the NEC staff.

part of the weekly rhythm of the CEA. Anyone who served on the CEA staff during the Clinton Administration will undoubtedly remember at least one late Thursday night striving to complete the WEB in time for delivery to the Naval Observatory before Mrs. Gore's night-time deadline. (To ensure that it was included in the Vice President's briefing book for Friday morning, the WEB had to be delivered to the Vice President's residence at the Naval Observatory before a specific time set by Mrs. Gore. The deadline was often binding, at least during the first Clinton Administration.)

The WEB was read by the President and the Vice President, by some of their senior staff, and by the heads and senior staff of the NEC, the OMB, and the Treasury. Depending on the President's time, a meeting to discuss the document was scheduled each week and included the President, the Vice President, the NEC chair, the CEA chair, OMB Director, and the Treasury Secretary. Such meetings occurred quite regularly during the first two and one-half years of Clinton's first term, but more sporadically thereafter as the President's attention was consumed by other matters.

During most of the first term of the Clinton Administration, the existence of the NEC may well have bolstered the position of the CEA. The WEB, for example, provided the CEA with more regular access to the President than the CEA had enjoyed since the days of President Kennedy. More broadly, the establishment of an effective policy coordination process by the NEC enhanced the CEA's ability to bring disinterested economic analysis, as distinct from political considerations, to bear on policy decisions. In the words of one NEC staffer, the NEC brought the "CEA, with its professional economics expertise, back to the table, where it hadn't been since about 1976," especially on issues of regulatory reform and the environment.[50] As Krueger (2000) adds, "the National Economic Council elevated the Council of Economic Advisers, freeing it to advocate efficient economic programs and ensuring that the president had its input."[51]

During Clinton's second term, however, some observers began to express concern that the NEC was indeed crowding out the CEA. By 1997, for example, the *Economist* was arguing that the CEA's advice had been "pushed to the fringes" by the NEC and a powerful Treasury Department, which at that time included a prominent economist (Lawrence Summers) as Deputy Secretary.[52] The relative standing of the two agencies may be reflected in the decisions of leading young academics. Early in the Clinton Administration, top young economists were often found on the CEA staff. Later, they appeared more enthusiastic about joining the NEC or Treasury staff than the CEA staff.

NEC-NSC

The NSC was similarly concerned about the NEC. In response, the NSC quickly exerted its continued prerogatives in international policy. For example, the Presidential Decision Directive establishing the NEC, issued in March, uses slightly different language than the Executive Order, issued in January. The Presidential Decision Directive states that the NEC shall advise and assist the President "in integrating all

[50] Ellen Seidman, "The NEC," Memorandum for Tom O'Donnell, October 7, 1996.
[51] Alan Krueger, "Honest Brokers Separate Policy from Sausage for the White House," *New York Times*, November 9, 2000, section C, page 2.
[52] "Economic Policy Advice: Department of Debunkery," *The Economist*, January 18, 1997.

aspects of national economic policy – macro-economics, micro-economics, domestic, international, and sectoral *(in conjunction with the National Security Council)*" [italics added].[53] The reference to the NSC was not included in the earlier Executive Order. It is also worth noting that the international economics staff on the NEC held joint appointments: They were staff on both the NEC and NSC.

At the end of 1993, Robert Rubin wrote to the President that "from the very beginning, the NEC and NSC have had an excellent working relationship, so that the merging of economic and foreign policy considerations has gone extremely well."[54] But over time, this relationship encountered a number of complications that, with the benefit of hindsight, make this early assessment appear overly sanguine. These complications took many forms. For example, the NSC would regularly exclude the NEC Director from phone calls made by the President to foreign leaders even if the planned topics of conversation included economic issues. Similarly, the NSC would often exclude the NEC from participating in the preparation of written briefing materials and in briefing meetings with the President in conjunction with visits by foreign leaders to the White House or foreign visits by the President, even when economic issues were on the agenda. More importantly, the NSC and NEC sometimes disagreed on how much time should be accorded to such issues as opposed to other foreign policy issues during such visits.

In addition, the NSC and NEC occasionally sparred over the preparation of decision-making memoranda for the President. By agreement, when such memoranda

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[53] Presidential Decision Directive/NEC-2, "Organization of the National Economic Council," March 24, 1993.

involved international economic issues they were to be prepared and approved by both the NSC and the NEC. In recognition of its role as honest broker, the NEC believed that such memoranda should be circulated among NEC participants for their comments before final submission to the President. Reflecting its traditional emphasis on secrecy and security, the NSC strongly opposed this practice. (Since the NSC had its own staff secretary who worked closely with the White House staff secretary, the body that processes all paper received by or sent from the President, the NSC was able to ensure that its staff controlled the submission of such memoranda.)

Several factors may help to explain the tensions that developed in the NSC-NEC relationship. Although the NSC began as a small White House agency to coordinate rather than make policy, over the years it evolved into a policy-making body with a sizeable expert staff. In its interactions with the NEC, the NSC was understandably protective of its policy-making authority. Moreover, given the differences in background of NEC and NSC staff, it is not surprising that the two bodies sometimes differed on policy recommendations. For example, the NSC, along with the Department of Defense and the State Department, often favored the use of economic sanctions to influence the non-economic behavior of other nations, while the economic agencies participating in the NEC believed that such sanctions were either ineffectual or counterproductive in most cases. In dealing with nations like Russia, China, and Cuba, the NSC tended to give traditional security considerations much greater weight than economic ones in policy recommendations. On the most fundamental level, the NSC continued to accord traditional security concerns priority over economic concerns in foreign policy decisions,

[54] Robert Rubin, “Year-End Thoughts on the NEC,” Memorandum for the President, December 27, 1993.

while the NEC was established in part to make sure that economic concerns played a more important role in such decisions. Tensions between the NEC and the NSC thus reflected not only differences in the backgrounds and training of their professional staff, but differences in their missions.

<u>Roles played by the NEC</u>

An internal review of the NEC completed in 1995 highlights the roles it played during the Administration's first two years. The various roles are not mutually exclusive. They do, however, give some indication of the broad reach of the NEC:[55]

- *Interagency management*. The NEC played an "honest broker" role in delineating policy options and presenting the opinions of the various agencies. In this role, other agencies provided most of the staffing but the NEC convened the players to examine (and perhaps revise) the options on a specific policy issue. The NEC would typically also write the decision memorandum to the President, including the views of all relevant agencies and perhaps an NEC view as well, as discussed below. In particular, the NEC ensured that the views presented to the President on a variety of policy issues encompassed economic considerations. One supportive lobbyist went so far as to say that the NEC was "a conservative economic watchdog," although Robert Rubin responded to that charge by stating that "we're not a set of Milton Friedmans."[56] (Under Gene Sperling's leadership,

[55] Peter Yu, "Memorandum for NEC Policy Staff," January 12, 1995.
[56] Paul Starobin, "The Broker," *National Journal*, April 16, 1994.

the outlook of the NEC may have tilted somewhat more toward equity issues, although the NEC's overall emphasis on economic incentives and economic reasoning continued.)

- *Policy development.* On some Presidential initiatives, NEC staff assumed more responsibility than policy coordination alone. For example, NEC staff were central in developing the Community Development Financial Institutions initiative, a child labor initiative, planning the APEC meetings, the "New Markets" initiative, and designing the Administration's defense conversion strategy.

- *Strategic planning.* At various times, the NEC also attempted to undertake strategic plans for future Presidential initiatives. For example, under Laura Tyson's leadership, the NEC developed a long-term plan for granting permanent most-favored nation status to China in conjunction with its announcement of an acceptable agreement with the United States for World Trade Organization (WTO) membership. Given the pressures on the NEC to "fight fires" and solve more immediate problems, however, it was often difficult for the NEC to find adequate time for analysis and development of longer-term policies. (As one telling illustration, one of the authors of this paper was phoned by the NEC Director late on a Sunday night. The NEC Director suggested that the NEC needed to step back and focus on long-term issues, but the call was interrupted before the discussion became substantive by an urgent message from the Treasury Secretary. The discussion never resumed.)

- *Policy implementation.* On some Presidential initiatives, the NEC expanded its role into policy implementation, including negotiations with Congressional staff regarding authorizations and appropriations for specific policy items. The Empowerment Community/Enterprise Zone (EC/EZ) initiative is one example of this implementation role.

- *Outreach to business community and others.* The NEC often served as a point of contact within the White House for the business community or other interested parties. On NAFTA, GATT, and telecommunications issues, for example, the NEC played a significant role in outreach to the business community. Industry officials in the technology sector, in particular, enjoyed an "easy access policy," although at least early in the first term the President thought that the NEC could do better at reaching out to a broader array of outsiders.[57]

- *Facilitation of private negotiations.* The NEC sometimes brokered agreements among private-sector agents, in addition to brokering agreements among government agencies. For example, the NEC spurred private-sector negotiations on Superfund reform and automotive technology advances.

[57] For industry view, see Paul Starobin, "The Broker," *National Journal*, April 16, 1994.

- *Message.* The NEC played a significant role in promoting the Administration's "message" to the press and the public. The NEC wrote and distributed talking points and briefed many Administration officials before they appeared in public. (One manifestation of this role and the impact of the Internet is that, during the 1996 campaign, Gene Sperling, renowned for his late hours at the office, would have his staff read the next morning's news stories from the *New York Times* and *Washington Post* when they were posted at about midnight. He would sometimes call the newspapers with corrections, hoping to change the version that appeared in print the next morning. The NEC staff also monitored the Sunday talk shows to facilitate an Administration response if appropriate.)

Some of the NEC's roles, such as the facilitation of negotiations with the business community and management of the Administration's economic "message," are not inherent to its original mission and may not even have been anticipated when the NEC was created. But the personalities present at the creation of the NEC affected the type of activities that it undertook. The next section therefore examines NEC staffing.

<u>NEC staffing</u>

The NEC had roughly twenty professionals to carry out its functions (see table below).[58] It was a "deliberately flat" organization, with only four types of officials and

[58] Technically, the NEC was located within the Office of Policy Development (OPD). OPD was the only significant White House unit protected from the staff reductions made to fulfill a campaign pledge by President Clinton in 1992. See I.M. Destler, *The National Economic Council: A Work in Progress*, op. cit., page 24.

with every member of the staff enjoying direct access to the Director, who served as the Assistant to the President for Economic Policy.[59] Below the Director were two Deputy Directors, one of whom generally focused on international issues and regulatory issues, and the other of whom generally focused on budgetary and other non-regulatory domestic issues; these deputies also served as Deputy Assistants to the President.[60] Below the Deputy Directors were several "Special Assistants to the President." Finally, other staff on the NEC had a variety of titles – including, confusingly, "Director." The NEC also had a chief of staff, who would assist the NEC leadership in overseeing the staff and paper flow.

Table: NEC Staff

	Assistant/Deputy Assistants to the President	Special Assistants to the President	Directors	Other professional staff	Support staff	Total
May-93	3	7	9	3	9	31
Nov-94	3	8	6	2	8	27
Apr-95	3	8	5	2	6	24
Apr-96	3	6	6	5	6	26
Apr-97	3	5	10	3	5	26
Apr-98	2	5	6	6	4	23
May-99	4	7	5	5	5	26
Mar-00	2	7	6	4	3	22

Source: White House staff directories, various years.

The personalities who shaped the NEC in the early years were also important. Robert Rubin, the former chairman of Goldman Sachs, served as the first director of the National Economic Council.[61] Rubin had two deputies: Bo Cutter, who had served as a

[59] Paul Starobin, "The Broker," *National Journal*, April 16, 1994.
[60] One exception to this model occurred in early 1997, when Dan Tarullo, who was the deputy for international affairs, became an Assistant to the President for International Economic Policy.
[61] Robert Reich suggests that President Clinton offered him the job, but that he recommended Rubin instead. Reich's rationale for rejecting the job is illuminating: "The job needs someone who isn't pushing any particular agenda or ideas – who can serve as an 'honest broker' among Treasury, Office of Management and Budget, Council of Economic Advisers, the Trade Representative, Commerce, and Labor.

senior official at OMB in the Carter Administration, was responsible for international economic policies. Gene Sperling, who had been a senior member of the Clinton campaign economics team, became the other deputy, with responsibility for several domestic issues along with coordination of policy and "message." Sylvia Mathews served in a chief-of-staff role.

From the beginning, Rubin's personal style mitigated concerns that the NEC would dominate policy-making to the detriment of other agencies. For example, Rubin had a personal relationship with Treasury Secretary Lloyd Bentsen (Rubin had previously managed Bentsen's blind trust), and worked to minimize any conflict with the powerful Treasury Department by occasionally serving as Bensten's advocate within the White House.[62] Rubin also espoused the "no sharp elbows" principle -- that NEC staff should not exert too much power or "elbow" other agencies out of the way -- in both staff hiring and the daily operations of the NEC.[63] Indeed, one NEC appointment was delayed because of Rubin's concerns about the staffer's inter-personal skills. Rubin's personal prestige, combined with the caliber and inter-personal skills of the NEC staff, helped to establish the new institution with much less friction than might have been expected.

A significant step in the life of any new organization is its first transfer of leadership. In the case of the NEC, this step was necessitated by the resignation of Lloyd

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Otherwise, every player will try to do end runs around the process. The job also needs someone content to remain relatively invisible. Otherwise, the other players won't share information with him or her. On these two criteria, among all the registered Democrats in the United States, Bill couldn't find a *worse* candidate than me." Robert B. Reich, *Locked in the Cabinet*, op. cit., page 22.

[62] I.M. Destler, *The National Economic Council: A Work in Progress*, op. cit., pages 10 and 11.

[63] I.M. Destler, *The National Economic Council: A Work in Progress*, op. cit., page 10.

Bentsen as Treasury Secretary and by the President's decision to replace him with Robert Rubin in early December 1994. Unfortunately, because of delays in the President's decision making, aggravated by political uncertainties resulting from the Republican takeover of Congress in the 1994 elections, the NEC lacked a director from that time until the end of February 1995, when the President named Laura Tyson to succeed Robert Rubin. According to some observers, the resulting gap in leadership undermined the NEC's influence in early 1995, although it was reasserted later the same year.

Reflecting his satisfaction with the structure and performance of the NEC under Rubin's leadership, the President sought a successor who understood the economic policy process of his Administration and would provide continuity. He chose Laura Tyson because he believed that she had the trust of her colleagues on the economic-policy team and shared Rubin's "honest broker" leadership style.

Even though Tyson was well positioned to maintain continuity in the NEC process, however, the challenges facing her and the NEC changed over time in response to a variety of forces, including changes in Administration personnel, changes in the Administration's relationship with the Congress, and the growing political pressures of a Presidential re-election campaign. By March 1995, the NEC was an established institution and "a force to be reckoned with on issues that range well beyond the traditional purview of economic policy makers."[64] But the former NEC Director and arguably the most powerful member of the President's economic team had become Secretary of the Treasury (the most powerful economic agency in any Administration), and the former OMB Director, Leon Panetta, had become the White House Chief of Staff. Both Rubin and Panetta were in positions to weaken the NEC's authority if they chose to do so. Neither did, although under Panetta's leadership it became more difficult for White House staff (including the NEC staff) to claim regular time on the President's calendar.

In addition, the challenges facing the Administration required changes in the focus of NEC activities. In 1993 and 1994, with the help of a Democratic-controlled Congress, the Administration had the initiative in the formulation of economic policy. With the President actively engaged, the NEC coordinated the Administration's policy-making efforts on the budget, on completion of NAFTA and the Uruguay Round, on trade policy with Japan and China, and on a host of micro-economic initiatives in such diverse areas as education, telecommunications, environmental policy, and science and technology policy. Health care reform was the only area of substantive economic policy development in which the NEC did not play the lead coordinating role during the first two years of the Clinton Administration.

In 1995, after the Republican Congressional victory, the Administration had to adopt a defensive policy stance. The Administration braced for a tough budgetary fight by announcing a budget plan that called for a Middle Class Bill of Rights, with an emphasis on tax cuts and lifelong learning. But in response to political considerations, the President backed away from additional deficit reduction in his new budget. Instead,

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[64] Paul Starobin, "The Broker," *National Journal*, April 16, 1994.

he challenged the Congress to work with him to reduce the remaining out-year deficits by finding ways to slow the growth of Medicare, Medicaid and other health care costs.

Soon after its election, the new Congress, under the fiery leadership of Newt Gingrich, rebuffed this challenge, branded the Clinton budget as "dead on arrival." The Congressional Republicans ultimately threatened to shut the federal government down if the Administration failed to accept the budget developed by the Congress. Not surprisingly, budgetary policy was the primary focus of NEC coordination in 1995. Early in that year, over the objections of political advisers and many Congressional Democrats, Gene Sperling and the CEA under Tyson's leadership led a successful NEC effort to convince the President to oppose a proposed constitutional balanced budget amendment on the grounds that it was "bad" economic policy. But later in the year, given the confrontational atmosphere in Washington and growing concerns about the upcoming 1996 election, the President's inside and outside political advisers, including the newly arrived but still largely invisible Dick Morris, began to exercise greater influence on the Administration's economic policy process (see the HOPE Scholarship case study below). Despite these challenges, Tyson succeeded in keeping the NEC at the heart of this process, ensuring that substantive policy experts vetted politically popular ideas before they were embodied in policy proposals. In addition, she served as a more visible economic spokesperson for the Administration than Rubin had during his tenure at the NEC. Some NEC staff believed that her role as spokesperson bolstered their influence.[65]

[65] For example, in a 1996 memorandum, one NEC staffer noted, "Laura defined a new, more visible role for the head of the NEC as an aggressive advocate for the President's budgetary and economic policies. That activity had the collateral effect of strengthening the staff's ability to manage agency interactions by

After the 1996 election, Tyson announced her decision to leave government to return to academic life, and the President chose Gene Sperling, who had served as NEC Deputy for both her and Rubin, to head the NEC. Sperling brought to the job a long institutional memory, having served on the 1992 campaign and the NEC, a close bond with the President on policy matters, and a keen political and policy mind. Under Sperling, the NEC sought to maintain its basic honest broker role. The NEC also bolstered its influence in the budgetary policy process, in part because of Sperling's strength on budget issues and a shift in the personnel and other duties of the Chief of Staff's office (Panetta's replacements did not have as much budget experience as he had, and were sometimes preoccupied with various scandals during the second term).

The NEC under Sperling expanded in some ways while contracting in others. For example, Sperling built a more self-sufficient NEC. He expanded the number of technical experts, as opposed to facilitators, on the NEC staff, and hired a press staffer who would later become the White House spokesman. The benefit of this centralized approach is that more of the analysis could be done directly in the White House, which minimized the likelihood of leaks, ensured an integration of policies and politics, and permitted a broader view of the interactions among numerous policies. These benefits are highlighted most vividly in the Social Security case study below. On the other hand, the more centralized approach often led to bottlenecks (as issues waited for Sperling's review).

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reinforcing the view that the NEC was instrumental in serving the President's strategic as well as substantive agenda."

Stylized policy process

Despite its myriad and evolving roles, the fundamental mission of the NEC was the coordination of policy decisions. Furthermore, such coordination necessarily involved a broad array of Administration players. Before moving on to the case studies, it may be helpful to review a stylized NEC policy process on a hypothetical issue.

Let us assume for simplicity that the President noticed a newspaper article on some topic, say, the growing numbers of women who became mothers while in professional school. Alternatively, the CEA might have included such an article in the WEB. (It is important to note that this example is purely hypothetical and is intended only to provide insight into the interagency process.) Regardless of the source of the article, the President might have written a short note on the side of the article, asking the NEC Director to examine the phenomenon. The NEC Director would then likely ask one of the NEC staff to follow up with various agencies.

Let us assume that the NEC staffer decided as a first step to convene a meeting of professional staff from the Departments of Education, Commerce, Treasury, and Labor, along with staff from OMB and CEA, to discuss the issue. At the meeting, the Education staff would present evidence from the National Center for Education Statistics on the prevalence of the phenomenon, underscoring the increase in "student moms" but also highlighting various ways in which the article that the President had read was misleading. (The NEC staff would likely *not* have shared a copy of the article with the President's notes, since doing so would unnecessarily expand the distribution of a Presidential missive. Yet the NEC might have informed the other agencies that the President had read the article in question, and circulated the original article to them.) The Labor and Commerce Departments, drawing on information from the Current Population Survey or other sources, would present their own perspectives on the issue. Other agencies might ask questions about the methodologies used, or request more information on other aspects of the trend under investigation.

Assuming an increase in "student moms" was actually occurring, staff would begin to evaluate whether policy changes were warranted. For example, some might ask whether the tax system should treat a full-time student mother in a similar fashion as a full-time working mother (at a given level of family income). The Treasury Department staff might highlight some of the ways in which the tax code already does this; the child and dependent care tax credit, as one example, is available to married taxpayers only if both spouses work or are full-time students, so a student mother would be treated in the same way as a working mother. The Department of Education might become interested in ensuring that professional schools do not discriminate against women who become pregnant in school, perhaps requiring that schools automatically re-enroll such students after pregnancy. Other ideas would likely emerge at the staff level.

Eventually, the issue would be put on the agenda for an NEC Deputies meeting. The "Deputies" include the relevant Deputy Director of the NEC, who would chair the meeting, along with Deputy Secretaries from the relevant agencies, Members of the CEA, the Deputy Director of OMB, and a variety of White House staff serving at the level of Deputy Assistant to the President. The staff working group might have developed a background memorandum with the key facts and some of the proposed policies, to guide discussion during the Deputies meeting.

If the deputies disagreed upon the appropriate course of action – and even in some cases when the deputies agreed upon the course of action – the issue could be revisited at a principals meeting. The NEC "principals" include the Director of the NEC along with the relevant Cabinet secretaries, the CEA Chair, the OMB Director, and White House staff at the level of Assistant to the President. In some cases, the meeting would be chaired by the White House Chief of Staff; in other cases, the NEC Director would chair the meeting. Before the meeting, the NEC Director and other principals might well have spoken to trusted advisers outside the government, such as deans of major professional schools, with insight into the issue. The meeting itself would generally be limited to "principals plus one": Each agency could send the principal (or a replacement) plus one other official to the meeting.

Following the principals meeting, the NEC Director and the Chief of Staff's office would decide whether a meeting with the President was required. If the principals had significant disagreements, or if the issue were particularly important to the President's agenda, a meeting would be scheduled. The NEC would then prepare a background memorandum, the principals would meet with the President, and (in most cases) some decision would be reached about how to proceed. If the principals had largely reached agreement, if the issue were a relatively minor one, or if the President had a heavy travel schedule, a decision memorandum would substitute for a meeting. (Over time, meetings with the President became less frequent as the President became increasingly comfortable with approving courses of action based on a decision memorandum rather than a meeting.)

The decision memorandum would embody the "honest broker" process. The NEC would draft the decision memorandum summarizing the policy question and the position of each agency. The memorandum would likely be circulated among a select number of officials before being submitted to the President, to ensure that each agency's views and arguments were fairly represented. (As noted earlier, circulation of decision memoranda proved more problematic when the issue was international and involved the NSC.) The first section of the memorandum would describe the issue and the pros and cons of possible policy responses. The second section of the memorandum would present each agency's recommendation on a course of action; the NEC would typically include its own position in that section. In many cases, the agencies would be permitted to draft the language presenting their own position, to ensure that their case was presented fairly and accurately. Gene Sperling emphasized to the NEC staff that in a well-written decision memorandum, the President should not be able to detect the NEC's substantive recommendation before reaching the second section.

This policy process, although highly stylized, provides some insight into how economic policy was made during the Clinton Administration. The next section moves beyond this stylized process to examine several actual policy issues.

Section II: Case Studies on Economic Policy-Making in the 1990s

1993 budget

President Clinton had promised to "focus like a laser beam" on the economy. The centerpiece of the President's economic plan was his budget proposal. Soon after the election, the Administration's economics team began detailed discussions on the budget plan. Indeed, Robert Rubin convened a budget meeting even before the Inauguration (the meeting was held on January 7th). Over the course of that six-hour meeting, the major economic players in the incoming Clinton Administration discussed deficit reduction, taxes on energy and gasoline, taxes on Social Security benefits, taxes on high earners, reductions in spending, and methods of encouraging investment in new technology and infrastructure. They agreed that because of the deterioration in the budgetary outlook, the President would probably have to postpone fulfillment of his campaign promise for a middle-class tax cut and to scale back his plans for increasing spending on education, the environment, and other investment initiatives. At the same time, the participants at the meeting agreed that the President's budgetary proposal should include both a long-run deficit-reduction package and a short-run economic stimulus package of tax cuts and spending increases to provide insurance against a possible downturn in the still-weak economic recovery under way. The distinction between long-term deficit reduction and short-term economic stimulus made economic sense, but proved to be a source of political difficulty in the Administration's relations with the Congress.

Over the next six weeks, leading up to President Clinton's address to the Congress on February 17th, the NEC convened a series of meetings to develop the Administration's economic plan. President Clinton attended most of these meetings and went through the budget line by line, finding potential cuts to reach his goal of reducing the deficit by $500 billion over five years. A crucial issue was the balance between the degree of deficit reduction in the package relative to expansions in public spending and investments. Secretary of Labor Robert Reich, for example, supported substantial expansions in spending on training, education, and public infrastructure. OMB Director Leon Panetta, Secretary of the Treasury Lloyd Bentsen, and others supported more aggressive efforts to reduce the deficit.[66]

To inform these debates, the CEA provided analysis of how deficit reduction packages of various sizes were likely to affect economic performance in both the short and long runs. In his best-selling book, *The Agenda*, Bob Woodward emphasizes the differences of opinion within the economics team on the tradeoffs between deficit reduction and investment spending, maintaining that those who favored the former and represented the bond market prevailed over those who favored the latter and represented traditional Democratic values. Compared to the size of the economy, however, the policy differences separating these groups -- on the order of only $50 billion to $100 billion over five years -- were insignificant. In fact, the economics team was remarkably united in the view that a substantial amount of deficit reduction was essential to restoring the economy's long-run health. Deficit reduction came first -- not spending increases or tax cuts.

Rubin played a substantial role in building this consensus and resolving remaining differences. In addition, he played a key role in presenting the package to the financial markets. Indeed, the day after President Clinton unveiled the Administration's plan in a short speech to the American public on February 15th, the stock market plunged. Because of his Wall Street background, Rubin was called upon to talk with his contacts in the financial market and calm their fears.

Following Clinton's address to Congress on February 17th, the focus shifted to Congressional activity. Over the coming months, rifts in the Congress would become painfully apparent to the Administration. For example, Democrats from mining and oil drilling states were opposed to the energy tax included in the Administration's proposal. Others were concerned that there were too many new taxes and not enough spending cuts. Such concerns quickly killed the Administration's economic stimulus package.

In August, the President's budget legislation passed by the narrowest margin (218-216 in the House and 50-50 in the Senate, with Vice President Gore breaking the tie). The Republicans voted as a block against the proposal.

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[66] See the discussion in Robert B. Reich, *Locked in the Cabinet*, op. cit., pages 59-65.

Most observers agree that the National Economic Council and the economics team in general were effective in developing the budget plan. Participants generally felt that they were treated fairly, and the process avoided damaging political leaks and mis-steps. The final budget agreement, which was largely taken from the Administration's original plan, was perhaps the key contribution of the Clinton Administration to the 1990s economic boom (another chapter in this volume discusses fiscal policy during the 1990s).

The 1993 budget deal, however, also highlighted some mistakes made by the new economics team. As already noted, the original package included both an energy tax and a modest stimulus package, neither of which was politically viable. In addition, the economics team did not play a significant role in the legislative strategy during the crucial early stages of the process. As Bob Woodward has noted, "It had been more difficult to reach out to people than [Rubin] anticipated. He had to make the phone calls to people or invite them up. He was not involved in the legislative strategy which had overwhelmed the White House...He was not comfortable or skilled at working with Congress."[67] One House aide added, "We don't know who's in charge…All we know is we can't find the center of the operation."[68] This problem was, however, temporary. In July, the White House created a budget "war room," under the leadership of Roger Altman, the Deputy Treasury Secretary. The Administration's coordination of its

[67] Bob Woodward, *The Agenda: Inside the Clinton White House* (Simon & Schuster: New York, 1994), pages 237-238.
[68] Matthew Cooper, Kenneth Walsh, and Gloria Borger, "Can Clinton Recover?" *U.S. News and World Report*, June 7, 1993, page 24.

legislative strategy quickly improved and the NEC played an important role in the ensuing budgetary negotiations.

Overall, the 1993 budget deal represented a significant accomplishment for the economics team and the new National Economic Council.

Health care reform

Outside of the 1993 economic plan, health care reform was the Administration's top priority during its first two years in office. But this reform effort died by the summer of 1994. Many factors caused President Clinton's health care initiative to fail, including the fact that the health care task force did not fully incorporate the economic team into its discussions as it developed its proposal.

Shortly after the Inauguration, President Clinton appointed the First Lady, Hillary Rodham Clinton, as chair of a special task force that would prepare national health care reform legislation. President Clinton also appointed Ira Magaziner, a management consultant and long-time friend of the Clintons, to oversee the operations of the task force.

On September 22, 1993, after the budget plan had passed, President Clinton formally announced his health care proposal before a joint session of Congress. The proposal called for universal coverage, a cap on health insurance premiums, a prescription drug benefit for the elderly, and the ability of individuals to choose their own doctor and health plan. To fund this reform, the President proposed to build on the existing system of employer-sponsored health insurance by requiring that all businesses beyond a certain size pay for 80 percent of the health insurance premiums of their workers.

After months of debate in Congress, four competing proposals were drafted. While President Clinton tried to obtain a compromise, the Congress recessed in August 1994 without voting on national health insurance. With elections in November, the recess marked the effective end of the debate on health care reform.

The failure of the Clinton health care plan (which is also discussed in the chapter on health policy in this volume) reflected a variety of causes. For example, the task force process left much to be desired: it was shrouded in secrecy and failed to vet proposals with the Administration's political and economic experts. The final proposal, which was over 1,300 pages long, was extremely difficult to explain and was widely mocked as unduly complicated.

The role of the President's economics team in developing the health care reform legislation was limited. Members of the team were not a significant part of the early planning done by the task force, nor given adequate opportunity to comment and influence the plans as they developed. In fact, Treasury Secretary Lloyd Bentsen was "disturbed that health had not been subjected to the collegial deliberative process of the economic plan, but was handled back channel with Magaziner trying to keep all the information to himself."[69]

The economics team was not in agreement with the task force on many key aspects of the plan. They were uncomfortable with plans for price controls, particularly the ceilings the Administration proposed to place on insurance premiums. In addition, the economic advisors were in favor of a more limited benefit package, with individuals paying a larger share of their expenses and drawing additional benefits through supplementary insurance plans.[70] Deputy Treasury Secretary Roger Altman was quoted by friends as saying that the plan was "too big, too expensive, and too fast."[71] There were also concerns about the effects of the reform on the economy. Because employers would be required to pay a significant share of the costs of employee health care coverage, Rubin and Tyson, among others, believed that the plan would reduce employment. Magaziner strongly disagreed and pressured Tyson to argue that the plan would actually create jobs, but she demurred. In addition, drawing on health care economics experts at the CEA, Tyson questioned the task force's assumptions about the effects of the proposed reform on the growth of health care costs and about the savings anticipated from folding the Medicaid population into the reformed health care system. Tyson shared her concerns about the economic assumptions and effects of the plan in meetings with and memoranda for the First Lady. But these concerns were not reflected in the plan that finally emerged from the task force.

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[69] Bob Woodward, *The Agenda*, op. cit., page 316.
[70] Robert Pear, "Economic Advisors Caution President on Medical Costs," *The New York Times*, May 22, 1993, page A1.
[71] Bob Woodward, *The Agenda,* op. cit., page 316.

The failure of the health care reform process highlighted the importance of a policy development process that would both reflect the opinions of all the relevant agencies and develop proposals that anticipated the objections of opponents. The NEC and its interagency process were undoubtedly strengthened during the first term by the contrast between the budget plan's success and the health care plan's failure.

Corporate responsibility

The "corporate responsibility" debate in 1996 illustrates the fragility of interagency cooperation in the NEC. On January 4, 1996, Reich published an op-ed piece in the *New York Times*. He called for corporations to "take on more responsibility for Americans' economic well-being." Reich observed that the corporation had been transformed "into the agent of the shareholder." In order to balance the demands of shareholders against the interests of employees and communities, Reich believed that the government should provide corporations with incentives to do the right thing. He had several suggestions for achieving this goal. First, he suggested that the benefits of incorporation be reserved for responsible companies. Second, he suggested that the income tax liabilities of good corporate citizens be reduced.

In the weeks that followed, Senator Edward Kennedy formally drafted legislation embodying Reich's proposal. Some press reports suggested that President Clinton was "comfortable" with Reich's exploration of this approach and encouraged his advisors to "come up with whatever ideas they could."[72] Clinton told the *Los Angeles Times*, "We have a capital gains tax differential now…to encourage the investment of money, so to look at other kinds of incentives to invest in labor like you invest in money…that's an entirely legitimate thing."[73]

Other members of the economic team, however, had considerable reservations about Reich's proposals. Both Rubin and Tyson were concerned that corporate responsibility was not a well-defined concept. What exactly was responsible corporate behavior and what wasn't? Without an agreed upon definition, how could tax policy be designed to encourage responsible corporate behavior? Furthermore, many companies, especially larger ones, already made significant investments in the training of their workforce and in such additional employee benefits as on-site child-care and health services. Therefore, Tyson was concerned that a large portion of new tax incentives to encourage such "responsible" behavior would be wasted on rewarding existing programs rather than encouraging new ones. She was also concerned about the feasibility of developing measures of corporate responsibility that could be used to assess whether a particular company qualified for the kinds of new tax relief proposed by Reich. Tyson told reporters that Reich's proposal was "not under active analysis or consideration."[74]

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[72] Frank Swoboda, "Reich to Propose Tax Help for Firms Aiding Workers; Idea Could be Clinton Reelection Theme," *Washington Post*, February 6, 1996, page C3, and Clay Chandler and Frank Swoboda, "Tax Break for 'Good' Employers; Clinton 'Encouraged' Consideration of Idea," *Washington Post*, March 2, 1996, page H1.

[73] Doyle McManus, "Clinton to Nudge Enlightened Capitalism Along," *Los Angeles Times*, March 3, 1996, page A1.

[74] Steven Pearlstein, "White House Upbeat in Economic Report; Minor Tinkering May be Need Advisers Say," *Washington Post*, February 15, 1996, page D9.

Rubin was also unhappy about the tone of Reich's public statements on corporate responsibility. The *National Journal* reported "that Rubin 'hates' the term 'corporate responsibility'… because of the implication that companies ordinarily practice the opposite."[75] Second, Rubin believed that the initiative represented a violation of the policy process. A *Newsweek* article quoted Rubin as saying "I assume he [Reich] wouldn't want to read about my latest minimum-wage proposal in the *Wall Street Journal*" at a senior staff meeting.[76]

In late February, the NEC was assigned the task of resolving the policy dispute simmering between Reich and Rubin. The NEC convened meetings and sought to reach an agreement acceptable to both Labor and Treasury. Rubin, Reich, and Tyson ultimately signed a memo that called for a White House conference on corporate responsibility, along with a commitment that Reich would end his public statements criticizing irresponsible corporate behavior and proposed tax incentives to encourage responsible corporate behavior. (Despite that memo, Reich told reporters in early March that profitable companies were "resorting to laying off their workers to pump up their stock prices."[77] Tyson and White House Chief of Staff Leon Panetta discussed the policy problems caused by Reich's public statement with the President, and Panetta lectured Reich about violating the process.[78] When Reich was scheduled to go on *This Week with*

[75] Burt Solomon, "Clinton Brags About the Economy and Bad-Mouths it at the Same Time," *National Journal*, March 9, 1996, page 552. Also see Robert Reich, *Locked in the Cabinet*, op. cit., pages 296-7.
[76] Bill Turque, "The Battle of the Bobs," *Newsweek*, March 18, 1996, page 28.
[77] Ibid.
[78] For a description of the discussion between Reich and Panetta, see Robert Reich, *Locked in the Cabinet*, op. cit., pages 302-303.

David Brinkley to discuss corporate responsibility, he was told to rehearse his lines with Panetta first, and in the end didn't appear on the show.[79])

As part of the plan for resolving the internal conflict over the issue of corporate responsibility, the NEC organized a White House sponsored conference on corporate responsibility. President Clinton praised specific companies for their worker-friendly activities, while maintaining that the "fundamental responsibility for any business is to make a profit, to create jobs and incomes by competing and growing."[80] The economic team agreed upon five areas in which the President could call upon corporations to be more responsible: family support, health and pension benefits, employee training, partnerships with employees, and workplace safety.

The White House conference on corporate responsibility was held on May 16, 1996. (It was delayed by the death of Secretary of Commerce Ron Brown.) As Tyson noted at the time, "The idea is to show that such programs don't necessarily lower profits, and in many cases raise them."[81] Featured companies included Starbucks, Patagonia, and Fel-Pro. In the end, the administration resorted to rhetorical powers and peer pressure to address the issue of corporate responsibility.

The corporate responsibility issue threatened but did not destroy the interagency process. When the President was willing to allow Reich to explore ideas outside of the

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[79] Al Kamen, "Bye the Book," *The Washington Post*, March 20, 1996, page A17.
[80] Todd Purdum, "Businesses Should be Loyal to Employees, Clinton Says." *The New York Times*, March 24, 1996, Sec. 1, page 32.
[81] Clay Chandler, "Ambivalent About Business," *The Washington Post*, May 12, 1996, page H1.

normal process, Reich did. But ultimately, he was not allowed to continue proposing new policy initiatives that had not been vetted through the NEC process and approved by the President.

Negotiations with Japan over trade in automobiles

When President Clinton was elected, there was considerable speculation both at home and abroad that a new era of American protectionism would ensue. But the President surprised his skeptics by pursuing an agenda of aggressive trade liberalization, including completion of NAFTA and the Uruguay Round, initiation of negotiations for free-trade agreements in APEC and Latin America, and conclusion of an agreement with China on the terms of its accession to the WTO.

But while the Administration focused most of its efforts on regional and multilateral agreements to liberalize trade, it also labored to address ongoing bilateral trade disputes. Among these, the most important were disputes with Japan. Throughout the 1980s, trade relations with Japan had deteriorated as a growing number of American firms complained that a series of "structural barriers" restricted their access to Japan's markets, providing their Japanese counterparts with a safe haven behind which they grew into formidable competitors. During his term as Governor, Clinton had often heard such complaints and was sympathetic to them. At his urging, in 1993 the NEC worked to develop a broad "framework accord" with Prime Minister Miyazawa to resolve trade disputes with Japan in a number of sectors. In principle, this accord was designed to improve trade relations between the two countries. Nonetheless, over the next three years, Japan and the United States frequently sparred over trade, with the U.S. demanding objective criteria against which to measure the results of sectoral trade agreements and with Japan attacking such criteria as a form of managed trade.

The NEC deputies group headed by Bo Cutter played a prominent role in developing the framework accord and in negotiating with Japan over the issue of objective criteria. As the press reported, these talks were often both contentious and exhausting. According to one press report, "Six months of intensive negotiations and an agonizingly long night of one-on-one discussions between Koichiro Matsuura, Japan's deputy vice-minister for foreign affairs, and Bowman Cutter, deputy director of Clinton's National Economic Council, came down to a chillingly simple truth. 'We just do not trust you with numbers,' Matsuura said. 'And we don't trust you without numbers,' Cutter replied.[82]

Frustrated by Japan's unwillingness to conclude sectoral agreements consistent with the terms of the framework accord, the U.S. repeatedly threatened to use unilateral trade sanctions to achieve its goals. After a contentious summit with Prime Minister Morihiro Hosokawa, President Clinton signed an executive order in March 1994 re-instating so-called "Super 301" authority to impose retaliatory trade sanctions on countries that denied trade access to American producers. The President made this decision after an NEC meeting at which the pros and cons of Super 301 were analyzed for the President, with an NEC majority favoring this action. Signs that the Congress would renew Super 301 legislation if the President failed to act were also an important factor behind his decision.

Under the threat of Super 301 action, talks between the U.S. and Japan on trade in auto parts became particularly heated. USTR, working with the Commerce Department, took the lead on these talks, and Mickey Kantor, then USTR, increasingly engaged in a war of words with his Japanese counterpart, threatening the imposition of trade sanctions if Japan failed to agree to U.S. demands in three areas -- car dealerships, new auto parts, and used auto parts. The tension escalated through the spring of 1995, a period during which President Clinton was under considerable domestic political pressure from the Republican Congress. Both Mickey Kantor and Dick Morris (from behind the scenes) urged the President to adopt a strong stance on the auto trade talks in part because it would be help him secure his Democratic base in Congress. This was the President's inclination in any event, reflecting the views he had developed while Governor.

There was, however, considerable interagency disagreement within the NEC about the wisdom of threatening to impose sanctions on Japan in order to secure an auto parts agreement. Some NEC participants questioned whether structural impediments in Japan were a serious problem for American car producers. Others questioned whether the terms of the "agreement" negotiated by the U.S. would have much impact on improving U.S. auto exports to Japan and were concerned that the U.S. would look foolish for threatening a trade war over an agreement that would have little effect. Others were worried about the possible effects of sanctions on the exchange rate between the dollar

[82] Bruce Stokes, "Where Now for Trade Talks with Japan," *National Journal*, June 11, 1994.

and the yen at a delicate time when both the United States and Japan were intervening to support the dollar. Still others were anxious that confrontation on trade issues threatened cooperation with Japan on military and strategic issues. As one press report noted, trade negotiations involve "battles that echo long and historic rivalries among agencies and departments that continue despite efforts by the Clinton team to put economics at the center of foreign policy."[83]

Despite these internal concerns, the USTR advanced an aggressive stance on the auto trade talks in press reports, causing considerable consternation among other NEC participants. In a rare exception to his general support of the NEC process, the President publicly endorsed the USTR policy perspective. While the NEC continued to meet on U.S. negotiating positions, the President stated publicly, "It doesn't matter what anybody says in my administration. I support the line that Ambassador Kantor has taken. It is my line; it is my conviction."[84]

At the eleventh hour, USTR's brinkmanship paid off in the form of an auto-parts agreement that met U.S. demands. Japan decided to accept this deal only after failed attempts to win the help of other NEC participants to moderate the demands of the USTR and the Commerce Department. In short, despite internal disagreements and USTR's aggressive public stance, the ability of the NEC to present a united front to the Japanese helped achieve a favorable outcome in this case. But perhaps more importantly, the case illustrates how the interagency policy process can easily break down if one agency is

[83] Peter Ennis, "What we have here is a failure to communicate," *Tokyo Business Today*, May 1994.
[84] White House transcript, May 4, 1995.

willing to circumvent that process and the President appears to lend support to the circumvention.

HOPE scholarship tax credit

In June 1996, President Clinton proposed a $1,500 tax credit to help families pay for the first two years of a college education. The development of this proposal highlights the political pressures present during an election year and the economic team's response to such pressures.

Following the significant Republican gains in the 1994 midterm elections, President Clinton proposed a Middle Class Bill of Rights in December 1994. The President's proposal included a number of tax cut provisions, including a $10,000 per year tax deduction for the costs of college or training. But while the President believed that the $10,000 college tuition tax deduction was "great," he thought it had "never penetrated" into the public arena because it "got lost in the debate about how large the tax cut should be."[85]

Late in 1995, as the Administration began to put together its fiscal year 1997 budget, the Education and Treasury Departments began to consider tax incentives to expand access to higher education. The focus on tax incentives rather than other approaches to expanding access to higher education reflected political realities regarding the attractiveness of tax incentives relative to spending increases: As Marshall S. Smith, the Deputy Education Secretary, stated, proposing large increases in the Pell Grant program or other financial aid "wasn't in the cards."[86] In November 1995, aides from these agencies traded memos suggesting that the 1997 budget plan include a $1,600-per-year tax credit for the first two years of college.

Senior White House officials, including George Stephanopoulos and Gene Sperling, raised political concerns about the tax credit proposal. In the final months of 1995, the White House and the Congress were in the midst of a heated battle over the budget. The Administration had launched an effective attack on the Congressional budget proposal on the grounds that it involved substantial cuts in Medicare, Medicaid, education, and the environment to pay for tax cuts. In this context, the political wisdom of introducing a new Administration tax credit proposal was questionable. In addition to these political concerns, several members of the NEC economic team expressed reservations about the effectiveness of a targeted tax cut to encourage college enrollment. As a result of both political and economic concerns, the education tax credit was not included in the President's 1997 budget proposal.

In the spring of 1996, Bob Dole, the Republican Presidential candidate, suggested he was considering a major tax cut as part of his campaign. Dick Morris, the President's chief political strategist, argued that the President had to respond to this political threat and that the education tax credit was the most effective response. Morris also argued that

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[85] Dick Morris, *Behind the Oval Office* (Random House: New York, 1997), page 223.

[86] Douglas Lederman, "The Politicking and Policy Making Behind a $40 Billion Windfall: How Clinton, Congress, and Colleges Battled to Shape Hope Scholarships," *The Chronicle of Higher Education*, November 28, 1997, page A28.

the tax credit should only be available to students with a B average or higher in high school, to emphasize the role of personal responsibility.

The economics team criticized the resuscitated tax credit proposal on several grounds. First, since the majority of children from middle-class families were already enrolling in college, the potential for the tax credit to raise their enrollment rates was limited. In addition, for lower-income families, increased funding for Pell grants was seen as a more effective way to encourage college enrollment. Second, the availability of a tax credit for college tuition could put upward pressure on tuition levels, mitigating any potential benefits for increased college enrollment. Third, the proposal to link eligibility for the tax credit to student performance in either high school or college would be difficult to enforce and would add to pressures for grade inflation among teachers and administrators. Finally, many members of the economics team feared that if the President proposed a college tax credit, he would start a bidding war on tax cuts in the 1996 Presidential campaign -- which would undermine continued progress on deficit reduction.

Despite the NEC's substantive and political reservations, the President decided to move ahead with the tax credit proposal, at least in part because of dramatic polling results. The President then turned to the NEC to develop a specific proposal that was "responsible." From early May until June 1996, the NEC therefore led an interagency group to develop a number of options from which the President finally choose. He announced the "HOPE" scholarship tax credit at a speech on economic policy at Princeton University in June 1996.

In a later comment on this episode, Secretary Rubin noted, "I don't want to comment on other people's renditions of events, but this started as an idea that had a lot of problems associated with it, but within those problems was the nub, if you will, or a kernel of a very good idea. The President asked Gene…to take this in its then existent form and see if we could work through to get the good idea out of it and not have all the problems that were associated with it. This was missing from that book. And we all worked with Gene and came up with what I think is a very good proposal." Other NEC members, including Tyson and CEA economists, remained much more negative about the President's proposal. In the end, the proposal was modified further before becoming law in 1997.[87]

The case study thus highlights the political environment in which policy-makers must operate, and the benefits of a team effort to improve the details of policies within that environment. In this case study, the NEC's fundamental substantive policy advice fell victim to the political exigencies of an election year. But the NEC process also arguably improved the details of the proposal once the President had made the decision to support a college tuition tax credit.

[87] For example, unlike the original Administration proposal, the final version of the tax credit was not refundable. It is therefore of no benefit to lower-income families who, in the absence of the proposal, would have no income tax liability (before the application of the Earned Income Tax Credit).

Fast track trade authority

In the fall of 1997, the White House sent a bill to Congress proposing the renewal of fast track trading authority. Such authority, which allows Presidents to negotiate trade agreements with the knowledge that Congress will not try to amend them after talks conclude, was first granted in 1974 and was renewed from time to time.

In 1994, USTR Mickey Kantor put together proposed legislation that included both the terms of the Uruguay Round of multi-lateral trade negotiations as well as continuation of fast track authority. After months of negotiations, however, the final version of the legislation ratified the Uruguay Round but excluded fast track authority.

Fast track authority involved complicated political factions: Traditional free trade advocates favored unconditional authority. "Fair traders" favored fast track authority, but only if it included provisions requiring labor and environmental standards as part of any trade deal. The inclusion of such provisions, however, threatened the support of the traditional free traders. The difficulty lay in finding strong enough language that satisfied the fair traders without alienating the free traders. Such language proved elusive in 1994.

Following the election of 1996, President Clinton vowed to regain fast track authority. He placed particular emphasis on the issue in his 1997 State of the Union address. Republican leaders seemed prepared to negotiate. Senate Majority Leader Trent

Lott said that fast track action would take place "in the first six months of the year."[88] Acting USTR Charlene Barshefsky said, "The goal with respect to fast-track will be to find the compromise -- that's what this entire exercise will be about."[89]

Despite the apparent readiness to compromise, fast track authority was not pushed early in 1997 because of more pressing issues, such as the balanced budget negotiations. Destler (1997) argues that the NEC's internal structure was also at fault. However, the real problem at that point was that other issues appropriately demanded the attention of senior policy-makers, not that the structure of the internal policy process was a barrier.[90] Sperling stated "that moving on fast-track along with the budget and China would be more than Congress could handle."[91] The staff assigned to coordinate the fast track effort lacked the clout to divert Cabinet members from more pressing issues or to make decisions on behalf of the Administration. As a result, the Administration's effort stalled while opponents gathered strength.

After the balanced budget agreement of 1997, the Administration turned its attention to other issues, including fast track. The Chief of Staff assumed responsibility for coordinating the Administration's fast track effort. The economics team put together a fast track proposal that was submitted to Congress in September and included labor and environmental provisions. By the time the proposal was submitted, it was doomed to failure.

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[88] Ben Wildavsky, "Trade Fatigue," *National Journal*, January 18, 1997, page 116.
[89] Ibid.
[90] I.M. Destler, *Renewing Fast-Track Legislation*, (Institute for International Economics, Washington D.C., September 1997), page 24.

Without the labor and environmental language, Republicans were expected to support the legislation, but Republican leaders told the administration that they would need to sway 70 Democrats to support fast track before any bill would be presented to the entire Congress. Between September and November, lobbying and negotiations continued. The AFL-CIO spent millions on advertising and lobbying to encourage undecided Democrats to oppose the legislation. Throughout this period, the White House Chief of Staff Erskine Bowles held daily strategy sessions at the White House. Cabinet members were meeting with Senators and Representatives (both Democrats and Republicans) almost daily, trying to reach some compromise. In early November, negotiations reached a frenzy. Eventually, labor and environmental language was removed from the proposal. House Minority Whip David E. Bonior said, "They're 30 to 35 votes behind, and they have to make a decision whether they want to pull the bill or not."[92] On November 11th, Clinton dropped his proposal for fast track authority, although he said that he would try again.

The Administration's failure to obtain fast track authority stemmed from the ideological divide between Democrats and Republicans. But it also reflected the other pressing demands on senior policy-makers, the initial assignment of responsibility to staffers without sufficient internal and external influence, and the resultant delay in bringing legislation to Congress despite the spirit of compromise at the beginning of the year.

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[91] Alexis Simendinger, "Slowpoke on Fast-Track," *National Journal*, June 28, 1997, page 1338.

Social Security

The looming retirement of the baby boomers placed Social Security reform high on the economic policy agenda in the mid-1990s. In 1994, the Quadrennial Advisory Council on Social Security (the so-called Gramlich Commission) was formed. Its members could not agree on a single approach to reform, and the Commission therefore presented three different options when it issued its report in early 1997.[93] While the Commission was deliberating, the Administration had formed an interagency team on Social Security.[94] Consumed with pressing fiscal debates and the split Gramlich Commission, however, the Administration decided to place a balanced budget agreement ahead of addressing long-term challenges such as Social Security reform.[95]

In late 1997, following the budget agreement, policy-makers were faced with the prospect of large projected budget surpluses. Given the emergence of projected budget surpluses and the political debate surrounding tax reform, Social Security reform could not be addressed by itself. Furthermore, the emergence of significant projected budget surpluses dramatically changed the set of feasible options for Social Security reform. The Gramlich Commission recommendations, for example, were almost immediately

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[92] John E Yang, and Terry M. Neal, "'Fast Track' Hits a 'Brick Wall'; Clinton Appears Short on Democratic Support in Last-Minute Tallies," *The Washington Post*, November 9, 1997, page A1.
[93] *Report of the 1994-1996 Advisory Council on Social Security*, January 1997.
[94] Laura Tyson and Gene Sperling, "Social Security Responses," Memorandum to the President, March 21, 1996.
[95] Gene Sperling, "Long-Term Entitlement Reform," Memorandum to the President, July 3, 1997.

irrelevant; given the history of budget deficits, the Commission had not considered the possibility of revenue transfers from the general budget to Social Security.

In the fall of 1997, Gene Sperling therefore led an intensive effort to examine budget options and Social Security reform. These issues were so politically sensitive -- Social Security reform had long been viewed as the "third rail" of politics -- that the topic of the internal meetings was officially listed as "Special Issues," so that the daily calendars of the participants would not reveal the subject matter. In addition to Sperling, participants included Treasury Secretary Robert Rubin and Deputy Secretary Lawrence Summers, OMB Director Frank Raines and Deputy Director Jack Lew, CEA Chair Janet Yellen, Social Security Commissioner Ken Apfel, and a limited number of Treasury and NEC staff.

In evaluating the new possibilities, NEC staff worked closely with Treasury staff and the Office of the Chief Actuary at the Social Security Administration. The early stages of the process highlighted a tension in the NEC: It was important to involve only a minimal number of people, but also important to have high-quality analysis on issues that had not been fully evaluated before.

In addition to the new analytical issues, the group focused on tactical considerations. For example, the principals evaluated the likely responses to different policy announcements, the timing of such announcements (the State of the Union in

1998, summer of 1998, or after the mid-term elections), and how to coordinate Social Security reform with Medicare reform.[96]

Interestingly, the Lewinsky scandal may have allowed the substantive discussions to proceed further than they would have in the absence of a scandal: Put simply, the communications and political staff at the White House were enthusiastic about anything, including Social Security reform, that would divert attention from the scandal. (Several former officials with whom we spoke suggested a broader pattern to the effect of the scandals throughout the Clinton Administration: At the beginning, the scandals diverted attention from policy issues and undermined serious debate over policy alternatives. As the scandals continued and as the Lewinsky matter came to light, however, the effect was reversed: The political staff realized that one of the best responses to the scandals was to show the President continuing "to do the people's work"; they were therefore enthusiastic about new policy proposals.)

Ultimately, the Special Issues team recommended a two-part strategy: reserve the budget surplus for entitlement reform, and begin a "national dialogue" on Social Security reform during 1998. The President himself devised the slogan to capture this policy: "Save Social Security First," which was the key policy announcement during his 1998 State of the Union. The NEC continued to debate various reform options through 1998 and organized a series of "town meetings" throughout the country that culminated in a

[96] Gene Sperling, "Laying Down a Marker on Social Security," Memorandum to the President, August 5, 1997; Gene Sperling, "Social Security Reform," Memorandum to the President, August 16, 1997; and Gene Sperling and Lawrence Summers, "Unified Budget Surplus and Social Security," Memorandum to the President, December 7, 1997.

White House conference in December.[97] Soon thereafter, the Administration proposed allocating 62 percent of the projected unified surpluses over the next 15 years to the Social Security Trust Fund to extend its solvency. A limited portion (one-quarter) of the transferred surplus would be used to purchase corporate equities.[98] The plan was subsequently modified during the Mid-Session Review.[99]

By all accounts, the "Save Social Security First" policy was a brilliant political stroke, at least in the short run, staving off a large tax cut by using the political power of Social Security to defend the projected budget surpluses. As Waldman (2000) argues, as a result of the President's 1998 State of the Union, "a trillion dollars silently shifted on the budget ledger from the column marked 'tax cut' to the column marked 'Social Security.'"[100] In a longer-term sense, however, it is unclear how successful the policy was. On the one hand, the proposal represented sound fiscal policy. On the other hand, the year of dialogue and debate on Social Security produced no clear consensus for reform. The 1999 proposal induced charges of "double counting" and the proposal to invest part of the Social Security Trust Fund in corporate equities generated little support. (Indeed, Vice President Gore publicly renounced such investments during the 2000 Presidential election.)

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[97] Agenda for Meeting with Economic Team on Social Security, November 4, 1998; Agenda for Meeting on Congressional and Think-Tank Social Security Reform Approaches, November 12, 1998; Agenda for Meeting on Congressional and Think-Tank Social Security Reform Approaches – Part II, November 24, 1998; and Agenda for Meeting on Social Security Opening Bid, December 22, 1998.

[98] Agenda for Meeting on Social Security and State of the Union, January 14, 1999.

[99] Agenda for Economic Team Meeting on Social Security, April 29, 1999; Agenda for Economic Team Meeting on Social Security, May 12, 1999; Gene Sperling and Chris Jennings, "Briefing Memorandum for Medicare Meeting," Memorandum to the President, May 29, 1999; and Sean Maloney and David Goodfriend, "Release of FY 2000 Midsession Review," Memorandum to the President, June 23, 1999.

Social Security highlights the interagency process at its best: Options were thoroughly examined, both economic and political ramifications were considered, and most of what subsequently occurred had been predicted and discussed ahead of time. But the case study also highlights some shortcomings: The interagency team failed to anticipate the amount of confusion created by crediting Social Security surplus funds back to the Social Security Trust Fund – the so-called double counting issue. In trying to explain the accounting of the proposal, the Administration was unable to counter the strength of the negative reaction to the proposed investments in equities.

Climate change

In 1997 and 1998, the President's advisors also grappled with climate change, which involves the effects of increases in greenhouse gases within the earth's atmosphere. The ultimate result of such a buildup is significant increases in average global temperatures, with possible alterations in patterns of precipitation and increases in extreme weather events. To avert such outcomes requires costly changes in energy production and economic activity.

In the run-up to international negotiations over climate change in Kyoto in December 1997, decision-makers within the Administration struggled to reconcile two apparently incompatible forces. A large fraction of the international community -- especially the European Union and, for different reasons, many developing nations -- was demanding aggressive action. Thus international negotiations had become focused on

[100] Michael Waldman, *POTUS Speaks* (Simon & Schuster: New York, 2000), page 216.

reducing national emissions to 1990 levels or below by the year 2010. The environmental lobby in the United States took an even harder line, emphasizing that "1990 by 2010" was the barely acceptable minimum, and urging even more aggressive action.

On the other hand, a Global Climate Coalition had been formed by a group of industries especially concerned about the costs of reduction. It engaged in an intense publicity and lobbying campaign in which it offered the views of contrarian climate scientists.[101] This coalition, along with most disinterested academic economists, was claiming that emission reductions of even the "1990 by 2010" magnitude would prove unbearably costly. Under the business-as-usual path, they argued, emissions in 2010 were expected to exceed 1990 levels by more than 30 percent -- so the reductions required, they argued, were simply not feasible at a reasonable cost. Several industry studies, financed by the Global Climate Coalition, among others, concluded that achieving the reductions would cost hundreds of billions of dollars per year and cause massive disruptions to the economy, charges that naturally caught the attention of political officials within the Administration.

In July 1997, the Senate unanimously passed the Byrd-Hagel resolution (S. 98), which directed that the U.S. should not be a signatory to any protocol that lacked binding targets for developing countries, or would result in serious harm to the U.S. economy. The Administration thus had to formulate national policy while steering between the

Scylla of the international and environmental communities and the Charybdis of the business and domestic political communities.

An interagency team led by the NEC and the Council on Environmental Quality struggled with these tradeoffs. Agreeing to aggressive action could subject the President and the Vice President to attacks based on economic cost. But failing to take action could isolate the U.S. internationally, and expose the Administration to charges of environmental irresponsibility at home.

Further complicating the policy process was disagreement over likely costs. Energy efficiency specialists, such as Amory Lovins of the Rocky Mountain Institute, argued that carbon emissions could be reduced by perhaps 20 percent with *negative* economic costs – that is, that the energy savings would more than pay for the investments. Most economists were deeply suspicious of that position. They argued that if such opportunities existed, they would already have been exploited. They further argued that many of the estimates presented by energy efficiency experts were fundamentally misleading, in that they counted all the benefits but only some of the costs involved -- often excluding, for example, some of the additional installation or operating costs.[102]

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[101] The Global Climate Coalition was later weakened by the defection, first of British Petroleum and then of Shell, followed by several other corporations. A critical view of the operations of the Coalition and its supporters is found in Ross Gelbspan, *The Heat is On* (Addison-Wesley: Reading, MA, 1997).

[102] See Robert N. Stavins and Adam B. Jaffe, "The Energy Efficiency Gap: What Does It Mean?," *Energy Policy* 22 (1994), pages 804-810; and Robert N. Stavins and Adam B. Jaffe, "The Energy Paradox and the Diffusion of Conservation Technology," *Resource and Energy Economics* 16 (1994), pages 91-122. One way of reconciling the different costs estimates -- a system of tradeable emission permits with a cap on the permit price -- was briefly considered but rejected by the interagency team after intense pressure from the environmental community. Under the proposed system, the U.S. Government would stand ready to sell

The President emphasized the apparently low-cost emission reduction possibilities. As he noted during the October 1997 conference he hosted on climate change, "I'm plagued by the example of the light bulb I have in my living room of the White House that I read under at night, and I ask myself: 'Why isn't every light bulb in the White House like this?'" The light that plagued his energy conscience was a compact fluorescent bulb that is more expensive on the shelf, but less energy intensive, than traditional bulbs.[103] The President believed that wider dissemination of energy-efficiency technologies like the light bulb were feasible, and could play a role in reducing greenhouse gas emissions at relatively low cost. He once referred to some of the economists who doubted such claims as "lemon suckers."

The denouement of all these cross-cutting pressures was a policy through which the United States agreed to the Kyoto Protocol, but with an emphasis on flexibility mechanisms (such as international trading) and a pledge that the protocol would not be submitted for ratification to the Senate without "meaningful participation of key developing countries." As part of the Kyoto Protocol, the United States agreed to a mandatory emissions target of seven percent below 1990 levels by 2008-2012. Some observers believe that the U.S. commitment was extreme, and it is almost impossible to attain at this point. (In March 2001, President George W. Bush's Administration effectively renounced the U.S. commitment to the Kyoto Protocol.)

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permits at some given price. Sales of such additional permits would ensure that the market price of the permits never exceeded the price cap, thereby providing an upper bound on the costs involved. The cost of such insurance is uncertainty in the degree of emission reductions achieved.

[103] Allen Myerson, "Energy Addicted in America," *New York Times*, November 1, 1998, sec. 4, page 5.

This case study offers several lessons. First, by the time senior policy-makers focused on the issue, international negotiations had already committed to a flawed approach. The Administration's scope for flexibility thus was substantially curtailed because options had been taken off the table. Second, despite strong disagreements within the Administration, there were few leaks and all interested parties accepted the result of the interagency process. Such teamwork reflects the benefits of a coordinated and fair process. Finally, issues with fundamental technical disagreements among competing teams of experts (e.g., between economists and energy efficiency experts in this example) are particularly difficult to address.

Section III: Implications for economic policy-making

Given the idiosyncratic nature of policy-making, it is difficult to draw general conclusions from any specific period. Nonetheless, the history of the Clinton Administration suggests four lessons for effective economic policy-making: the importance of a unit in the White House tasked with an honest broker role; recurrent pressures that threaten to undermine that role; the impact of personalities and personal relationships on policy-making; and the difficulties of shielding good policy-making from political considerations.

The importance of a White House unit to coordinate economic policy

Senior Clinton Administration officials and others interviewed for this paper almost universally highlighted the importance of an honest broker located within the White House for the effective management of economic policy. Almost all observers believed that the NEC largely fulfilled this role.

The honest broker role entails ensuring that all relevant perspectives are brought to the table and that decisions are not made without the involvement of the most important internal players. The existence of such an entity produces several significant benefits:

- First, it ensures that proposals are "debugged" before decisions are made. As Juster and Lazarus (1997) emphasize, the "initiatives subjected to the coordination process generally fared well and those that were not vetted often failed." Illustrative examples of initiatives in which the NEC played a coordinating role in policy formulation are the 1993 budget package and the "Save Social Security First" policy, both of which were sound economic policy that strengthened the President's political standing. The most important example of a major policy initiative in which the NEC did not play the lead policy coordinating role was the 1994 health care proposal, which ultimately failed. In the absence of a central coordinator, policies are often not properly vetted.

- Second, the existence of an honest broker role helps to minimize turf competition and "end-runs." Cabinet secretaries who participate in the process are reassured that their perspective will be represented while they listen to the perspective of other agencies. They are thus less likely to attempt to go outside the process or to adopt intransigent positions within the process. The absence of an honest broker makes all agencies worried that their perspective will be neglected, encouraging them to engage in a variety of counter-productive internal squabbles to avoid such an outcome. As Robert Reich, who was willing to go outside the process if necessary (as demonstrated by the corporate responsibility debate), stated, "The end runs are very few and far between. I have known the President for 25 years. I could easily call him up on the telephone and chew his ear. I don't think he'd appreciate that if I did that very often, but also there's no reason to do that as long as my views are fairly conveyed to him."[104]

- Third, the honest broker helps to utilize all the resources that are available within the government. For example, as Summers (1999) notes, "today first-rate economists staff departments from Treasury to Labor to Commerce to Justice to the Environmental Protection Agency, and they hold line as well as advisory positions."[105] An honest broker can help to ensure that the knowledge and resources of these economists, as well as other government staff, are injected into Presidential decision-making. In our experience, the NEC sometimes drew upon available resources effectively, and sometimes not. In Social Security, for

[104] Paul Starobin, "The Broker," *National Journal*, April 16, 1994.

example, the policy-making process was substantially enhanced because of the technical assistance provided by Stephen Goss, then the Deputy Chief Actuary at the Social Security Administration.

If an honest broker is important, where should the honest broker be located? We argue that the presumption should be the White House itself. Only a White House entity typically has the requisite access (in both appearance and reality) to the President and other senior officials (including the White House Chief of Staff) to enforce the rules of the game. Furthermore, only a White House entity can represent the interests of the Administration as a whole, rather than the parochial interests of a specific agency.[106] In the corporate responsibility case study, for example, the Treasury Department was one of the parties involved in an interagency dispute over policy. How could the Treasury Department have simultaneously brokered a deal and represented its own position?

In exceptional circumstances, the Treasury Secretary may be able to play the role of coordinating economic policy-making, as George Shultz did under the Nixon Administration's Council on Economic Policy and James Baker did under the Reagan Administration's Economic Policy Council. But those exceptions appear to prove the rule: Shultz had a White House position in addition to serving as Treasury Secretary, he served during an unusual period, and in any case the system broke down after his

[105] Lawrence Summers, "Distinguished Lecture on Economics in Government: Reflections on Managing Global Integration," *Journal of Economic Perspectives* 13 (Spring 1999), page 3.
[106] Roger B. Porter, *Presidential Decision-Making: The Economic Policy Board*, op. cit., page 13.

departure.[107] Similarly, Baker had previously served as White House Chief of Staff, he had an exceptionally good relationship with the President, and the system again broke down after his departure.

The Office of Management and Budget could potentially coordinate economic policy, but we agree with Juster and Lazarus (1997) that “many agency officials tend to view OMB less as a neutral honest broker than as a player preoccupied with trimming the federal budget…A high priority for every agency involves its annual negotiation with OMB over its own budget…if OMB is the interagency policy coordinator, either the agencies or OMB might be tempted to find ways to use the coordinating process to gain leverage in their budget negotiations.”[108] Similarly, a top NEC staffer noted in 1996 that “OMB is perceived as a player with a clear agenda, not an ‘honest broker.’ The NEC has provided a useful forum for development of policy on a broader basis, at a higher level” than an OMB-driven process.[109]

The experience of the Clinton Administration supports the idea that to be effective, the body assigned to coordinate economic policy-making should reside in the

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[107] Shultz himself highlights the potential pitfalls in assigning a coordinating role to a Cabinet member: As he noted in his book with Kenneth Dam, “a single cabinet officer may be made preeminent on a particular issue and be asked to serve as the coordinator for executive branch policy. If that cabinet officer is seen by all to have the confidence of the President, this solution works rather well. But…this solution can create a variety of problems with Congress and with cabinet officers who find that they are in effect reporting to another cabinet officer.” Shultz and Dam, *Economic Policy Behind the Headlines*, op. cit., pages 158-159. Destler (1980) adds: “But while his [Shultz’s] approach might conceivably be replicated by a future treasury secretary with comparable style and substantive competence, he operated in a very unusual period, one in which a Watergate-enveloped president increasingly opted out of policy decisions, making Shultz a sort of deputy president for economic affairs.” Destler, *Making Foreign Economic Policy*, op. cit., pages 220-221.
[108] Kenneth Juster and Simon Lazarus, *Making Economic Policy*, op. cit., page 32.
[109] Ellen Seidman, “The NEC,” Memorandum for Tom O’Donnell, October 7, 1996.

White House. Other analysts have similarly concluded that the coordinating body should, in general, be located within the White House.[110]

Upholding the honest broker role

Establishment of an honest broker in the White House is clearly not sufficient to ensure an effective policy-making process. Indeed, that power may be easily abused. Given the fragility of the trust that is the basis of the role, several key factors may help the honest broker remain both honest and a broker.

<u>President's involvement</u>

First, the President's involvement is essential to establishing the rules of the game for the policy process. Without the President's support, the honest broker is powerless. For example, the Economic Policy Group under President Carter was much less effective than the Economic Policy Board under President Ford or the National Economic Council under President Clinton in large part because the former lacked direct access to the President. As one official noted in an internal memorandum during the Carter Administration, "The most telling criticism of the EPG until now is that there is little direct linkage between EPG activities and President Carter's heavy participation in economic matters." The result, according to Destler (1980), was that the EPG "could not establish itself as the primary decision channel and broker for economic policy, one that

[110] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 227. See also Kenneth Juster and Simon Lazarus, *Making Economic Policy*, op. cit., pages 30-33.

cabinet and subcabinet officials could depend on to get their views to the President."[111] Robert Rubin similarly emphasized in a memorandum to President Clinton at the end of 1993 that the "NEC's effectiveness depends on both the perception and reality of being the mechanism you use for dealing with economic issues, which has worked well during 1993."[112] Subsequent NEC Directors similarly point to the President's support as critical to the NEC role. The President usually upheld the NEC process; the exceptions were rare.

<u>Ethic of an honest broker</u>

Second, those charged with leading the coordinating agency must uphold the ethic of honest broker. Rubin emphasized two important factors in creating that ethic: "inclusion of all appropriate members with respect to each matter being considered" and "full and fair reflection of all views in decision-making and, when decisions are referred to you [the NEC], in all memos and meetings."[113] The NEC was typically regarded as playing fair, and not tilting the process towards one particular outcome.

To maintain its honest broker role, the White House body charged with coordinating economic policy formulation must not allow its own substantive policy recommendations to overshadow the recommendations of other participants in the process. The President must receive the recommendations of all participants in a policy process in an even-handed and objective manner. Since these recommendations are

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[111] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 224.
[112] Robert Rubin, "Year-End Thoughts on the NEC," Memorandum for the President, December 27, 1993.

usually conveyed to the President in decision memoranda, the preparation of these memoranda is an important task for the honest broker. NEC decision memoranda typically included a main body, which crystallized the arguments and the background, and a recommendation section, which summarized the position of each agency. The NEC tried to balance its honest broker role with the experience and insights of its director and staff by presenting the arguments in the main body of the memo and accurately depicting the position of the various agencies in the recommendation section (an honest broker role), but then adding its own recommendation as one of the agencies involved (an advocacy role). In most cases, this addition was not seen as undermining the honest broker role. Rubin argued, "I think you can do both as long as you are excruciatingly careful to make sure your own views do not taint the fairness of the process."[114]

Size of the honest broker agency

Third, the honest broker must not become too large. A smaller staff provides flexibility and precludes taking on too much substantive responsibility, which could undermine the coordination function. By contrast, large staffs tend to "go into business for themselves," making it more difficult to serve as a coordinator.[115] Many observers, for example, believe that the NSC staff has become too large to serve as an effective honest broker in foreign policy.[116]

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[113] Ibid.
[114] Paul Starobin, "The Broker," *National Journal*, April 16, 1994.
[115] I.M. Destler, *Making Foreign Economic Policy*, op. cit., page 214.
[116] Some observers argue that the NSC has become large because the State Department is dysfunctional. The Treasury Department, which is the principal economic agency and staffed with competent professionals, is not.

A relatively lean staff, however, raises the importance of filling each slot. At several points during the NEC's existence, its efficacy was undermined by a simple shortage of staff. The most dramatic gap was the transition between Rubin and Tyson, discussed above. Other staff gaps, although less dramatic, sometimes led to diminished effectiveness within the NEC.[117]

Personality and effectiveness in government

The sections above focus on institutional design. But institutions alone cannot ensure the effective operation of economic policy. Economists and other academics often ignore the role played by specific personalities in policy-making. But in the practice, as opposed to in the theory, of policy-making, personalities can have a major effect on outcomes.

As Shultz and Dam (1998) write, "At any time in any administration there will be a few individuals who have a preeminence transcending their official post. This commanding position depends largely on their perceived influence with the President, though ability, ambition, stamina, and determination also play a role."[118] Larry Summers, for example, exerted more influence early in the Clinton Administration than

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[117] For example, Gene Sperling noted at the beginning of 1997 that the NEC lacked sufficient junior staffers to support the senior staff, and that one senior staff member was responsible for coordinating "Superfund policy, and economic aspects of our energy and environment policies, without any substantive staff backup." Gene Sperling, "NEC Issues," Memorandum for Sylvia Mathews and John Podesta, January 9, 1997. Sperling also identified critical gaps in the international staff in June 1998. Gene Sperling, "NEC staffing on international economics," Memorandum for Erskine Bowles, Sylvia Mathews, and John Podesta, June 3, 1998.

his official post as Undersecretary for International Finance at the Treasury Department would have suggested. Summers quickly dominated the Treasury Department; a CEA spoof on the Treasury Department's organizational chart had Summers occupying every position under the Secretary (a position he later filled).

Summers' ascension illustrates one key aspect of an effective policy-maker: intelligence. But intelligence is generally not sufficient for effectiveness. Instead, most effective economic policy-makers share three other characteristics: The ability to understand and communicate numerous economic concepts, especially to non-economists such as the President; the ability to get along with other policy-makers; and the stamina to work long hours under demanding conditions. Shultz and Dam (1998) emphasize the importance of these factors: "For policy issues involving conceptual analysis, or for policy implementation where steadfastness of purpose and ability to compromise in the face of unforeseen obstacles are crucial, what counts more than the structure of the coordinating mechanism are the personal qualities of the key officials and their ability to work together. No substitute for individual ability can be found in organizational diagrams. Team spirit may be regarded by academics and pundits as a hackneyed concept, but nothing is more important for effective policy-making, especially in difficult periods."[119] The NEC similarly recognized the role of some of these characteristics, putting a premium on collegiality and teamwork, analytic skills, and stamina in its hiring.[120]

[118] George P. Shultz and Kenneth W. Dam, *Economic Policy Beyond the Headlines*, op. cit., page 11.
[119] George P. Shultz and Kenneth W. Dam, *Economic Policy Beyond the Headlines*, op. cit., page 159.

Ability to communicate effectively

Effective economic policy-makers must be able to explain economic concepts to non-economists, including key players in the White House and the President himself. Many academics ignore the importance of this skill in a top government job, especially at the CEA. The initial controversy surrounding the appointment of Laura Tyson to the Chair of the CEA highlights this flawed view. According to many outside observers, she proved to be a particularly effective CEA Chair, disproving her critics in part because of her communications skills and ability to deal with others.[121]

Indeed, an informal survey of opinions regarding the effectiveness of economists within the government suggests that teaching ability and perhaps applied research ability may be better predictors than pure theoretical ability of a policy-maker's success. Four factors explain this relationship. First, teaching involves some of the same communications skills required in the top levels of government: the ability to explain complicated issues, to "connect" to the audience, and to think on one's feet. Second, good teachers often rely on a broad understanding of and intuition for basic economic principles, which are essential in policy.[122] Third, applied research forces the analyst to confront the messy reality of limited data, imperfect assumptions, and the need to devise innovative approaches to new problems. Many of these skills are also important in

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[120] Paul Starobin, "The Broker," *National Journal*, April 16, 1994.
[121] I.M. Destler, *The National Economic Council*, op. cit., page 49.
[122] As one former Chairman of the CEA has written, the economic adviser "must arrive at conclusions relevant to his local and temporal limits, and he gets little help in that from the body of economics in the journal mill. Generally, he must 'roll his own' conclusions from his observations and experience." Herbert Stein, *On the Other Hand: Essays on Economics, Economists, and Politics* (American Enterprise Institute Press: Washington, 1995), page 77.

government. Finally, theorists are often trained to examine the exceptional and unusual. That training could actually be counter-productive in a policy setting. As Francis Edgeworth is reputed to have said about Alfred Marshall's discovery of a Giffen good: "Only a very clever man would discover that exceptional case; only a very foolish man would take it as the basis of a rule for general practice."

Ability to get along with other policy-makers

Another crucial aspect of personality is the ability to get along with other policy-makers. Personal relationships are often essential to overcoming the tensions and bureaucratic infighting that are common at the top levels of government. Many effective policy-makers emphasize the role played by their personal relationships with other members of the team. For example, Carl Kaysen, one of Kennedy's top economics staffers, emphasizes the personal relationships among Kennedy's economics team, including Walter Heller, James Tobin, Kermit Gordon, George Ball, and Robert Roosa.[123] The fact that Robert Rubin, Bo Cutter, Gene Sperling, and Sylvia Mathews developed "easy and effective informal relationships" bolstered the role of the NEC in the early years.[124] Similarly, the international deputies grew to know one another during the first Clinton Administration through regular meetings; "the resulting bilateral relationships also made it easy for individual deputies to 'pick up the phone' and settle lower-level disputes between agencies."[125] As Dam and Shultz (1998) emphasize, "Whoever the key

[123] Ivo Daalder and I.M. Destler, *The National Security Council Project*, op. cit.
[124] See I.M. Destler, *The National Economic Council: A Work in Progress*, op. cit., page 62, on the personal relationships within the NEC and between NEC officials and others.
[125] See I.M. Destler, *The National Economic Council: A Work in Progress*, op. cit., page 28.

individuals may be and whatever their talents, good personal relationships among them, though far from assuring desirable outcomes, certainly help to bring them about."[126] As Daniel Tarullo, the leading international official on the NEC for two years, stated, "You can't overestimate personal relationships, because you need to integrate personalities to integrate policies."[127]

<u>Stamina</u>

A final factor important to success within government is simply stamina. Inside the Executive Office and at the top levels of the agencies, policy-makers are often called upon to perform a wide variety of tasks. At the NEC, for example, Gene Sperling was renowned for working 100 hours or more per week. Sperling was an outlier, but senior policy-makers would have difficulty in fulfilling their professional obligations in less than 70 or so hours per week. The long hours take a toll on professional performance and personal lives. As Birnbaum (1996) argues, "Work in the White House is nonstop. It consumes almost every waking hour. Family life falls by the wayside…A twelve-hour day is a short one. Fourteen and even eighteen hours are more common…With little time to think, and barely enough time to act, mistakes are made often."[128] Since tight deadlines make those long weeks all the more stressful, many leave the government feeling burned out. It is said that in government, the urgent has a way of preempting the important. A more accurate statement is that urgent demands are a way of life. For

[126] George P. Shultz and Kenneth W. Dam, *Economic Policy Beyond the Headlines*, op. cit., page 12.
[127] Bruce Stokes, "Global Coordinator," *National Journal*, March 3, 2001, page 617.
[128] Jeffrey Birnbaum, *Madhouse: The Private Turmoil of Working for the President* (Random House: New York, 1996), page 6.

example, in 1997, the economic team had to grapple with the budget agreement, climate change, Social Security reform, and Most Favored Nation status for China, all of which were major issues. These competing demands may explain the delays in the Administration's efforts to obtain fast track authority that year.

Difficulty of insulating policy from politics

Finally, the above case studies highlight the difficulties of separating politics from policy. Analysts sometimes propose such a dichotomy, but the case studies emphasize the complex ways in which politics and policy interact. As Robert Rubin recently wrote in a slightly different context, "…one of the most important lessons I learned during my years in government is that, with economic change, the politics are as important as the policy. If you do not get the politics right, the policy will not happen."[129]

Policy-makers who attempt to ignore the political environment are likely to become irrelevant quickly. As Charles Schultze warned, "The CEA chairman and members cannot be effective if they are seen as political eunuchs, with little understanding of the political stakes involved."[130] A *New York Times* article noted that Laura Tyson was an effective CEA chair because "like most Presidential economic

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[129] Robert Rubin, "Ex-Im Bank and International Economic Leadership," in Gary Hufbauer and Rita Rodriguez, *The Ex-Im Bank in the 21st Century: A New Approach* (Institute for International Economics: New York, 2001), page 38.
[130] Charles M. Schultze, "The CEA: An Inside Voice for Mainstream Economics," *Journal of Economic Perspectives*, Summer 1996.

advisers," she "learned to read the political signals and then back off, or compromise, or enlist just the right political allies."[131]

To be sure, sometimes politics can be given undue weight. The college tax credit may be a case in point. For example, Joseph Stiglitz laments that in White House policy discussions, "it was not only that bad arguments seemed to drive out good, but good economists, responding to implicit incentives, adopted bad arguments to win their battles. In a process of cognitive dissonance reduction, possibly combined with some intellectual atrophy, sometimes good economists even seemed to come to believe their own specious arguments."[132]

It is important for economic policy-makers to recognize that the influence of politics and political advisers varies over time, mostly in response to the electoral cycle but often in response to other factors as well.

Conclusion

One reason for the Clinton Administration's success in economic policy-making was the coordinated approach that characterized the economic team. Public disputes were rare, and policy-makers trusted the process to present their views fairly to the President. Trust encouraged collegiality and discouraged efforts by frustrated participants to appeal to the President or the press for policy validation. In our opinion,

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[131] Louis Uchitelle, "The Economics of Intervention," *New York Times*, May 31, 1998, sec. 3, page 1.
[132] Joseph Stiglitz, "Private Uses of Public Interests," *Journal of Economic Perspectives*, Spring 1998.

President Clinton was correct in arguing that no future President will be able to govern effectively without an NEC. As Krueger (2000) adds, "The National Economic Council provides a good model for future White Houses."[133] The future evolution of the NEC, however, also entails dangers: The institution could grow too large to fulfill its coordinating mission, and it could supplant other important sources of economic advice, especially the CEA.

After significant debate, President George W. Bush decided to perpetuate the NEC and appointed Larry Lindsey as Director. That decision reflects some of the lessons presented here. A central organizing body located in the White House is often necessary for effective economic policy-making. It is not sufficient, however. For the Bush NEC to succeed, it must maintain the ethos of an honest broker, enjoy the support of the President, be staffed by people without sharp elbows, and be wary of the challenges of an evolving institution.

[133] Alan Krueger, "Honest Brokers Separate Policy from Sausage for the White House," *New York Times*, November 9, 2000, section C, page 2.

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