Government-Business Relations in the United States

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Introduction

The beginning of a new century coupled with the advent of a new administration mark an appropriate time to examine the contours of government and business in the United States. At a time when globalization seems to press forward relentlessly on a host of fronts, it is worth considering the central features of government and business and the nature of their relationship, and to assess their strengths and limitations.

This brief survey has the modest aim of identifying a number of elements of both continuity and change in government and business and of examining some of the effects they have on the pattern of policies that emerge.

This paper focuses almost exclusively on the United States. The accompanying paper for this session focuses primarily on developments in Europe. The accompanying paper argues that in recent years much convergence has occurred with variations lessening among countries in the European Union and Europe as a whole moving closer to the U.S. model. That conclusion, in my view, is essentially correct.

The contribution this paper seeks to make is to consider some developments within the U.S. both with respect to the course of U.S. economic policies and with regard to the processes by which those policies are developed. Understanding these trends is of value in considering the context in which economic relations between the U.S. and Europe will proceed. Covering a good deal of ground in a short space will not permit certain refinements or to illuminate many nuances, but our primary purpose is to look at the forest rather than the trees.

I. Characteristics of the American Polity

Among the many characteristics of government and business in the United States several have persisted with remarkable tenacity through wars, recessions, and the transformation to a highly diversified industrial economy from a largely agrarian one two centuries ago.

- A pattern of private ownership of capital with little public enterprise;
- A tendency to achieve public purposes through regulation rather than governmental ownership;
- A preference for markets and resistance to central planning;
- Relatively aggressive antitrust policies that have limited business concentrations;
- An attachment to openness and due process and a tendency to resolve many issues through judicial means;
- Widely distributed power between levels of government and within each level of government;
• A stable two party system in which power is genuinely shared;

• A highly differentiated business community that includes a relatively large number of umbrella business organizations, a host of national associations and trade organizations, and much representation by corporations individually and collectively in the process of shaping public policies; and nonetheless

• Remarkable stability with respect to the economic, legal, and institutional framework.

This list is suggestive, not comprehensive, but does convey a sense for the context in which government and business interact with one another and for the thrust of public policies in the U.S.

Recent Developments

Five recent developments have largely tended to accentuate these characteristics.

**Increasingly distributed power.** First, the tendency toward dividing and distributing power, long characteristic of the American political system has increased in recent years. The proliferation of congressional subcommittees; the growing independence of individual members of Congress who rely increasingly on personal rather than party organizations for election; the growth of additional legislative staff capabilities, individually through dramatically larger personal staff, and institutionally through the growth of committee staff and the establishment of new entities such as the Congressional Budget Office (created by the Budget and Impoundment Control Act of 1974); have made the Congress less dependent on the executive for information and have altered the nature of executive-legislative negotiations.

Congress has a greater capacity to pursue its interest in micromanaging executive departments and agencies and has shown a preference for more detailed legislation granting the executive less discretion. Within Congress, members have acted in ways that greatly prolong the process of appointments to executive and judicial branch positions. Likewise, members of both major political parties utilize much more frequently, or threaten to use, parliamentary devices, such as the filibuster in the Senate, which effectively require super-majorities to pass legislation.

**The rise of divided government.** Second, a period largely of unified government (the same political party in control of the executive and legislative branches of government) has given way to a period largely of divided government. During the first seven decades of the twentieth century, unified government was the norm for 56 of those 70 years, 80 percent of the time. Since 1969, voters have selected the President from one party and a majority from the other major political party in one or both houses of the Congress for all but six of the last 33 years. Divided government has become the norm, existing more than 80 percent of the time during the past three decades.
The thickening and diversity of organized interests. Third, a new surge in the number of organized interests has occurred. The trade and professional groups that dominated the interest group landscape four decades ago has been supplemented by a host of non-profit and public interest organizations active in lobbying government. Gathering accurate data on this phenomenon is not easy and a variety of researchers have produced varying estimates but the direction and magnitude are unmistakable.

Frank Baumgartner and Beth Leech, among the most careful of these scholars, found that 39 percent of the 5,843 associations listed in 1959 in the Encyclopedia of Associations were trade or business organizations. By 1995 the number of associations had grown to 23,298 but the share that were trade or business associations had fallen to 18 percent. Indeed, the creation of some of the best-known business organizations, such as the Business Roundtable in the early 1970s, came largely in response to the proliferation of so-called public interest groups aggressively pursuing competing agendas. Businesses and trade associations must now share the public policy playing field with many more participants.

A proliferation of research institutions and "think-tanks" has supplemented the growth and increasing diversity of organized interests. Moreover, many of these think tanks devote much of their attention to generating and disseminating ideas primarily designed not to influence scholarly debate but to shape current governmental deliberations. In short, the arena in which public policies are contested and in which government and business interact is more thickly settled and is arguably richer with a host of ideas and analyses competing for the attention of policy makers.

Greater openness and transparency. Fourth, the traditional U.S. emphasis on openness and transparency has reached new levels. Recent years have witnessed the adoption and greater use of devices designed to illuminate what is occurring inside government and procedures to involve individuals and organizations outside of government more fully in shaping public policies.

Media organizations, interest groups, and individuals actively utilize the Federal Register Act, the Administrative Procedure Act, the Freedom of Information Act, the Government in the Sunshine Act, the Federal Advisory Committee Act, the Negotiated Rulemaking Act, the Regulatory Flexibility Act, the Small Business Regulatory Enforcement Fairness Act, and the Congressional Review Act not simply to find out what is going on inside government but to actively advance their interests. A list of these acts and a brief description of their provisions is found at Appendix A.

Some have referred to this phenomenon as hyperdemocracy as U.S. governmental institutions have sought to become more accessible and responsive. As late as 1972, 40 percent of congressional committee meetings were closed to the public. By the start of the 104th Congress, House Republicans passed a rule that all committee and subcommittee meetings must

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be open unless it would pose a threat to national security. Both Houses of Congress now televise their proceedings and the twenty four hour news cycle has become a way of life.

**The legitimacy paradox.** Finally, despite a host of measures providing greater openness and transparency, and the proliferation of opinion polls and focus groups used by elected officials to ascertain the public mood, most Americans remain skeptical about the distribution of power and influence in Washington. The more seemingly responsive the system has become the less credibility it seems to possess.

According to a recent Harris poll, large majorities of the public believe that big companies (86%), political action committees (PACs) (83%), the news media (77%), and political lobbyists (71%) have too much power and influence in Washington. At the same time, the overwhelming majority of those polled believe that small business (88%) and public opinion (73%) have too little power and influence in Washington.

These results have remained remarkably consistent since the Harris organization started asking this series of questions about the perceived "power of different groups in influencing government policy, politicians, and policy makers in Washington" in 1994.

In short, there appears to be a widespread public perception that big business exercises disproportionate influence largely through campaign finance and successful lobbying. Much of this influence is viewed as tied to the role of money in politics. The argument consists of two basic propositions. Money in the form of campaign contributions is considered necessary for access in the political process. Access is considered central to the exercise of effective influence.

Let us now turn from this brief outline of some defining characteristics and recent trends in how government operates and its relationship to business to the general contours of U.S. economic policy in recent decades. Other papers at this conference will consider specific policy arenas. Our purpose in this brief survey is to look at monetary policy, fiscal policy, regulatory policy, and industrial policy.

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2 Hugh Heclo has aptly described this phenomenon in his essay "Presidential Power and Public Prestige: '...a snarly sort of politics..." Paper prepared for Presidential Power Revisited Conference, Woodrow Wilson Center, June 1996.


II. The Pattern of U.S. Economic Policy

Monetary policy

Monetary policy has proven crucial to U.S. economic performance and deserves much of the credit for the price stability that has held for fully two decades. Indeed, a stable price environment has persisted for so long that it now seems commonplace and is easily taken for granted. Those who remember the 1970s, however, recall two bouts of double-digit inflation in the U.S., one in the middle of the decade, the other at its end.

During the twenty-four months from January 1979 to December 1980 the consumer price index rose by 25 percent, just over 1 percent per month. Inflationary expectations contributed to an unfavorable investment climate. By December 1980, the month before Ronald Reagan took office, the prime interest rate had risen to 21.5 percent. 5

Monetary policy was in large part responsible for wringing this inflationary surge out of the economy. The imbalances that had developed in the economy required correction. A soft landing proved impossible to engineer and the 1981-82 recession pushed unemployment over 10 percent. Since 1982, however, the price level, as measured by the CPI-U has generally remained in low single-digits.

The principal architects of this remarkable performance, the Board of Governors of the Federal Reserve System, have generally eschewed a rule based approach to establishing policy and instead have shown a willingness, as in 1991, to resist frequent and aggressive changes in rates or, as in the period since January 2001, to adopt a much more active posture with eleven cuts in the federal funds rate in a little over one year.

Fiscal policy

The story of fiscal policy is at once complicated and simple. It is complicated in that the nuances of U.S. fiscal policy are many and the process by which fiscal policy decisions are reached is a world of its own. For our purposes, however, certain basic trends loom large.

First, federal outlays as a share of gross domestic product have shown much stability ranging during the last forty years from a low of 17.2 percent in 1965 to a high of 23.6 percent in 1983, most of the time in the 20-22 percent range. Federal expenditures fell below 20.0 percent of GDP in 1998, the first time since 1974. 6

Second, this stability in overall federal outlays masks substantial variations in the


6 Budget of the United States Government, Historical Tables, Fiscal Year 2000, p. 21.
distribution of spending including significant shifts in spending on defense and international programs, domestic discretionary programs, and mandatory spending programs (so-called entitlement programs -- social security, Medicare, Medicaid, etc. -- and net interest payments).

In 1963, more than 70 percent of federal spending was discretionary (with more than half of total federal spending devoted to defense). Less than seven percent went for net interest payments, and less than a quarter of all federal spending was devoted to entitlement programs. During the decade and a half starting in 1965, entitlement spending increased at a compound growth rate adjusted for inflation of more than 9 percent a year. The adoption of new entitlement programs (such as Medicare and Medicaid in the Social Security Act Amendments of 1965) and the expansion of existing entitlement programs was accompanied by sharp reductions in discretionary spending on defense which fell nearly 4 percent of GDP between 1962 and 1980.

Mandatory spending programs in the U.S. provide policy makers less flexibility in that they consist of a defined set of beneficiaries, a defined set of benefits, and the stipulation "such sums shall be spent" to meet these obligations. In short, spending on such programs is driven not simply by changes in the definitions of beneficiaries and the benefit levels established by law but also by demographic trends. The largest of these mandatory spending programs -- social security and Medicare -- are targeted to the elderly. The increase in longevity and the dramatic expansion of available medical care due to technological advances has significantly expanded outlays for these programs.

Another factor contributing to the rise of mandatory spending was the decision in the early 1970s to index many of these programs. In 1970 less than 3 percent of the Federal spending was subject to indexing. By 1980 that percentage had increased more than ten fold.

The crunch hit in the early 1980s. The inflationary surge (two years of back-to-back double-digit inflation) contributed to a 17 percent increase in federal spending in 1980. At the same time, inflation, along with a progressive personal income tax with 14 marginal tax rates ranging from 14 percent to 70 percent, pushed taxpayers into higher tax brackets established in nominal dollars.

The Economic Recovery Tax Act of 1981 and the Omnibus Budget Reconciliation Act of 1981 sought to restrain the rate of growth of both federal revenues and federal spending. The accounts of fiscal and monetary policy during this pivotal period vary widely in assigning responsibility and motives. Doing so is beyond the scope of this paper.

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For our purposes, it is sufficient to note some features on which most participants and scholars agree. First, the Reagan plan was premised on a set of optimistic assumptions: (1) the Federal Reserve would successfully engineer a gradual reduction in the rate of growth of the money supply sufficient to bring down inflation without pushing the economy into recession; (2) the Congress would enact with few adjustments the across the board individual income tax marginal rate reductions and the accelerated cost recovery system for investment outlined in the President’s proposal; and (3) the Congress would enact the restraints in the rate of growth of federal spending outlined in the administration's budget. In the wake of a decisive election victory new administrations often view the future with considerable optimism.

The course of policy turned out very differently. The necessary monetary restraint occurred more quickly and sharply than expected contributing to a steep recession in late 1981. The Congress made substantial additions to the Economic Recovery Tax Act, ornaments on the Christmas tree as one observer noted. Moreover, the legislative process added the single most significant provision - indexing the rate brackets, personal exemptions, etc. These had the effect of considerably raising the short-term and long-term revenue implications of the bill. Finally, the hope for restraints in the growth of federal spending failed to materialize, in part because of an increase in spending on defense. In order to get the spending increases he wanted, Ronald Reagan could not secure in 1981 the domestic discretionary spending restraints he sought.

The cumulative effect of these three factors produced a gaping budget deficit that tended to dominate fiscal policy for the next two decades. But perhaps what is most instructive is what happened in the wake of the events of the summer of 1981. Taking a longer view, the response of U.S. policy makers was to attend to the difficult and often contentious task of persistently working away at the challenge of balancing the federal budget.

The effort proceeded in a series of installments -- the 1982 “Gang of Seventeen” exercise that led to the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Omnibus Reconciliation Act of 1982; the 1984 Rose Garden compromise; the 1987 deficit reduction package in the wake of the October stock market crash; the 1990 budget agreement, the single largest installment measured in constant dollars, that secured discretionary spending budget caps and a paygo system in exchange for increased revenues; the Omnibus Reconciliation Act of 1993 that sharply increased taxes while reducing defense spending; and the 1997 deficit reduction act.

The persistence of the deficit reduction effort is impressive in and of itself. All but the 1993 Act occurred during a time of divided government and were negotiated on a bipartisan basis, often the result of intense budget summits. The provisions generally included both expenditure restraints and revenue increases with the overwhelming share of expenditure restraints falling on defense and domestic discretionary programs. The deficit reduction "packages" were generally of sufficient size that the numbers could be reached by relying heavily on discretionary spending programs and less on mandatory spending programs.

On the revenue side of the budget, the top marginal rate of 70 percent was reduced to 50 percent in 1981 to 28 percent in the 1986 Tax Reform Act, and then subsequently increased to 33 percent and ultimately to 39.6 percent in 1993. Efforts during this period by business to
eliminate the double taxation of corporate dividends and to move toward a more consumption
based income tax failed.

Throughout these deficit reduction efforts, indexing, which was greatly expanded on the
expenditure side of the budget in 1972 and introduced on the revenue side of the budget in 1981,
has remained intact.

**Regulatory Policy**

Four major developments have characterized regulatory policy over the past three
decades.

**Social Regulation.** The onset of the 1970s was accompanied by the creation of a host of
social regulatory agencies and an avalanche of new statutes designed to improve safety, health,
and the environment. The acronyms for these new entities, the Environmental Protection
Agency (EPA), the Occupation Safety and Health Administration (OSHA), the Consumer
Product Safety Commission (CPSC), the National Highway Traffic Safety Administration
(NHTSA), and the Nuclear Regulatory Commission (NRC) soon became well known and their
activities produced widely divergent reactions among their champions and critics.

The claims made by their initial proponents were often grandiose; the criticisms by their
initial opponents were frequently scathing. Success in the early years was typically measured by
enforcement actions and an adversarial relationship often marked by a command and control
approach coupled with judicial confrontations created much tension between the regulators and
the regulated.

Despite many disputes over means and methods, however, the fundamental objective of
devoting considerable resources to improving health, safety, and the environment has remained
in place. Most of the initial statutes have been extended and strengthened. The nation's health,
safety, and environment have all shown marked improvement. What was once controversial
with respect to objectives now enjoys broad bipartisan support. The central battles eventually
turned into ones involving primarily means rather than ends.

**Economic Regulation.** The past three decades also witnessed a second revolution, this
one in economic regulation stimulated in part by a growing consensus among economists of the
contribution regulatory reform could make to increased efficiency.\(^8\)

Much of this second wave of enthusiasm for regulatory reform was stimulated by the
sagging performance of the economy in the mid-1970s. This consensus was strikingly bipartisan
as revealed at the September 1974 Summit Conference on Inflation. A group of thirty leading

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J. Stenason and C. Zwick, *The Economics of Competition in the Transport Industries* (Harvard University Press,
economists, many of whom had served in Democratic and Republican administrations, reported to President Ford and congressional leaders:

Our meeting gave strong support for a program to make our economy more productive, more competitive, and more efficient. The coming economic program should contain a set of fundamental reforms that will improve our productivity performance by strengthening competition.

In particular, we first recommend a thorough overhaul of our regulatory policies particularly in the fields of transportation and energy. The regulating agencies should stop imposing policies designed to stop price reduction and to create cartel-like price increases. Rules requiring round-about truckroutes should be ended permanently. Capacity-limiting agreements cutting serves and raising prices should be prohibited.

Second, we should repeal obsolete laws that raise costs and require industries to operate inefficiently. Many laws were adopted in the Depression and should have been taken off the books long ago.

They urged a "comprehensive program of structural reform of our many regulatory policies."\(^9\)

The wave of deregulation efforts begun in the Ford Administration was embraced by his successors and included the primary modes of transportation (airlines, trucking, railroads) except shipping, energy (oil and natural gas), banking, financial services, cable television, telecommunications, electric power, and property and liability insurance.\(^10\)

This bipartisan effort, sustained through half dozen administrations, has shown remarkable staying power and has had a profound influence abroad. This second revolution focused on economic regulation has benefited from proponents as diverse as Senators Edward Kennedy and Phil Gramm. Few efforts to reverse course have emerged; none has mounted a serious challenge.

**Cost-Benefit Analysis, Performance Standards, and Market-Based Methods.** While the objectives of social regulation have enjoyed broad support consistent with the experience in most affluent economies, the regulated (for-profit businesses, non-profit institutions, and governmental bodies) have resisted what they have claimed are ineffective and often inefficient means for achieving those objectives.

In particular, three major ideas have attracted much support and have been embraced

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across a wide spectrum of regulatory activity. The first is the adoption of cost-benefit analysis to guide policy makers in the decision of whether to issue a new regulation or to alter an old one.

The Ford Administration's formal inflation impact statements succeeded by formal economic impact statements set a precedent for requiring regulatory agencies to first analyze and then report on their assessment of the economic costs and benefits associated with new regulations. A quarter of a century of experience with cost-benefit analysis has led to refined estimates and the simple requirement of producing such analysis has had a major impact on the numbers and content of the regulations ultimately adopted.

A second challenge has come in the form of performance standards as preferable to command and control approaches as a means of producing the desired result. Moreover, the adoption of performance standards has enabled the discussion to shift from a highly adversarial relationship between regulatory agencies and the regulated to something occasionally approaching a partnership in how to meet certain objectives.

A third challenge has embraced the notion of market-oriented means of achieving social objectives. Perhaps the best known of these is the emissions trading system adopted as part of the Clean Air Act Amendments of 1990. These measures have "saved" billions of dollars in compliance costs while not retreating from the environmental goals envisioned in the legislation.

Other ideas, championed by business organizations and other regulated entities, such as the concept of a regulatory budget, have, as yet, received a less enthusiastic reception.\footnote{See for example, The Business Roundtable, \textit{Toward Smarter Regulation} (January 1995). Murray Weidenbaum, "Progress in Federal Regulatory Policy, 1980-2000," (Center for the Study of American Business, Contemporary Issues Series 100, May 2000).}

\textbf{Regulatory Oversight.} Finally, the explosion of federal social regulatory activity has generated sustained efforts to reform regulatory processes. These efforts have involved interagency review groups, creating and strengthening an Office of Information and Regulatory Affairs within the Office of Management and Budget to review "major rules," and periodic comprehensive efforts to prune back unnecessary and outdated regulations.\footnote{A useful review of these bipartisan efforts is found in Murray Weidenbaum, "Regulatory Process Reform: From Ford to Clinton," \textit{Regulation} (Winter 1997), pp. 1-7.}

The Congress has also stepped in to assert its authority passing the Congressional Review Act in 1996. The Act authorizes Congress to review major regulations, defined as rules having an annual effect of at least $100 million or having a significant impact on competition, employment, or certain other considerations. Congress can issue a joint resolution disapproving the rule, if it finds the rule objectionable, as it did in early 2001 in overturning the ergonomics rule issued by the Department of Labor during the closing days of the Clinton Administration.
The surge in social regulation that began in the early 1970s and the avalanche of economic deregulation that commenced shortly thereafter have each shown remarkable staying power. In the case of social regulation, however, devices such as cost-benefit analysis, performance standards, and market-based methods such as emissions trading systems have shaped its evolution. Likewise, enhanced accountability both by centralized entities within the executive branch and by the legislative branch have proven durable. At the same time, those subject to regulation have frequently used court challenges to seek to protect themselves from over-zealous regulators who have, in their view, exceeded their statutory mandates.

**Industrial Policy**

Periodically over the last quarter century, U.S. policy makers have engaged in debates over whether there is an appropriate role for selective industrial policies. Interest in such policies has tended to come during times of sub-par economic performance for the economy as a whole, or during periods in which specific industries are undergoing significant adjustments.\(^{13}\)

The enthusiasm for comprehensive industry specific policies has, however, never attracted a large or powerful audience in the U.S. Nonetheless, with much effort, specific industries -- from shoes to steel to semiconductors -- have periodically secured public policies to assist them. Government officials who have responded to these requests for assistance have almost always justified their actions as temporary in nature and in response to "unfair" measures by firms in other countries. Rarely are such actions rhetorically buttressed by arguments other than that the relief is intended to facilitate as quickly as possible a successful adjustment, whereupon the measures will be removed.

**III. Explaining the Pattern of U.S. Economic Policy**

How does one explain the pattern of these policies and what implications does it have for U.S.-European relations? The explanation rests, as does much else in the U.S., on a curious combination of factors.

**Monetary Policy: Genuine Independence**

In examining the conduct of U.S. monetary policy, one is struck by the genuine independence enjoyed by the Board of Governors of the Federal Reserve System. Granted, all are appointed, subject to congressional confirmation, and required to offer public testimony explaining their actions and articulating their assessments and objectives. Yet, the stability of the Federal Reserve and its governors is quite remarkable. Its independence of the executive and

legislative branches is genuine.

Federal Reserve Board members are appointed to 14 year terms with the chairman appointed to a four year term. Five individuals have held the position of Chairman of the Board of Governors of the Federal Reserve System in the last half century, and one of those for only a little over a single year.\textsuperscript{14}

Periodic efforts to bring the Federal Reserve under closer control by the other branches of the government, such as those in the mid-1970s, have invariably floundered. The independence of the Federal Reserve was seriously challenged in the mid-1970s during the U.S.'s first bout with double-digit inflation prompting Federal Reserve Chairman Arthur Burns to seek administration support in the form of threatening a presidential veto of legislation that would compromise the Federal Reserve's independence.\textsuperscript{15} The effort to substantially alter the Federal Reserve’s independence eventually lost steam, although it did produce a more transparent set of internal processes.

The Board of Governors and its Open Market Committee now make the minutes of their deliberations public and available in a shorter period of time. The U.S. has eschewed a rule-based system. In practice, the Fed has much latitude in its conduct of policy. Traditionally, the Chairman of the Board of Governors meets each week for breakfast with the Secretary of the Treasury. There is interchange at the staff level with individuals at the Treasury and the Council of Economic Advisers. The Fed Chairman occasionally meets with the President, but these are generally informal sessions. The Fed chairman is clearly viewed very differently from the President's other economic advisers.

The inability to control monetary policy has occasionally led to great frustration on the part of Presidents and their administrations as in 1990 and 1991. At the same time, the Fed Chairman in his discussions with administration officials has often exercised considerable influence on the conduct of fiscal policy, as in 1993. Likewise, the Federal Reserve has often engaged in very aggressive behavior in seeking to manage interest rates as in 2000 and 2001. The success of monetary policy in keeping inflation under control has understandably strengthened the Federal Reserve Board's claim on independence.

**Fiscal Policy: Bipartisan Negotiation**

The era of divided government (alternating Republican and Democratic administrations

\textsuperscript{14} William McChesney Martin (1951-70) served during the administrations of three Democratic and two Republican presidents. Arthur F. Burns (1970-78) served under a Republican and a Democratic president. G. William Miller's tenure (1978-79) was the briefest by a considerable margin. Paul Volcker (1979-87) was appointed chairman by a Democrat and reappointed chairman by a Republican. Alan Greenspan (1987-present), the current chairman, has likewise been appointed and reappointed by two Republican and one Democratic president.

in the White House; divided government between the executive and legislative branches) has meant that most fiscal policy over the past two decades represents compromises that enjoy considerable bipartisan support. This combination has arguably helped sustain a long period of attention to addressing budget deficits. The constellation of forces and resulting fiscal policy in some sense represents a divided government dividend. The evenly split electorate has forced Democrats and Republicans, congresses and administrations, to accept compromises that pushed policy down a path that eventually turned deficits into surpluses.

At the same time, the process ended up disproportionately protecting mandatory (entitlement) spending due in part to the political strength of the principal beneficiaries of those programs (the elderly) based on their voting strength. Indeed, the U.S. political system over this period has consistently reflected its attentiveness to the perceived voting power of particular demographic cohorts.

The Economic Growth and Tax Reconciliation Relief Act of 2001 is an instructive case study. Signed into law on June 7, 2001, this legislation was the product of intense negotiation between the House and Senate, the administration and the Congress, and engaged the interests of a host of business and other interest groups.

The administration's initial proposal was virtually identical to the provisions outlined during the 2000 election campaign and focused almost exclusively on tax changes that affect individuals (marginal rates, estate and gift taxes, the so-called marriage penalty, the earned-income tax credit, child and family credits, the alternative minimum tax credit as applied to individuals, education savings accounts, and a series of pension and retirement provisions).

During the weeks before the administration submitted its proposal, business organizations and groups met with administration officials eager to persuade them of the merit of supporting an investment tax credit as well as other provisions favorable to businesses, large and small. All these entreaties were politely but firmly rejected.

Business did not fare better when the legislation reached Capitol Hill. Congressional deliberations reduced the total size of the proposed cut from $1.62 trillion to $1.35 trillion (as measured over the following ten years) largely as a result of concerns over the potential of a "vanishing budget surplus." Moreover, other changes needed to secure a measure of bipartisan support for the legislation focused more of the reductions to benefit low-income taxpayers while increasing some of the incentives for retirement savings. The House adopted the conference report on the bill (Rept 107-84) by a 240-154 vote. The Senate cleared the measure 58-33.16

Three features are striking in explaining the successful passage of the legislation and its particular provisions. First, the impetus for the tax cut came from a newly elected administration that had made the legislation the centerpiece of its domestic agenda and was prepared to expend

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much political capital to secure its passage. To strengthen its negotiating position, the
administration's original proposal was virtually identical to what Governor Bush as a candidate
had outlined during the 2000 presidential campaign. Keeping the proposal "clean" helped to
buttress its claim that the legislation was fulfilling a repeatedly articulated campaign promise.

Second, mindful of the feeding frenzy that had occurred during deliberations on the
Economic Recovery Tax Act of 1981, the administration steadfastly and successfully opposed
permitting the legislation to become a Christmas tree. This came as a disappointment to many
in the business community who had viewed passage of a major tax reduction bill as an
opportunity to attach ornaments or provisions favorable to stimulating additional investment.
By keeping the Economic Growth and Tax Reconciliation Relief Act of 2001 relatively clean,
and agreeing to a modest reduction in the size of its initial proposal in light of concerns over its
budgetary effects, the administration was able to secure considerable bipartisan support for the
measure.

Third, the measure succeeded in the form it did in part because its passage occurred at a
time of maximum political leverage for the administration. The deliberations and negotiations
took place during a rare four-month period when the Republican Party had at least nominal
control of the White House and both houses of the Congress. This was during the weeks before
Vermont Senator James Jeffords announced on May 24, 2001, that he was changing his party
affiliation to Independent and for voting purposes was joining the Democratic Party caucus.
Jefford's action gave effective control of the Senate procedurally to the Democratic Party
reinstituting the pattern of divided government that has characterized the relationship between
the executive and legislative branches for most of the past three decades. Had the administration
not moved swiftly to enact the legislation before the switch in power, the negotiations and
resulting bill would have almost certainly taken a different form.

Industrial Policy: The Case Steel

Few economic policy decisions in recent months generated more interest or reaction in
the United States and Europe than President Bush's March 5, 2002, announcement of a series of
actions including tariffs of up to 30 percent on various types of steel imported into the United
States. The decision was the subject of intense deliberations within the administration, and
flowed from a Section 201 petition filed the previous year. A host of organizations from the Iron
and Steel Institute, the steel industry's major association, to the Emergency Committee for
American Trade, a group representing companies that buy steel, assailed administration officials
with reams of analysis.

The decision and laboriously crafted package sought to allay the concerns of various

17 For a careful and balanced account of the passage of the Economic Recovery Tax Act of 1981 see Don Fullerton,

18 Jeffords agreed to delay the formal transfer of power until after final passage of the Economic Growth and Tax
Reconciliation Relief Act, given that the negotiations had successfully concluded before he announced his switch.
trading partners and consumers while providing the steel industry with "breathing room" to adjust and adapt. The tariffs, which phase out over three years, include numerous exemptions for product categories and groups of countries. The steel industry received no assistance on billions of dollars of unfunded retiree health benefits, what came to be known as the industry's "legacy costs."

Many observers attributed campaign commitments and statements made in Ohio, Pennsylvania, and West Virginia during the 2000 campaign with playing a significant role. Other commentators drew attention to the one vote margin in the House of Representatives in passing the President's fast-track negotiating authority request and the need for further House action on a subsequent conference committee report should fast track legislation pass the U.S. Senate.

Divining what weight one should accord in the steel decision to the wide range of economic, foreign policy, and political factors is difficult to assess. What is clear is that the final decision represented a careful balancing of forces. It is also clear that the large number of parties (domestic and foreign) who sought to influence policymakers enjoyed almost unlimited access to them during the weeks leading up to the decision.

IV. Conclusions

For purposes of the relationship of the United States and Europe it is worth noting briefly several features of the U.S. system and the interaction between business and government.

First, the U.S. system accords a prominent role for government in shaping fiscal and monetary policy and in achieving certain social objectives, often through the device of regulation rather than through public expenditures. Government is seen as responsible for creating a climate in which competition, entrepreneurship and innovation will thrive, one characterized by flexible labor markets as well as much corporate restructuring.

Second, much U.S. economic policy is conservative in the sense that it does not frequently take large departures. Most policy is incremental in nature, the product of much deliberation in a system that is remarkably open, transparent, and penetrable by organizations outside of government.

Third, there is considerable continuity of policy over time and across administrations. The general thrust of monetary, fiscal, regulatory, and trade policies has included many common threads for more than two decades, in part the product of parity between the two major political parties. Yet in the midst of these consistent strains individual policies are vigorously debated and contested.

Fourth, as a result, comprehensive and coherent policies in the U.S. system are difficult to achieve. The failure of the President to secure fast track trade negotiating authority since
Congress last granted it in 1991 is not merely frustrating for executive branch trade officials but for U.S trading partners as well. The need for patience and persistence on the part of those working inside the U.S. government as well as on the part of those dealing with the U.S. government is great indeed.
Appendix A

The **Federal Register Act** (44 U.S.C. Chapter 15) requires that agencies make public a variety of information through the Federal Register including:

- Presidential proclamations and executive orders
- Documents required by acts of Congress
- Regulations under development in their various stages
- Public meetings to be held regarding aspects of agency regulatory and administrative business
- Notices of other administrative and regulatory actions

The **Administrative Procedure Act** (5 U.S.C. Subchapter II) provides a basic foundation for public accountability by the federal government. It requires that agencies engage the public in rule making activities by:

- Publishing proposed rule makings in the Federal Register
- Providing opportunity for public comment, through written and oral comment
- Publishing a supplemental proposal in the event of material changes in a proposal as a result of public comments or other new information
- Publishing the final rule with a response to the public comments and an explanation of the agency's rationale for its course of action

The **Freedom of Information Act** (5 U.S.C. 552 et seq.) provides the public basic rights of access to information about actions taken and decisions made by federal entities. It requires agencies to:

- Publish in the Federal Register information about how to obtain information from the agency, agency operations, agency procedures, and agency rules.
- Publish final decisions, order, adjudicating decisions, and policy interpretations
- Provide records in timely response to public requests, except in such cases as national security, purely internal personnel matters, specific statutory exemptions, and law enforcement matters

The **Government in the Sunshine Act** (5 U.S.C. 552b) establishes the expectation that agency business in general will be conducted in public rather than behind closed doors. It:

- Makes agency meetings open to the public except in cases such as national security and other exceptions, in which case agency membership votes to close the meeting
- Requires agencies to publish notice of meetings -- whether open or voted to be closed
- For closed meetings, it requires the agency to make a transcript or minutes available, at cost, to the public, and to maintain in its records a complete transcript for a period of time after the meeting.
• Provides for judicial review of agency actions pursuant to the act.

The Federal Advisory Committee Act (5 U.S.C. Appendix 2) provides a structure for commissioning boards to advise the executive branch on aspects of governance. It:

• Formalizes the formation of advisory committees to ensure transparency of membership, purpose, staffing, and operations
• Directs that advisory committee meetings be open to the public and detailed minutes be kept and made available to the public

The Negotiated Rulemaking Act (5 U.S.C. 561 et seq.) encourages agencies to engage interested parties jointly and proactively in the rulemaking process to obtain meaningful input earlier and to better inform the rulemaking process. It:

• Establishes procedures for negotiating a rule with a committee comprised of interested parties
• Directs such committees to provide a report explaining their consensus recommendation, or their disagreement, to the agency.

The Regulatory Flexibility Act (5 U.S.C. 601 et seq.) requires agencies to examine the impacts of proposed rulemaking on small entities. It:

• Requires agencies to design rules so as to minimize adverse impacts on small entities
• Directs agencies to regularly review existing regulations for their relevance and for opportunities to improve their design, focus, and effect

The Small Business Regulatory Enforcement Fairness Act (5 U.S.C. 801 et seq.) amended the Regulatory Flexibility Act by requiring agencies such as the Environmental Protection Agency and the Occupational Safety and Health Administration to convene a small business advocacy review panel prior to proposing any rule that would have a significant economic impact on a substantial number of small entities.

The Congressional Review Act (5 U.S.C. 251 et seq.) provides for congressional review of major regulations issued by federal agencies. Major is defined as rules having an annual effect of at least $100 million or having a significant impact on competition, employment, or certain other considerations. It authorizes Congress to issue a joint resolution disapproving the rule, if it finds the rule objectionable.