VICIOUS CYCLE

Presidential Decision Making in the American Political Economy

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Preface

Simply stated, this book is about understanding why presidents make the decisions that they do when working within a critical policy-making domain, the American political economy. I provide a theoretical framework for broadly explaining the tradeoffs that presidents accept in pursuing partisan and electoral objectives while simultaneously seeking to soundly manage our nation's macroeconomy. In doing so, I suggest that a president's ability to respond to political incentives in the policy-making arena is powerfully shaped by the institutional imperatives each one faces as America's chief macroeconomic policy maker.

The manner in which this *institutional responsibility* has developed in the White House over the course of the past century provides important clues as to why presidents are constrained in their ability to fully pursue their political objectives once in office. I argue that, when viewed through the filter of a president's institutional responsibility for sound macroeconomic management, these political objectives are recast in ways that lead to presidential decision making that is not easily explained by existing models of presidential behavior. Presidents must reconcile the dictates of their institutional position with their roles as party leader and electorally driven political actor; it is the political tradeoffs implicit in these multiple presidential roles that *Vicious Cycle* attempts to explain.

The book has a secondary purpose. It represents an attempt to open a dialogue between scholars working in the field of political economy and scholars engaged in research in presidential studies. These fields have a wealth of insights to offer each other, but as I note in subsequent chapters, they have thus far failed to realize the full potential for each to complement the research agenda of the other. I realize that this enterprise, in particular, runs the risk of provoking many while satisfying few, yet I am undaunted in my belief that these disciplines have much to offer each other, if only clearer paths of rapprochement can be defined. My hope is that this study will clear away some of the brush from a path or two, on the way to more fruitful intellectual exchanges in the future.

To this end, part I of the book establishes the broad theoretical and empirical parameters of the study in order to better view the conditional nature of presidential decision making through the lens of institutional responsibility for effective macroeconomic management. Chapter 1 introduces the theoretical parameters of presidential decision making in the American political economy. Chapter 2 takes a close look at the first half of the twentieth century in order to uncover the origins of the stable institutional framework within which presidents have pursued their partisan and electoral macroeconomic objectives in the postwar world. The chapter does so through a consideration of competing explanations for institutional development in the presidency. The chapter ultimately highlights the role of ideas as a catalyst for the promulgation of new institutional authority for presidential decision making. Models of positive political economy all assume a stable macroeconomic policy-making environment in which a president from either party may pursue preferred targets for inflation and unemployment. Chapter 2 highlights the underlying institutional dynamics of this policy-making environment and, in doing so, suggests why competing explanations are insufficient for understanding its institutional evolution.

Chapter 3 proceeds with the construction and estimation of an econometric model designed to capture tradeoffs in partisanship and institutional responsibility. Building upon the book's consideration of current econometric models in positive political economy, the chapter offers a direct test of presidential decision making rather than relying on indirect inferences from movement in the model's other parameters. In essence, this approach opens the black box of presidential decision making to close inspection. From archival sources I construct a dependent variable that directly measures the decisions presidents make on the macroeconomy. The resultant time-series (1953–96) is then used to estimate a model of presidential decision making in the American political economy. I use a variety of data on the institutional, electoral, and macroeconomic environments in which presidents operate in order to estimate a probabilistic model of how a president's institutional responsibility shapes tradeoffs in the pursuit of partisan and electoral incentives, under varying political scenarios.

Part II tests the theoretical insights on institutional responsibility and conditional decision making derived from the aggregate models in chapter 3 through a close consideration of the postwar archival record on presidential management of the macroeconomy. In order to highlight these concepts in the historical record, the case studies proceed in two phases; this plan allows for a separate consideration of the impact of partisan and electoral incentives on presidential decision making. The choice of case studies on Presidents Eisenhower, Johnson, Carter, and Reagan offers variation across several analytic dimensions—temporal, partisan, electoral, and institutional. Chapters 4 and 5 look at how the imperatives of institutional responsibility interact with the incentive for partisan decision making faced by presidents in the macroeconomic policy-making environment. The four case studies analyze the first term of each president (when partisan and electoral incentives are strongest) in order to better explain how and when presidential behavior shifts from the expected partisan behavior. In each case, the archival record speaks with minimal interference from me or from reference to other authors' interpretations of the period under consideration. The primary source documents allow for a first-hand reconstruction of the presidential decision-making episodes under analysis.[1]

After establishing the way in which institutional responsibility mediates response to a partisan incentive for presidential decision making, the book takes a second cut at the four case studies in chapter 6. The goal here is to search the archival record for presidential responses to a political business cycle–style electoral incentive. I trace the election-year macroeconomic decision making of each of the four presidents in order to determine whether any did indeed rapidly expand the macroeconomy without regard to partisanship or institutional responsibility. The presidential intention would be to ride a wave of prosperity and voter approval to reelection.

Finally, the broader message with which the book concludes in chapter 7 is that the shift from party accountability to institutional accountability has been driven in part by a transformation in the nature of the American presidency. The institutional responsibility model extends this theoretical insight to the macroeconomic policy-making domain. Institutional responsibility causes a president's decision making to be powerfully shaped by a conflicting desire to serve as party leader and win office, while still fulfilling the institutional mandate to be the nation's chief macroeconomic policy maker. Understanding how presidents resolve this inherent conflict between political incentives and institutional constraints is central to this study and to accurately modeling presidential behavior.

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Part I

Toward a Theory of Institutional Responsibility in Presidential Decision Making

INTRODUCTION

In formulating his macroeconomic policy response to the 1954 recession, President Dwight Eisenhower remarked to his Cabinet that the time had come for "liberal action to stimulate the economy."[1] Several months later, as the recession continued, Eisenhower wrote in his personal diary that "I am convinced that the dangers of doing nothing are far greater than those of doing too much. By which I mean that everything the government can do to increase the spending power of the country . . . will, at least until there is a decided upturn in economic activity, be a good thing."[2] Eisenhower found himself in the decidedly non-Republican policy-making position of focusing on unemployment, under conditions of unified Republican government. Responding to the intense criticism from the conservative wing of the Republican Party that Eisenhower received for his macroeconomic policies, Henry Cabot Lodge, one of Eisenhower's closest political advisers, admonished the president that "you must not become the tin can tied onto the Republican tail this year."[3]

President Jimmy Carter found himself in a similar partisan predicament in the late 1970s, when forced to focus on inflation under conditions of unified Democratic government. In discussing his anti-inflation program in October, 1978, Carter commented that "further progress in reducing unemployment will depend on our success in reducing the rate of inflation. The budget that will be submitted in January will give top priority to moderating inflation."[4] It was the Republican macroeconomic logic expressed by Carter that led domestic policy chief Stuart Eizenstat to warn the president that the administration's preoccupation with inflation "gives the impression that you have adopted GOP thinking regarding the relation between federal spending and inflation in a high unemployment economy."[5]

These two anecdotal examples of presidential decision making should not strike the reader as particularly unusual. For decades, presidents have struggled with the need to stabilize the macroeconomy during moments of inflationary spiral and recessionary downturn. That decisions about these tradeoffs in inflation and unemployment involve partisan Republican and Democratic considerations is also to be expected, given the dynamics of our two-party system. Thinking about the nature of these tradeoffs as they have played out in the postwar world, however, provides an important opportunity for reconsidering presidential decision making in the American political economy.

Political economists have studied the dynamics of the "vicious cycle" for decades, through study of the political business cycle and partisan macroeconomic stabilization policy. This book builds on that research tradition and melds it with institutional research on presidential decision making in order to provide a close systematic examination of how presidents pursue tradeoffs between partisan and electoral goals, and the concomitant mandate for sound macroeconomic management. Thus, this book's contribution is a richer and more nuanced understanding of how presidential behavior as conditional partisanship actually functions. This study provides a clearer picture than we currently possess of *when* and *how* presidents shift between partisanship and the fulfillment of other macroeconomic objectives. In explicating this theory of conditional partisanship, the book underscores the ways in which the institution of the presidency acts as a filter on the pursuit of political incentives, shaping and directing the ways in which presidents pursue their macroeconomic objectives. I refer to this filtering effect throughout the book as the impact of *institutional responsibility* on presidential decision making. Much more will be said in subsequent chapters on the nature of this important institutional effect and how it constrains presidential response to partisan and electoral incentives present in the policy-making environment.

1 Theoretical Perspectives on Presidential Decision Making in the American Political Economy

In general, presidential decision making, as an area of substantive scholarly research, strikes an uneasy balance between the parsimony of studying a particular presidential decision and the complexity of mapping the organizational dynamics that assist in the making of that decision. Given this fundamental tension, and thus the potential scope of any model constructed to fully represent its workings, arriving at a general understanding of presidential decision making is an especially vexing task. As Karen Hult (1993) notes, this undertaking is further complicated by the fact that the dynamics of presidential decision making, both in terms of the internal structures and external environments shaping the decisions, vary substantially both within and across presidential administrations.

Simply deciding on what one means by presidential decision making and thus on the appropriate unit of analysis are difficult questions in themselves. One may consider the components that go into a presidential decision in terms of policy makers providing information, defining problems, structuring choices, generating alternatives, and communicating viewpoints. As both Hult (1993) and Paul Light (1991) note, analysis of a decision may also encompass both policy advice about the substantive content of a particular option and political advice about that option's possible impact. This is a complex definition to be sure, yet one that usefully confirms possible subsequent areas of analysis.

Given the myriad components of presidential decision making, how might one begin to generalize about the wide variety of decision-making systems and resultant outcomes visible across the presidential landscape? This book uses a combination of econometric modeling of data on presidential decisions and empirically rich case studies, developed through extensive archival research at several presidential libraries, to develop a theory of conditional partisanship in the American presidency. The theory's central goal is to employ the idea of institutional responsibility in order to account for the impact of both institutional constraints and strategic incentive-driven behavior on presidential tradeoffs between partisan objectives and management of the economy.

In developing these important ideas, the book also considers broader paradigmatic issues, such as the role of rational choice as a possible bridge between presidential studies and political economy, and the importance of the link between ideas and institutions in shaping presidential behavior.[1] My intention is that this combination of theoretical and empirical research will foster a more integrated understanding of presidential behavior, one that will appeal to both presidential scholars and political economists.

Unfortunately, a fundamental cleavage (or tension) has emerged in the literature on presidential decision making in the 1990s, one between decision making viewed as a function of presidential style, and the same behavior posited as an interaction between political incentives and institutional structures. Steven Shull (1999) provides a concrete example of this tension, as these competing perspectives coexist uneasily in an end-of-the-century assessment of presidential decision making undertaken by almost two dozen leading presidency scholars. Shull's comprehensive volume nonetheless underscores the immense difficulties that scholars of the presidency face in attempting to move toward a more organic notion of presidential behavior.

Regarding the presidential style approach, Terry Moe (1993) notes that traditional notions of the presidency pass the institutional structures of decision making through a presidential filter. The office of the presidency is viewed as highly malleable, with its structures continually redefined by subsequent presidents, as a function of an individual president's personality, values, beliefs, background, and style; presidents essentially fashion the structures of the institution in their own image.[2] The result is a highly particularized (or perhaps balkanized) understanding of presidential decision making across administrations, one that is largely resistant to theoretical generalization. To the extent that the presidential style approach may be generalized, it usually suggests that presidents select their decision-making apparatus from among a number of recognized types—formal, competitive, collegial, and so on—that best meet their needs. Charles Walcott and Karen Hult (1995) have referred to this theoretical perspective (in the specific context of presidential advising) as a *personal contingency* approach.

A number of scholarly works written in the 1970s and 1980s adopt this personal contingency (or management style) approach to explaining presidential decision making. For example, Alexander George (1980) employs a cognitive psychological approach to presidential behavior, defining it in part as a function of "character-rooted needs" and "psycho-dynamic patterns for adapting to stressful experiences." The author theorizes about presidential