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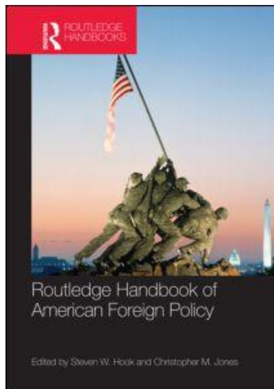

Routledge Handbook of American Foreign Policy

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The Foreign Economic Bureaucracy

Publication details
https://test.routledgehandbooks.com/doi/10.4324/9780203878637.ch16
I.M. "Mac" Destler
Published online on: 31 Aug 2011

How to cite :- I.M. "Mac" Destler. 31 Aug 2011, *The Foreign Economic Bureaucracy from:* Routledge Handbook of American Foreign Policy Routledge
Accessed on: 03 Oct 2023
https://test.routledgehandbooks.com/doi/10.4324/9780203878637.ch16

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The Foreign Economic Bureaucracy

I.M. "Mac" Destler

The subject of this chapter has received surprisingly little attention among students of American foreign policy. This is not because the foreign economic bureaucracy is inconsequential—though it is arguably less significant than, for example, the Department of Defense. A partial explanation, perhaps, is that scholarly interest in the foreign affairs bureaucracy in general was waning in the decades (beginning with the 1970s) as a semi-autonomous U.S. foreign economic bureaucracy was emerging. The result, in any case, is that compared to others in this volume, this contribution will focus more on the topic itself and less on how scholars have probed and interpreted it.

There are exceptions, of course. Cohen (2000) has provided, through five volumes of his *The Making of United States International Economic Policy*, a comprehensive description and assessment of policy-making processes and institutions within this sphere. The current author has provided more selective analyses, with *Making Foreign Economic Policy* (Destler 1980) addressing issues of food and trade, and *The National Economic Council* (Destler 1996) centering on an important organizational innovation undertaken by the Clinton administration. A colleague has offered a careful analysis of a longstanding Treasury Department institution, the Exchange Stabilization Fund (Henning 1999).

Occasionally, a practitioner will provide an illuminating analysis from an insider perspective: a notable example is Porter's study (1980) of the Ford Administration's Economic Policy Board, for which he served as executive director. Or a scholar will illuminate the policy process he encountered while serving in government (Niskanen 1988). Or a journalist will decide that a particular institution is important and understudied, and write a book about it, such as Dryden's *Trade Warriors* (1995), which details the birth and life of the Office of the United States Trade Representative. Or scholars may focus on international economic bargaining processes, as Putnam and Bayne (1984) did concerning the Group of Seven (G-7) economic policy summits, Odell (2000) on international economic bargaining more generally, and Putnam (1988) concerning the interplay between foreign and domestic negotiations that he labels "two-level games."

There have also been good studies that illuminate policy processes by employing and testing scholarly models. Examples are the use of Putnam's framework to assess the impact of U.S. governmental pressure on Japanese trade policies (Schoppa 1997) and Mayer's (1997) comprehensive examination of a range of models for insights into decision making on the North American Free Trade Agreement.

But most studies have centered less on governmental institutions per se than on broader phenomena associated with interdependence (Katzenstein 1978; Keohane 1984). This scholarship is part of a rich literature on international political economy which has flourished for several decades. It is, strictly speaking, outside the topic of this chapter, but it overlaps it at various points, as will be noted periodically in the pages that follow.

This chapter will begin, therefore, with a historical account of how the United States came to have a set of institutions handling most international economic policy issues that are separate from those we associate with mainstream U.S. foreign policy: the National Security Council (NSC), the Departments of State and Defense, and the intelligence community.

Evolution of the Foreign Economic Bureaucracy

The United States emerged from World War II under leaders determined to reject isolationism and remain engaged in global affairs. Economic issues figured prominently in their thinking, and an open world economy was an important goal to them along with international geopolitical engagement. Dean Acheson reflected this view during his service as assistant secretary of state for economic affairs during the early 1940s (Chace 1998). The National Security Act of 1947 was similarly comprehensive: it created the National Security Council. It was charged with advising the president on "the integration of domestic, foreign, and military policies relating to the national security" (National Security Act, Sec. 101). But even before the end of World War II, action began which laid the foundations for a semi-autonomous U.S. foreign economic bureaucracy. It was built upon four policy imperatives that were, to significant degrees, independent of national security policy. And these imperatives generated both new institutions and new responsibilities for existing ones.

The first imperative to emerge historically was represented by the Bretton Woods Conference of 1944, where officials from allied countries met to build the basis for the postwar international economy. To avoid a repeat of the economic malaise of the interwar period (1919–1939), the soon-to-be-victors in World War II, led by the United States and the United Kingdom, agreed to create two global institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (now "the World Bank"). In the U.S. implementing legislation, the Department of the Treasury was assigned the task of representing the United States at these two institutions, a responsibility which it has retained to this day, and which has been an important source of that department's overall primacy in foreign economic policy.

The second U.S. imperative was initially domestic—to legislate policies and institutions aimed at preventing a recurrence of the Great Depression. Encouraged by the new doctrine of Keynesian economics, the Employment Act of 1946 made it the responsibility of the federal government to "promote maximum employment, production, and purchasing power." To propose policies to achieve this goal, the Act established a three-person Council of Economic Advisers (CEA) in the Executive Office of the President, and mandated that it report annually to a Joint Economic Committee of the Congress also established in the legislation. Both institutions were just advisory, and a more potent role in achieving this objective would be played by the Federal Reserve Board (the Fed) and its chairman. In the early 1950s, the Fed shifted the priority of its open market operations from minimizing costs of financing the federal debt to stabilizing the economy by influencing interest rates.

The Employment Act laid a marker: Americans would henceforth hold the federal government responsible for keeping the U.S. economy running at full steam; and as globalization proceeded, this required heed to what other nations were doing as well. In January 1977, newly inaugurated President Jimmy Carter sent his vice president on a trip to

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Germany and Japan, with the aim of those countries joining the United States as economic "locomotives" for global recovery.

The third imperative emerged initially from the postwar economic crisis in Europe. The devastation of the conflict had been compounded by a particularly cruel winter in 1947, leaving the continent on economic life support. Led by Secretary of State George Marshall and his deputy, Dean Acheson, the United States responded with the Marshall Plan. This initiative was not only an unprecedented grant of economic aid, amounting at its height to 1.5 percent of U.S. Gross Domestic Product (GDP) and one-quarter the size of the U.S. defense budget. It conditioned the provision of that aid on European states joining in a coordinated reconstruction effort. Abroad, this effort sowed the seeds of what would eventually become the European Union. For the United States, it established a new sphere of policy under the generic label of "foreign assistance." In the Eisenhower and Kennedy administrations, priority shifted to the developing world—with bilateral programs under what became the U.S. Agency for International Development (USAID) and multilateral aid under the World Bank and the United Nations (UN).

The fourth imperative emerged over a longer period, and would prove particularly important for the evolution of U.S. foreign economic policy-making institutions separate from those addressing national security. It was the combination of growing U.S. engagement in the international economy and growing economic competition from states that were U.S. geopolitical allies. In the early postwar period, American manufacturing had been globally dominant, and the U.S. economy was remarkably self-contained. In 1950, the ratio of U.S. international trade (average of imports and exports) to total domestic goods production was roughly .06. But this figure would rise to .09 in 1970, .20 in 1980, and .29 in 2000 (U.S. Council of Economic Advisers 1991, 2004; Destler 2005).

Postwar economic competition came first from the uniting Europe, beginning in the late 1950s. This development was followed by the extraordinary economic recovery of Japan, then the rise of East Asia generally. The political response would rise also. U.S. producers thought it was acceptable for international economic policy to be a handmaiden of foreign policy—as long as they were not overly affected. However, the internationalization of the U.S. economy led logically to greater domestic concern over, and influence on, U.S. economic transactions with the world (see Pastor 1980 on the early congressional impact).

Congress had always been reluctant to allow trade policy to stray too far from U.S. domestic interests. Three years after Bretton Woods there was a follow-on conference in Havana that crafted plans for an organization for global commerce parallel to the World Bank and the International Monetary Fund (IMF): the projected International Trade Organization. This effort proved stillborn when Congress failed to ratify its charter. However, the "interim" framework of the General Agreement on Tariffs and Trade (GATT) proved surprisingly effective in establishing rules within its sphere for fifty years until at last the World Trade Organization (WTO) opened its doors in January 1995.

The rejection of a new international trade institution was followed, in due course, by creation of a new domestic one. The trigger was President John F. Kennedy's proposal for a constructive response to Europe's new economic challenge. Central to his "Declaration of Interdependence" was an initiative for the most ambitious international negotiation yet undertaken to reduce tariffs and other barriers to trade. Thus Kennedy went to Capitol Hill seeking an expanded version of the authority that Congress had intermittently granted presidents since the enactment of the Reciprocal Trade Agreements Act of 1934 under Franklin D. Roosevelt.

Legislators were reluctant to grant this authority if State Department officials continued to lead such negotiations, as they had done since the Reciprocal Trade Agreements Act of 1934. Diplomats were competent enough in the view of House Ways and Means Committee

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Chairman Wilbur Mills (D-Ark.), but they did not understand U.S. industry and were not sensitive to its needs. Department of Commerce officials, on the other hand, knew U.S. industry and business needs. However, they were not (in Mills's view) all that competent, and they did not know agriculture. The need was for negotiators who would understand and balance all these interests.

So Kennedy agreed, reluctantly, to creation of a "special representative for trade negotiations" in the Executive Office of the President to lead and coordinate the negotiations. STR, as it was known, proved successful not just in completing the Kennedy Round of GATT negotiations in 1967, but in working with Congress to develop comprehensive new trade legislation in 1973–1974 and in successfully negotiating the Tokyo Round agreements of 1979. Legislators responded by giving STR increased support and authority. When President Richard Nixon sought to subsume STR within a broader White House entity, Congress responded by making it a Cabinet-level statutory agency. Previously, only STR's head was enshrined in statute. In 1980 STR became USTR, the Office of the United States Trade Representative, with enhanced staff and authority.

Trade was arguably the most important element of foreign economic policy, but far from the only one, and there was a perceived need to coordinate U.S. international economic programs and activities with one another—and with related economic and foreign policy actions. Initially this was the province of the National Security Council (NSC) created in 1947. And through the 1960s, this NSC role included foreign economic policies. In the Kennedy and Johnson administrations, for example, foreign economics came under the purview of a deputy national security adviser (whose portfolio also included U.S.-European relations). President Francis M. Bator, who held this position under Lyndon Johnson, has provided a brilliant description and analysis of this process (U.S. House Committee on Foreign Affairs 1972).

But Nixon did not follow this practice, and his national security adviser, Henry Kissinger, gave short shrift to these issues. The result was a policy vacuum that was filled formally (but not effectively) by a new Council on International Economic Policy (CIEP), established first by executive order in 1971 and later by statute. CIEP never established comprehensive authority, however, and went out of existence in 1977. In practice, the lead was taken initially by Secretary of the Treasury John Connally in 1971, then by a cabinet-level Council on Economic Policy (CEP) chaired by his successor, George Shultz, beginning in 1972. Symbolic was the fact that when Nixon made his epochal decision to abandon the dollar's link to gold in August 1971, the advisory group that gathered at Camp David included no one from either the NSC or the Department of State (Odell 1982; Gowa 1983).

The Nixon administration was sui generis, but on this matter its successors followed Nixon's lead, assigning staff responsibility for international economic policy in general to White House-based coordinating entities separate from the National Security Council (NSC). They followed the CEP precedent, though most changed the label. President Gerald Ford employed the highly effective Economic Policy Board (Porter 1980). Carter replaced it with a less formal, and less effective, Economic Policy Group (Destler 1980). In Reagan's second term, it was the Economic Policy Council under his strong treasury secretary, James Baker, which continued under President George H. W. Bush. All of these were formally, Cabinet-level committees chaired by the Treasury Department (or, in some instances, the president). A few, like Ford's EPB, had capable, engaged staff support (Porter 1983; Destler 1996).

It was Bill Clinton, however, who made organizing for international economic policy a campaign issue—and a prominent presidential initiative. George H.W. Bush had presided over the end of the Cold War and the demise of the Soviet Union. But the United States was slipping economically even as it was triumphing geopolitically, Clinton asserted. (Critics put it succinctly: "The Cold War is over: Japan won!") And Clinton contrasted Bush's smooth,

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collegial NSC with his fractious group of economic advisers. If elected, the Arkansan would create an "Economic Security Council (ESC)." The aim, he told campaign aide Gene Sperling, was to create a process for economics comparable to what Bush had developed for national security; and the international side of economic policy was prominent in the Arkansan's thinking.

Once elected, Clinton signaled his priority to "the economy, stupid," by ostentatiously delaying returns of congratulatory telephone calls from foreign leaders and, more consequentially, announcing his economic advisory team, as a group, several days prior to the press conference where he revealed his chief national security appointments. Prominent among the former was Robert Rubin, who would fill the new post of assistant to the president for economic policy and head of the National Economic Council (NEC). This name was thought less confrontational, internationally, than "Economic Security Council," and its focus was domestic as much as international. But both institutionally and practically it highlighted the economic policy links between the two, and diluted somewhat the links between international economic policy and national security (Destler 1996; Juster and Lazarus 1996). It was the culmination of a trend toward a "separate but equal" framework for the economic side of U.S. foreign policy. The NEC was established by executive order, not statute, but it had a substantial, independent staff. Significantly and contrary to prior practice, Clinton's two immediate successors kept the NEC name and the economic adviser position.

Hence, beginning in the early 1960s, accelerating from the 1970s onward, there emerged a distinct segment of the U.S. government, separate from the NSC and the key foreign policy agencies responsible for major decisions and actions on foreign economic policy. To some degree, this has been the product of formal presidential orders. To a greater degree, it has been driven by the exigencies of daily policymaking and the pressures—particularly domestic—that drive it. It is appropriate to label this grouping of agencies "the economic complex" (Destler 1994).

Most of the agencies that comprise the economic complex do not give automatic priority to the international side of U.S. economic policy. Indeed, a distinguishing characteristic is that they tend to view issues within the framework of overall U.S. economic interests and policy rather than that of foreign policy. Typical is what Cohen (2000) labels the Department of Treasury, the "institutional superpower in the economic policymaking process."

The Treasury Department's Central Role

Treasury is, above all, an institution centered on finance—creation and maintenance of the currency, the U.S. dollar. As set forth on the department's website, "Whether it is regulating national banks, determining international economic policy, collecting income and excise taxes, issuing securities, reporting the government's daily financial transactions, or manufacturing coins or bills for circulation, the one concern that still ties together the activities of the Department of the Treasury is money" (U.S. Treasury 2010). Central here is the department's primary U.S. government authority over taxation—though (unlike finance ministry counterparts abroad) it does not oversee government spending.

Both Treasury's stances on international issues and its credibility in addressing them are shaped by its domestic policy base. Until the late 1980s, this relationship was embodied in the position of undersecretary for monetary affairs, held prominently in the early 1970s by Paul Volcker. Today, that job is split between domestic and international finance, and Treasury has three presidential appointees with specifically international responsibilities—the undersecretary for international affairs, an assistant secretary for international finance, and an assistant secretary for international markets and development.

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Supporting them is an Office of International Affairs (OIA) numbering well over a hundred professionals organized into twelve units. Six divisions are regional: Africa; East Asia; Europe and Eurasia; Middle East and North Asia; South and Southeast Asia; and Western Hemisphere. The others handle cross-cutting substantive issues or specific operational responsibilities: Development Policy and Debt; Environment and Energy; International Monetary and Financial Policy; Investment Security; Technical Assistance; and Trade and Investment Policy. On some of these issues, Treasury is a subordinate actor, a policy kibitzer: trade, environment, and energy is an example. But on others, it can be dominant indeed. For example, it has direct statutory responsibility for representing the United States at the IMF and the World Bank, and for staffing U.S. relations with these key international organizations. And while most OIA officials are based in Washington, a significant number are posted overseas—a recent count listed 40 countries with which the department has technical assistance agreements.

Foremost for Treasury is the matter of exchange rate policy, a responsibility which the department shares with the Federal Reserve and jealously guards against potential intruders, even White House officials (Destler and Henning 1989; Volcker and Gyohten 1992; Henning 1994). The most prominent case came in 1985, when Secretary of the Treasury James Baker maneuvered stealthily in Washington to set the stage for the September Plaza agreement in which the Group of Five (G-5) industrial states took concerted action to bring down the overvalued dollar (Funabashi 1988). Baker took care never to convene an interagency meeting on the topic, first keeping his plans secret, then meeting with senior colleagues one-on-one to win their acquiescence.

Treasury dominance has been almost as great on matters of least developed countries' debt. The Mexican crisis caught Robert Rubin in transition from the position of NEC director to that of treasury secretary, but he quickly dominated decision making on the U.S. response, working with his deputy secretary, Larry Summers. After encountering congressional resistance, they were able to act independently by use of a Treasury-controlled institution, the Exchange Stabilization Fund (Henning 1999). Rubin and Summers also dominated the U.S. response to the East Asian financial crisis of 1997, and their failure to come to Thailand's aid generated criticism that they had given short shrift to U.S. geopolitical interests. In addition, when a full-blown American financial crisis emerged in 2008, and spread to other advanced countries, the international response was determined by Bush's treasury secretary, Henry Paulson, working again in tandem with Ben Bernanke and Timothy Geithner of the Federal Reserve. They were, inevitably, the point persons in measures to keep the Great Recession from becoming a second Great Depression, particularly because banks and "non-bank" financial institutions were at the center of the crisis. This lead department role continued into the Obama administration, with Geithner becoming treasury secretary and (together with Obama) leading the United States at a series of Group of 20 (G-20) international economic summits.

As these examples show, Treasury's international economic policy leadership has been enhanced by the persistent presidential practice of naming the Treasury Secretary the administration's senior economic official. And when the occupant of this office is not, in fact, playing this role, he may soon find himself out of a job. Nixon brought John Connally up from Texas to replace David Kennedy in 1971; Carter fired W. Michael Blumenthal in 1979, somehow persuading G. William Miller to step down as Fed chairman to serve in his stead.

Policy Making in the White House

Treasury's general stance on international economic issues finds frequent support from two other broad economic policy agencies located in the Executive Office of the President. One,

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whose origins were addressed earlier, is the CEA, created in 1946 to help the United States avoid a new depression (see Hargrove and Morley 1984; Stein 1994). It is a three-person body charged with providing the president with professional economic advice (with ten or so supporting staff economists). It also provides the underlying macroeconomic analysis that each administration requires to make its budget projections. It also represents the United States on the macroeconomic policy coordinating committee of the Organizational for Economic Cooperation and Development (OECD), the international organization of the advanced economies.

Since CEA has no operating responsibilities, its influence waxes and wanes. The Council tends to have impact to the degree that (1) the president cares about and focuses on economic policy; (2) the CEA chair develops an effective relationship with the president; and (3) there exists a structured policy process giving CEA economists relevant targets for their lucid policy memoranda. Trade policy often has this latter characteristic, as do major policy issues (e.g., the shape of basic economic policy) that tend to arise early in an administration. More recently, President Obama's first CEA chair, Cristina Romer, had expertise concerning U.S. macroeconomic policy in the 1930s that proved highly appropriate to the challenge of 2009 (see Destler 2010).

However, CEA's institutional monopoly within the White House ended with the creation of the NEC in 1993. With it came a "national economic adviser" whose broad policy leadership role typically places him (or her) above the CEA chair in the White House staff pecking order. If this aide gives priority to policy advocacy over policy process management, this can put the CEA chair in the shade. Clinton's first CEA head, Laura Tyson, perceived this threat clearly and negotiated a division of labor with Robert Rubin. They appear to have coexisted effectively, and Tyson in fact succeeded Rubin at NEC when he became secretary of the treasury. Romer seems to have had greater difficulty working out such a relationship in the Obama administration. Her NEC counterpart, Larry Summers, was less a man of process than Rubin, and a formidable substantive economist to boot. So the role conflict was more direct, and Romer—with less access to the president—resigned after eighteen months in office.

More important than CEA in overall policy making is the far larger Office of Management and Budget (OMB), the core institutional staff in the Executive Office of the President. Its oversight role in government spending gives its head broad influence over policy—though, even more than CEA, it is centered on the domestic side. OMB's international policy influence depends on the degree to which a specific sphere is budget-dependent. Thus its "examiners" have significant influence over foreign assistance policy. Gordon Adams, once OMB's associate director for national security and international affairs, has written the definitive analysis of the foreign affairs budget process (Adams and Williams 2010). Together, the OMB director, treasury secretary, and the CEA chair form the "troika." This group has typically met weekly for a frank discussion of current economic issues, receiving analytic support from subgroups at lower levels. Here, as elsewhere, Treasury has the lead.

If Treasury has steadily gained in foreign economic policy power, the agency that has receded has been the Department of State. Prior to World War II, the diplomatic agency had the clear lead in this sphere. Its position, however, has shrunk steadily as the domestic importance of the policy has grown. State continues to deploy "economic officers" in its foreign service to posts around the world. The department has the cabinet-level lead on bilateral foreign assistance, particularly through its oversight over the U.S. Agency for International Development (USAID). Its Bureau of International Organization Affairs represents U.S. interests concerning the substantial foreign assistance programs of the UN specialized agencies. Otherwise, aside from a few limited issues like international aviation policy, the State Department no longer has the foreign economic lead.

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The secretary of state has an important voice when he or she chooses to raise it on any specific issue; and the secretary is supported by an undersecretary and an assistant secretary within the economic sphere. Their subordinates, housed mainly in the Bureau of Economic, Energy and Business Affairs (EEB), hold important places at a range of Washington policy tables, from trade to energy to environment. But rarely do they take the lead.

Most notable has been the shrinkage of State Department power over international trade. Here, it has not lost out not to Treasury, but to the Office of the United States Trade Representative (USTR). From the early republic through the 1950s, it was State Department officials who negotiated trade agreements for the United States. Secretary of State Cordell Hull personally led the historic transformation of U.S. trade policy from high tariff protection to growing market liberalization, through enactment of reciprocal trade legislation beginning in 1934. In the final years of the Eisenhower administration, Douglas Dillon was the de facto leader of U.S. foreign economic policy, operating from his position as undersecretary of state for economic affairs. In fact, a GATT trade negotiation, the "Dillon Round," bears his name.

As set forth in the historical account above, Congress—backed by U.S. business—forced a change that eroded State's role and influence. Initially, this was limited to multilateral negotiations—the president's "special representative for trade negotiations." Christian Herter and then William Roth had only a small staff and worked closely with officials at State and other departments in negotiating the Kennedy Round in 1962–1967. But gradually USTR's role expanded, until it reached its present position at the center stage across a broad range of bilateral and global trade issues.

USTR's enhancement came in stages, and mainly in response to congressional pressure. For instance, legislators responded to Nixon administration efforts to subsume the office within a broader White House coordinating entity by making STR a statutory entity (earlier law had just done so for the trade representative as an individual). Russell Long, chair of the Senate Finance Committee, added the flourish of giving its head cabinet status by mandating a cabinet-level salary. All of this was accomplished through the Trade Act of 1974. Jimmy Carter's appointee, Robert S. Strauss, demonstrated the potential of the position by dominating the Tokyo Round trade negotiation (1977–1979), while responding assiduously to his interlocutors on the congressional committees, particularly Senate Finance. But senators wanted the trade bureaucracy buttressed for the longer term, and held up final action on the Tokyo Round implementing legislation in July 1979 until the administration submitted a specific trade reorganization proposal. This reorganization plan, approved by Congress, renamed the office USTR, as earlier noted. It also expanded its authority to broad international trade policy development, coordination, and negotiation, including relations with GATT, bilateral issues, East-West trade, and commodity matters. Congress gave USTR additional authority in trade legislation enacted in 1984 and 1988.

The trade office's central role was further underscored by trade process legislation. In successive trade laws, Congress placed the trade representative at the head of several layers of interagency coordinating committees. Today, under the NEC, USTR chairs the Trade Policy Review Group and the Trade Policy Staff Committee, and as such "is responsible for convening the twenty agencies" that are members (U.S. Trade Representative 2010). USTR is also mandated to oversee—and respond to—an elaborate network of private sector advisory committees: twenty-eight in all, some representing sectors (e.g., steel, textiles, and clothing), others types of business (e.g., small and minority enterprises), still others cross-cutting issues (e.g., intellectual property). These committees, which seeming constrain the agency, often provide it leverage. As set forth in one prescient analysis of the Tokyo Round, "The same [advisory group] system that organized the sectoral interests … also structured the task of the executive in dealing with those interests … channels of access could be two-way streets:

access to the executive by the private sector could also mean access to the private sector by the executive" (Winham 1986: 315–317).

However, USTR's location in the Executive Office of the President has proved to be a mixed blessing. The original rationale for its placement was that it needed to balance the interests—international and domestic, industrial and agricultural—that were represented in the departments. This logic retains validity. The White House location was also supposed to give it power. Ironically, this has proved more attractive to USTR's congressional counterparts (the House Committee on Ways and Means and the Senate Committee on Finance) than it has to presidents and their senior advisers. Political scientist Richard E. Neustadt warned John F. Kennedy against "proliferating advisory staffs in your Executive Office," and presidents before and since have been reluctant to have the currency of the White House spent on activities in which they are not centrally, personally involved (Neustadt 1960). As earlier noted, Kennedy accepted the special trade representative because he had to, in order to obtain the sweeping negotiating authority he sought, and Nixon sought to bury the office with a broader White House entity in 1973.

But the story did not end there. In negotiations surrounding the appointment of Malcolm Baldrige as secretary of commerce, Ronald Reagan promised him that he—not USTR Bill Brock—would lead trade policy within his administration. In addition, in 1983, despite overwhelming opposition within his cabinet, Reagan endorsed a Senate bill that would have subsumed USTR within a new Department of Commerce and Trade. Again, congressional trade leaders came to the rescue, and the bill did not come to a floor vote in either chamber. As recently as 2000, members of president-elect George W. Bush's transition team signaled that they were thinking of taking away USTR's cabinet status. This idea died when business and congressional opposition quickly emerged. The episode demonstrated, once again, that USTR's ultimate power rests not so much in the presidency as in its allies on Capitol Hill.

USTR's influence was also dependent on having major trade negotiations to lead. Strauss demonstrated the positive potential during the Tokyo Round. His very different but equally talented Reagan administration successor, Bill Brock (1981–1985), was weakened not just by the Baldrige challenge, but by the fact that the United States was between major trade negotiations—free trade talks with Canada were not launched until 1985, and the Uruguay Round was not authorized until 1986. More recently, Ron Kirk was weakened by Barack Obama's initial deferral of serious trade issues. Conversely, USTR Carla Hills' central role under George H.W. Bush was solidified by not just that ongoing trade round but also the North American Free Trade Area (NAFTA) negotiations. Similarly, trade representative Robert Zoellick, who served George W. Bush from 2001 to 2005, was able to overcome none-too-close relations with both the president and Congress through his aggressive and successful pursuit of a series of bilateral free trade agreements.

Within the executive branch, the most potent potential challenger to USTR has not been the State Department, and not even the wide-ranging Treasury, but the much-maligned Department of Commerce. The first challenge came in 1969, in the wake of the Kennedy Round. Seizing control of the negotiation President Nixon most cared about, the effort to get Japan to restrain its textile sales to the U.S. market, Commerce Secretary Maurice Stans gained temporary primacy—partly through engineering the appointment of a weak and vulnerable man as STR (Destler, Fukui, and Sato 1979). He failed to maintain the lead when he was unable to win Japanese agreement, and STR's strength was restored by new appointments two years later (Destler 1980; Dryden 1995). However, Baldrige posed a more serious challenge in the first Reagan administration; and he was buttressed by new authorities given the Commerce Department in the 1979–1980 reorganization.

Members of Congress had, in general, supported the free-trade proclivities of successive administrations. Yet they wanted industries and workers hurt by trade to have access to

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remedies, particularly if the foreign competition was perceived to be "unfair." The GATT allowed a country to impose countervailing duties (CVDs) on goods whose production or trade were subsidized by foreign governments, and anti-dumping (AD) duties on goods that were sold at less than fair value. Until 1980, the U.S. government had employed such devices sparingly, even after Congress devoted an entire title of the Trade Act of 1974 to "Relief from Unfair Trade Practices." The reason, legislators widely believed, was that the responsibility for CVD and dumping cases was housed in the Department of the Treasury. The key trade committees made it clear, even as they approved the Tokyo Round agreements, that they wanted that authority moved to a more petitioner-friendly agency.

The Carter administration had to acquiesce, and it moved responsibility for "unfair trade cases" to the Department of Commerce. It also declared Commerce, more generally, to be "the focus of nonagricultural operational trade responsibilities." Included was jurisdiction over commercial attaches posted to U.S. embassies, an authority formerly held by the State Department and now exercised by the U.S. and Foreign Commercial Service. The undersecretary of commerce for international trade presides over this and a broad range of trade-related department activities—including export promotion and AD/CVD administration—housed in the International Trade Administration.

The logic of the USTR-Commerce division of labor is that the former will lead and the latter will follow—or at least operate within the overall USTR-established framework of policy and operations. Commerce has enough specific authorities to challenge for overall trade policy leadership if the secretary so desires. Given the remainder of the department is largely semi-autonomous technical offices like the Census Bureau and the National Oceanic and Atmospheric Administration, the secretary has no other such opportunity.

Other departments play international economic policy roles linked to their overall missions. The Department of Agriculture has retained primacy on trade issues involving farm products. The Department of Labor manages the Trade Adjustment Assistance program that provides aid to workers displaced by imports. The Department of Energy plays a substantial role in international issues relating to oil.

Finally, there is a trade-regulatory and fact-finding agency: the United States International Trade Commission (USITC), created by Congress in 1975 as successor to the U.S. Tariff Commission. With six commissioners divided between the political parties, serving overlapping terms of nine years, it is designed to be insulated from political influence. It provides independent analysis—in particular concerning whether industries seeking trade relief (e.g., in AD or CVD cases) are being injured by imports. USITC also does analyses of particular industries, and of the potential impact of projected trade agreements.

Atop all these agencies sits the president and his NEC. However, even when the national economic adviser gives priority to managing the policy process, and the president lends his support, the overall process is considerably less centralized than that for international security policy. One key reason is that that fewer issues come to the president for decision on a regular basis. International finance is dominated by Treasury and the Federal Reserve, running a closed policy process. Trade is more open to interagency participation, and to the influence of actors outside government. Presidents typically like most such issues addressed at some remove from them, lest they be forced to make unpopular choices among interests and constituencies. Members of Congress insist on overall oversight, including the occasional enactment of comprehensive legislation, but like presidents are often happy to see the hot issues resolved elsewhere. This context gives leeway, and influence, to the myriad elements of the foreign economic bureaucracy.

Finally, while a separate "economic complex" has risen to pursue foreign economic policy not subservient to broad U.S. foreign policy and national security concerns, it would be wrong to deny the impact of such concerns in many specific cases. In particular, when U.S. economic

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interests are less than overwhelming, other influences find their way in. The State Department plays a central role, for example, in whether to impose U.S. economic sanctions on Burma or Sudan. Countries like Jordan, Morocco, and Bahrain were not chosen as partners for U.S. free-trade agreements mainly for the economic gains to be had.

How much does all this matter? Granted the existence of the substantial U.S. foreign economic bureaucracy, described herein in sometimes-minute detail, how much impact does it have on policy, and on actual world events? Forty years ago, Allison (1971) published his landmark study of the U.S. policy process as it operated on political-military issues, *Essence of Decision* (also see Allison and Zelikow 1999). Three years later came Halperin, Clapp, and Kanter's *Bureaucratic Politics and Foreign Policy* (1974). The thrust of both studies was that the activities and interests of diverse institutions and actors spread through the foreign affairs government had substantial, under-appreciated impact on U.S. policy. Critics were soon to question this, arguing that the president was in fact dominant when he wanted to be (e.g., Krasner 1972; Art 1973). Perhaps, they concluded, the much-ballyhooed bureaucratic politics approach to U.S. foreign policy was, in fact, much ado about not much.

A somewhat similar minimization of institutional influences emerged in scholarly dialogues about foreign economic policy. Here, however, the dominant actor was perceived to be not the president but "society," and specifically the array of private economic actors that increasingly constrained official decisions. Faced with these pressures, the state was "weak" (Krasner 1977). Buffeted by interest group pressures, government leaders had difficulty fashioning coherent policies, and seemed increasingly to succumb to protectionism as a result.

And yet, somehow, the American economy stayed open, and U.S. global leadership on trade policy was sustained for decades after this critique was published. How could this be? Counter-explanations arose. A group of international political economy scholars noted, drawing on a century of cases, that the demise of the American state was, at minimum, exaggerated (Ikenberry, Lake, and Mastanduno 1988). For them, "The shaping and constraining role of state officials and the institutions they inhabit" remained "considerable," for "the interests and capabilities of groups and individuals are mediated by the institutional structures within which they operate" (also see Evans, Rueschemeyer, and Scocpol 1985).

Other scholars, working within the rational choice tradition, sometimes referred to as the "new institutionalism," saw U.S. policy in general as subject to "congressional dominance," with the bureaucracy merely the "agent" of members of Congress responding to their own political interests, re-election in particular (Shepsle and Weingast 1987; McCubbins, Noll, and Weingast 1989). One scholar applied a nuanced version of this approach to U.S. trade policy (O'Halloran 1994). This author's analysis has argued that, in an environment where legislators have multiple interests (including blame avoidance), purposive executive officials can navigate effectively within an eclectic legislative/interest group environment, avoid direct congressional dominance, and maintain the free-trade orientation of U.S. trade policy (Destler 2005). Another scholar found that for the U.S. International Trade Commission, congressional influence was present but "not as important as other factors" in explaining its actions (DeVault 2002).

Conclusion

There is a set of U.S. offices and agencies, separate from the NSC and the Department of State, that constitute a foreign economic bureaucracy or (this author's earlier phrase) "economic complex." Scholarly study of these institutions has been significant but limited, perhaps because scholarly fashion was turning away from institutional studies just as the foreign economic bureaucracy was emerging. Individual analysts have tended to view them through their own

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particular analytic lenses, such as international political economy and rational choice. This chapter has therefore centered on analytic description of the foreign economic bureaucracy and how it has evolved.

Scholars could and should do more. In particular, one would like to see more academics spending time in Washington interviewing international economic policy officials about how they address issues within their domains—who they work with, who counts, who pressures them from outside and on what, where they believe they are successful and where they find their work frustrating and inadequate. Those who study international economic issues should also emulate their international security peers and seek opportunities to spend time within government—there “participant observation” (Fenno 1978) is likely to bring new and unexpected insights. Such research could well uncover *patterns* of policy making that have real impact on policy outcomes.

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