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Anthony J. Hope

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# How Washington Got Its Act Together

by ANTHONY J. HOPE / Associate Director, Washington Service Center

Throughout the 1980 presidential campaign, candidate Ronald Reagan argued against regulatory clutter—contending that the only way to boost American productivity is to free business from unnecessarily complex and contradictory tax policy, regulations, and paperwork. Simple, straightforward, and predictable regulations, he maintained, is the only acceptable alternative.

To Washington watchers, this rhetoric was not new; but there was a difference this time, one of record. As governor of California, Ronald Reagan had demonstrated his willingness to fight the legislature and the bureaucrats in the effort to unburden business from unneeded regulation. He didn't win that war, but he won many battles. And he never, ever gave up the fight.

The draft of the Economic Recovery Tax Act of 1981 (ERTA) was remarkable in that it was an uncluttered attempt to stimulate the economy through tax cuts—the first such attempt since the Kennedy years. What was equally remarkable was that ERTA had its genesis in 1978 as a Republican alternative to President Carter's ill-fated tax proposal. A brief look at the history of the Revenue Act of 1978 and ERTA will help in understanding how the Congress arrived at the Tax Equity and Fiscal Responsibility Act of 1982 and where we may be going from here.

## **What Went Wrong in '78**

The Democrats were in firm control of both the House and the Senate in 1978. But mid-term elections always have

been dangerous for the majority party, since its members traditionally have lost seats to the underdogs. The Hill leadership wanted the same type of legislation they had been getting for years: sock the rich, help the poor, and quietly give the rich enough complex loopholes to keep the large campaign contributions flowing. But a growing minority on the Hill was trying a new approach—a comprehensive tax cut to stimulate the staggering economy.

What the Carter administration brought to the Hill was a grab bag of political issues that most observers thought would help neither the Democrats at the polls nor the economy. It was no secret that President Carter disdained Washington and didn't understand the process. His three-martini-lunch proposal typifies how not to manage legislative issues. Cutting back on business's fringe benefits always has been a popular reelection rallying cry. What the Carter people didn't know is that you can talk for months about the health benefits of avoiding booze and cholesterol, or the fiscal benefits of raising revenue by eliminating deductions, but the reality is that such measures are rarely put to a vote. Those running for reelection refused to be put in the dilemma of having to vote one way or the other on this issue. They didn't want to alienate businessmen, restaurateurs, restaurant worker's unions, and credit card companies. Nor did they want to be viewed

as favoring three-martini lunches.

Nonetheless, Carter's tax team came to the Hill armed with press releases to show that the president opposed big businessmen and supported the little guy. It took the leadership of both parties in both houses months to quietly kill the measure.

The rest of the 1978 effort was not much better. The few capital formation incentives emerged muddled; there were a few good points, but no coherent policy. In November, the Republicans gained 12 House seats, three Senate seats, and six governorships. It was an average mid-term result.

### **How the Good Guys Won**

While the battle over the 1978 Revenue Act was being waged, three Washington tax lobbyists began meeting for breakfast every Tuesday at the Sheraton Carlton Hotel to share ideas. They knew that a comprehensive tax bill was needed, and they knew that the capital formation incentives in the proposed act were insufficient. Calling themselves the Carlton Group, these lobbyists decided to forget '78 and to plan for 1981.

Charls E. Walker, the group's leader, was then chairman of Governor Reagan's tax policy task force and once had been the deputy secretary of the Treasury. Ernest S. Christian, a tax expert at the Washington law firm of Patton, Boggs & Blow, had formulated the first drafts of a 10-5-3 depreciation schedule proposed three years before, when he was deputy assistant secretary of the Treasury for tax policy. While not accepted then, the depreciation measure was dusted off and resurrected three years later. Richard Rahn, currently the chief economist for the U.S. Chamber of Commerce, once was the chief of the American Council for Capital Formation. The nominal lineup of the coalition was Walker for Republicans, Christian for Democrats, and Rahn for business.

After the 1978 bill was passed, the group was joined by two powerful members of the House Ways and Means Committee, James R. Jones (D-Okla.) and William Steiger (R-Wisc.), who sensed the need for a tax bill that was a tool for a strong economy rather than a vehicle for reelection. They

lamented, however, that the businessmen were more divided about what was needed than the politicians. Those in the Northeast, for example, were fighting those in the Sunbelt; it was incentives for new construction versus those for rehabilitation. Similarly, big business was squaring off against small business over capitalizing research and development. Jones and Steiger (later replaced by Barber Conable) joined the group with the understanding that its goal had to be to unite business behind a single conceptual framework.

When Ronald Reagan was elected, he brought that framework with him in the form of supply-side economics. A clean,

comprehensive bill was prepared. Everyone understood that compromises and concessions with the Democratic-controlled House would clutter the bill, but all expected minimal damage.

David Stockman, director of the Office of Management and Budget, and Donald Regan, the Treasury secretary, led the administration team; Bob Dole guided in the Senate; Barber Conable directed the Republican minority in the House; and the Carlton Group was charged with holding the business community lobbies together. The only conflict amongst them was whether supply-side economics would work well enough on the economy that the

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## The Congressional Lobbyist Comes of Age

As recently as 25 years ago, the popular image of the Washington lobbyist was one of an old man in a baggy suit and brown fedora who lurked in Capitol Hill bars with a paper bag stuffed with wrinkled twenties. All this has changed. Lobbyists not only have cleaned up their acts, but through an interwoven series of three events they have emerged as the single most powerful force on Capitol Hill.

The first of these three events was the proliferation of federal programs. By the 1960s, the residue of New Deal programs and the decision to never again dismantle the military machine were taxing the power of Congress to manage its affairs. Then came the war in Vietnam and President Johnson's Great Society. We would have "guns and butter," and a tripling of the bureaucracy needed to procure and manage them. The programs were so big and came so fast that Congress's committee system short-circuited.

The power war among committees for jurisdiction over the new programs left in its wake a protracted confusion within the programs and a lack of

coherent legislative direction.

The second event was the proliferation of paper in the method of gathering information for the congressional decision making process. In less complex times, appropriate agency officials would be called to testify before congressional committees concerning their agencies' past or intended actions. During the McCarthy era, the process became more confrontational, as the executive branch officials tried to protect themselves from attack. During the sixties and seventies the situation further deteriorated as the Vietnam and Watergate experiences raised new barriers to communication. Congressional committees began to develop their own information through new, permanent investigative staffs. Committee meetings erupted into battles between congressional aides wielding stacks of photocopied charts and executive branch officials protecting their turf with charts and printouts of their own.

Meanwhile, computers and copiers produced so much paper that the staffs found themselves unable to absorb and synthesize the data needed for congressional decisions. Congress had lost confidence in the testimony of the

budget could be balanced by 1984 without making massive defense cuts.

The bill's passage by the Senate seemed a foregone conclusion, but passage by the House came easier than expected because the conservative southern Democrats threatened mutiny within the party if the House didn't support the new president's plan.

But time was working against them. They expected a bill in March, then April, but there was no action. Finally, in late May, the boat began to rock. As the recession broadened, projected tax revenues decreased. The administration threatened to offset the deepening deficits by reducing the business tax

cuts. This time, it was business that reacted swiftly and decisively. The first week of June became "Lear Jet Week," as businessmen poured into Washington to flex their muscles in a show of unity so strong that they not only killed any threat of a tax increase but increased proposed business tax benefits by as much as \$40 billion over the next 10 years. Democratic opposition was crushed with the final House vote of 238 to 195 in favor of the bill.

#### **TEFRA of 1982**

The year 1981 passed into history with David Stockman admitting that there was a question whether the tax-cut

concepts would work. The five months lost in getting started would translate into a year or two lost in progress.

Since ERTA, the recession has deepened, even as inflation has been brought under control and the prime rate has come down. The press and the Democrats have become very displeased with the results of Reaganomics, moreover, and have seized on the one attention-getting economic indicator that has moved out of the administration's reach—the first double-digit unemployment in 30 years.

Reaganomics wasn't a failure; it just wasn't working yet. It never had been hailed as a quick fix, and its inception had been delayed. But the federal deficits were increasing, and the projected revenues were decreasing. Still, the president refused to make up the difference with defense cuts.

The strategy on which the administration decided was a stopgap. While it would not retreat from the tax cuts of 1981, it would propose revenue measures for 1982 to enhance cash flow, such as excise tax increases on tobacco and alcohol. Bob Dole was given the task of raising the \$100 billion needed to meet the budget short-fall. In exchange, he was promised by the Reagan staffers that they would not interfere with the strategy he chose for raising the revenue.

From the lobbyist's point of view, it was back to business as usual. If they wanted the impact against their client eased, they would have to suggest that it would be more fair to gore someone else's client. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) was passed with much cutting and snipping, and with little in the way of a coherent philosophy. The results of the 1982 mid-term elections were predictable: the Democrats won 26 House seats, no Senate seats, and around a half dozen governorships.

For the future, the most interesting development is that the president has steadfastly refused to cut defense spending. If he holds this course, and if the economy doesn't turn around, 1983 will bring another TEFRA. The philosophy will be to fix the problems with cash flow until the economy fixes itself. ▽

president's people, just as the testimony became too complex for Congress.

Finally, the power structure that made Congress's work flow was being dismantled by the members themselves. Before 1974, the seniority system allowed the two parties to rigidly control their management of committee business through a semipermanent system of allocating power to senior chairmen. Since 1974, the committees have elected their own chairmen, and now an additional layer of political maneuvering has replaced the old order. Congress could no longer manage itself, direct federal programs, nor synthesize the data it generated. What was needed was a trustworthy, off-line information system that would provide timely, succinct, and accurate advice on issues. Enter today's congressional lobbyist.

Today's lobbyist is a member of the Washington professional service corps, the industry sector which recently has outstripped the federal government as the largest employer in the capitol.

He or she is a professional, usually with a legal or political background, who represents a client's or organization's interest in matters pending before Congress. For a substantial fee, the lobbyist brings three talents to bear on a client's problem. He needs *judgment* to recognize what can be

done and to formulate an action plan. He needs *leadership* ability to direct the technicians, legal draftsmen, runners, and other lobbyists interested in the same issue. But access to the members of Congress is the key element.

When the mood of Congress starts to shift on an issue, the well-cultivated congressman will call his friend the lobbyist and warn him of impending danger. He calls because the lobbyist is his friend and confidant—maybe even the godfather of his children. But most of all, he calls because they have developed a mutual early warning system based on complete trust and integrity. The speed of the legislative process just before a vote is so great and so complex that complete trust between the member and the lobbyist is vital. Members will sandbag each other; but a lobbyist won't sandbag a member unless he is willing to make a lifelong enemy.

This is not to say that Congress has abnegated its responsibility to the hired guns of Washington. Each issue has many sides, and the congressman or his staff aides will get reports from all who are lobbying for or against an issue, as well as from many who would enlarge, contract, or redirect its scope.

Yet, as Sam Rayburn once said, the first law of Congress is "get reelected," and smart members make sure they have the lobbyists and their PACs behind them when they need them.

—Anthony J. Hope