

Are Divided Governments Good for the Country?: Echoes

By Joseph J. Thorndike *Aug 23, 2011 2:49 PM ET* [0 Comments](#)

"That government is best which governs least," Henry David Thoreau [said](#) in 1849. As [Amity Shlaes pointed out](#) this week, investors have generally agreed, bidding up stocks whenever Congress leaves town.

Even more striking, [Wall Street](#) has rallied when Democrats and Republicans split control of the federal government. Apparently, investors prefer bipartisan gridlock to single-party activism.

Or do they? Divided government isn't the same as paralyzed government. Sometimes, division fosters creativity, allowing fine public policy to emerge from partisan wrangling.

And sometimes it doesn't.

Consider the Tax Reform Act of 1986 -- the best piece of tax legislation enacted in the last quarter century. President [Ronald Reagan](#) deserves much of the credit for its enactment, having championed reform against long political odds.

But Reagan wouldn't have managed the feat without help from congressional Democrats. [Tax reform](#) is uniquely suited to divided government. It hinges on a fundamental bargain that splits naturally along party lines. In exchange for lower rates (a Republican priority), taxpayers give up loopholes and preferences (a Democratic goal, at least when the loopholes belong to business). In theory, the combination produces a simpler, fairer and more efficient system.

The lines of division shouldn't be overdrawn. For decades, both parties were complicit in creating a dysfunctional revenue code, supporting dubious tax breaks even at the cost of higher rates. But when it came time to fix the mess, partisan divisions were clear. Republicans argued for lower marginal rates and Democrats insisted on repealing tax breaks for businesses.

These differing priorities were an obstacle to reform, but they were also necessary to it. To succeed, the overhaul had to include both lower rates and a broader tax base. Neither element was politically viable by itself. And if, by some legislative miracle, Republicans or Democrats had managed to push through a narrow partisan bill, the resulting law would have lacked the economic merit of a balanced package.

Luckily, political leaders understood the need for compromise. Reagan and his congressional sparring partners exploited partisan divisions to draft a law featuring both elements of the tax-reform bargain. And the country was better for it.

These days, that spirit of compromise is hard to find in [Washington](#). "There will be pressure to compromise on tax increases," House Majority Leader [Eric Cantor](#) wrote [in a memo](#) sadly typical of the current environment. "We will be told that there is no other way forward. I respectfully disagree."

On the most basic level, compromise makes legislation possible. More importantly, though, it also makes laws durable.

"Since passing any measure in divided government requires bipartisan support, a shift in majorities is less likely to bring on serious changes or adulterations," the [Cato Institute](#)'s William Niskanen [wrote](#) in the *Washington Monthly* in October 2006.

"Reforms of real magnitude will almost certainly depend on preventing immoderation and securing bipartisan support."

The debt-limit debacle was a case study in the perils of intransigence. The nation averted disaster, but only barely. And only by kicking the can down the road. If we are ever going to solve our long-term debt crisis -- and keep it solved -- then lawmakers had better rediscover the virtues of compromise.

As Niskanen pointed out, "divided government is not the stuff of which political legends are made, but, in real life, most of us would take good legislation over good legends."

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