PARTY POLARIZATION FROM REAGAN TO THE PRESENT

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On May 17, 2012, Republican presidential candidate Mitt Romney spoke at a $50,000-a-plate dinner at the home of private equity magnate Marc Leder in Boca Raton, Florida. He told the wealthy donors “There are 47 percent of the people who will vote for the president no matter what. All right, there are 47 percent who are with him, who are dependent upon government, who believe that they are victims, who believe that government has a responsibility to take care of them, who believe that they are entitled to health care, to food, to housing, to you name it. That that’s an entitlement, and the government should give it to them. … These are people who pay no income tax. Forty-seven percent of Americans pay no income tax. … And so my job is not to worry about those people – I'll never convince them that they should take personal responsibility and care for their lives.” (MoJo News Team 2012)

Romney did not intend his remarks to be heard outside of his wealthy audience. However, a bartender surreptitiously recorded his remarks. Four months later, he released the recording to the press. With media coverage escalating, Romney’s remarks became well known to most Americans, and were probably the basis for his 2012 election defeat. In a hastily called new conference responding to the video, Romney defended his remarks as saying simply that emphasizing tax cuts would be an ineffective campaign strategy, because almost half of Americans paid no federal income tax. He also said “The president believes in what I’ve described as a government-centered society, where government plays a larger and larger role, provides for more and more of the needs of individuals. And I happen to believe instead in a free enterprise, free individual society where people pursuing their dreams are able to employ one another, build enterprises, build the strongest economy in the world.” (Mehta 2012)

Romney’s remarks are important here because they illustrate the ongoing nature of the partisan divide in America. They show the class-based struggle over two distinct visions of the American social contract. As discussed previously, the Founders social contract held that the chief purpose of government was to protect the property of the commercial class from the ravages of popular democracy (e.g., taxes, redistribution, regulation). Indeed, early American government not only protected the commercial class, but also promoted it through favors to creditors, tariffs, subsidies, and a tax system where the wealthy paid little. Until the income tax amendment in 1913, the mass public paid virtually all federal taxes through high excises and duties. Thus, the free enterprise system of the Founders was not actually free. Rather, it cost the masses substantially to support a government promoting the propertied class.

In contrast, the New Deal social contract envisioned the nation as a community that protects all of its members, rich and poor, young and old, regardless of religion, gender, ethnicity, or race. Starting in 1933, the federal government increasingly leveled the playing field with a more progressive tax system, social programs, regulation, and various protections from market evils. However, some did not perceive this expansion of government as business friendly. The tax burden for supporting these initiatives shifted upward. Constraints on economic activity affected the commercial class more than the masses. Reversing the situation from earlier America, many Americans were no longer required to pay income taxes. Indeed, government subsidized the poor, elderly, and even the middle class and wealthy through various tax expenditures (Tax Policy Center 2014).

Romney’s remarks suggested that he wanted a return to a [not so] free enterprise system that would again favor his wealthy patrons, who might in turn take care of the masses through employment and charity. As with many of the Founders (see chapter 2), Romney’s remarks showed a class based disdain for common Americans, and an intention to exclude them from community benefits. More generally, Romney’s remarks to his wealthy donors reflected his support for the Founders’ social contract and contempt for the new social order.

The basis of modern party polarization is the ongoing debate over the relative legitimacy of the two social contracts.

Rebuilding Support for the Founders’ Social Contract

The Great Depression and New Deal almost ended support for the Founders social contract. Markets and the prevailing political regime failed to provide for the general welfare. After 1929, Americans held virtually all business and Republican leaders in very low esteem. Misery was abject and widespread during the depression, and left an indelible imprint on the American psyche. The Republican brand was tarnished for almost fifty years. As a result, many Republicans became more like Democrats from 1933 through the mid-1970s. Their New Republicanism even extended the New Deal during the Eisenhower and Nixon administrations. A consensus existed among Democrats and most Republicans through this period that the federal government was indeed responsible for the welfare of all Americans. They differed only in *how* this was to be achieved, not *whether* it should be achieved.

However, a residual of Old Guard Republicans remained. As noted in the previous chapter, the most visible standard bearer for the Old Guard was Arizona Senator and presidential candidate Barry Goldwater. Failing to win the presidency in 1964, his mentee, Ronald Reagan, ran for president in 1968 and 1976. However, in an era when liberalism remained popular, Americans considered them too extreme.

After two failed attempts, Reagan finally won the presidency in 1980, initiating the modern era of party polarization. Reagan's election marked the start of renewed support for the Founders social contract. Reagan questioned Keynesian economics, the progressiveness of the federal tax system, regulatory programs, the legitimacy of social programs, bureaucratic inefficiency, and big government generally. Republican support for Reagan's more conservative perspective grew steadily starting in the 1980s to peak at the present.

The Aftermath of Watergate

To understand how such a sharp turnaround in American politics could occur, we must first understand the period following Watergate. Nixon's resignation brought disgrace to Republicans, especially the moderate base from which he came. As a result, Old Guard Republicans increasingly dominated the Republican Party after 1974. Their ascendance involved rebranding the party and its philosophy. Selling the rebranded Republican philosophy was made easier by poor economic conditions and adverse world events near the end of the 1970s. Selling the rebranded Republican philosophy also required an intellectual basis, money, and a public face. Accordingly, conservative intellectuals, wealthy donors, religious activists, Old Guard Republican politicians, and an actor-turned-politician named Ronald Reagan drove the Republican transformation.

Nixon's resignation on August 9, 1974 was followed by the first non-elected president in American history. His Vice President, Spiro Agnew, had himself been forced to resign on October 10, 1973. Agnew had been charged with accepting bribes of more than $100,000 while serving as Baltimore County Executive, Governor of Maryland, and Vice President. The federal prosecutor filing the charges allowed Agnew to plead no contest to a single charge of failing to report $29,500 of income in 1967, under the condition that he resign. Nixon replaced Agnew by appointing House Republican Minority Leader Gerald R. Ford of Michigan (under the the 25th Amendment).

The Watergate scandal, along with the resignation of Nixon's Vice President, increased the perception of party corruption. As a result, it became less popular to be a Republican. This fact is strongly reflected in opinion poll data. Figure 6.1 plots the respective annual average party identification of Republicans, Democrats, and Independents from 1939 through 2012. The dashed vertical line marks 1973, the year the scandal broke. The graph shows that Republican Party identification had been declining from 1939 to 1973. However, the percent identifying as Republican dropped to the lowest level in Republican Party history afterward. The year after Nixon's resignation only 21 percent of Americans identified as Republicans. Furthermore, the percentage of Americans identifying as Republicans continued at about this same low level through 1980. Interestingly, there was a corresponding increase in Democratic Party identification and a slight decline in Independent identification during this period.

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As president, Ford did little to help the Republican image. Soon after being sworn in, he nominated liberal Republican Nelson Rockefeller to be his vice president. Conservatives were very unhappy with Ford's choice. However, the president believed that Rockefeller would broaden the appeal of Republicans in the upcoming 1976 presidential race. The Senate confirmation hearings proved embarrassing once again for Republicans. Descended from the Rockefeller family that had accrued enormous fortunes through banking and oil in the late 19th and early 20th Centuries, he was exceedingly wealthy. The hearings uncovered large gifts to senior Nixon administration aides, including Henry Kissinger, and he had also secretly financed a defamatory biography of one of his political opponents. Rockefeller had also not paid all of his taxes. Nevertheless, the Democratic Senate confirmed him (*Time* 1975).

A much more unpopular action by President Ford, and one that probably cost him the 1976 election, was his quick pardon of Richard Nixon. On September 8, 1974, roughly one month after being sworn in as president, Ford issued Proclamation 4311 granting “a full, free, and absolute pardon … for all offenses against the United States which he … committed or may have committed or taken part in … while in office.” (Ford 1974b)

Ford’s pardon of Nixon was very controversial, with many believing that a “corrupt bargain” had been struck in exchange for his assuming the presidency (e.g., see Woodward 1999, chapter 1). A Roper Center opinion poll in September 1974 showed that only 30 percent of Americans approved of Ford’s action in pardoning Nixon (Roper 1974). A Harris poll conducted the same month showed that 60 percent of Americans believed that it was wrong to pardon Nixon (Harris 1974). Yet another poll asked “Do you feel that President Ford has or has not told the country the whole truth about the pardon of former President Nixon?” Over 70 percent of respondents answered he “has not.” (*Time/*Yankelovich 1974) Thus, Ford’s pardon of Richard Nixon left a residual of distrust that was at least partially responsible for his defeat in the 1976 election.

Neoconservatives, some of whom were Democrats later turned Reagan Republicans, were also displeased with President Ford in other respects. They disliked his retention of Secretary of State Henry Kissinger, who had pursued a policy of détente with the Soviet Union. A rising cadre of neoconservatives believed that America should be more aggressive in fighting communism, and advocated U.S. dominance around the world (Vaisse 2010, chapter 4). Ford was also a supporter of other policies disliked by conservatives, including the Equal Rights Amendment for women (Ford 1975), increased taxes on corporations and wealthy individuals (Ford 1974a), and several important environmental protection measures (Wikipedia 2014b). Ford later identified his position on abortion as pro-choice (Larry King 2001).

Predictably, conservatives did not back Ford's 1976 election attempt. Instead, they put forward their own candidate Ronald Reagan. Moderate Maryland Republican Senator Charles Mathias considered entering the race as a moderate alternative to Ford, and was critical of the conservative wing's Southern Strategy. He also expressed concern about the state of the Republican Party, specifically noting its shift to the right. Referring to Reagan, he remarked that the party leadership was moving "in further isolation, in an extreme – almost fringe – position." (Washington Post 2010) The primary campaign between Ford and Reagan was close, with each candidate winning many states. Going into the Republican National Convention, the outcome was too close to call.

The 1976 Republican Convention was the last not predetermined before the convention. Each candidate attempted to woo convention delegates. Ford narrowly won after dropping liberal Nelson Rockefeller and selecting Kansas Senator Bob Dole as his running mate. The 1976 Republican platform included several other concessions to conservatives. Responding to the Supreme Court's 1973 Roe v. Wade decision, the platform called for "a position on abortion that values human life." In another gesture toward the emerging Religious Right, it asserted that "Our great American Republic was founded on the principle: One nation under God, with liberty and justice for all." Segments of the platform also mentioned excessive business regulation, high taxes, and advocated decreased environmental protection (Republican National Committee 1976). The outlines for the rebranded Republican Party were beginning to take form at the time of the 1976 Republican Convention, but the platform remained fairly moderate.

The general election outcome was close, with Georgia Democrat Jimmy Carter winning only 50.1 percent of the popular vote and 297 electoral votes. Ford won 48 percent of the popular vote and 240 electoral votes. As a Southerner, Carter carried a majority of the Southern states, thereby nullifying the Republicans' Southern Strategy. Carter ran as a conservative Democrat, and a Washington outsider untainted by the Watergate scandal. In contrast, many were suspicious of President Ford's pardon of Nixon. More generally, the failure of a moderate Republican to win the 1976 election facilitated the ascendance of the Old Guard within the Republican Party.

A Conservative Intellectual Counter-Revolution

Rebranding the Republican Party and philosophy was further enabled by the emergence of a conservative academic program, dubbed the Chicago School of Economics. The Chicago School pushed the intellectual basis for free markets. Its philosophy was rooted in a reaction against Keynesian economics, New Deal liberalism, and the Great Society. Kaufman (2010, 133) characterized the Chicago School as having "an uncompromising belief in the usefulness and insight of neoclassical price theory, and a normative position that favors and promotes economic liberalism and free markets."

Even in the depths of the Great Depression, economists at the University of Chicago were the chief defenders of classical free market economics. The most influential early University of Chicago economists were Jacob Viner, Henry C. Simons, and Frank H. Knight. Viner was an advisor to Roosevelt's Treasury Secretary, Henry Morgenthau, but he was also a noted opponent of Keynesianism. Simons was a libertarian who consistently defended laissez-faire (Simons 1934, 40-77). Similarly, Knight challenged government intervention in the economy and efforts to engineer society, arguing that there probably was "no answer to the business cycle: maybe we have to let it take its course." (University of Chicago Centennial Catalogues 2014). Knight was the Ph.D. advisor to three Nobel Laureates, Milton Friedman, George Stigler, and James M. Buchanan. Friedman was later the Ph.D. advisor to William Niskanen, a prominent official in the Reagan administration, and later director of the libertarian Cato Institute.

The leader of the Chicago School movement was clearly Milton Friedman. Friedman spent decades campaigning on behalf of the macroeconomic approach known as monetarism. Monetarism took direct aim at Keynesian economics. Keynes had argued that under depression conditions, when businesses are psychologically disinclined to invest even with low interest rates, changes in the money supply can have little effect on the economy (Keynes 1936, chapters 13 and 15). Accordingly, Keynes argued that fiscal policy was the better tool for combatting a depression (Krugman 2007). In contrast, Friedman argued that the Federal Reserve (FED) should pursue a hands-off approach and not attempt to rationally control the economy through either fiscal or monetary policy.

According to monetarism, the money supply should grow at a slow steady pace, rather than attempting to prevent cyclical fluctuations (Friedman 1960).

Friedman's book with Anna Schwartz, entitled *A Monetary History of the United States, 1867-1960* was seminal to the debate. They argued that the depth and duration of the Great Depression did not demonstrate a failure of the free market system (1963, 407-419). Rather, they claimed that the ineptness and bungling of government decision makers, notably the FED, in responding appropriately to an economic downturn was responsible. According to Friedman, the 1929 market crash was a serious shock to the economic system, but the depth and duration of the Great Depression were wholly preventable. Adherence to poor monetary policies, and an absence of decisive action by the FED to supply adequate bank reserves after the market crash and multiple banking panics greatly exacerbated the Great Depression. Thus, according to Friedman, "money matters" even during times of depression.

Friedman was very effective in promoting monetarism through the 1970s. By 1979, the U.S. Federal Reserve and the Bank of England had adopted his monetarist approach. However, Friedman's *passive* monetarism was quickly abandoned in the early 1980s as the U.S. experienced the worst recession since the Great Depression. Nevertheless, Friedman convincingly established the notion that "money matters", resulting in *active* management of the money supply by the Federal Reserve to the present.

Beyond Friedman's contributions to popularizing monetary economics, he was also an ideologue opposed to government intervention in the economy. He first became known as an ideological advocate of free-market economics in 1945 when he published a book with Simon Kuznets advocating elimination of state licensing procedures for doctors (Friedman and Kuznets 1945). A year later, he published a pamphlet with George Stigler advocating elimination of post-World War II rent controls (Friedman and Stigler 1946). The pamphlet was published by the Foundation for Economic Education (FEE), an organization Rick Perlstein later characterized as spreading “a libertarian gospel so uncompromising it bordered on anarchism.” (Perlstein 2001, 113-114)

In ensuing decades, Friedman consistently pushed for free market solutions to problems that most others thought required government intervention, including legalizing illegal drugs, abolishing the Food and Drug Administration, privatization of public education and all health care, markets in the right to pollute, and a negative income tax to address poverty (Krugman 2007). In 1980, Friedman pushed his libertarian philosophy in a book coauthored with his wife that became a ten part television series broadcast on PBS, entitled *Free to Choose* (Friedman and Friedman 1980).

Free to Choose became a blueprint for many of Ronald Reagan’s domestic policies (Ebenstein 2007, chapter 21). Friedman prepared several other policy papers even before Reagan was elected. Starting in 1981, he was a member of Reagan’s Economic Policy Advisory Board. He was socially connected with many officials in the Reagan administration, including Treasury Secretary Donald Regan and Labor Secretary George Schultz. Reagan often referred to Friedman in his regular radio addresses. Speaking before the National Conservative Political Action Committee (NCPAC), Reagan referred to Friedman as an intellectual leader “who shaped so much of our thoughts.” (Ebenstein 2007, 206) Reagan presented Friedman with the Presidential Medal of Freedom in 1988. More generally, Friedman was perhaps the most important advocate of free market economics of the twentieth century (*Concise Encyclopedia of Economics* 2008).

Several of Friedman's Chicago School colleagues also contributed to the intellectual basis for rebranding the Republican philosophy. George Stigler (1972) published "The Theory of Economic Regulation." He argued that government regulation usually results in agency capture by the regulated, thereby subverting the public interest. Stigler's theory also suggested that most government regulation reduces economic efficiency, thereby hurting the public. Along with Milton Friedman and the Austrian economists Friedrich Hayek and Ludwig Von Mises, Stigler was a founding member, of the libertarian Mont Pelerin Society that always advocates free market values (Novak 2012, 294).

Also of the Chicago School, James M. Buchanan co-founded with Gordon Tullock the subfield of political science and economics called "public choice." (Buchanan 2015) Public choice economics argues that the pursuit of self-interest by governmental actors generally leads to harmful results for the public. Among those harmful results are large public deficits and debt, as well as entitlements that place obligations on future generations that are difficult to honor (e.g., Social Security, Medicare). Buchanan blamed Keynesian ideas for excessive government spending during the 1960s and 70s, high taxes, large debts, big government, and excessive regulation (Buchanan 1977).

Finally, William A. Niskanen was another architect of Ronald Reagan's economic program and a member of his Council of Economic Advisors. His most prominent academic work was *Bureaucracy and Representative Government* (Niskanen 1971). Using mathematical modeling, this and later work (Niskanen 1971, 1975) purported to show that bureaucrats always seek to maximize their budgets. Because legislative oversight is weak or missing, bureaucracies have a distinct advantage over Congress, resulting in budgets that are consistently too large. Niskanen's work on bureaucracies and budgets was largely discredited by later academic work (Blais and Dion 1991; Wood 2010). Nevertheless, his ideas were influential of Reagan's vigorous attack on bureaucracy and big government. Upon leaving the Reagan administration in 1985, Niskanen became the long-time chairman of the libertarian Cato Institute.

Money Paired with Conservative and Religious Activism

Another factor supporting the rebranded Republican Party was a cadre of wealthy conservative activists who supplied large amounts of money and support for Republican causes in the late 1970s. A growing and synchronized group of foundations deliberately set about the task of restoring support for free markets as a dominant force in American governance, political culture, and civic life (O' Connor 2010, 121-127). They wanted to cultivate an ethos of anti-tax, anti-regulatory, anti-bureaucracy, and free enterprise friendly approaches to government.

A few free market foundations had continued since the New Deal, including FEE, the Earhart, W. H. Brady, Volker, and J. Howard Pew Foundations. However, these were joined in the 1970s by the Coors, Koch family, Smith Richardson, Scaife, Bechtel, Lilly, De Vos, J.M., Castle Rock, Bradley, and the Olin Foundations. "In 1976, Nixon's former Treasury Secretary, Knight of Malta and Opus Dei supporter, William Simon, was appointed head of the Olin Foundation. Simon established "clearinghouses" for corporate donations" through the Olin and other foundations (Clermont 2009, 40) Big money now supported Old Guard Republican causes.

Some of the activist donors were also religious zealots. As such, they sought to link the Keynesian revolution, the welfare state, and the "creeping socialism" of the New Deal and Great Society with immorality in America. The idea was to mobilize the fundamentalist religious community with an ideology teaching that regulation, social programs, and big government were somehow un-Christian and ungodly. Linking these concepts with traditional family values and hatred for abortion, pornography, and homosexuality made their task easier. This approach also played well with the Republican Southern Strategy, because a concentration of fundamentalist White Christians in the South strongly resented the civil rights movement and social programs of the 1960s. Hence, there was an implicit racial component to linking the Democrats' social programs with immorality (Balmer 2007, 5-17).

In pursuing this approach, the conservative foundations created an infrastructure of think tanks, advocacy groups, and media outlets to break liberalism's strong hold on American civil society (O' Connor 2010, 133-134; Ricci 1994, 167-168). The most important of the think tanks were the Cato Institute, the American Enterprise Institute, and the Heritage Foundation. The libertarian Cato Institute was funded by the Koch family, Olin, Scaiffe, Coors, and Bradley Foundations. Big donors to the pro-business American Enterprise Institute included the Smith-Richardson, Olin, Scaife, and Bradley Foundations. However, the most influential recipient by far of conservative funding was the Heritage Foundation.

Joseph Coors, Edwin Feulner, and Paul Weyrich founded the Heritage Foundation in 1973. Coors provided the initial financing of $250,000. Subsequently, John Mellon Scaife contributed $900,000, followed by substantial support from oil tycoon Edward Noble and the John M. Olin Foundation. The Heritage Foundation also received support from various corporate sponsors, including automobile manufacturers, coal, oil, chemical, and tobacco companies (Smith 1991, 200).

Beyond supporting free market causes, the Heritage Foundation actively promoted religious values. Its founder, Paul Weyrich, often spoke to audiences of fundamentalist leaders about his policy positions and was highly influential in mobilizing the Religious Right (Hudson 2008, 70-72). In turn, Religious Right organizations regularly distributed voters' guides comparing Republican and Democratic candidates in and around evangelical churches before elections. These guides typically included references not only to moral issues, but also espoused the anti-government, anti-tax, free market positions of conservative foundations (Black and Black 2002, 251-252).

Important conservative advocacy groups of the late 1970s were NCPAC (cofounded by closeted gay Christian conservative Terry Dolan), the Conservative Caucus (headed by evangelical Christian Howard Phillips), and the Committee for the Survival of a Free Congress (headed by the Heritage Foundation's Paul Weyrich)(see *Time* 1979). A Greek Catholic, Weyrich openly advocated uniting Protestant fundamentalists and Catholic ethnics into a political bloc by emphasizing emotional "family issues." (Clermont 2009, 42) He was also the leader in defining what constituted "family issues" – including abortion, pornography, and homosexuality – to mobilize voters who were not necessarily conservative on other issues.

In 1977, Paul Weyrich and Robert Grant founded the first Religious Right advocacy group, Christian Voice. The impetus for its formation came from several California anti-gay and anti-pornography groups affiliated with the Unification Church led by the Reverend Sun Myung Moon. Evangelical minister Pat Robertson, who later founded the Christian Coalition, provided early financial support (Smith 2014, 99-100). Christian Voice operated directly out of the Heritage Foundation. However, a nasty fight erupted between the group and the Foundation leading to its eviction. Soon afterward, Paul Weyrich cofounded, with the Reverend Jerry Falwell, the Moral Majority (Lernoux 1989; Rossi 2007, 109-110).

The Moral Majority was an umbrella organization that included Baptists, Catholics, Mormons, and Orthodox Jews. In his television ministry, Falwell regularly connected the defense of free markets and limited government with morality and family values in America. His stated goal was “To defend the free enterprise system, the family, Bible morality, and fundamental values.” (Clermont 2009, 42)

The Moral Majority, the Christian Voice, the Religious Roundtable, and the National Christian Action Coalition all originated in the late-1970s with the goal of bringing morality back to America. They also sought to create a populist backlash against the progressive economic policies of the New Deal and Great Society by depicting them as somehow immoral and ungodly (Clermont 2009, chapter 4). During the 1980 election, the Religious Right formed an important voting bloc, a network of grassroots workers, and funding for Ronald Reagan.

Changes in election law in the 1970s helped the big donors and activists be more influential (Corrado 1997; Mann 2003). Congress passed the Federal Election Campaign Act (FECA) of 1971 to strengthen reporting requirements for candidates, Political Action Committees (PACs), and parties; the bill also retained a long-standing ban on corporate and labor union contributions. However, Congress amended the FECA in 1979 by allowing state and local parties to solicit corporate and union donations and spend an unlimited amount on voter registration and get out the vote drives. Then, a series of FEC administrative decisions in 1978 and 1979 enabled the national parties to solicit unlimited funds from corporations, unions, and individuals for these purposes. The result was the emergence of so called “soft money” in federal elections (Corrado 1997; Mann 2003).

The Reagan campaign was the first to raise and spend significant amounts of soft money in a presidential election. In 1980, the Republican Party spent roughly $15 million in soft money, while the Democratic Party spent about $4 million (Corrado 1997, 172-173; Mann 2003, 14a). The disparity was even starker when considering independent spending by Political Action Committees (PAC). Ideological and fundamentalist Christian PACS spent large amounts of money. Taking the difference between the independent PAC money spent for Reagan and Carter and the independent PAC money spent against Reagan and Carter in 1980, Reagan was up by well over $12 million, while Carter was down by about $199 thousand (Ricci 1994, 176-177).

Public Dissatisfaction with the Economy and the Iran Hostage Crisis

By 1980, Old Guard Republicans had a new intellectual basis, wealthy supporters, and a cadre of zealous workers committed to their cause. However, they had not yet persuaded a significant number of Americans that it was righteous to be a Republican. As shown earlier in Figure 6.1, the percentage of Americans identifying as Republicans in 1979 was only 21 percent, and had risen to only 23 percent by 1980. In contrast, the percentage of Democratic identifiers had increased to around 45 percent, while Independent identifiers remained stable. Thus, a confluence of conditions was needed for the Old Guard to be successful in the 1980 elections.

That set of conditions came from a poor economy and public dissatisfaction with how the Carter administration had handled economic and foreign policy issues. Figure 6.2 tracks the state of the economy with regard to inflation and unemployment from 1945 through 2012. The shaded areas mark economic recessions. Dashed vertical lines mark the dates for two foreign policy events affecting the economy, the 1973 Arab oil embargo and the 1979 oil shock due to a cut off in Iranian production after the Iranian revolution.

INSERT FIGURE 6.2 ABOUT HERE

The figure shows that starting in the late 1960s, and accelerating in the 1970s, inflation became a major problem. The inflation rate increased through this period from less than 3 percent in 1967 to around 13.5 percent in 1980. The two foreign policy events strongly affected the rise in inflation. The 1973 oil embargo resulted in long lines at gas stations, and widespread public anger. In response to the embargo, Nixon imposed gas rationing and price controls. Oil was a very important input to industrial processes, heating and cooling homes, and fueling automobiles. With the price of raw industrial inputs, energy, and fuel increasing, general price levels increased.

As shown by the shaded area of Figure 6.2, the inflation increase also coincided with an economic recession between 1973 and 1975. By 1978, inflation remained high, running at about 7.6 percent. However, the 1979 oil shock sparked an even more serious rise in inflation that lasted from 1979 through 1981. The inflation of 1979 was again followed by a recession during the 1980 election year.

While inflation was rising people were losing their jobs. Figure 6.2 shows that unemployment rose steadily from a healthy 3.5 percent in 1969 to peak at around 7.1 percent during the 1980 election year. This phenomenon of simultaneous high inflation and unemployment has been called stagflation. According to prevailing economic theory at the time, inflation and unemployment were not supposed to increase together due to the operation of the Phillips (1958) curve. The Phillips curve predicted an inverse short-run relationship between inflation and unemployment (Chang 1997).

More important politically was the effect of stagflation on economic misery. Americans experienced widespread economic dissatisfaction due to higher prices and joblessness. President Carter received much of the blame for these conditions. A Gallup Poll administered in September 1980 found that about 60 percent of Americans disapproved of "the way Carter is handling our domestic problems – that is, our problems here at home?" (Gallup 1980a) Another Gallup Poll administered in October 1980 reported that over 50 percent of Americans believed that the most important problem facing the nation was "Inflation/high cost of living/high prices/ economic situation/taxes." (Gallup 1980b)

President Carter's handling of the Iran hostage crisis also diminished presidential support at the time of the 1980 elections. In 1979, the Iranian Revolution brought to power a religious regime under the leadership of the Ayatollah Ruhollah Khomenei. Supporting the Ayatollah, student revolutionaries captured and held hostage 52 U.S. citizens from the American Embassy. President Carter engaged in patient negotiations with the Iranians to secure the release of the hostages. An abortive military attempt was also made to rescue the hostages. The Iranians held the American hostages for 444 days, during which time there was continuous media coverage, highlighting the president's failure. The hostages were finally released the day Ronald Reagan was inaugurated.

While not the most important issue of the 1980 election campaign, the evidence shows that the president's failure to secure the hostages' release weighed heavily on the electorate. A NBC News/Associated Press poll in October 1980 reported 55 percent of

Americans disapproving of how President Carter had handled the hostage situation (NBC News/Associated Press 1980). A Cambridge Reports National Omnibus Survey the same month showed that around 77 percent of likely voters considered the Iran hostage crisis very important to their votes (Cambridge Reports 1980).

Ronald Reagan and the Start of Modern Polarization

Against this backdrop, Ronald Reagan won the presidency in 1980 espousing the most conservative views of any president since 1928. Of course, Reagan had failed voicing the same philosophy in 1964 in support of Barry Goldwater, and when he ran for president in 1968 and 1976. What had changed in between were the Republican Party and the mood of the country. Old Guard Republicans now dominated and the mood of the country had soured toward the incumbent president.

However, support for Reagan's more conservative perspective was neither immediate nor substantial. Moreover, it was *not* the basis for his election. Americans were no more willing in 1980 to accept the pre-New Deal social contract than they had been in 1933. There was no public outcry to repeal Social Security, Medicare, unemployment benefits, the FDIC, the forty-hour workweek, the minimum wage, securities regulation, environmental protection, or the plethora of other social and regulatory programs enacted between 1933 and the 1970s. However, the economics and politics of the 1970s had produced doubts about the ability of Democrats to deliver the Great Society.

Reagan used those doubts over the next eight years to nip at the foundations of the new social contract, particularly as it pertained to the progressiveness of the federal tax system, the size of government, alleged bureaucratic bloat, the legitimacy of social programs, and the pervasiveness of government regulation. Early Reagan administration policy initiatives in each of these areas stealthily tipped the scales back toward the propertied class with respect to who benefitted from government.

The 1980 Elections

The 1980 elections did *not* reflect a massive upsurge of popular support for these positions or for the Republican Party. In the three-candidate presidential race, the vote percentages were 50.8 percent for Reagan, 41 percent for Carter, and 6.6 percent for John Anderson. The Republicans gained control of the Senate, 53-46, for the first time since 1954. Despite the gain, Republican Senate candidates actually lost the popular vote by over four million votes (Wikipedia 2015b). The Democrats lost 35 seats in the House, but still retained strong control of the House of Representatives by a majority of 243-192. However, many of the remaining Democratic House members were from the South and sympathetic to the conservative agenda.

Interestingly, polling data a few days before the election showed that Carter had a significant lead over Reagan. A CBS News/New York Times poll conducted on October 26-27, 1980 put their respective percentages at 42 percent for Carter, 39 percent for Reagan, and 8 percent for Anderson (CBS News/New York Times 1980a). However, an exit poll of 15,201 actual voters conducted by CBS News/New York Times the day of the election reported that 25 percent of voters actually decided their vote in the last week (CBS News/New York Times 1980b). Most of the late deciders voted for Reagan, producing what at the time was considered a surprising outcome.

One factor that hurt Carter was Democratic Party dissension, with a significant faction feeling that Carter was too conservative and had been an ineffective leader. An opposition liberal candidate, Massachusetts Senator Edward Kennedy, entered the race early in the primary season. Carter defeated Kennedy in 24 of 34 primaries and went into the convention with a sizable majority of the delegates. However, Kennedy refused to concede, even attempting to manipulate the rules of the convention to free Carter's delegates. A short-lived "Draft Edmund Muskie" movement occurred in June before the convention in case it became deadlocked. One poll showed that Muskie would be a more popular alternative than Kennedy, implying that the attraction was not so much for Kennedy, but that Muskie was not Carter (Robbins 2008).

The Democratic Party split materialized in the actual vote. According to the same CBS News/New York Times exit poll conducted the day of the election (CBS News/New York Times 1980b), 26 percent of Democrats voted for Reagan, with another 6 percent voting for Anderson. Around 27 percent of liberals voted for Reagan, with another 11 percent voting for Anderson. Among Democrats, 24 percent of those favoring Kennedy in the primaries voted for Reagan. Among labor union households, 44 percent defected to Reagan (Clymer 1980).

Another factor hurting Carter's chances was the presence of third party candidate, Illinois House member John Anderson. A liberal Republican, Anderson ran as an Independent and did not win a single state. He represented a liberal alternative to both Carter and Reagan. As such, he drew voters away who would normally have voted Democratic. Anderson received most of his support in New England. His strongest showing was in Massachusetts, where he won 15% of the popular vote.

Reagan won all states of the Deep South except Carter's home state of Georgia, thereby revalidating the Republicans' Southern Strategy. Reagan carried all states in the Northeast except Maryland and Rhode Island. In the remainder of the country, Reagan won all states except Minnesota, Hawaii, and West Virginia. All total, Reagan won 44 states with 489 electoral votes versus Carter's 6 states plus Washington, D.C. for 49 electoral votes. It was a lopsided electoral vote outcome.

The meaning of the election was a matter of debate for some time after. One analyst examining the CBS News/New York Times exit poll data (CBS News/New York Times 1980b) concluded that the results implied a profound displeasure with Carter, rather than an acceptance of Reagan and his more conservative agenda (Clymer 1980). The exit polls showed that 38 percent of voters leaving the voting booth gave as their main reason for voting for Reagan "It's time for a change." Half of the 38 percent cited inflation as the most important campaign issue. The "It's time for a change" explanation was given more than twice as often as any other reason, and dwarfed the 11 percent who checked "He's a real conservative." Another 15 percent of Reagan voters selected "No reason at all." All of these percentages suggest a non-ideological election, rather than a swing in popular sentiment toward the Republican Right.

Academicians reached similar conclusions. Pomper (1981) evaluated the exit polls and other data and concluded that the 1980 election was a referendum on (and rejection of) Carter and the Democrats in being able to keep the country prosperous (see also Hibbs 1982; Lipset and Raab 1981; McWilliams 1981; Schneider 1981). More generally, Himmelstein and McRae (1984) showed that Reagan won the 1980 election by retaining the loyalty of traditional Republican voters, while gaining substantial support from voters who in 1976 had voted Democratic or not voted at all. Drawing on the 1980 National Election Study (NES), they showed that these voters were not disproportionately social conservatives, more religiously oriented, or more alienated from government.

Thus, the 1980 election was fundamentally a referendum on Jimmy Carter. With high inflation, soaring gas prices, an election year recession, the Soviet invasion of Afghanistan, and sagging national confidence due to the protracted Iran hostage crisis, the majority of Americans were ready to toss the president out. The Republican candidate, Ronald Reagan, was the beneficiary of this negative sentiment.

The Heritage Foundation and the Transition to Governing

While the 1980 election did not represent a fundamental shift in the ideology or loyalties of the American electorate, it did present an opportunity for a partial revival of the Founder's social contract. The Reagan administration team hit the ground running toward this end. The major reason the Reagan team got off to such a fast start was the preparatory work of the Heritage Foundation.

In the summer of 1980, the Heritage Foundation produced an 1,100 page report entitled *Mandate for Leadership: Policy Management in a Conservative Administration* (Heatherly 1981). The report included 32 papers authored by Heritage Foundation selected experts on how to shift policy in a conservative direction. Released to the Reagan transition team in November 1980 before it was published, it became the basis for many Reagan initiatives (Fuelner 1981).

Recommendations of the Heritage Foundation report were what might be expected from an ultra-conservative think tank. It called for reductions in the food stamp, school lunch, and other nutritional programs (Paarlberg 1981). The report proposed curtailing the activities of the Office of Civil Rights in the Departments of Education and Health and Human Services (Docksai 1981; Winston 1981). Concerning the Department of Justice, the report called the Civil Rights division one of the "most radicalized divisions of the Justice Department," recommending a curtailment of affirmative action programs, and a repeal of President Johnson's Executive Order 11246, requiring government contractors to "take affirmative actions to ensure" nondiscriminatory treatment (Hammond 1981). It suggested abolishing the Department of Education or transferring many of its functions to the state and local levels. The report proposed having the Department of Commerce take the lead in reducing business regulation (Bradford 1981).

Concerning the Food and Drug Administration, the Heritage Foundation report recommended easing the burden on drug companies for bringing new drugs to market, and relaxing regulatory standards for food safety. It proposed widespread reductions in money and personnel for the Department of Housing and Urban Development, as well as relaxing regulatory standards in home construction, lead based paint, and fair housing (Wall 1981). The report characterized the Labor Department as an advocate for organized labor, and called for a less conflict-oriented approach to regulating worker safety and health (Hunter 1981). It called for the National Highway Traffic Safety administration to exercise greater regulatory caution, and consider auto industry profitability by honoring market-based decisions on new auto safety enhancements (Swain 1981).

The Heritage Foundation report railed against excessive regulation and the costs for the U. S. economy. Twelve of the papers proposed abolishing or reining in specific independent regulatory agencies, including the Civil Aeronautics Board (CAB), Interstate Commerce Commission (ICC), Commodity Futures Trading Commission (CFTC), Consumer Product Safety Commission (CPSC), Federal Communications Commission (FCC), Federal Election Commission (FEC), Federal Maritime Commission (FMC, National Transportation Safety Board (NTSB), Securities and Exchange Commission

(SEC), and Federal Trade Commission (FTC). The FTC was a particular target of the report, because it was viewed as very “pro-consumer” and “anti-business.” The Heritage Foundation recommended divestiture of the FTC’s anti-trust function, and a narrowing of its rulemaking authority to preclude rules encompassing entire industries (Hinish 1981). A much longer paper was issued for the Environmental Protection Agency (EPA), indicating its importance to curtailing what the group considered excessive business regulation (Hinish 1981).

Recognizing that it would be difficult to deregulate legislatively, the Heritage Foundation report called for the new president to use an “administrative presidency” strategy (Nathan 1983). The appointment power was to be used to fill each agency’s leadership with appointees sympathetic to the right wing perspective. The new president was to issue executive orders wherever possible. Finally, the new president was to choose targets of deregulation selectively. In particular, the recommendation was that the president focus on the EPA and its clean air standards, rather than on minor agencies.

The chapter on the Treasury Department contained the core recommendations for tax policy. It advocated the wholesale application of supply-side economics. The report called for a drastic overhaul of the tax system to move the tax code away from progressivity and toward a flat tax. Across the board personal income tax rate reductions (resulting in much more income for high-income groups) were recommended to increase the incentive for saving and investment. To increase savings and investment, the report advocated excluding some percentage of interest, savings, and dividends from taxation. Concerning businesses, the report called for accelerated depreciation allowances to increase their investable income and bolster profitability. Corporate income taxes were to be reduced. The capital gains tax was also to be cut (Ture 1981).

According to the authors of the report, the Reagan administration had implemented or initiated implementation of about 60 percent of the Heritage Foundation recommendations by the end of the first year, with more to follow. Many of the authors of the report also became officials of the Reagan administration, including Education Secretary William Bennett and Interior Secretary James G. Watt (Edwards 1997, 41-68). At the first meeting of Ronald Reagan's cabinet, the president gave each member a copy of the Heritage Foundation report.

Reagan and Taxes

The centerpiece of the Reagan administration strategy was reducing taxes. Between 1981 and 1988, the two largest tax cuts in American history were implemented through the Economic Recovery Tax Act (ERTA) of 1981, also known as Kemp-Roth, and the Tax Reform Act (TRA) of 1986 (Tempalski 2006). The ERTA phased-in a 23 percent cut in individual income tax rates. The top rate dropped from 70 to 50 percent over a period of three years. The law accelerated the rate at which businesses could claim depreciation deductions, and significantly reduced the windfall profits tax on the energy industry. It reduced the taxes corporations paid by $150 billion over the next five years. It phased-in an increase in the estate tax exemption and lowered the tax by 15 percent over the next three years. The capital gains tax was reduced under ERTA from 28 to 20 percent (CQ Almanac Online 1981; Jacobson et al. 2006).

Another round of large tax cuts occurred in 1986. The TRA of 1986 consolidated income tax brackets from fourteen income levels down to two. The law drastically reduced the top rate from 50 to 28 percent starting in 1988, a huge boon to the wealthy. At the same time, the bottom rate increased from 11 to 15 percent, a penalty on low-income earners. The effect of this consolidation was to produce a system more closely akin to a flat tax. Upon signing the TRA, Reagan hailed the bill as the end of "the steeply progressive income tax" (CQ Almanac Online 1986).

The TRA also repealed the sales tax exemption for individual income tax deductions. It repealed the capital gains tax exclusion on home sales so that long term capital gains became fully taxable at 28 percent starting in 1987. These changes heavily penalized the middle class whose homes had appreciated rapidly during the inflationary period of the 1970s and 80s. The TRA also lowered the top corporate income tax rates from 40 percent to 34 percent (CQ Almanac Online 1986; Tempalski 2006).

The net effect of these changes in the tax code was a tax system that became far less progressive, and favorable to the upper class. We can gain a better understanding of who benefitted from the post-1981 tax system by graphing the top marginal tax rates historically. Figure 6.3 plots the top rates for individuals, estates, corporations, and investors (capital gains) from 1913 through 2012. The dashed vertical lines mark the year of passage of the ERTA and TRA.

INSERT FIGURE 6.3 ABOUT HERE

The figure shows that during World War I, as discussed in chapter 3, taxes increased sharply for high-income individuals and corporations. Between 1921 and 1932, top rates dropped during three Republican administrations. After the New Deal and World War II, taxes on high-income individuals, estates, corporations, and investors rose sharply again, and remained high until 1981. From 1981 on, taxes on high-income groups were significantly lower. Indeed, the post-1986 individual tax rate paid by the highest income group was lower than at any time since the 1920s. Similarly, the capital gains tax was about equal to that in the 1920s. Corporate and estate taxes also dropped. Thus, the main beneficiaries of the Reagan era tax changes were those at the top.

Through time, tax policy became a major basis of polarization in the American system. Efforts to raise taxes on the wealthy were resisted with religious fervor by Republicans and tax ideologues such as Grover Norquist. At Reagan's request in 1985, Norquist formed the advocacy group, Americans for Tax Reform. Norquist has wielded considerable influence over Republican legislators by securing their pledge to oppose any and all tax increases. Indeed, his no new taxes pledge had been signed by 95 percent of Republican members of the 113th Congress (Americans for Tax Reform 2015).

These changes in the tax system coincide closely with increasing income inequality in the United States. This increasing inequality can be seen in Figure 6.4, which graphs the historical percentage of income held by the top 10 percent of all taxpayers. The data are from Piketty and Saez (2003) updated through 2012, and include income from all sources including dividends, interest, and capital gains. The graph is broken down by income held for four percentiles from 90 to 99 percent, 99 to 99.9 percent, 99.9 percent to 99.99 percent, and 99.99 to 100 percent. Again, vertical dashed lines show passage of the ERTA of 1981 and the TRA of 1986.

INSERT FIGURE 6.4 ABOUT HERE

Figure 6.4 shows that income inequality dropped sharply starting in the 1930s and remained low through 1980. The top 10 percent averaged about 35 percent of total income held between 1935 and 1980. However, after the ERTA of 1981 and the TRA of

1986, the top group's share of income increased steadily through 2012 to peak at around 50 percent. The inequality is progressively greatest for the highest income holders. The largest gains in percentage terms between 1981 and 2012 were for the top 0.01 percent taxpayer group (the black region). The next largest gains came for the 99.9 to 99.99 group (charcoal gray). The next largest gains came from the 99 to 99.9 percent group (gray). The 90 to 99 percent group (light gray) experienced only a steady upward trend through time, with meager evidence that they were greatly affected by the ERTA, TRA, or later changes in the tax code. Thus, there has been a distinctly upper class bias to the American system since 1981.

INSERT FIGURE 6.5 ABOUT HERE

This upper class bias can also be seen by examining the increasing wealth share through time of the very richest people in America. Wojciech and Saez (2004) compiled data on the total wealth held historically by the Forbes 100 and Forbes 400 richest Americans. Figure 6.5 graphs their data. In 1983, the Forbes Top-400 held slightly over one percent of the nation's wealth, with about half of that held by the Top-100. By the late 1990s, the share of the Top-400 had more than tripled to around 3.7 percent, with about 40 percent of that held by the Top-400. Thus, Figure 6.5 shows that the rich got considerably richer between 1983 and 2006. Wealth became increasingly concentrated at the top of the economic system.

Reagan and Regulation

As recommended by the Heritage Foundation Report, the Reagan administration also waged a continuous assault on regulation. The first action occurred through an executive order issued barely one month after the new president took office. On February 17, 1981, Reagan issued E.O. 12,291 to substantially alter and suppress the federal rulemaking process. The order required each agency, before the issuance of major new rules, to perform a Regulatory Impact Analysis to the extent allowed by law. The order defined a major rule as one having an impact of more than $100 million on the economy. It stated, "Regulatory action shall not be undertaken unless the potential benefits to society for the regulation outweigh the potential costs to society. … Agencies shall set regulatory priorities … taking into account the condition of the particular industries affected by regulations, the condition of the national economy, and other regulatory actions contemplated for the future." (*Federal Register* 1981)

E.O. 12,291 was immediately controversial. Opponents expressed concern that it was an unconstitutional effort to override Congress and reduce environmental, health, and safety programs. They claimed that the order was little more than a veiled undemocratic effort to deregulate business and industry. Opponents also complained that the order "requires assigning dollar values to things that are essentially not quantifiable: human life and health, the beauty of a forest, the clarity of the air at the rim of the Grand Canyon." (Shabecoff 1981) The required cost-benefit analysis also involved normative judgments that were clearly manipulable by free market friendly economists.

Regardless, the order was implemented and had a chilling effect on the issuance of new regulations by federal regulatory bureaucracies. In 1980 before the order, the number of new proposed rules published in the *Federal Register* was 5,347. After the president's order, the number dropped to 3,862, or by 27 percent, and continued declining through 1990. The total drop in new proposed rules between 1981 and 1990 was 2,177, or about 41 percent (see data at *Federal Register* 2014). Hence, the Reagan administration curtailed efforts by regulatory bureaucracies to implement legislatively enacted policies, including those involving the environment, worker health and safety, consumer protection, food and drugs, auto safety, and the plethora of the other policies highlighted in the Heritage Foundation report.

Reagan administration efforts to curtail regulation also extended to the implementation of existing regulatory programs. Wood and Waterman (1994) detailed the effects of Reagan administration appointees, budgets, and organizational authority on enforcement efforts by seven different federal regulatory agencies. They showed that, consistent with the Heritage Foundation recommendation, political appointments were by far the most important tool the administration used to suppress existing regulation.

At the EEOC, Reagan appointed Clarence Thomas Chair of the Commission, and Michael Connolly as General Counsel. Both opposed class action lawsuits, setting goals, timetables, and hiring quotas in enforcing equal employment opportunity. Connolly even told the Commission soon after his confirmation by the new Republican Senate that he would no longer be pressing sexual harassment, age discrimination, equal pay, and class action lawsuits. This was in clear violation of the laws in these areas. A controversial figure, his tenure lasted only from November 1981 through September 1982. EEO litigations dropped during this period from about 40 per month before his arrival to fewer than 5 per month at the time of his exit. In April 1983, Congress forced the EEOC to issue a Statement of Enforcement Policy that was more consistent with the law (Wood 1990; Wood and Waterman 1994, 38-42).

At the FTC, Reagan appointed James C. Miller, III as chairman of the Commission. Miller had actually written the transition team report on the FTC, and headed Reagan's

Task Force on Regulatory Relief that produced E.O. 12,291 (Harris and Milkis 1996). A Chicago School advocate, Miller's intentions were clear from the start in wanting to decrease the agency's efforts to protect consumers from deceptive trade practices and reducing industry regulation. Even before Miller's appointment, the Reagan administration had slashed the proposed FTC budget for 1982 by 23 percent. Confirmed in September 1981, enforcement activities after his appointment dropped by about 50 percent. The reduced vigor with which the FTC protected consumers and enforced industry regulations continued through 1988 (Wood and Waterman 1994, 43-48).

Reagan appointees also suppressed enforcement by the Nuclear Regulatory Commission, resulting in fewer safety citations by inspectors at nuclear power plants (Wood and Waterman 1994, 48-52). They curtailed the activities of the Anti-Trust Division of the Justice Department (Wood and Anderson 1993). Enforcements were curtailed at the NHTSA by a sympathetic Carter appointee serving the Reagan administration (Wood and Waterman 1994, 58-62). Reagan appointees reduced enforcement of FDA regulations on food safety and legal actions against food and drug producers (Wood and Waterman 1994, 52-58). They also dramatically diminished safety enforcement by the Office of Surface Mining (Wood and Waterman 1994, 62-66).

However, the most visible and controversial Reagan administration efforts at deregulation were those at the EPA. The Heritage Foundation report and the Reagan administration viewed the EPA, and especially it's clean air regulations, as a special threat to corporate and commercial allies. As such, a special effort was made to diminish EPA enforcement activities. Beginning with Fiscal Year 1982, there were large budget cuts for virtually every program. In May 1981, an anti-environmental attorney, Ann

Gorsuch Burford, was appointed to head the agency. Before and after Burford’s appointment there were massive personnel shifts, with the most zealous officials being transferred to remote locations. The number of full time EPA employees was reduced by 20 percent between 1981 and 1983. These changes sharply reduced enforcement activities at the Clean Air, Clean Water, Pesticides, and Hazardous Waste Divisions (Wood 1988; Wood and Waterman 1993; 1994, 66-71, 77-102, 117-126).

Reagan and Social Welfare

As recommended by the Heritage Foundation, Reagan entered office with the intention of shifting budget priorities away from social programs and toward national defense. This goal was accomplished through another important law, the Omnibus Budget Reconciliation Act (OBRA) of 1981.

In the 1970s, Reagan had been especially hostile toward women on welfare. He personally coined the term “welfare queen” during the 1976 election campaign to imply unwed African American women committing welfare fraud and having babies just for the sake of drawing more and more benefits. Reagan’s characterization of welfare recipients was blatantly false, but struck a resonant chord with many seeking to blame someone for poor economic conditions. By 1981, the “welfare queen” hype had become a part of American popular culture (Douglas and Michaels 2005, 185-188).

As a result, OBRA passed easily, and sharply cut spending for programs directed at the poor. Unemployment insurance was reduced by $17.4 billion (Midgley 1992). Spending on employment and training programs fell from about $28 billion to about $8 billion (in 1992 dollars) between 1979 and 1982. OBRA authorized states to convert the Work Incentive (WIN) program into a block grant administered by state welfare agencies and to use workfare as a requirement for eligibility. While OBRA gave states flexibility to shape their AFDC programs, less money also became available. The major federal funding source for these programs, WIN, experienced annual budget cuts, with funding falling 70 percent between 1981 and 1987 (Caputo 2011, 31).

AFDC participation was also cut drastically by increasing eligibility requirements and changing benefit calculations. OBRA instituted maximum limits above which states could not make AFDC payments. In 1980, 42 states would provide AFDC payments to a woman with two children with income at 75 percent of the poverty line; by 1984, only seven states would provide this benefit. OBRA also eliminated the “30 and a third rule”, which had enabled a welfare recipient to earn $30 a month before losing any benefits. Under OBRA, benefits were reduced by one dollar for every dollar earned above the income threshold (Moffitt and Wolf 1987). By the start of 1983, almost half a million recipients had been eliminated from the welfare rolls, or about 14 percent of all recipients (Danziger 1997, 23-31).

OBRA also reduced spending for the Food Stamp Program, the School Lunch Program, and social services. OBRA changed eligibility requirements for both Food Stamps and the School Lunch Program (Schuldes 2011, 342-373). The Congressional Budget Office estimated that the new OBRA eligibility standards would reduce participation in the Food Stamp Program by 20 percent, and in the School Lunch Program by 35 percent by 1983 (Hoagland 1984, 43-71). By 1983, the law had reduced funding for “child nutrition programs by 28 percent, food stamp expenditures by 13.8 percent, and the Community Services Block Grant program by 37.1 percent” (Midgley

1992, 25) The inevitable consequence of all of these changes was increasing misery for poor Americans.

INSERT FIGURE 6.6 ABOUT HERE

Figure 6.6 shows the number of Americans living in poverty from 1959 through 2012. The graph shows that poverty declined sharply from 1963 through 1979. It increased during the 1980 recession. However, by 1983, six million more people were living in poverty than in 1980. Part of this increase was due to the severe 1982 recession. However, the reduction of social welfare and unemployment benefits under OBRA enabled the continuing increase. By the start of the Clinton administration the number of people in poverty had returned to near the 1960 level. With the good economic times of the Clinton presidency, poverty declined sharply again between 1993 and 2000. However, poverty resumed its upward climb after the election of George W. Bush in 2000, and grew to historic levels during the Great Recession. The implication is that the retreat from the family assistance programs of the 1960s and 1970s had a very negative long-term effect on the poor.

Other Reagan administration policies affected another dimension of poverty, homelessness. OBRA reduced the eligibility rate for public housing from 80 percent to 50 percent of the local area’s median income. Ceiling rents were eliminated, thereby making housing less affordable for many (Popkin 2000, 200). Federal funding for subsidized housing assistance fell from $26.6 billion in 1980 to $7.4 billion in 1989, a decline of almost 80 percent (Rubin et al. 1992). Coupled with changes in welfare programs, these changes in housing assistance led to a dramatic increase in the number of homeless Americans. Homeless rates tripled between 1981 and 1989 (Burt 2010). By the late

1980s, the number of homeless in the cities of America had swollen to 600,000 on any given night – and 1.2 million over the course of a year (Dreier 2004).

Homelessness was made even worse by Reagan administration policies toward the mentally ill. Before Reagan assumed office, President Carter had signed the Mental Health Systems Act of 1980. The legislation passed the House by 277-15 and the Senate by 93-3. However, the Reagan OMB announced within one month that it would curtail the budget of the National Institute of Mental Health (NIMH), phase out training of clinicians, interrupt research, and eliminate services. Subsequently, OBRA repealed the Mental Health Systems Act and consolidated alcohol, drug abuse, and mental health programs into a single block grant that enabled states to administer the allocated funds. With the repeal of the community mental health legislation and the establishment of block grants, the Federal role in services to the mentally ill became one of providing technical assistance only (National Institute of Mental Health 2014). State mental health institutions lost federal support, and lacked state funding. Without funding, state mental health institutions dumped their patients onto the streets, leading to a sharp increase in mental health related homelessness in America. About 26 percent of all homeless people are mentally ill (Substance Abuse and Mental Health Services Administration 2011).

Reagan, the Religious Right, and Moral Issues

Before 1980, moral issues had not been a major part of the Republican agenda. However, the Heritage Foundation pursued a deliberate strategy starting in 1979 of attempting to bring the Religious Right into the Republican Right. As noted, Paul Weyrich actually cofounded two fundamentalist organizations, Christian Voice and the Moral Majority. He also led efforts to indoctrinate fundamentalist pastors and their congregations about the godliness of free markets, small government, and deregulation. In return for their propagandizing, there was an implicit quid pro quo with the Religious Right of returning morality and family values to America.

Consistent with this strategy, Ronald Reagan did more than any other president to make evangelicals feel part of the Republican Party (Miller 2014). Substantively, Reagan and the Republican Platform promised benefits that included a constitutional amendment on abortion, a restoration of prayer in the public schools, and the appointment of federal judges who would restore family values through the legal system (Republican National Committee 1980).

Many conservatives saw the Supreme Court as having conducted an assault on moral values during previous decades. *Engle v. Vitale* (1962) ruled that it was unconstitutional for a government agency like a school or government agents like public school employees to require students to recite prayers. *Stanley v. Georgia* (1969) supported a privacy right to pornography, ruling that people could view whatever they wished in the privacy of their homes. *Miller v. California* (1972) proscribed pornography by defining it, but also warned that states must tread carefully to avoid violating pornographers' First Amendment rights. Of course, the case that most incensed the Religious Right was *Roe v. Wade* (1973), which established a right to privacy under the 14th Amendment due process clause extending to a woman's decision to have an abortion.

These Supreme Court decisions would be difficult to overturn legislatively, since they had been grounded in constitutional interpretation. Republicans were, at this time, almost as divided as Democrats over the issues involved. Nevertheless, Reagan supported the constitutional amendment restricting abortion proposed by Utah Republican Senator Orin

Hatch in September 1981, as well as the constitutional amendment cosponsored by Hatch and Missouri Democratic Senator Thomas Eagleton in January 1983. Absent support in the Senate, the original Hatch proposal was withdrawn, and the Hatch-Eagleton proposal was defeated by a Senate floor vote of 49-50, with 2/3 needed for passage (NCHLA 2004). On May 17, 1982, Reagan also personally proposed a constitutional amendment to allow voluntary prayer in the public schools (Reagan 1982). The proposal was again defeated by a Senate vote of 56-44, eleven votes short of the required 2/3.

These legislative failures were widely decried by the Religious Right (ARL 1984). Many evangelicals blamed Reagan for not pushing their causes hard enough (Kyle 2011, 200). They were especially upset with his inactivity on abortion. Anti-abortion leaders met with him at the White House on January 22, 1982 and reported that he said he had not promised to give abortion a high priority or to use his political muscle to push an anti-abortion amendment. He was using his energy to focus on the economy and other issues deemed more pressing to the administration (Roberts 1982). Needless to say, evangelicals were unhappy with Reagan over his lack of enthusiasm (Smith 2006, 339-344).

Nevertheless, evangelicals did not abandon Reagan, working even harder during the 1984 election cycle. The Religious Right had received far more consideration from the Reagan administration than had ever been given. Reagan appointed evangelicals to high-level administration positions, including Donald Hodel and James Watt as Secretaries of Interior, Elizabeth Dole as Secretary of Transportation, C. Edward Koop as Surgeon-General, and Bob Billings as Under-Secretary for Education (Miller 2014; Smith 2006, 239-240). Reagan appointed William Bennett in 1981 to head the National Endowment for the Humanities, and he became Secretary of Education in 1985. Reagan had originally nominated Mel Bradford to this position, but due to Bradford's pro-Confederate views Bennett was appointed in his place (Gordon 2010). Evangelicals were also appointed to important positions in the Justice Department and Department of Health and Human Services. The White House even assigned several staff members to the Office of Public Liason to work with key religious leaders and groups. Thus, Ronald Reagan cemented close bonds with the Religious Right (Smith 2006, 339-344).

Reagan especially wanted to connect with televangelists, giving them unprecedented access to the White House (Hadden 1993; Johnson 2003, chapter 16). The most prominent televangelists were Jerry Falwell (Liberty Channel), Pat Robertson (Christian Broadcasting Network), Jimmy Swaggart (Study in the Word), James Robison (Trinity Broadcasting Network), James Dobson (Focus on the Family), Oral Roberts (The Abundant Life), and Jim and Tammy Faye Baker (Praise The Lord Club). At the same time he largely snubbed the most established religious leaders in the nation (Smith 2006, 239-240). Between 1978 and 1989, the number of Christian ministries broadcasting on television grew from 25 to 336 (Johnson 2003, 196-197). At their peak, they influenced the votes of as many as 25 million followers (Hadden 1993). Through the mid-1980s, the televangelists strongly aligned themselves with the Reagan administration and its policies, and were crucial to Reagan’s 1984 reelection (Hadden 1993).

On judicial appointments, Reagan elevated one associate justice to Chief Justice (William Rehnquist, 1986), and secured three new associate justices on the Supreme Court (Sandra Day O’ Connor, 1981, Antonin Scalia, 1986, and Anthony Kennedy, 1987). The Religious Right wanted Reagan’s judicial appointments to swing the Court back toward the "moral America" they wanted. However, as with Reagan's legislative initiatives, things did not work out that way.

In 1981, Reagan went against pro-life and fundamentalist groups that opposed the nomination of Sandra Day O'Connor to the Supreme Court. While she had been non-committal on the abortion, it was suspected that she would not vote to overturn *Roe v Wade* (Greenburg 2007, 141, 222-223). After the 1984 election, Reagan rewarded these groups with the elevation of William Rehnquist to Chief Justice and the appointment of Antonin Scalia. Rehnquist had been the most conservative associate justice on the Court from his initial appointment by Nixon in 1972. As a court clerk, he had written a memo arguing that *Plessy v. Ferguson* (1896), enabling "separate but equal" schools for blacks and whites, should not have been overturned. As an associate justice, he opposed the expansion of school desegregation and dissented from the majority on *Roe v. Wade*. As Chief Justice, Rehnquist remained the most conservative through the early 1990s. After the early 1990s, Scalia became even more conservative than Rehnquist on virtually all issues. O'Connor and Kennedy were more moderate, often becoming important swing votes in efforts to overturn *Roe v. Wade*, *Engel v. Vitale*, and the pornography decisions (Bailey 2012; Martin and Quinn 2002; updated in Wikipedia 2014a).

Scalia consistently voted to restrict abortion, usually joined by Rehnquist (e.g., see the landmark case *Planned Parenthood v. Casey*, 1992; but see *Webster v. Reproductive Health Services*, 1989). O'Connor and Kennedy generally voted to uphold Roe (*Planned Parenthood v. Casey*, 1992). Rehnquist and Scalia consistently defended state-sanctioned prayer in public schools, while O'Connor and Kennedy consistently deemed it unconstitutional (e.g., see *Lee v. Weisman*, 1991). On pornography, the same coalitions often emerged (e.g., see *Ashcroft v. Free Speech Coalition*, 1992). Scalia and Rehnquist regularly aligned on cases restricting gay rights, with O'Connor and Kennedy in opposition (e.g., see *Romer v. Evans* 1996). Thus, the Rehnquist court did little to alter established judicial doctrine on morality (e.g., see Merrill 2003).

With dim prospects for accomplishing change for the Religious Right through legislative or judicial means, Ronald Reagan turned to symbolic politics. In early 1984, he authored a 95-page pamphlet entitled *Abortion and the Conscience of a Nation*, giving his reasons for opposing abortion (Reagan 1984). On July 12, 1984, NBC News broadcast a video of the president meeting at the White House with Reverends Jerry Falwell, Jimmy Swaggart, and other prominent televangelists. During 1983 and 1984, he made three major speeches to religious groups. On March 3, 1983, he spoke to the National Association of Evangelicals where he railed against evil, sin, promiscuousness, illegitimate birth, abortion, hard drugs, prohibitions of prayer in public schools, pornography, and an absence of moral values in America (*Public Papers of the Presidents* 1983). On January 30, 1984, he spoke at the Annual Convention of Religious Broadcasters about abortion, prohibition of school prayer, and the persecution of religious and private schools (*Public Papers of the Presidents* 1984c). On August 23, 1984, he spoke at an ecumenical prayer breakfast where he discussed abortion, school prayer, and the right of church schools to operate (*Public Papers of the Presidents* 1984b). Interestingly, a search of the *Public Papers* shows that Reagan made no other speeches to religious organizations after the 1984 election.

However, Reagan's silence on another issue, AIDS/HIV, is revealing of the increasing importance of the Religious Right to Reagan and the Republican Party. The first AIDS deaths reported in the United States were those of five men in San Francisco in 1981. The disease spread exponentially across the United States population through 1993, at which point over 20,000 new cases quarterly were being reported. Between 1981 and 1987, over 50,000 AIDS deaths occurred as reported by the Center for Disease Control (CDC 2001). This number is only somewhat less that the total number who died in the Vietnam War.

Yet, Ronald Reagan did not express public concern about AIDS or HIV until September 17, 1986 (AIDS.GOV 2014). On September 17, 1985, he even expressed the view at a news conference that children with AIDS should not be attending public schools (*Public Papers of the Presidents* 1984a), even after the Surgeon General had made clear that the disease could not be spread by casual contact.

Reagan's Secretary of Health and Human Services, Richard Schweiker, supported only meager research funding on AIDS/HIV (Rollins 1998). However, Surgeon General C. Everett Koop went against the administration by issuing a report on October 22, 1986 urging parents to initiate frank and open talks about AIDS emphasizing sex education and the use of condoms (AIDS.GOV 2014). Reagan's Education Secretary, William Bennett, had attempted to prevent the report, fearing that it would alienate the Religious Right which was virulently opposed to homosexuality (Rimmerman 1998, 399-400). Finally, on May 31, 1987, Reagan made his first public speech about AIDS in which he finally established a Presidential Commission on HIV (AIDS.GOV 2014).

Throughout this period, fundamentalist preachers such as Jerry Falwell, Franklin Graham, Jimmy Swaggart, and Pat Roberts were preaching that AIDS was a curse handed down from God on the homosexual community for their immorality (McElvaine

2009, 35-39). Some have argued that Reagan's reluctance to speak publicly about AIDS was because the disease was strongly associated with homosexual behavior (Haider-Markel 1998; Rimmerman 1998; Rollins 1998). Whatever the reason for Reagan's silence, it was clear that homosexuality and gay rights would become increasingly divisive in American society in coming years, just as with abortion, school prayer, and other morality issues.

Polarization After Ronald Reagan

Ronald Reagan was a highly polarizing president. However, most presidents since Ronald Reagan have also been highly polarizing. We can see evidence of subsequent polarizing presidents by examining data on partisan approval of the president's job performance through time. Figure 6.7 tracks the absolute value of the difference in Democratic and Republican approval of the president from January 1953 through December 2012. The dashed vertical lines mark the start of each unique presidency from Reagan through Barak Obama.

INSERT FIGURE 6.7 ABOUT HERE

The plot shows that before Ronald Reagan the average difference in opposing partisans' approval of the president's job performance was about 35 percent. That difference shot up to 52 percent during the Reagan administration. His successor, George H.W. Bush, was far less polarizing until near the end of his term when the economy declined. Partisans were starkly divided over how Bush handled the economy during this period (e.g., see ABC News/Washington Post 1990). Polarization in presidential job approval ratings remained high during the Clinton presidency, and was at about the same level as Reagan during his two terms. The George W. Bush presidency saw similar polarization through September 11, 2001. However, polarization declined sharply after September 11 as the nation unified. After Bush invaded Iraq, polarization increased again to historic levels and remained high through the Obama administration.

Why did polarization continue and even increase after Reagan? As president, Reagan followed the Heritage Foundation's strategy of pushing for lower taxes on the patrician class, free markets, and reduced social welfare, while linking these issues with highly emotional topics such as abortion, school prayer, and homosexuality. Republicans since Reagan have also followed the Heritage Foundation strategy. The same issues driving polarization in the 1980s continue to drive polarization today. Indeed, we will show in the next chapter that those issues are far more divisive now than they were in 1980.

However, the dominant dimension separating the political parties since Reagan has been economic. Which social contract is more appropriate: that initiated by the Founders or that initiated by Franklin Roosevelt and the New Deal? Conflict has escalated through time over who should pay for and benefit from government. The debates over these issues have also been consistently grounded in a new problem created by Reagan policies, deficits and debt.

The Reagan tax cuts coupled with large increases in defense spending roughly doubled the national debt between 1980 and 1989. By 1990, it appeared that the national debt was increasing without bound. Calls emerged from both parties to find a solution. Of course, debt can be resolved through increased taxes, reduced spending, or some combination of the two. Thus, battles over taxes, spending, deficits, and debt have increasingly dominated American politics through time.

Economic Polarization from 1989 Through 2000

The annual federal budget battles have continually stoked the fires of polarization since 1989. Indeed, no other issue has unified Republicans more in the post-Reagan era than their loathing for taxes, especially on the wealthy. Their preferred approach to attacking budget deficits has been to hold the line on taxes and cut spending, generally targeting New Deal and Great Society programs. In contrast, Democrats have preferred a more balanced approach. They have perpetually favored reducing deficits and debt through reduced spending and increased taxes directed mainly toward the upper class.

The dynamics of deficit and debt politics become clear when observing the actual data on the federal debt. Figure 6.8 plots the federal debt as a percentage of GDP from 1946 through 2012. Periods when the percentage is decreasing suggest that debt is being retired more rapidly than new debt is acquired (budget surplus). Periods when the percentage is increasing suggest that new debt is being acquired more rapidly than old debt is retired (budget deficits). Vertical dashed lines mark the major budgetary events affecting change in the federal debt.

INSERT FIGURE 6.8 ABOUT HERE

The graph shows that federal debt declined steadily from the end of World War II through 1980. Starting with the ERTA of 1981 and continuing with the TRA of 1986, the federal debt began rising sharply. The increase continued through 1993 when a Democratic President Bill Clinton and Congress passed the Deficit Reduction Act (DRA) of 1993. This law sharply increased taxes on the upper class. The budget was in surplus by 1997 and remained so through 2001. Then, President George W. Bush and a Republican Congress passed two large tax cuts in 2001 and 2003. The debt increased again after 2001 and continued a slow climb through 2007. Finally, the economic meltdown of 2007-2008 was followed by huge amounts of stimulus spending over the opposition of virtually every Republican in Congress. The stimulus spending again sharply increased the federal debt.

The polarized politics surrounding these dynamics started in 1990 when a budget showdown emerged. Democrats, again controlling both the House and Senate, demanded an increase in taxes on the highest income group in exchange for spending cuts. In accepting the Republican presidential nomination, George H.W. Bush had made a very visible promise on taxes. He stated, “Read my lips. No new taxes!” (Bush 1988). Nevertheless, Bush agreed to a budget compromise in which a new marginal tax rate was created for the highest income group. After the Reagan administration the tax rate on the highest income group was only 28 percent. After 1990, their rate increased by a mere 3 percent to 31 percent. Nevertheless, Bush’s broken tax promise was politically costly.

Those most enraged by Bush’s reversal were conservative Republicans, led by House Whip Newt Gingrich. Gingrich led over 100 House members in opposition to the budget compromise, resulting in a government shutdown from October 5-9, 1990. Bush’s credibility with the Republican Right was destroyed, and he would receive only tepid support for the remainder of his term (Greene 2000, chapter 6). Bush’s decision to compromise on taxes also served as an object lesson for future Republican politicians. Grover Norquist persistently pointed to Bush’s broken tax promise in getting future Republicans to sign his tax pledge (Good 2012). Thus, Republican commitment on the tax issue was actually solidified after 1990.

Bush’s broken tax promise may also have cost him the 1992 election. An opposition candidate, right wing ideologue Patrick Buchanan emerged during the primary season with a candidacy based largely on the broken tax promise (Woodward 2005, chapter 10). After Bush received the Republican nomination, Buchanan stated “We may have lost the nomination, my friends, but you and I won the battle for the heart and soul of the Republican Party.” (cited in Woodward 2005, 146)

The 1992 election was a three-candidate race between Democrat Bill Clinton, Independent Ross Perot, and George H.W. Bush. Both Perot and Clinton also focused on Bush’s broken tax pledge in their political advertising (Rosensteil 1992). An exit poll asking voters about the reasons for their presidential vote showed that 22 percent of voters based their decisions partially on “Bush breaking his no new taxes pledge.” (VRS Election Day Exit Poll 1992)

Clinton won the 1992 election garnering only 43 percent of the popular vote, but with 370 electoral votes. Democrats retained control of both the House and Senate. Clinton ran on pledges to balance the budget, a tax cut for the middle class, universal health care, and the traditionally conservative policies of ending “welfare as we know it” and free trade. During a presidential debate on October 19, 1992, Clinton stated “My [tax] plan says that we want to raise marginal [rates] on family incomes above $200,000 from 31 to 36 percent; … that we want to use that money to provide over $100 billion in tax cuts for investment in new plant and equipment, for small business, for new technologies, and for middle class tax relief.” (Clinton 1992)

However, a few days into his administration, Clinton met with Federal Reserve Chairman Alan Greenspan, who advised him that his highest priority should be attacking the budget deficit. Based on this advice and that of economic advisor Robert Rubin, Clinton had discarded the idea of a middle class tax cut by the time of his first State of the Union message on February 17, 1993 (Woodward 2001, chapter 7). Subsequently, Clinton delivered on his promised tax increase for those with high incomes. However, he reneged on his promise of tax relief for the middle class.

Clinton signed the Deficit Reduction Act on August 10, 1993. It increased the number of tax brackets by adding two new high-income groups. The marginal tax rate for joint filers earning more than $140,000 increased from 31 to 36 percent, and the rate for those earning more than $250,000 increased from 31 to 39.6 percent. The law left marginal tax rates intact for those below these limits. However, other tax increases affected low- and middle-income taxpayers. Itemized deductions were capped; the ceiling on the Medicare tax was removed; the taxable proportion of Social Security benefits was increased; and there was a small increase in the gasoline tax. Again, Clinton’s broken tax cut promise was politically costly, and a gift to Republicans.

The legislation was again highly polarizing in Congress. Every Republican member voted against the bill. The House passed the conference report by a vote of 218-216, with 175 Republicans and 41 Democrats voting against. The Senate passed the conference report by a vote of 51-50, with 44 Republicans and 6 Democrats voting against. Vice President Al Gore cast the deciding vote in the Senate.

The tax increases were unpopular. An ABC News/Washington Post public opinion poll found 66 percent of Americans believing that the president’s economic plan raised taxes too much and did not cut spending enough (ABC News/Washington Post 1993). An NBC News/Wall Street Journal poll found that 75 percent of respondents believed that the legislation would increase their personal income taxes (NBC News/Wall Street Journal 1993), and significant majorities also opposed the other tax increases. In the run up to the 1994 mid-term elections, Republicans emphasized Clinton's broken tax cut promise, painting him and the Democratic Congress as traditional tax and spend liberals.

Other issues motivating opposition to Clinton and the Democratic Congress during the 1994 elections were the failed health care reform effort and passage of the North American Free Trade Agreement. The result was a landslide victory for Republicans in the mid-term elections. Republicans gained 9 seats in the Senate and 54 seats in the House to become the majority party in both chambers for the first time since 1953.

Once again, the Heritage Foundation helped orchestrate the Republican victory. The Republican Party issued its "Contract with America" six weeks before the election detailing specific policy proposals they would initiate. Many of the Contract's ideas originated with the Heritage Foundation (Gayner 1995). The Contract, nominally coauthored by Newt Gingrich and Richard Armey, included proposals to cut taxes for families, small businesses, and seniors, a balanced budget amendment, welfare reform, term limits for legislators, social security reform, and tort reform. However, the Contract avoided raising controversial moral issues, such as abortion, school prayer, and homosexuality that were important to the Christian Right (Wikipedia 2015a).

Nonetheless, the Christian Right turned out heavily for Republicans in the 1994 election. A national exit poll conducted by Mitofsky International showed that 27% of all voters identified themselves as a born-again or evangelical Christians. Among evangelical Christians, 76 percent voted for Republican candidates. Among Southern Whites, 65 percent voted for Republican candidates. This compares to a 50-50 split in the

1992 election. Economics also played a major role in the Republican landslide. Those with family incomes greater than $50,000 broke heavily for Republicans, suggesting that the tax increase and broken tax cut promise affected their decisions (Connelly 1994). All in all, the Republican landslide in the mid-term elections opened a wide cleavage within Congress and the electorate, and between Congress and the president.

Over the next three years, Congressional Republicans and President Clinton engaged in trench warfare over taxing and spending policy. In 1995, the emboldened Republican Congress proposed sharp spending reductions that fell heavily on New Deal and Great Society programs. They initially proposed a total redesign of Medicare, converting it to a voucher system and encouraging seniors to move into a system of managed care (Chen 1995). Their 1995 budget would have cut federal Medicare spending by $270 billion. Stating their intentions, Speaker of the House Newt Gingrich spoke to the Blue Cross/Blue Shield Association on Oct. 24, 1995. He said, “Now we didn’t get rid of it in Round 1 because we don't think that’s politically smart and we don’t think that’s the right way to go through a transition. But we believe it’s going to wither on the vine …” (MacDonald 1995) The public reaction against the Republican plan to privatize Medicare was swift and strong, resulting in Republicans’ quickly abandoning their effort.

The 1995 Republican budget would also have included deep cuts in other entitlements such as Medicaid, farm programs, food stamps, child nutrition and school lunches, and AFDC. It would have ended guaranteed welfare for poor children, cut funding for education, drastically reduced the Headstart program, eliminated Americorps, cut student loan programs, limited health care guarantees for the disabled, and reduced funding for the environment. The Republican plan would also have cut taxes by $245 billion, with families earning more than $100,000 per year the main beneficiaries (CQ Almanac Online 1995; Rankin 1995).

From the start, Clinton let it be known that he would veto such a budget. Faced with the veto threat, Republicans strategically delayed passing a FY1995 budget in the belief that the president would back down when faced with a government shutdown. The government was funded by a continuing resolution between October 1 and a November 13 deadline. Republicans and Democrats negotiated over the budget but failed to reach an agreement. After Republicans passed their budget along almost strict party lines (CQ Almanac Online 1995), the president vetoed the spending bill on November 13, 1995. The result was a government shutdown in which 800,000 federal workers were furloughed. The first shutdown lasted until November 19, when the President and Congress agreed to balance the budget in seven years, with no agreement on how to accomplish this goal.

Congress again passed a continuing budget resolution to fund the government that would expire on December 15. Again, no progress was made in breaking the stalemate by the deadline, so the government shut down for a second time. On December 26, Republicans threatened to allow the federal government to default on its debt by not raising the debt ceiling. The president called this tactic “political blackmail,” and again did not yield to Republican demands. The government shutdown finally ended after 22 days on January 6, 1996, when Clinton and Congress agreed to a seven-year balanced budget plan to be overseen by the Congressional Budget Office (Bancroft Library 2014; CNN Interactive 2014). Negotiations over the FY1995 budget continued well into 1996.

During this period Republicans frequently attempted to use the federal debt ceiling as a bargaining chip. The last appropriations bill passed Congress on April 26, 1996.

In the end, Republicans received most of the blame for the government shutdowns of 1995-1996. A January 6-7, 1996 ABC News/Washington Post poll found that 50 percent of respondents blamed Republicans, while only 27 percent found the president at fault (ABC News/Washington Post 1996). The shutdowns may also have affected the outcome of the 1996 presidential election. A Los Angeles Times election-day exit poll found that 21 percent of respondents reported that “standing up to the Republican Congress” affected their vote for president (Los Angeles Times Exit Poll 1996).

Once again, the presidential election was a three party race between Bill Clinton, Kansas Republican Senator Bob Dole, and Independent Ross Perot. Clinton won, receiving 49.2 percent of the popular vote and 379 electoral votes. The margin of popular vote victory over Dole was 8.5 percent. However, Clinton’s congressional coattails were short to non-existent. Democrats picked up only two seats in the House of Representatives, and lost two seats in the Senate. Republicans retained control of both chambers for the first time since 1930. The Democratic president was still facing a Republican Congress, but one that was chastened and more subdued in its demands.

In 1997, Congress passed and the president signed two major pieces of legislation intended to balance the budget by 2002. The Balanced Budget Act of 1997 reduced spending by $127 billion between 1997 and 2002. Spending reductions were divided almost evenly between entitlement programs ($122 billion) and discretionary appropriations (about $140 billion). Medicare cuts – $115 billion over five years – comprised the largest reduction. These were accomplished by reducing payments to health care providers, such as hospitals, doctors, and nurse practitioners. However, some of the payment reductions were subsequently restored in 1999 and 2000. The law increased spending on welfare and children's health care (CQ Almanac Online 1998a).

A companion tax bill moved through Congress at the same time. The Taxpayer Relief Act of 1997 cut taxes by $95 billion over five years. The two bills basically offset one another with respect to the budget deficit. It should be emphasized that the law left intact the higher marginal tax rates established earlier by the Deficit Reduction Act of 1993. However, the law affected taxes in other ways benefitting both Democrats and Republicans. Republicans obtained the largest capital gains tax reduction since 1981, a drop from 28 percent to 20 percent. They also achieved a larger exemption for the estate tax, from $600 thousand to $1 million by 2007. The law also accelerated capital depreciation schedules for large businesses. Clinton and the Democrats won significant middle-class tax incentives for education, and a $500-per-child tax credit made available to most working poor families, including some too poor to owe any income taxes. The law also created a new form of tax-deferred individual retirement account and cut airline ticket taxes (CQ Almanac Online 1998b). Thus, the Balanced Budget Act and Taxpayer Relief Act marked significant compromises between Republicans and Democrats.

Economic Polarization After the 2000 Election

As noted earlier, the budget moved into surplus between 1997 and 2001, resulting in a declining federal debt. A major issue of the 2000 presidential election campaign was how to deal with the surplus. Democratic presidential candidate Al Gore proposed a modest tax cut, but wanted to use the surpluses to strengthen Social Security and put a lockbox on the Medicare trust fund (Gore 2000). In contrast, Republican presidential candidate

George W. Bush proposed a much larger tax cut spread broadly across all income groups, especially the wealthy (Bush 2000). Of course, the story of the 2000 election is well known. George W. Bush won receiving a majority of the electoral vote, but losing the popular vote. Republicans retained slim control of Congress.

Congress moved quickly to pass the Bush tax plan, which was signed into law on June 7, 2001. The Economic Growth and Tax Relief Reconciliation Act of 2001 reduced the top marginal tax rate from 39.6 to 35 percent by 2006, a drop of 4.6 percent. Smaller tax cuts were extended to other taxpayers, with those in the 36, 31, and 28 percent brackets dropping by only 3 percent, and with the 15 percent bracket dropping to 10 percent for very low-income earners. Major changes also occurred in the estate tax, with the top estate size subject to the tax increasing from $675,000 in 2001 to $3.5 million by 2009. The legislation passed the House with 211 Republicans voting yes and 153 Democrats voting no, and the Senate with 45 Republicans voting yes and 31 Democrats voting no. The vote was somewhat bipartisan, with 28 Democrats voting with Republicans in the House, and 12 Democrats voting with Republicans in the Senate.

Tax relief continued with the Jobs and Growth Tax Relief Reconciliation Act of 2003. This law accelerated the rate at which 2001 reductions occurred, and sharply reduced the capital gains tax on upper income groups. This time the bill passed along largely partisan lines, with 224 Republicans voting yes and 198 Democrats voting no in the House. In the Senate 48 Republicans voted yes, and 46 Democrats voted no. Enacted as an economic stimulus package, the 2001 law contained a sunset provision causing the tax cuts to expire and revert to the original rates on January 1, 2011. The 2003 law continued these sunset provisions, creating the potential for a fight over whether the Bush tax cuts would be allowed to expire as scheduled.

In 2007, the economy started a nosedive into what would become the worst economic decline since the Great Depression. As with the Great Depression, the Great Recession began with misbehavior by banks and asset management firms that had invested heavily in very risky assets. Mortgage-backed securities had become increasingly risky due to the high rate of mortgage defaults in 2007 and 2008. Investor panic ensued as housing prices declined, and it became apparent that many companies holding these securities were under-capitalized. In March, shares of Bear Sterns declined to near zero, and the Federal Reserve brokered its acquisition by J.P. Morgan Chase. In July 2008, the fourth largest bank failure in U.S. history occurred, with the collapse of Indymac Bank. In early September, the federal government took over Fannie Mae and Freddie Mac, which owned or guaranteed about half of the $12 trillion U.S. mortgage market. In mid-September, Bank of America acquired a troubled Merrill Lynch. A day later, the largest bankruptcy in U.S. history occurred with the failure of Lehman Brothers. To prevent another large bankruptcy, the Federal Reserve injected $85 billion into American International Group to recapitalize a huge company, which was also heavily invested in mortgage-backed securities (Wood 2009, 184-185).

Against this backdrop, President Bush offered a plan on September 28 to bailout the financial sector. He stated, "…our entire economy is in danger. So I proposed that the Federal Government reduce the risk posed by these troubled assets and supply urgently needed money so banks and other financial institutions can avoid collapse and resume lending … I'm a strong believer in free enterprise, so my natural instinct is to oppose government intervention. I believe companies that make bad decisions should be allowed to go out of business. … Under our proposal, the Federal Government would put up to $700 billion taxpayer dollars on the line to purchase troubled assets that are clogging the financial system." (Weekly Compilation of Presidential Documents 2008, 1252-53)

Remarkably, the president's proposal partially nationalized the U.S. financial sector by allowing the Treasury Department to buy shares of troubled institutions in exchange for government supervision. Of course, the standard Republican prescription is free markets with minimal government intervention. Thus, the president's proposal ran strongly against expectations for a Republican. To be sure, the plan was unpopular among the president's fellow partisans. On September 29th the House of Representatives rejected the "bailout" package by a vote of 228 to 205. The opposing votes included 133 Republicans, with only 65 members of the president's own party favoring the bill. The president's fellow partisans voted against it by more than two to one.

Much of the American public was also skeptical of the president's plan. The Pew Research Center (2008) reported evidence from surveys before and after the president's speech. During the week of September 19-22 before the speech, support for a "bailout" was at 57 percent, while for the same respondents during the week of September 27-29 after the speech it was only 45 percent. Interestingly, support dropped significantly more among Republicans than it did among Democrats and Independents. Further, according to a CBS News poll (2008), the president's approval rating declined after the speech to only 22 percent, with only 15 percent approving of the president's handling of the economy. This lack of public support obviously limited the president's powers of legislative persuasion. Needless to say, the lack of public support and failed House vote were major political defeats for President Bush who had tried to persuade the public through the televised address, and also intensely lobbied wavering Republican legislators through personal phone calls (Calmes September 29, 2008).

The financial meltdown continued after President Bush's speech, with the collapse of Washington Mutual, the nation's largest savings and loan, and Wachovia, which was later acquired by Wells Fargo & Co. In the aftermath of the failed House vote and continuing turbulence in the financial sector, many banks quit lending to one another. As had occurred during the Great Depression, credit effectively dried up for businesses and consumers. Consumers and businesses became increasingly uncertain about the economy, and were reluctant to make purchases. The stock market also declined dramatically. On the day of the failed House vote, the Dow Jones Industrial Average dropped by 778 points, or seven percent of its total value.

Continuing to seek passage, on October 1st the Senate approved a sweetened version of the president's "bailout" package by a vote of 74 to 25, with 15 Republicans in opposition. Finally, on October 3rd the revised bill passed the House of Representatives. Among Republicans, 91 House members voted for the final bill with 108 opposing. The president was still unable to muster a majority of his own party. Nevertheless, the president signed the financial "bailout" package on the same day it was passed. The Economic Stabilization Act of 2008 became law, providing an initial economic stimulus, and initiating the large increase in the federal debt shown in Figure 6.8.

Against the backdrop of the worst economic downturn since the Great Depression, Republicans decisively lost control of the presidency and Congress in the 2008 elections. Barak Obama won over Republican John McCain, receiving 365 electoral votes and 52.9

percent of the popular vote. Democrats took control both houses of Congress for the first time since 1995. They had controlled the House since 2007, but extended their majority to 257-178. Democrats gained 8 seats in the Senate to hold a majority of 57-41.

The Democratic victory shocked Republicans. They feared entering a period similar to the post-depression era when they were vanquished from the majority for 50 years. However, the Republican reaction this time was not to move closer to the Democrats, as New Republicans had done from the 1950s through the 1970s. Rather, they did precisely the opposite. From the 2008 election through the end of the Obama presidency, the Republican Party became the party of “NO!”

In early January 2009, party leaders developed a deliberate strategy of keeping members united against virtually anything the president proposed (Draper 2012, Prologue; Grunwald 2012, chapter 7). Pete Sessions, the new Republican National Campaign Committee chair, asserted at a meeting of party leaders in Annapolis, Maryland that the party’s purpose was not to govern in this time of crisis, but “The purpose of the minority is to become the majority.” (cited in Grunwald 2012, 143) As expressed by Republican Senator George Voinovich, “If he was for it, we had to be against it.” (cited in Grunwald 2012, 19) Eric Cantor, the House Republican Whip stated “We’re not here to cut deals and get crumbs and stay in the minority for another 40 years….We’re going to fight these guys. We’re down, but things are going to change.” (cited in Grunwald 2012, 141-142)

Cantor believed that in order to produce that change, Republicans needed to be united and not lose the vote of a single member of their caucus. The Republican leadership also believed good PR, rather than governing, was required to move them back into the majority (Grunwald 2012, 141). They wanted to paint Obama as a weak leader, unable to accomplish bipartisan change, and somehow responsible for the weak economy.

The Republican strategy materialized quickly as the Democratic president and Congress passed additional legislation to prevent the economy from falling into another Great Depression. On February 17, 2009, President Obama signed the American Recovery and Investment Act. The legislation passed the House by a vote of 244-188, with 177 of 178 Republicans voting against. On the Senate side, the legislation passed by a vote of 61-37. All Democrats voted for the bill, with 37 of 40 voting Republicans against.

The law was a Keynesian New Deal-like effort to save and create jobs immediately. It provided temporary relief programs for those most affected and created public works programs. It included direct spending on infrastructure, education, health, and energy, federal tax incentives, and expansion of unemployment benefits and other social welfare provisions. The economic stimulus package was estimated to cost $787 billion, but was later revised to $831 billion (Congressional Budget Office 2012). Of course, the increased spending could not be paid for by the Bush era tax rates, so the inevitable result was ballooning federal deficits and increasing debt as shown in Figure 6.8.

Republican PR efforts painted the law as fiscally irresponsible, starkly increasing the federal debt, a manifestation of Democratic support for “big government,” and disdainful of “free markets.” They were soon aided in their PR effort by passage of the Patient Protection and Affordable Care Act of 2010. The Affordable Care Act extended federal healthcare coverage to many millions of uninsured Americans, and was the first major expansion of the federal healthcare system since Medicare and Medicaid during the Great

Society. The law passed both the House and the Senate without a single Republican vote. Lacking any semblance of bipartisanship, Republicans again painted Democrats as supportive of socialist solutions and “big government.”

The Affordable Care Act was broadly unpopular and became a major issue in the 2010 mid-term elections. An ABC News Washington Post (2010) poll conducted in December 2010 showed that 59 percent of respondents wanted the law either fully or partially repealed. Among partisans, 71 percent of Republicans wanted the law repealed, with 56 percent of Independents expressing this view.

Many would argue that the Affordable Care Act was responsible for the rise of the Tea Party movement and big Democratic losses in the 2010 mid-term elections. Democrats lost 64 House seats, making Republicans the majority again by 242-193, just two years after the 2008 landslide election. Many of the incoming Tea Party Republicans were even more conservative than those already in the chamber. As noted in chapter 1, the House also became more conservative through retirements and resignations of those frustrated with the rabid partisanship in Congress. Democrats also lost 6 Senate seats, but retained the majority by 51-47. The Tea Party House Republicans, coupled with the continuing party of “NO!” strategy, made it near impossible afterward for the Obama administration to enact new measures to stimulate the economy, or to accomplish a meaningful policy agenda. Indeed, the 2010 election produced dangerous partisan showdowns through the 2012 elections.

Following the mid-term elections, Republican Senate minority leader Mitch McConnell reaffirmed the party of “NO!” strategy in a speech to the Heritage Foundation on December 7, 2010. He stated, “Our top political priority over the next two years should be to deny President Obama a second term." (McConnell 2010) House Republicans also engaged in a continuing politics of destruction through budgetary showdowns over allowing the Bush tax cuts to expire as scheduled on January 1, 2011.

The politics of resolving this issue involved significant procrastination by Republicans, but finally came to a head as the cuts were set to expire in the lame duck session of Congress after the 2010 elections. At issue was whether the Bush tax cuts would be allowed to expire for all taxpayers, or only for high-income taxpayers. President Obama wanted them to continue for low and middle-income groups, but expire for those making over $250,000 annually. All 42 Republican senators were united in the position that, until the tax dispute was resolved, they would filibuster to prevent consideration of any other legislation, except bills to fund the government. Undoubtedly because the economy remained very weak, President Obama conceded to congressional Republicans to extend all Bush tax cuts for another two years with some additional provisions to stimulate economic growth. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 passed the lame duck Congress on a bipartisan basis, with 81 Senators and 277 House members voting yes.

However, incoming Tea Party House Republicans were enraged by the compromise, and also sought to address the federal debt and stop any future tax increases. Their tool for accomplishing these goals was refusing to increase the federal debt ceiling. On April 4, 2011, Treasury Secretary Timothy Geithner informed Congress that the federal debt ceiling had been reached, and that federal borrowing authority to fund the government would expire on August 2. Raising the federal debt ceiling had not been a partisan issue since Newt Gingrich during the Clinton era. However, this time House Republicans used the debt ceiling as a weapon to coerce the administration into accepting deep spending cuts and promises of no future tax increases.

With the economy still weak, Republicans once again succeeded in coercing a presidential bargain, with passage of the Budget Control Act on August 2, 2011. The legislation established a process whereby the federal debt would be addressed through an automatic process of spending sequestration to occur at the end of 2012. The Bush tax cuts were also set to expire at the same time. The coincidence of these events soon acquired the label “the fiscal cliff.” Three days later, the Standard & Poors credit rating agency downgraded the long-term credit rating of the United States government for the first time in history, from AAA to AA+. In contrast with previous assessments, the agency assumed that the government would go over the fiscal cliff due to dogged Republican resistance toward increased taxes.

With the approaching end of 2012, the ratings agency seemed correct in its assessment. Congressional Republicans were oblivious to the consequences of going over the fiscal cliff through the 2012 presidential election season. No action was taken as the deadline approached. However, their strategy of “NO!” and making Obama a one-term president failed. President Obama won a second term over Republican Mitt Romney with 51.1 percent versus 47.2 percent of the popular vote and 332 versus 206 electoral votes. Republicans lost 8 seats in the House, but retained their majority. Democrats gained 2 seats in the Senate.

In the aftermath of the 2012 elections, Congress passed and the president signed the American Taxpayer Relief Act on January 3, 2013. The law restored the marginal tax rate of 39.6 percent on the highest income group, now set at $450,000 for joint returns. It also increased the tax on capital gains for this group, as well as increased the estate tax. However, the Bush tax cuts for low- and middle-income groups were made permanent and even reduced at the low end. The Senate passed the bill 89-8, with 49 Democrats and 40 Republicans in favor. The House passed the bill 257-167, with 85 Republicans and 172 Democrats in favor and 151 Republicans and 16 Democrats opposed.

Polarization continued through 2013 and beyond.

Characterizing Polarization from Nixon through Obama

From 1929 through the late-1970s support for Old Guard Republican values was almost dead. It had become very unpopular to be a Republican, and that unpopularity lasted at least into the 1980s. New Republicanism enabled the party to survive, but not thrive. Republicans seemed doomed to wander in the wilderness of New Republicanism forever. However, a confluence of factors in the 1970s enabled Old Guard Republicans to rise and challenge the New Deal social contract.

The Watergate scandal made it even more unpopular to be a Republican. Nixon's near impeachment and resignation sparked a battle for the heart and soul of the Republican Party, pitting moderates against the Old Guard. A pitched battle occurred during the 1976 Republican convention when Ronald Reagan challenged the establishment candidate Gerald Ford for the nomination. The moderates won that particular battle, but lost the war when Carter defeated Ford in the 1976 election. After that, moderates became less influential and the Old Guard increasingly dominated the Republican Party.

The rise of Old Guard Republicans after 1976 was enabled intellectually by the philosophy deriving from the Chicago School of Economics. Chicago school advocates pushed free markets as solutions to basically all societal ills. They blamed Keynesianism, the New Deal, and the Great Society for “big government”, high taxes, unsustainable social programs, a weak economy, welfare dependency, over-regulation, government debt, crime, etc. The Reagan administration was largely populated with zealots of the Chicago School approach, as were all subsequent Republican presidencies.

The return of the Old Guard was enabled practically by wealthy entrepreneurs and the weak economy during the late 1970s. The wealthy entrepreneurs were strategists who created foundations to funnel money, ideas, and a cadre of workers into reversing the New Deal social contract. Chief among these were Joseph Coors, Edwin Feulner, and Paul Weyrich of the Heritage Foundation. Weyrich in particular was a political strategist extraordinaire. He pushed a plan to use religion to promote free market ideals and tax benefits for the wealthy. In this regard, Weyrich cofounded two Christian advocacy groups to recruit fundamentalists into the Republican Party. Apparently, they succeeded. Since 1980, the Religious Right has provided an important voting bloc, a network of grassroots workers, and funding for Republican candidates at all levels.

The final factor enabling the Old Guard to reemerge was the weak economy during the late 1970s. Inflation and unemployment persisted. A recession occurred during the 1980 election year. All of these conditions made it appear that Keynesian prescriptions had failed, as had the promise of a Great Society. Topping this off, the Carter administration foreign policy was ineffective in securing the release of the American hostages in Iran.

Ronald Reagan and the Old Guard benefited from this confluence of factors. The evidence strongly suggests that he was not elected in 1980 to implement an Old Guard agenda, but because he was not Jimmy Carter. Nevertheless, the Reagan team, with strategic guidance by the Heritage Foundation, moved swiftly to attack New Deal and Great Society programs. By 1989, the tax system had become considerably less progressive, with huge tax benefits flowing to high-income groups. The regulatory regime underwent substantial change as rulemaking was curtailed, and established regulatory agencies were suppressed through hostile political appointees and reduced budgets. Additionally, the social welfare system was starved for funding, and the poor felt the brunt of redirection of federal money toward national defense and the states.

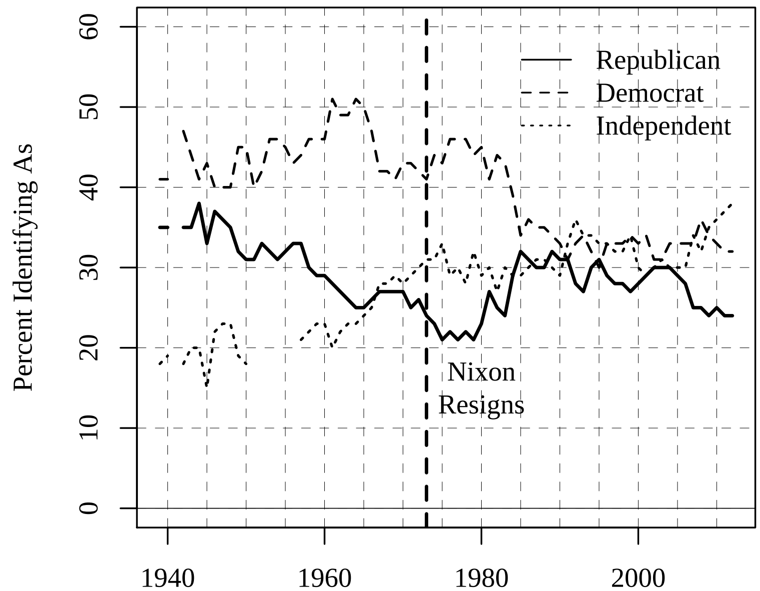
Of course, the Reagan administration did not reverse support for the New Deal social contract. Virtually no programs of the New Deal or Great Society were repealed during the 1980s or afterward. Funding was reduced for many programs, but that funding could be restored in a more favorable political environment. The Reagan deregulation relied on an administrative presidency strategy. Again, a future president can easily reverse administrative deregulation. The Reagan tax cuts also lacked permanence and created massive and continuing increases in the federal debt. Resolving that debt, whether through taxing or spending became the continuing basis of polarization through time.

It is important to understand that polarization after 1980 did not “just happen.” Rather, it resulted from the deliberate strategies of Old Guard Republicans. The same issues pushed by Ronald Reagan and the Heritage Foundation drive polarization through the present. The acute basis of partisan conflict has been economic. However, Republican ideological support for low taxes, free markets, and less government has been strongly connected through time with morality politics. There is no rational basis for why low taxes, free markets, and smaller government should be connected with abortion, homosexuality, school prayer, and family values. Yet, these issues are connected for many Republicans who comprise the party base.

More recent evidence of the deliberate basis of party polarization was the Republican reaction to the Great Recession and Democratic landslide in 2008. Party leaders orchestrated the party of “NO!” strategy. Fearing a return to 50 more years of wandering in the wilderness after the Great Recession, Republican leaders used the strategy of not offering the incumbent president any support in dealing with the economic crisis. They adopted the PR strategy of trying to make the incumbent president look weak and New Deal solutions appear ineffective.

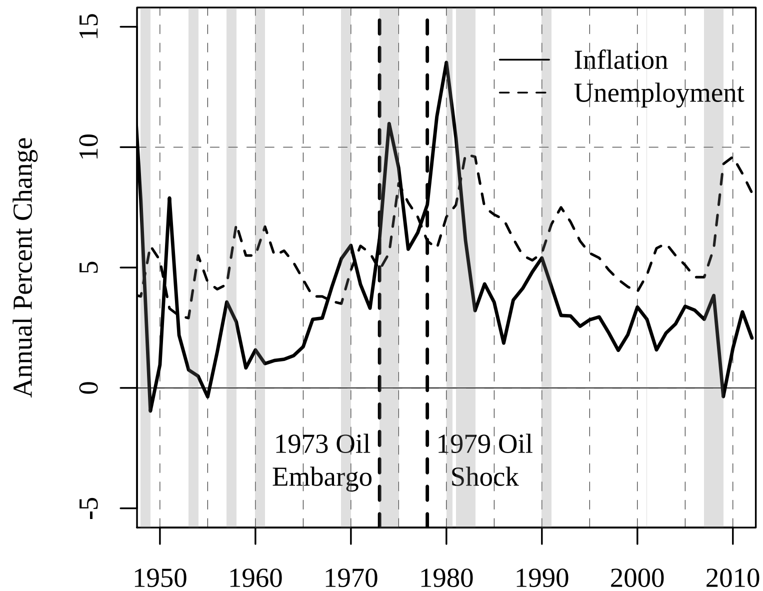
Thus, the polarization of the American system did not “just happen.” It resulted from deliberate and calculating tactics intended to benefit the patrician class. Republican elites have an intense hatred for the New Deal social contract, and desperately want to reverse it. As suggested by Mitt Romney’s remarks to his wealthy donors in Boca Raton Florida, the class divide continues as the basis of party polarization of the American system.

FIGURE 6.1: Party Identification, 1939-2012



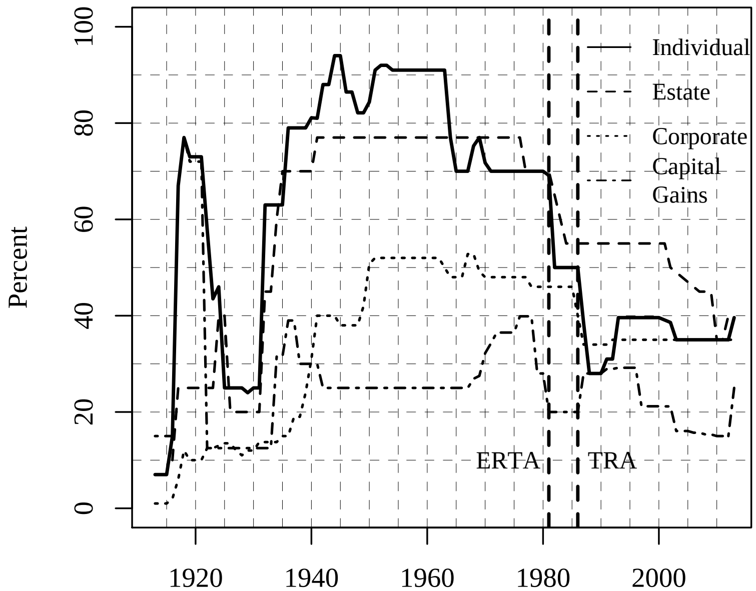
Source: Pew Research Center, Trends in Party Identification from Gallup, 1939-1989, Times Mirror/Pew Research Center, 1990-2012

FIGURE 6.2: Inflation and Unemployment Rates



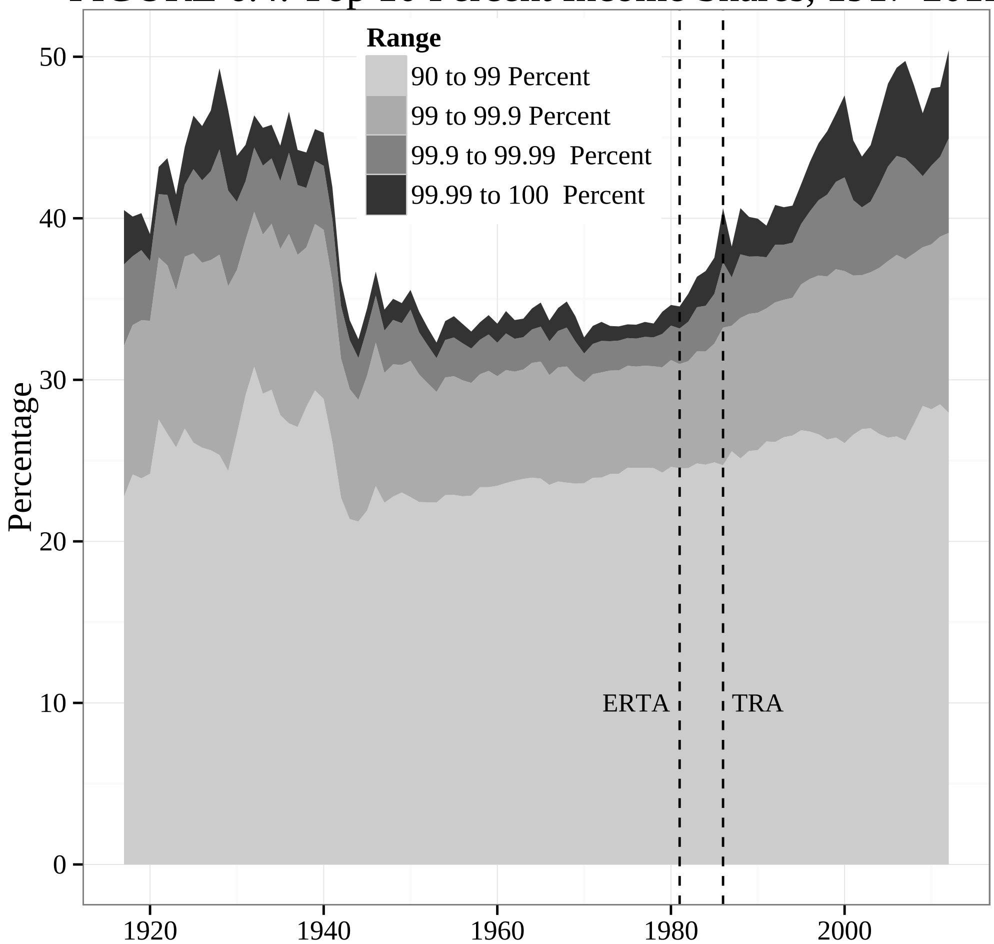
Sources: Inflation data are from http://www.measuringworth.com/inflation/ (Officer and Williamson 2014). Unemployment data are from Bureau of Labor Statistics series LNU04000000. Shaded areas are economic recessions. Recession dates are from NBER (2014).

FIGURE 6.3: Top Marginal Tax Rates



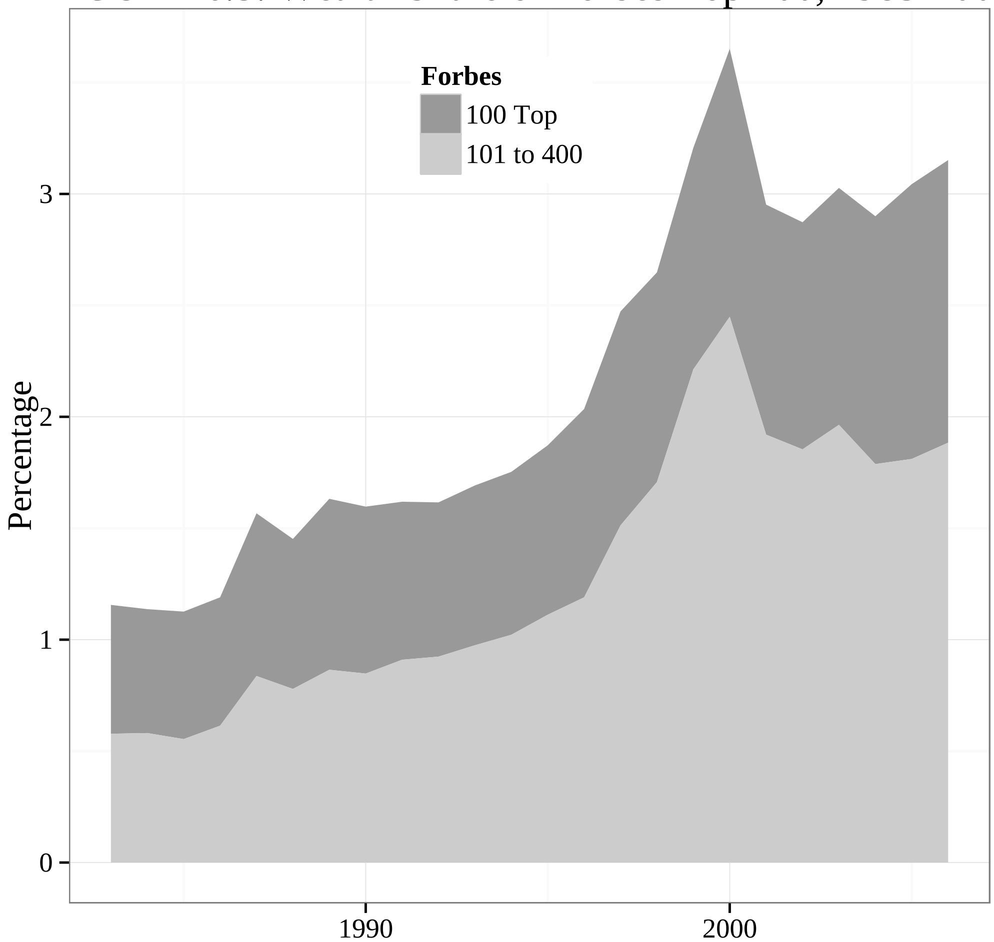
Sources: IRS, Statistics of Income Division, Historical Tables 23 and 24; http://www.irs.gov/pub/irs-soi/ninetyestate.pdf; http://www.treasury.gov/resource-center/tax-policy/Documents/OTP-CG-Taxes-Paid-Pos-CG-1954-2009-6-2012.pdf

FIGURE 6.4: Top 10 Percent Income Shares, 1917-2012



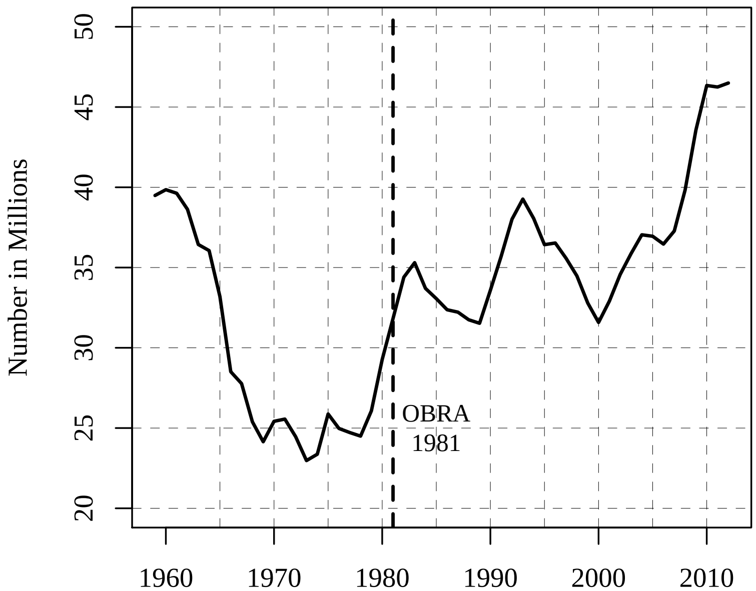
Source: Calculated from Piketty and Saez (2003) Table A3 updated to 2012 by the authors.

FIGURE 6.5: Wealth Share of Forbes Top 400, 1983-2006



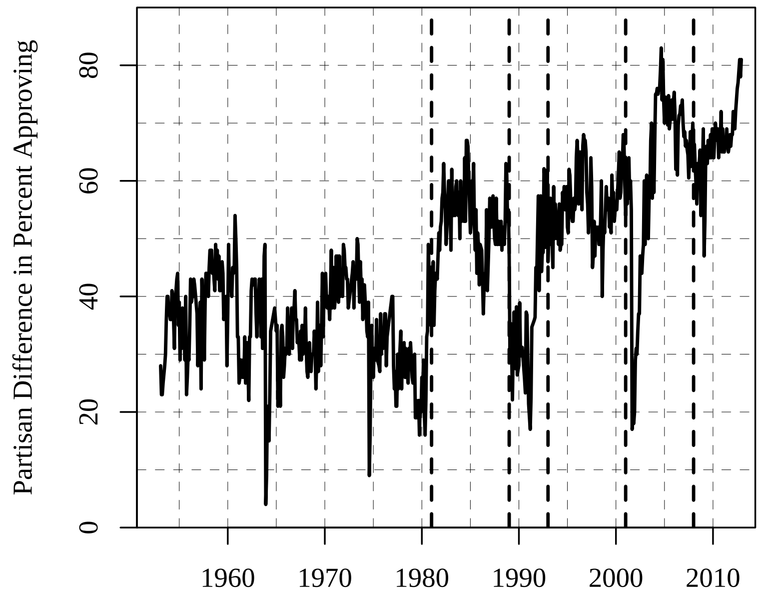
Source: Calculated from Wojciech and Saez (2004), Figure 12 updated by the authors to 2006.

FIGURE 6.6: Americans Living in Poverty



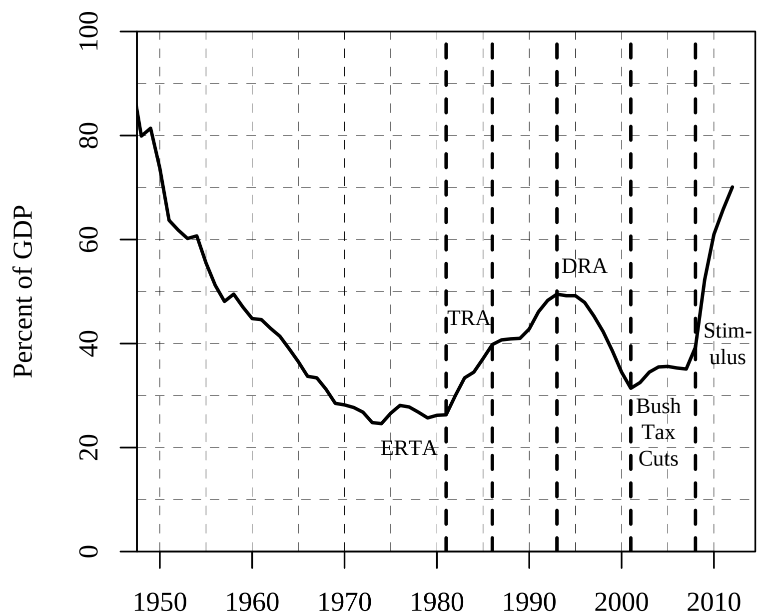
Source: DeNavas-Walt, Proctor, and Smith (2013) Table B-1

FIGURE 6.7: Partisan Difference in Presidential Approval



Source: http://www.gallup.com/poll/124922/presidential-approval-center.aspx. The vertical dashed lines mark the starts of the Reagan, Bush I, Clinton, Bush II, and Obama administrations, respectively. The shaded area marks the period from September 11, 2001 through the Iraq Invasion.

FIGURE 6.8: Federal Debt as Percent of GDP



Source: Congressional Budget Office using end-of-calendar-year data on federal debt from the Department of the Treasury and the Board of Governors of the Federal Reserve System. Estimates of gross domestic product (GDP) come from the Bureau of the Census.

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