

Beyond Retrenchment:
The Political and Ideological Foundations of the New American Welfare State,
1970-2000

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A Dissertation Submitted in Partial Fulfillment of the
Requirements for the Degree of Doctor of Philosophy
in the Department of Political Science at Brown University

Providence, Rhode Island

May 2010

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This dissertation by Jeremy B. Johnson is accepted in its present form

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DISSERTATION: Beyond Retrenchment: The Political and Ideological Foundations of the New American Welfare State

Conventional narratives of the Republican Party's relationship to the welfare state emphasize the themes of retrenchment and devolution. My research reveals, on the contrary, the viability of an alternative explanation: that the Republican Party has fostered proposals incorporating market mechanisms in both the orientation and delivery of social policy. By evaluating changes in four major policy arenas during the last four decades (welfare, housing, health, and pensions) I demonstrate that a distinct new welfare state is emerging. Institutional party competition is the key variable in explaining both why this new welfare state is rising while defining the scope of markets in social policy.

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Preface and Acknowledgments

Dissertations are notorious. They are often solitary affairs that swamp all other aspects of life. Teaching, pleasure reading, exercise, socialization, and the pursuit of any and all other interests must largely be abandoned to complete the product in a propitious manner.

Luckily, I have had the good fortune of having family, advisors, friends, and colleagues to make such a daunting task not only bearable, but in fact, a pleasure. My parents, William and Jeanette (to whom this manuscript is dedicated), my brothers (Jeff and Jason) and sisters (Lynette and Lysbeth) were all sources of inspiration. Hearing about the lives of my siblings' spouses and the activities of all my nephews and nieces provided welcome diversion.

The chair of my dissertation committee, James Morone, provided wise counsel from beginning to end. His enthusiasm for my topic helped me overcome all the associated ups and downs of research and writing. Further, Jim's uncanny knack to grasp the essence of a complex argument and distill it into succinct prose is unrivaled. For those who know Jim, he operates late into the evening. My other Brown University advisor, Roger Cobb, is the earliest riser in the department. Thus, I had the good fortune to have my day bookended with advice from sagacious scholars. Roger often discussed my day-to-day progress. I could always count on him to thoroughly read a draft and deliver sound advice within days of handing in a long chapter. I had the pleasure to serve as a teaching assistant to both of these professors. They both generously shared their pedagogical techniques and experiences. I was fortunate that Chris Howard, of William and Mary College, agreed to serve on my committee. He is one of the foremost scholars

of the American welfare state and offered valuable insights at crucial moments. Darrell West and Scott Allard both served on my committee with distinction. They left Brown University for pastures elsewhere while I completed my dissertation, but they never abandoned the project and offered sound advice.

Many graduate students contributed immensely to this project. Of special note are Dan Ehlke and Huss Banai. Both of these gentlemen are true scholars whose academic acumen always gave me ideas to consider and ponder. I am indebted to both of them far more than they can know. So many other graduate students, both current and past proved extraordinarily helpful as well. A partial list includes Tony Della'era, Juliette Rogers, Eduardo Moncada, Ravi Perry, Kelly Bay, Mila Dragojevic, Erin Beck, Jorge Alves, Cecilia Perla, Ayo Jegede, Andrea Owens-Jones, Emily Farris, Nick Coburn-Palo, Gavril Bilev, Feryaz Ocakli, Yelena Biberman, Molly Wallace, Ed Gomez, David Blanding, David McMillan, Heather Silber, Peter Romanuek, and Josip Dasovic. I treasure the time I have spent with these individuals and a multitude of others. Many other friends contributed to me keeping my sanity, including Mark deVry, Cara Harsh, Andrew Ewald, Kristen Jellison, Mike Lutz, Mike Amarant, and Geoffrey Baker. I would also like to thank office manager Patti Gardner and Suzanne Brough.

A whole host of professors and librarians supported me at key points throughout this project. Brown faculty members Mark Blyth, Ross Cheit, Pauline Jones-Luong, Marion Orr, Wendy Schiller, and Linda Cook provided indispensable advice. Michael Jackson, the political science librarian, helped me immeasurably in tracking down many arcane references. Also, the economics and government documents librarian, Daniel O'Mahony helped me at key moments. The ILL Librarian, Bart Hollingsworth, the

Social Science data librarian, Tom Stieve, and librarians Frank Kellerman, Steve Thompson, Ron Fark, Ned Quist, and so many others proved quite helpful. I became notorious for pressing many other circulation and reference specialists in assisting on questions. Of special note include Jennifer Martenson, Jennifer Kennedy, Roland Harper, Lois D'Alfonso, Peg Mutter, Sue Gervais, Beth Coogan, and Sharon Smith.

I also appreciate the time that my interview subjects spent with me. They include Malcolm Endicott Peabody, Ralph Bledsoe, Martin Anderson, James Pinkerton, and Charles Kolb.

Questions of social welfare and security have always interested, indeed, plagued, me. I worried about my father qualifying for his defined-benefit pension from the oil company he worked for during his career. I remember breathing a sigh of relief when he turned 55 and thus could qualify for early retirement. After graduating from the University of Pennsylvania, my parents' COBRA protection allowed me to have health insurance, which my parents graciously paid for while I continued my studies. I prepared to become a high school teacher. Unfortunately, after three years of searching, I could not find a job, and worked as a substitute teacher. I was fortunate that my parents continued to pay for my health insurance—I would have had none otherwise. The gross injustice of the system piqued my interest and I hoped to understand social policy better once I returned to graduate school, first at Villanova University then at Brown University. Further, I could not understand how voting patterns which seemed at best a very blunt instrument of punishment and reward are determined. The elections of a Republican Congress in 1994 and the reelection of George W. Bush in 2004 puzzled me. My response to what seemed at the time agonizing events on both a personal and global

level is to write this dissertation. I hope, in a small way, that the political patterns it suggests will provide solace to the reader who is overwhelmed by the drama of the 24-hour news cycle.

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Chapter 1: Rethinking Conventional Narratives

On the evening of February 2, 2005, President George W. Bush, still basking in the glow of his reelection triumph, stood poised to deliver his State of the Union speech. What the President planned to unveil was no secret. The centerpiece of his second term legislative agenda would be nothing less than revolutionary reform of Social Security, the proverbial “third rail” of American politics.

After obligatory introductory remarks centering on the strength of the economy, Bush delved into the details of his vision for a new Social Security. He warned that in 2018 the program would start paying out more than it takes in, beginning a slow trek toward insolvency. His recipe to stave off the eventual day of reckoning encompassed a two-part response. He began by sounding the themes of a classic small-government Republican, advocating retrenchment through the downsizing of a social program. Yet he did so with a twist. Bush only cited options provided by politicians who were members of the Democratic Party.

Former Congressman Tim Penny has raised the possibility of indexing benefits to prices rather than wages. During the 1990s, my predecessor, President Clinton, spoke of increasing the retirement age. Former Senator John Breaux suggested discouraging early collection of Social Security benefits. The late Senator Daniel Patrick Moynihan recommended changing the way benefits are calculated.¹

Doubtless Bush wished to inoculate himself from charges of Republican mean-spiritedness while emphasizing that the gravity of the situation had bipartisan recognition.

With the gloomy prognostications out of the way, Bush then outlined the second part of his rescue operation. “As we fix Social Security, we also have the responsibility to make the system a better deal for younger workers. And the best way to reach that

¹ “We Must Pass Reforms That Solve the Financial Problems of Social Security”, [State of the Union Text]. *New York Times*, February 3, 2005, p. A22.

goal is through voluntary personal retirement accounts.”² Bush then continued by describing the merits of personal accounts: better rates of return, greater choice in investments, and the possibility of leaving your accounts to heirs. The second component of the Bush Social Security plan is not easily categorized as downsizing. Instead, the proposal would infuse social policy with market mechanisms, incorporating a mixture of risk, choice, and ownership. The President was also advocating a program that in all probability would require enlarging the federal bureaucracy. Bush’s proposal did not have the texture of a classic New Deal or Great Society initiative because of the absence of a predetermined standard monetary benefit. Yet the partial privatization portion of the president’s plan was not overtly aiming to retrench the welfare state. What did a proposal containing personal accounts signify about longtime Republican strategy concerning social policy?

What Bush proposed in 2005 was simply the latest chapter in a phenomenon sweeping the broader welfare state since the presidency of Richard Nixon forty years ago. The American welfare state was going through a subtle, but deeply transformative, reconstruction. It was moving away from its moorings as a Democratic creation that entitled recipients to very specific benefits. Instead, often under Republican auspices, social programs were moving in a market direction, emphasizing competition, choice, as well as personal responsibility.

While in hindsight Bush may have looked foolish in tackling Social Security, he had good reason at the time to take the risk. Social Security was one of the last massive social programs left untouched by the incorporation of market mechanisms. Previous

² Ibid.

presidents, from Richard Nixon to Bill Clinton, had laid the groundwork for Bush's gamble. Those presidents, along with the Congresses they had to work with, had radically altered the nature of American social policy. Medicare, health care, private pensions, welfare, and housing looked vastly different when Bush stood at the podium than when Richard Nixon took the oath of office in 1969.

The evolution of the welfare state from a model where the government provides programmatic benefits toward an entity that incorporates market mechanisms is the subject of this dissertation. I call this new brand of social policy "the Republican welfare state," emphasizing the partisan demands that allowed the G.O.P to play a pivotal role in its formulation. This dissertation will evaluate the developments, especially late in the twentieth century, that allowed Bush to offer his extraordinary proposal for revamping Social Security.

Building a New Welfare State

How does a welfare state that incorporates market values operate? There are three overarching characteristics: (1) market mechanisms that give individuals choice, especially cash vouchers, (2) the promotion of labor force participation, and (3) the indirect restraint of social and entitlement spending.

An element of the first theme, cash vouchers, holds special resonance to conservatives. First, it allows the federal government to remove itself from directly supplying services. For instance, in housing policy, instead of building new projects to house the indigent, the federal government can simply write a check, and within certain parameters, allow the poor to rent their own housing. From a conservative's viewpoint, the federal government remains absent from what is best left to the private sector. The

perceived advantages do not stop there. Conservatives often believe cash vouchers a superior mechanism because they promote individual discretion and dignity. Rather than stigmatizing the poor welfarists and allowing them to lose their sense of worth as wards of the state, cash vouchers have a liberating effect. Across policy arenas, Republicans have proposed versions of cash vouchers in lieu of more direct government involvement in social provision.

Cash vouchers are only the most visible of conservative means for individual empowerment. Other ways to grant autonomy are to provide special taxation treatment to citizens for the purpose to save for retirement, health care, and build businesses in designated impoverished areas. The promotion of other ‘market values,’ including thrift and work, are another component of this new welfare state. Many conservatives see powerful incentives to participate in the workforce as a prerequisite for functioning in a capitalistic economy. Finally, market values are also seen as a device to constrain entitlement and social spending. Instead of attempting to make the federal government a coercive agent to reduce unsustainable entitlement inflation, the new welfare state would include structures for the market to determine how to cap such spending.

Implicit in this thematic structure is a reliance on the private sector, when feasible. Special interests that wield clout on Capitol Hill demand social policy programs that help buttress their financial position. They have particularly encouraged the aspects of this new welfare state that provide for direct federal largesse, or the opening of new markets, to flow their way. Motivations for profit have proved a powerful motive for the federal government to delegate social provision to private entities, often backed by federal funds or tax incentives. A paradox thus emerges: at one level the movement

toward markets in social provision is designed to encourage both efficiency and effectiveness in the welfare state. Yet to ensure profits for favored industries, this new welfare state introduces new inefficiencies and inequalities.

Furthermore, the aforementioned themes—vouchers, personal empowerment, work, and the streamlining of entitlements--are not as philosophically synergistic as the above synopsis indicates. Indeed, at times these thematic structures operate in tension, as forthcoming chapters will demonstrate. This lack of harmony is directly related to the first of two major qualifications to my proposed thesis of the Republican promotion of markets in the welfare state.

Paternalism is a conservative instinct that can be seen at odds with the liberating aspects of markets. Often bound with conceptions of race and gender, the poor are not trusted in making decisions that a cash voucher would allow. This has become especially apparent in low-income support policy, with reform efforts running the gamut of Republican responses. The G.O.P initially proposed cash vouchers for most of the poor, without strong work requirements. Republicans then moved away from this proposal and reserved this type of aid for the working poor. Instead Republicans often embraced intrusive new regulations and restrictions in order for the unemployed poor to obtain any other income support.

A second qualification to Republican support for markets in social policy appears when the Democratic Party moves to embrace the Republican position. As an almost reflexive measure, Republicans then hesitate to continue to offer support for their preferred version of social policy. I hypothesize this is in large part because of the polarized nature of social politics throughout American history. I will provide evidence

that the welfare state is best seen as a partisan football, not the product of bipartisan consensus. This state of near permanent contention is usually only interrupted when the fundamental shape of social policy is not at stake. However, there are times when the Democratic Party moves toward a Republican position, embracing markets, and a *modus vivendi* appears. Such moments are, however, evanescent.

The explanatory framework outlined above is hardly self-evident. More often observers express puzzlement when considering social policy, since, at least ostensibly, its movement seems inchoate. In the words of one scholar attempting to capture the essence of American social policy dynamics in recent decades, “overall, one can say that several parts of the welfare state moved rightward, a few elements moved leftward, and other components remained roughly stable or else changed in directions difficult to categorize.”³

The transformation of the welfare state according to market principles, as well as my qualifications to such a proposition, is underpinned by strong partisan dynamics. Programmatic evolution, as the case studies in the following chapters indicate, is uneven and proceeds in varied degrees of rapidity. This is because of the unique political circumstances surrounding each policy area, including the breadth of popular support, the power of entrenched interests, the presence of policy entrepreneurs, and the short-term political dynamics within and across the executive and legislative branches. Partisanship is also at the heart of the second central qualification to my theory of a market-based welfare state. In general, the politics of social policy promote partisan polarization,

³ Smith, Mark A. *The Right Talk: How Conservatives Transformed the Great Society into the Economic Society* (Princeton, NJ: Princeton University Press, 2007), p. 7.

sometimes complicating traditional Republican support for markets. Thus, party competition is at the heart of new directions in social policy.

Conventional Narratives

Traditional frameworks found in the academic literature for understanding the Republican Party's relationship to the welfare state tend to emphasize retrenchment and devolution. A third paradigm, found mainly in the popular literature may be added, holds that political expediency has created incentives for Republicans to abandon their small-government heritage.

The most influential of these narratives is that which treats the Republican Party as virtually synonymous with retrenchment. While many scholars recognize that conservatives in the G.O.P favor markets in principle, they accord primacy to retrenchment motives. Market philosophy functions hazily as an opaque peripheral impulse. The most thorough study of retrenchment is *Dismantling the Welfare State?* by Paul Pierson. He took it as a given that the election of Ronald Reagan ushered in a new era of austerity for the welfare state. He suggests certain policy analysts had successfully argued for the need of a threadbare benefit structure in order to draw public capital into the (theoretically) more dynamic private sector. Further, some conservatives "saw a contraction of the welfare state as an end in itself."⁴ The 1980s seemed a propitious time for a conservative politician, such as Reagan, to implement these reforms. Pierson attempts to unravel the puzzle of why such an otherwise popular president with a sunny demeanor largely failed in this quest. Pierson found many programs built their own constituencies and were politically popular. When conservatives were successful in

⁴ Pierson, Paul. *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (New York: Cambridge University Press, 1994), p. 1.

cutting programs, they were largely able to skirt blame through indirect strategies of stealth, obfuscation, and trimming the taxes needed to sustain the welfare state.⁵

Jacob Hacker develops the retrenchment narrative further. He takes issue with Pierson's assessment that the welfare state is resilient. Hacker argues that the stability of benefit structures has eroded, suggesting greater retrenchment than previously recognized. The most important component of retrenchment is what Hacker calls "risk privatization." Examples of this phenomenon include defined-benefit pensions that have nearly become extinct in the private sector. Workers now assume the burden of risk with defined contribution plans that subject individuals to the whims of the market. Waning employer-sponsored health care has transferred the burden of coverage toward the individual.⁶

These scholars, and many others, concur that a dramatic example of the "stealth" assault against the foundations of social provision is through "starve the beast" strategies.⁷ According to this theory, conservative politicians, beginning in the 1980s, have intentionally created large deficits by cutting taxes so substantially that reductions in expenditures for the welfare state are sure to follow. Supposedly the mechanism for enforcing such a scenario would be that the public would become so enraged at spiraling debt that it would demand retrenchment of the welfare state.

⁵ Pierson, Paul, 1994; Pierson, Paul, "The New Politics of the Welfare State", *World Politics* 48:2 (1996): 143-79

⁶ Hacker, Jacob S. "Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States," *American Political Science Review* 98 (2004): 243-260.

⁷ The best academic overview of the "starve the beast" thesis is Morgan, Kimberly, "Constricting the Welfare State: Tax Policy and the Political Movement Against Government", *Remaking America: Democracy and Public Policy in an Age of Inequality*, ed. by Joe Soss, Jacob S. Hacker, and Suzanne Mettler. (New York: Russell Sage Foundation, 2007), pp. 27-50.

There are striking lacunae with the retrenchment thesis. Despite the electoral prowess of conservatives within the Republican Party over the course of several decades, the welfare state remains large. Some new programs, such as the Medicare Prescription Drug Benefit (Part D of Medicare) and the State Children's Health Insurance Plan (SCHIP) have actually led to further burgeoning of the welfare state. Social Security and Medicare are ever-larger items of the budget. Anti-poverty programs have not fared as well, yet many still exist, though often in radically altered form. Further, the "starve the beast" strategy, insofar as it was put into practice, has proven singularly ineffective.⁸ Policy analysts on both the left and the right suggest that instead of "starving" the welfare state, tax cuts may fuel it. This follows because taxpayers are not generally aware of the expense of government services since they fail to pay the full amount of taxes to support it.⁹ While it is debatable just how perceptive taxpayers really are of the full-range of services provided by government at a given tax rate, it is clear that sabotaging the welfare state by defunding it has not played a pivotal role in social policy outcomes. While some Republicans at particular times certainly may have wished to dismantle the welfare state, it is striking that so little of it has actually occurred.

Another reading of the Republican Party's relationship to the welfare state emphasizes the devolution of social policy services as the responsibility of the fifty state

⁸ See Gale, William G. and Peter R. Orszag, "Bush Administration Tax Policy: Starving the Beast?" *Tax Notes* (November 15, 2004): pp. 999-1002. Romer, Christina D. and David Romer, "Do Tax Cuts Starve the Beast? The Effect of Tax Changes on Government Spending." *NBER Working Paper Series*, Working Paper 13548 (2007).

⁹ Rauch, Jonathan, "Stoking the Beast." *The Atlantic Monthly*. 297: (June 2006), pp. 27-28; Niskanen, William A., "Limiting Government: The Failure of Starve the Beast." *Cato Journal*. 26: (Fall 2006), Jones, Bryan D. and Walter Williams, *The Politics of Bad Ideas: The Great Tax Cut Delusion and the Decline of Good Government in America* (New York: Pearson Longman, 2008): pp. 553-558.

governments. Both Richard Nixon and Ronald Reagan envisioned a domestic policy regime called “New Federalism.”¹⁰ Other Republican politicians have also stressed that social policy is a function that should be directed at the state level. Certainly federalism is a major feature of the American welfare state. However, the New Federalism measures advocated by Nixon and Reagan both proved ephemeral. Neither became the building blocks of a new American social policy. The federal government has remained a central purveyor of many welfare services, under both Democratic and Republican governance. Some programs are fully federalized, while many others are a partnership between the federal government and states. Devolution fails to capture the essence of the large federal commitment to the welfare state, perpetuated by partisans of all ideological stripes.

Another ideational stream, articulated most lucidly in the popular literature, is that Republicans have betrayed their conservative heritage in order to embrace “big government” for electoral advantage. Like most political parties, they have repeatedly compromised principle for political expediency. Such complaints surfaced as early as the 1980s. David Stockman, Reagan’s first budget director, complained that while the president successfully reduced taxes, he had no stomach to fight the welfare state. Stockman mourned the result of unprecedented federal deficits. A veritable cottage industry has flowed from the busy pens of subsequent conservative and libertarian commentators despairing of how George W. Bush and his allies in the Republican

¹⁰ The most comprehensive studies of devolution and New Federalism are Conlan, Timothy, *New Federalism: Intergovernmental Reform from Nixon to Reagan* (Washington, D.C.: Brookings, 1988); Conlan, Timothy, *From New Federalism to Devolution: Twenty-Five Years of Intergovernmental Reform* (Washington, D.C.: Brookings, 1998).

Congress have let big government run amok, while turning Reagan into a paragon of both fiscal and budgetary virtue.¹¹

Too often, scholars have attempted to dismiss market social policy as equivalent to stealth retrenchment. Certainly many conservative luminaries, including Martin Anderson and Jack Kemp, did not think they were complicit in dismantling social policy, they thought they were improving it. While scholars need not agree with the conclusions of Anderson/Kemp, this conservative viewpoint has proven publicly influential and should not be dismissed without analysis.

Just as significantly Republicans had the political opportunity and resources to determine the tenor of the debate. Market ideology underwent revitalization during the late twentieth century as the fall of the Berlin Wall and the demise of the Soviet Union discredited societies structured which were primarily the products of government planning. Worldwide events reinforced the logic that competition and choice could be seen as virtual panaceas for curing intractable policy ailments. Even many Democrats cloaked their domestic agendas in the language of the market, surrendering to the Republican framework.

The Shifting Welfare State

Conceptually, the welfare state, as defined in this dissertation, encompasses government controlled, or quasi-government sponsored benefits, that directly aim to ameliorate the economic vagaries inherent in modern life. Thus poor relief (welfare),

¹¹ Viguerie, Richard A. and David Franke. *Conservatives Betrayed: How George W. Bush and Other Big Government Republicans Hijacked the Conservative Cause* (Los Angeles: Basic Books, 2006); Bartlett, Bruce, *Impostor: How George W. Bush Bankrupted America and Betrayed the Reagan Legacy* (New York: Doubleday, 2006); Tanner, Michael D. *Leviathan on the Right* (Washington, D.C.: Cato Institute, 2007).

health insurance, old age pensions, housing, and unemployment/workers' compensation fall into this category. While education and mass incarceration policy, are sometimes considered part of the welfare state, they will not be treated in the dissertation.

Even if a more narrow definition of welfare state is used, federal social programs are quite extensive and it would require a virtual encyclopedia to cover all these programs and their changes over the course of the late twentieth century. In this dissertation I have taken four of the most prominent components of the welfare state and examined their movement in a market direction of these policy arenas in detail. This is not a history of the entire welfare state, but rather a thesis meant to highlight how these particular policies have changed over time. Therefore, to demonstrate nuances in the growth of the Republican welfare state, two anti-poverty programs and two "universal entitlements" are selected in an attempt to avoid the problems inherent in single case studies. The four charts that follow show the evolution of policy in the areas I have chosen to examine: welfare, housing, health, and pensions. The charts aim to chronicle the main innovations in social policy that are covered in this dissertation. Each gives a proposal or an enacted piece of legislation with a corresponding year. The proposals not enacted are represented in italics, reforms achieving passage are printed in standard type.

The first chart introduces innovations in low-income support policy, often the area most associated with a classic welfare state. The political dynamics of low-income support are different from more broadly popular entitlement programs. Classic welfare programs help far fewer voters. Societal heterogeneity clouds the possibility of large-scale public acceptance of these programs. Furthermore, the recipients of these programs tend not to be natural Republican constituencies and have very little political clout

particularly when it comes to the GOP. Compounded with the perceived failure of many of these programs to ameliorate poverty, income support programs have proven ideal laboratories for radical transformation.

The oldest welfare program was originally named Aid to Dependent Children (ADC), renamed Aid to Families with Dependent Children (AFDC) in 1962, and replaced by Temporary Assistance to Needy Families (TANF) in 1996. A second program, the Earned Income Tax Credit, grew rapidly for two decades as a welfare initiative for low-income workers. Republicans proposed a “market-based” voucher, or guaranteed income, for all families during the Nixon presidency. However, many Republicans hesitated in supporting the program, as the paternalistic instinct thwarted widespread Republican support. Afterwards, Republicans from Reagan onward promoted limited benefits and enforced work standards. Republicans proved triumphant in abolishing the old New Deal form of welfare (AFDC) in the mid 1990s. The G.O.P also advocated for the Earned Income Tax Credit (EITC) for a number of years. However, the Democratic Party largely accepted the premise of the EITC and also became forceful supporters. On the cusp of fundamentally transforming low-income support policy in a Republican fashion, the G.O.P has pulled back support from the EITC.

TABLE 1.1: INNOVATION IN LOW-INCOME SUPPORT POLICY

Year(s)	(Proposed) Innovation
1935	Establishment of ADC; part of Social Security Act
1956-1962	Package of welfare legislation; increase benefits, work requirements
<i>1969-1971</i>	<i>Family Assistance Plan</i>
1975	Temporary EITC created

1978	EITC program made permanent
1986	Tax Reform Act; Expands EITC
1988	Family Support Act
1990	Omnibus Budget Reconciliation Act; Expands EITC
1993	Omnibus Reconciliation Act; Expands EITC
1995-1999	<i>Package of legislation to pare back EITC benefits</i>
1996	Personal Responsibility and Work Opportunity Reconciliation Act; AFDC replaced by TANF
2001	Economic Growth and Tax Relief Reconciliation Act; mild expansion of EITC
2004-2006	Reauthorization of TANF

Low-income housing is another policy area that has undergone fundamental revision. It has proven a pivotal sector for Republican experimentation with market mechanisms. This is in part because low-income housing is, like welfare policy, primarily directed toward the poor. There was also a general consensus that the New Deal and Great Society programs in housing had failed. Vouchers, supported by Republicans, have by and large replaced building projects as the main vehicle to deal with housing woes. Experiments with enterprise zones, selling the public housing stock, and introducing management from tenants are other market-oriented approaches that have been proposed and attempted.

TABLE 1.2: INNOVATION IN HOUSING POLICY

Year(s)	(Proposed) Innovation
1937	Federal Housing Act
1948	Reauthorization of Housing Act
1972	Housing Moratorium
1974	Section 8 Vouchers Created
1981-1986	Reagan administration vigorously supports vouchers
1987	Housing and Community Development Act
1989-1993	Jack Kemp HUD Secretary; zenith of market housing proposals
1990	National Affordable Housing Act
1998	The Quality Housing and Work Responsibility Act
2000	Community Renewal and New Markets Act
2004-2006	<i>Presidential Budgets propose Section 8 Restructuring</i>
2007	<i>Section 8 Voucher Reform Act</i>

The late twentieth century has also seen the infiltration of market mechanisms into health care policy. Universal insurance has proven to be the albatross around the necks of liberals wishing to expand the welfare state. However, reformers have achieved building programs for targeted populations—primarily seniors (Medicare) and the impoverished (Medicaid). Despite initial opposition to Medicare’s launch, the program proved to be an economic boon for most in the medical profession. There were no cost containment measures in the original Medicare legislation. For decades, analysts advocated restructuring the program. On one front, policy-makers tried to encourage reluctant Medicare recipients to join Health Maintenance Organizations (HMOs) or other

innovative managed care plans. On the other hand, Medicare's spiraling costs prompted more regulation, but always with market language serving as a political cover. In recent years, health costs have continued to climb, creating the paradoxical demand for more federal benefits (such as the state children's health insurance plan [S-CHIP] and the Medicare Prescription Drug Benefit) and incorporating additional market mechanisms, in the hope of restraining health care inflation. Meanwhile, private sector insurance has seen a rapid rise in market restructuring under the auspices of the federal government, particularly the prevalence of managed care.

TABLE 1.3: INNOVATION IN HEALTH CARE/MEDICARE

Year(s)	(Proposed) Innovations
<i>1945-1950</i>	<i>Truman's universal health insurance proposals</i>
1965	Establishment of Medicare
<i>1970-1971</i>	<i>Nixon's universal health insurance proposals</i>
1972	PSROs created; small HMO program for Medicare established
1973	HMO Act
1982	Medicare Risk (new HMO program) established
1983	Prospective Payment (DRGs) for Medicare established
1988	Enactment of Medicare Catastrophic Coverage
1989	Repeal of Medicare Catastrophic
1993-1994	Clinton's health care initiative
<i>1995</i>	<i>Medicare Preservation Act/Balanced Budget Act of 1995</i>
1996	MSAs established as part of Health Portability Act

1997	Balanced Budget Act of 1997
2003	Medicare Modernization Act; Creation of HSAs

The final chart introduces innovation in pension policy. Social Security pensions were the keystone of the Social Security Act of 1935, in effect creating the modern American welfare state. The contested program engendered fierce resistance in its early years before developing bipartisan support in the middle decades of the twentieth century. The Social Security consensus only became strained in the 1970s, as certain policy actors advocated privatization of the system. To buttress their position, they could point to the radical change in the management of private pensions beginning in the 1980s. IRAs and defined contribution pensions supplanted defined benefit plans thanks to legislation, administration rulings, and court cases from the mid 1970s to the early 1980s. Private accounts became the new front line for fiscal battles around the turn of the millennium. After years of defeats, liberals scored a victory in keeping the program tethered to its original formulation.

TABLE 1.4: INNOVATION IN PENSION POLICY

Year(s)	(Proposed) Innovation
1935	Roosevelt signs legislation establishing Social Security
1939-1949	Scheduled payroll tax hikes scuttled eight times
1947-1948	Congress limits breadth of Social Security coverage in two bills
1950	Social Security Amendments
1954	Social Security Amendments; Republican led Initiative
1972	Social Security Amendments; COLAs introduced

1974-1975	ERISA enacted
1978	401K Provision adopted
1981	<i>Penalties Introduced for collecting Social Security benefits early</i>
1981	Reagan IRS Interprets 401K provision
1983	Social Security Payroll Tax increased
1997	<i>Social Security Commission's Report</i>
1998/1999	<i>Clinton Proposes supplemental personal accounts</i>
2005	<i>Bush launches drive to partially privatize Social Security</i>

Many Republicans certainly have proclivities to dismantle the welfare state, introduce devolution, and augment federal government spending. This has created a chaotic political climate. The central argument of this dissertation is that another ramification of Republican governance is to promote a new brand of social policy as a counterpoint to the traditional welfare state. The concatenation of market mechanisms with social policy has been as definitive a legacy as the other aforementioned effects of Republican governance.

Considering the diversity of interests within the G.O.P, there is fairly broad factional support for a market state.¹² Only a pure budget hawk would argue against any government structured programmatic benefits, and besides Stockman and a few others,

¹² For a sympathetic treatment of divisions within the Republican Party, see Ceaser, James W., "Four Heads on One Heart: The Modern Conservative Movement", *The Future of Conservatism: Conflict and Consensus in the Post-Reagan Era*, ed. by Charles W. Dunn, (Wilmington, DE: ISI Books, 2007), pp. 21-29. Ceaser includes paleoconservatives, neoconservatives, libertarians, and the religious right as members of the Republican coalition.

this constituency has not controlled policy-making. Most other Republicans promote various guises of market philosophy as the means to reshape social policy.

The Historical Framework

Before a Republican welfare state framed around markets emerged, Democratic politicians largely built social policy. The era from the 1930s to the 1960s was one of Democratic hegemony. Republicans during these decades were unable to push onto the agenda a blueprint for developing social policy other than fierce resistance or acquiescence. Partly, an intellectual infrastructure had not developed to craft and refine G.O.P social policy. Additionally, Republicans simply did not have the political resources to contest the terms of debate.

The dominant political philosophy of the mid-twentieth century called for confidence that the federal government could provide answers and create programs to aid in national growth and development. During the 1970s, this paradigm collapsed and was replaced by another ideological framework that also promised relatively simple answers. One congressional leader, Richard Armey (R-TX), described the new dominant outlook rather crudely, but compellingly, when he quipped, “markets are smart, government is dumb.”¹³ Cutting taxes, paring back regulations, and reconstructing social policy using market mechanisms as guiding principles replaced ‘antiquated’ liberal models. From the Nixon presidency through the George W. Bush administration, a distinctive Republican alternative model for the welfare state first appeared, and then expanded.

¹³ Quoted in Brown, Lawrence D. and Lawrence R. Jacobs. *The Private Abuse of the Public Interest: Market Myths and Policy Muddles* (Chicago: University of Chicago Press, 2008), p. 1; another variant of this quote from Armey is “the market’s rational; the government’s dumb”, see Minzesheimer, Bob. “The Republican Braintrust: the Powerbroker: House’s new leader playing it smart,” *USA Today*, December 9, 1994, p. 8A.

One other historical note must be highlighted at the outset. As one goes further back in time, connecting partisanship with ideology becomes more muddled. Traditional southern Democrats were often quite conservative, and would ally themselves with Republicans on certain votes. Likewise, there was a smaller cohort of progressive Republicans in some northern states. In the twenty-first century it is safe to say that almost all congressional and presidential Republican candidates are positioned further to the right than their Democratic counterparts. The parties have become sorted according to ideology. However, I contend that the ideological overlaps in the early years, strengthens, not blurs, the analysis presented here. Even a more conservative Republican party that has gained political strength in recent years is chary of retrenchment.

The closer we come to the contemporary era, overall, the stronger the Republican welfare state has become, in sync with larger number of Republican electoral victories. The G.O.P went from a frustrated minority position in the middle of the twentieth century to a contested majority. Republican presidents occupied the White House for 28 of the 40 years between 1968-2008. The Republicans, who seemed locked in a permanent minority status in Congress for decades, captured control of the Senate from 1980 to 1986 and again between 1994 and 2006 (with a brief interlude in 2001-2002). Republicans controlled the House from 1994 to 2006. The Republican Party has most definitely operated from a position of electoral strength over the previous several decades.

Charting a Course

This thesis offers an original contribution to academic theories about the welfare state, and more broadly, American politics. The task of the second chapter is to review

the state of the literature, with two objectives: (1) situate my argument among other established paradigms and (2) revisit literature on the broader American state, particularly explicating the role of ideology and partisanship in American governing processes.

Chapter three revisits the height of the Democratic welfare state and Republican responses. An analysis of the dependent variables, low-income support, housing, health, and pension policies provide evidence for a social policy reconceptualization. The fourth chapter looks at the budding Republican welfare state between Nixon and Carter. The fifth assesses the growth of market-based social policy under Reagan. The sixth evaluates the George H.W. Bush presidency and the first two years of the Clinton administration. The seventh chapter illustrates the maturation of the Republican welfare state during the years that Clinton and the Republican Congress attempted to govern together. By the turn of the millennium, all the pieces had come together for the zenith of Republican social policy. The concluding chapter ties together the lessons from the four policy case studies in demonstrating the contours of the new welfare state. It will also evaluate how this largely domestic story fits in a comparative perspective.

In the United States, the welfare state promotes inherent political contestation. Liberal Democrats claim that the welfare state encourages income equality, economic security, and that it has enabled the dramatic increase in living standards. The Democratic Party forged the welfare state and promoted its expansion. Conservative Republicans traditionally castigate the welfare state for burdening citizens with excessive taxation, hindering enterprise and crippling free-market competition. The last several decades have witnessed a new dynamic. Since the late 1960s, a distinctive welfare state has emerged that bears the imprint of Republican strategy, governance, and ideals.

Republicans have injected market dynamics into social policy, with emphases on competition and choice. Members of the GOP view programs they endorse as more in line with the values of personal responsibility and the creation of individual wealth. Government bureaucracies are no longer considered instrumental as the institutional mechanism for purveying programmatic services. Implicit in this new conceptualization of social policy, individualism has replaced collective security and income equality as primary considerations.

Both the scholarly and popular communities have, by and large, failed to rethink the politics of the welfare state. They are still caught in the more familiar struggles over whether the government should provide conventional programmatic services. In the middle of the twentieth century, stretching from the 1930s to the 1960s, political debates concerning social policy were largely two-dimensional: whether or not a welfare state should exist. In subsequent years the Republican Party has provided the impetus to recast the debate by adding a market-centered vision, thus creating a more complex dialogue.

Chapter 2: Perspectives on the American Political Regime

Exercises that seek to evaluate entrenched narratives threaten to muddy favored analytic paradigms. This dissertation suggests that the Republican Party has succeeded in animating the partisan politics of the welfare state with an infusion of market behavior. Such a proposition implicitly challenges received scholarly wisdom on two important dimensions. First, pragmatic partisan politics is overlooked as a determinant in explaining the development of American social policy. Second, ideological foundations are wrongly minimized when reflecting on partisan competition in American politics. The central purpose of this chapter is to demonstrate (1) the implications for the corpus of welfare state literature by incorporating this thesis and (2) reassess prevailing understandings for the role of ideology in American partisan politics.

Analyses of the American Welfare State

The fulcrum for the debate within the welfare state literature turns on the conceptualization of the United States as a laggard in providing social benefits. Early scholarship pitted competing explanations for why the United States lags while more recently scholars have questioned the very notion of America's trailing. The conventional understanding is that the United States started providing social provision later than European nations and offered less comprehensive coverage. The welfare states of continental Europe dwarf the United States in provision of programmatic benefits such as poor relief, unemployment compensation, and pensions. The United States spends 15.8% of its GDP on public social expenditures while northern and central European

nations spend closer to 30% of GDP on these services.¹ One scholar succinctly comments, “the American welfare state is striking precisely because it is so limited in scope and ambition.”² Over the past fifteen years, scholars have pushed back against the notion of a skimpy American safety net by pointing out that quirks in the tax code and a distinct relationship between the public and private sectors make the United States welfare state more robust than it appears at first glance. The discussion, however, remains so centered upon qualifying or dismissing laggard conceptualizations that a paucity of scholarship exists suggesting that political dynamics played a key role in creating, extending, and reformulating the American welfare state.

A rich array of posited explanations seek to explain the development and trajectory of the American welfare state. I have developed a taxonomy thematically sorting these explanations. Scholars have employed four paradigms, (1) cultural, (2) institutional, (3) power-based and (4) hidden processes, to more clearly envision the development of the contours and texture of social policy. To join the rank of these four explanatory variables, I suggest that the tug and push of partisan electoral politics more fully encompasses a complete description of the distinctive formation and trajectory of the American welfare state. The task of the first half of this chapter is to delve more deeply into the literature to view how previous scholarship has characterized American social policy.

Culture

¹ Figures are from 1997. They can be found in Howard, Christopher, *The Welfare State Nobody Knows: Debunking Myths About U.S. Social Policy* (Princeton, NJ: Princeton University Press, 2007), p. 15.

² Noble, Charles, *Welfare as We Knew It: A Political History of the American Welfare State*. New York: Oxford University Press, 1997), p. 3.

Early academic observers latched on to culture as the key explanation for the anomalous American welfare state. Such a thesis resonates because of popular conceptions of American Exceptionalism. This half-truth has its roots in sermons delivered by Puritan clergy, rightly dubbed as the founders of American political culture and rhetoric.³ In subsequent centuries, the new nation adopted the Puritan providentialism and embellished the imagery with all ascribed characteristics thought distinctive about American culture. In the middle of the twentieth century, Louis Hartz characterized the United States as a “liberal” nation in the sense that a market-driven laissez-faire economic system manifested itself supreme. No major American political party dared tread on this hallowed American consensus. The genesis of this “storybook truth” Hartz attributes to the United States’ lacking a revolutionary or reactionary heritage, thus allowing Americans to avoid the internecine conflicts that enveloped European powers. Never genuflecting before a baron or bishop made Americans uniquely suited to take advantage of the opportunities afforded by the New World.⁴

By the 1970s, scholars of the welfare state had adopted the Hartzian thesis to explain why the United States does not have a mature welfare state—namely, Americans do not want one since it runs contrary to the individualistic ethos. Both American and European scholarship reflected on the distinctiveness of American culture as a factor in

³ McKenna, George, *The Puritan Origins of American Patriotism* (New Haven, CT: Yale University Press, 2007), p. 4; see also Miller, Perry, *Errand Into the Wilderness* (New York: Harper Torchbooks, 1956); Morone, James A., *Hellfire Nation: The Politics of Sin in American History* (New Haven, CT: Yale University Press, 2003). These studies parse the thematic implications of Puritan discourse.

⁴ Hartz, Louis, *The Liberal Tradition in America* (New York: Harcourt Brace, 1991 [1955]). For a tribute to Hartzian influence see Morone, James A., “Storybook Truths About America.” *Studies in American Political Development*. 19 (2005): 216-226.

halting the development of a welfare state.⁵ Anthony King, speaking for this vein of scholarship that believes in the primacy of cultural factors, writes, “the role of the State in America is limited . . . because those who make policy in America—ultimately the politicians—believe it should be.” In his conclusion he remarks, “Louis Hartz in *The Liberal Tradition in America* was right, perhaps even righter than he knew.”⁶

While there is some recent scholarship still stressing the American welfare state as a product of cultural factors, in general, culture as a single determinant for social policy has fallen out of favor.⁷ Part of the reason for the eclipse of the culture thesis is that further studies revealed factors other than American Exceptionalism as defining features. Another potential reason is that discussion of culture and American Exceptionalism became the province of the right wing. Conservatives appropriated the powerful image of American Exceptionalism to exemplify their view of the United States in the world. American Exceptionalism became a favorite apothegm of newspaper editorialists expounding on America’s place in the world, from a moral, economic and political perspective.⁸ Rudy Giuliani, a Republican 2008 presidential contender, drew

⁵ See especially Rimlinger, Gaston, *Welfare Policy and Industrialization in Europe, America, and Russia* (New York: Wiley 1971); Gronbjerg, Kirsten, David Street, and Gerald D. Suttles, *Poverty and Social Change* (Chicago: University of Chicago Press, 1978).

⁶ King, Anthony, “Ideas, Institutions and the Policies of Governments: A Comparative Analysis: Part III”, *British Journal of Political Science*, 3 (October 1973): 409-23, quote from pp. 422-23.

⁷ Some late renditions of the cultural thesis include Levine, Daniel, *Poverty and Society: The Growth of the American Welfare State in International Comparison* (Rutgers, NJ: Rutgers University Press, 1988); Lipset, Seymour Martin, *American Exceptionalism: A Double-Edged Sword* (New York: Norton, 1996).

⁸ American exceptionalism is a favorite theme of op-ed columnists Michael Barone and David Brooks. See Barone, Michael, “Those Divided Democrats.” *U.S. News.com*. (Posted November 23, 2003). Accessed December 2, 2007; Barone, Michael. “Primary

explosive cheers and ovations from the Federalist Society at a convention thematically titled “American Exceptionalism” when he claimed the United States plays a “divinely inspired role” engendered by “ideas and idealism.”⁹ Culture became a less palatable explanation as American Exceptionalism started functioning more as an exercise in patriotism and less of an analytic tool.

Within the field of political science, cultural explanations for understanding political dynamics have had immense competition from institutional perspectives.¹⁰ It would not take long for welfare state scholars to consider institutions as a viable, and often preferable, alternative to culture as a determinant behind the shaping of social policy.

Institutions

A coterie of scholars advance institutional factors, which I define as the structural or bureaucratic apparatus that collectively comprise governing arrangements. The most obvious institutional explanation relates how the United State’s system of fragmented government precluded the nation from developing a vast welfare state even if public sentiment called for social service expansion.¹¹ The separation of powers in the United

Colors”, *Wall Street Journal* (August 10, 2006): p. A8; Brooks, David, “Reagan’s Promised Land”, *New York Times* (June 8, 2004): p. A25.

⁹ Barnes, Robert, “Giuliani Among Friends: Making A Federalist Case.” *Washington Post* (November 17, 2007), p. A04.

¹⁰ Glenn, Brian J. “The Two Schools of American Political Development”, *Political Studies Review* 2 (April 2004): 153-166.

¹¹ Orloff, Ann Shola, “The Political Origins of America’s Belated Welfare State” in Margaret Weir, Ann Shola Orloff, and Theda Skocpol, eds., *The Politics of Social Policy in the United States* (Princeton, NJ: Princeton University Press, 1988); Steinmo, Sven and Jon Watts, “It’s the Institutions, Stupid! Why Comprehensive National Health Insurance Always Fails in America”, *Journal of Health Politics, Policy, and Law*. 20 (1995): 329-372; Steinmo, Sven, “American Exceptionalism Reconsidered: Culture of Institutions”, *The Dynamics of American Politics: Approaches & Interpretations*, ed.

States among three branches--the executive, legislative, and judicial--makes it difficult to successfully legislate. Even if most of the membership of one branch is dedicated to action, members of the other branches have little compunction or incentive to cooperate in implementing reform. The legislative branch is further divided into two chambers—the House and the Senate. The Senate’s tradition of filibusters makes extra-large majorities of the chamber necessary to pass various forms of legislation. Even if a proposal wends its way through Congress, the president has the right to veto the bill and Congress needs a two-thirds majority to override the veto. Obstruction is the norm.¹²

To further complicate the system, federalism—the devolution of power between the national and state governments—diffuses power. Centralization is usually a precondition to building a strong welfare state. Certain functions, such as workingman’s compensation, are a function of state government, with the resultant low benefit levels. Other components, such as welfare benefits, Medicaid, and S-CHIP, are a partnership between the federal and state governments. By redirecting social spending decisions to the states—which generally cannot run deficits--the federal government is, in effect, deemphasizing programmatic benefits.

In short, the American institutional system is chaotic. James Madison believed this a virtue of the American political system, which prevented the tyranny of the

Lawrence C. Dodd and Calvin Jillson (Westview Press, Boulder, CO: 1994), pp. 106-131; Noble 1997.

¹² The voters often reward a minority party at the polls if they succeed in obstructing even popular legislation pushed by the majority. The minority party’s claims that the majority is paralyzed, does not keep promises, and are a “do-nothing” legislature often resonate with the voters. The most famous example of this phenomenon is when the Republicans, who blocked health care reform in 1993 and 1994, were voted into a majority in the House of Representatives in the subsequent Congress.

majority by providing checks and balances. Another consequence, however, is that these institutional constraints make it difficult to pass sweeping new legislation.

Some scholars posit that America's underdeveloped bureaucracy before the Great Depression is partly responsible for allowing the United States welfare state to lag. Patronage-oriented parties that existed before the New Deal had no incentive to provide programmatic benefits. This is because local branches of political parties frequently took on such functions, particularly urban machines, and would find a merit-based bureaucracy threatening. This became the contentious crux in the battles between the Progressives and patronage-oriented political parties in the early twentieth century.¹³ Some institutionalists classify the United States as an under-democratized polity, featuring one-party competition in the South, with vast swaths of the population unable to participate in the electoral process.¹⁴ These views hypothesize democratic pressures are a necessary condition to promote the development of a welfare state. Accordingly, the United States scored relatively poorly on both democratization and welfare state building indicators before the 1960s.

Power Relationships

¹³ Mayhew, David. 1986. *Placing Parties in American Politics: Organization, Electoral Settings, and Government Activity in the Twentieth Century*. Princeton, NJ: Princeton University Press; Amenta 1998. For a lively defense of the patronage system from a participant's perspective, see Plunkitt, George Washington and William L. Riordan. 1993 [1905]. *Plunkitt of Tammany Hall*. New York: St. Martin's.

¹⁴ Quadagno, Jill, "From Old-Age Assistance to Supplemental Security Income: The Political Economy of Relief in the South, 1935-1972" in Weir et al.; Amenta, Edwin, *Bold Relief: Institutional Politics and the Origins of Modern American Social Policy*, (Princeton, NJ: Princeton University Press, 1998). For the classic statement on old-style southern politics see Key, V. O., Jr., *Southern Politics in State and Nation* (Knoxville, TN: University of Tennessee Press, 1984 [1949]).

A third paradigm employed by scholars to explain the development of the American welfare state centers on specialized power relations among various interests. The three most celebrated power relationships in conjunction with the building of American social policy are (1) business versus labor associations and (2) race and (3) gender dynamics. These three overarching categories lead to an array of hypotheses.

One aspect of the business and labor relationship in the United States is that labor seems particularly weak, when compared to European nations. No competitive social democratic party ever emerged in the United States to represent workers' interests. Authorities speedily crushed all labor insurrections. Both Republican and Democratic presidents abhorred strikes and agitation. Democrat Grover Cleveland sent federal troops to Chicago to stamp out labor dissent during the Pullman Strike. Labor never wielded much clout in electoral politics until, briefly, the middle of the twentieth century. Thus, one posited theory is that the American welfare state lagged because of the frail political strength of labor—workers could not get electoral attention to fulfill their demands for a welfare state.¹⁵

More recent literature suggests that the perceived antagonism between labor and business is overblown. Instead, business has reasons to support the growth of the welfare state. Business will offload the costs of social provision to the public domain or have

¹⁵ Wilensky, Harold L., *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures* (Berkeley, CA: University of California Press, 1975). Shalev, Michael and Walter Korpi. "Working Class Mobilization and American Exceptionalism," *Economic and Industrial Democracy* 1 (1980): 31-61; Hicks, Alexander and Joya Misra, "Political Resources and the Growth of Welfare: The Case of Affluent Capitalist Democracies, 1960-82," *American Journal of Sociology*, 98 (1993): 668-710; Noble 1997.

competition burdened with additional personnel costs.¹⁶ There is literature that suggests that after the New Deal business lost its powerful advantage over labor and did not have the power to influence the contours of social policy as much as in previous decades.¹⁷

Racial issues have joined business and labor relations as a frequently cited explanation for the formation of the American welfare state. Racial tensions between whites and African-Americans intersect economic, cultural and moral concerns, especially before the 1960s. A number of scholars point out how racial animosity left an indelible mark in the design of the American welfare state.¹⁸

Even with large Democratic majorities in Congress, Roosevelt found in 1934 and 1935 that he could not dictate the shape of his proposed programs to enhance security. The administration had to retreat on the comprehensive nature of the proposed Social Security and Unemployment Insurance programs. At the insistence of southern congressmen, agricultural and domestic workers were excluded from coverage. Almost

¹⁶ See especially Swenson, Peter, *Capitalists Against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden*, (New York: Oxford University Press, 2002); Jacoby, Sanford M., *Modern Manors: Welfare Capitalism Since the New Deal* (Princeton, NJ: Princeton University Press, 1997). For an extended review of I call interest-based welfare state literature, see Hacker, Jacob S., "Bringing the Welfare State Back In: The Promise (and Perils) of the New Social Welfare History", *The Journal Of Policy History* 17 (2005): 125-154, pp. 129-134.

¹⁷ Hacker, Jacob S. and Paul Pierson, "Business Power and Social Policy: Employers and the Formation of the American Welfare State," *Politics and Society* 30 (2002): 277-325.

¹⁸ Quadagno, Jill, *The Color of Welfare: How Racism Undermined the War on Poverty*, (New York: Oxford University Press, 1994); Lieberman, Robert C., *Shifting the Color Line: Race and the American Welfare State* (Cambridge, MA: Harvard University Press, 1998); Brown, Michael K. *Race, Money, and the American Welfare State*, (Ithaca, NY: Cornell University Press, 1999); Givens, Martin, *Why Americans Hate Welfare: Race, Media and the Politics of Antipoverty* (Chicago: Chicago University Press, 1999); Ward, Deborah E., *The White Welfare State: The Racialization of U.S. Welfare Policy* (Ann Arbor, MI: University of Michigan Press, 2005); Poole, Mary, *The Segregated Origins of Social Security: African Americans and the Welfare State*. (Chapel Hill, NC: University of North Carolina Press, 2006).

all African-American workers in the south were employed in these occupations.¹⁹

Legislators also insisted that authority to administer Aid to Dependent Children be transferred to state and local control, for the purpose of excluding poor African-American mothers.

Southern legislators confronted a complicated and paradoxical situation. Many southern whites were desperately poor and could benefit from new federal programs. Thus, southern legislators, for instance in the case of Aid to Dependent Children, argued vociferously against the federal government funding merely a third of the program, while at the same time arguing for absolute state and local control over the program.²⁰ One of the more adroit southern politicians, Senator Lister Hill of Alabama, proved capable of maneuvering for increasing aid to the south without letting African-Americans benefit. He drafted the provision in the Hill-Burton Hospital and Construction Act of 1946 that hospitals were private entities subject only to state control. Thus, southern states could ensure segregated hospitals.²¹ In the late 1940s, Harry Truman's push for national health insurance died in the cradle with a concerted attack emanating from the American Medical Association, Republicans, and southern Democratic members of Congress, who feared National Health Insurance would end segregation in hospitals.²²

¹⁹ Lieberman 1998.

²⁰ Ibid., p. 56.

²¹ Quadagno, Jill and Steve McDonald, "Racial Segregation in Southern Hospitals: How Medicare 'Broke the Back of Segregated Health Services.'" *The New Deal and Beyond: Social Welfare in the South since 1930*, ed. Elna C. Green (Athens, GA: University of Georgia Press, 2003).

²² Quadagno, Jill, *One Nation Uninsured: Why the U.S. Has No National Health Insurance*. (New York: Oxford University Press, 2005) pp. 30-31; Krugman, Paul. *The Conscience of a Liberal* (New York: Norton, 2007), p. 68. Senator Hill was probably correct that national health insurance would have signaled the death knell for segregated hospitals; the passage of Medicare in 1965 finally forced the desegregation of hospitals.

The prodding influence of the Courts contributed to the eliminating of certain areas of the racialized welfare programs. However, the welfare state has by no means achieved color-blind status. Certain programs continued to suffer from a racial tinge, particularly the ADC program (renamed AFDC), often portrayed as an entitlement for poor African-American inner city mothers. It was of little consequence that more welfare recipients were white mothers than African-American.²³ Racial tension permeated both society and the welfare state in America.

Racial tension, while an important component in assessing the development of the welfare state, is not a complete explanation. Its thematic counterpart, gender dynamics, has a less extensive literature dedicated to it than race, but is also crucial. Preserving gender hierarchies also helped drive the development of the welfare state. Early in the twentieth century a “maternalist” welfare state developed on a state-by-state basis for worthy widows with children.²⁴ However, the development of the modern welfare state often excluded women from worker protections. The general assumption was that a woman’s place was in the home, not the workforce.²⁵

²³ In 1993, just before the final drive to eliminate AFDC took shape, 55% of AFDC recipients were white women and 39% of AFDC recipients were African-American mothers. There were well over 600,000 more white women than African-Americans on the rolls. Source: *Statistical Abstract of the United States, 1996*. Bureau of the Census. Table 601, p. 383. For a journalistic account about welfare recipients in Philadelphia, Pennsylvania, see Zucchino, David, *Myth of the Welfare Queen* (New York: Scribner, 1997).

²⁴ Skocpol, Theda, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, MA: Harvard University Press, 1992).

²⁵ Gordon, Linda, ed., *Women, the State, and Welfare* (Madison, WI: University of Wisconsin Press, 1990); Mettler, Suzanne, B., *Dividing Citizens: Gender and Federalism in New Deal Public Policy* (Ithaca, NY: Cornell University Press); Kessler-Harris, Alice, *In Pursuit of Equity: Women and the Quest for Economic Citizenship in 20th-Century America* (New York: Oxford University Press, 2001).

Societal interests in preserving power relationships have clearly helped shape the American welfare state. Yet race and gender are not complete explanations; after all, even privileged white male workers in America have a less reliable stream of benefits than European counterparts. Power-based explanations for social policy, depending on how they are portrayed, are amenable to explaining why the American welfare state lagged or serve as a segue toward another paradigm that directly challenges the laggard conceptualization. In recent years scholars have argued extensively that the American welfare states operates largely through “hidden” processes.

Hidden Processes

Hidden processes refer to the various methods by which the government sponsors social provision beyond direct programmatic benefits. One way is through using the tax code to encourage behavior among employers and individuals in providing social provision. Another related theme is how the public and private sectors intersect to promote private benefits for workers.

This line of literature had its genesis in the 1990s. Studies of “welfare capitalism” analyzed how unions and businesses forged a private benefits system, allowing for the state to be circumvented as a purveyor of social benefits. Well-paying union contracts, such as the famous “Treaty of Detroit” negotiated in 1950 firmly entrenched many retirement and health benefits as part of the private sector.²⁶

Christopher Howard took a major step forward in understanding these “hidden processes” in *The Hidden Welfare State* where he shows how the use of tax

²⁶ See especially Jacob, Sanford M., *Modern Manors: Welfare Capitalism since the New Deal* (Princeton, NJ: Princeton University Press, 1997); Brown, Michael K, “Bargaining for Social Rights: Unions and the Reemergence of Welfare Capitalism, 1945-1952”, *Political Science Quarterly* 112 (1997-1998).

expenditures—also known as a combination of tax credits and deductions, or tax loopholes—are part of the welfare state.²⁷ Various provisions in the tax code, usually unintentionally, created incentives that redirected social provision. For instance, home ownership in the United States took off because of a tax-code stipulation from 1913, the Mortgage Interest Deduction. The creation of this tax expenditure promoted virtually no debate in Congress. This provision entitled those who paid income taxes—a very small percentage of the population in 1913—to deduct interest paid on mortgages from their income tax. At the time, the costs to the federal government were paltry, however nearly a hundred years later the federal government loses huge sums from this deduction yet is unwilling to close the loophole. The tax expenditure promotes home ownership, which became associated with the twentieth-century American dream. The cost of this tax expenditure far exceeds what the federal government spends on public housing.²⁸ The total cost to the treasury for the mortgage interest deduction was estimated to exceed \$81 billion in 2006 with rapid escalation in subsequent years.²⁹ The *entire* budget for the department of Housing and Urban Development for FY 2006—not just the public housing programs—totaled \$28.5 billion.³⁰

With the private sector identified as a source for social provision, scholars soon found government policies that promoted private benefits. Scholarship from the end of

²⁷ Howard, Christopher, *The Hidden Welfare State* (Princeton, NJ: Princeton University Press, 1997).

²⁸ Ibid., pp. 48-49.

²⁹ “Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009: Prepared for the House Committee on Ways and Means and the Senate Committee on Finance by the staff of the Joint Committee on Taxation.” 2005. Government Printing Office. Washington, D.C.: January 12, p. 33.

³⁰ U.S. Department of Housing and Urban Development. Fiscal Year 2006 Budget Summary, accessed December 12, 2007
<http://www.hud.gov/about/budget/fy06/fy06budget.pdf>.

the twentieth and the beginning of the twenty-first century identified how in the United States, both the public sector and private sector cooperated to provide benefits. Marie Gottschalk explained how health care benefits anchored in the private sector are sponsored through government policy.³¹ Historian Jennifer Klein provided a similar analysis for the wider welfare state.³² The fullest statement of how the private sector and government interact to provide benefits comes from Jacob Hacker. He shows that in regard to pension provision, many private corporations, to reward white-collar workers above blue-collar workers, were given incentives to provide private pensions. This soon became one of the three pillars providing security for old age along with Social Security and private savings.³³

Analyzing the United States through the prism of hidden processes recasts and calls into question the image of the United States as a laggard. The United States welfare state, when proper attention is paid to hidden processes, spends similar amounts in social provision as other industrialized nations.³⁴ Paradoxically, since no other welfare state in the world operates so extensively through these hidden processes, in some respects American social policy is even more exceptional than previously conceived.³⁵

³¹ Gottschalk, Marie, *The Shadow Welfare State: Labor, Business, and the Politics of Health Care in the United States* (Ithaca, NY: Cornell University Press, 2000).

³² Klein, Jennifer, *For All These Rights: Business, Labor, and the Shaping of America's Public-Private Welfare State* (Princeton, NJ: Princeton University Press, 2003).

³³ Hacker 2002; see also Beland, Daniel and Jacob S. Hacker, "Ideas, Private Institutions and American Welfare State 'Exceptionalism': The Case of Health and Old-Age Insurance, 1915-1965" 13 (2004): 42-54.

³⁴ Howard, Christopher, "Is the American Welfare State Unusually Small?" *PS: Political Science and Politics* 36 (2003): 415.

³⁵ Howard, Christopher, *The Welfare State Nobody Knows: Debunking Myths about U.S. Social Policy* (Princeton, NJ: Princeton University Press, 2007).

Many scholars who have analyzed how the welfare state operates through “hidden processes” have arrived at pessimistic conclusions concerning the future of social policy in America. First, the hidden processes of social provision are not resilient and have contributed to the reduction or termination of many private pension and health care benefit packages.³⁶ Another dismaying prospect is what Jacob Hacker terms the “privatization of risk.” The most noted example of this phenomenon is the switch from defined-benefit to defined-contribution pensions where individuals, not corporations, assume responsibility for risks from the vagaries of the market.³⁷ A final note of caution comes from Christopher Howard who suggests that the American welfare state is a model of inefficiency. It provides benefits haphazardly and not necessarily for those who most need social protection.³⁸

Much of the scholarship that discusses hidden processes also frames welfare state development around “sticky” institutions, or path-dependent processes. Pierson and Hacker especially see path-dependency as a major explanatory factor comprising the welfare state. This theory suggests that historical processes, once started, tend to be self-reinforcing. In other words, policies are enduring or inert, even if the original event does not replicate itself.³⁹ This dissertation will suggest moving away from the centrality of path dependence and hypothesize that a modified punctuated equilibrium, as defined in the agenda setting literature is a better-suited theoretical model for what I analyze. After

³⁶ Gottschalk, 2000, pp. 3-4.

³⁷ Hacker, Jacob S. “Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States”, *American Political Science Review* 98 (2004): 251.

³⁸ Howard, 2007, pp. 197-209.

³⁹ Pierson, Paul, *Politics in Time: History, Institutions, and Social Analysis* (Princeton, NJ: Princeton University Press, 2004).

introducing the notion that pragmatic partisan electoral politics have helped define the welfare state, I will have more to say about punctuated equilibrium.

Pragmatic Partisan Politics

The aforementioned paradigms offer a predominantly structural, apolitical logic to the welfare state. These typologies all use as explanatory variables processes that do not vary significantly across time. American culture and institutions are generally considered ingrained in the very fabric that organizes the nation. Perceptions of racial animosity cast a penumbra across American history.⁴⁰ The hidden processes--the tax expenditures and public-private arrangements, while arising from long-forgotten domestic political battles of a particular era, are reinforced into the structure of American politics and become self-perpetuating. They, too, have become a structural explanation for the workings of the American welfare state. These schools, in short, are essentially apolitical, taking a long-term view of processes that shaped and reformed the American welfare state.

The resulting medley derived from the typologies still leaves, as mentioned earlier, a significant lacuna in assessing how the United States welfare state developed. While the paradigms articulated in the previous literature have increased knowledge about the workings of the American welfare state, they ignore the dynamics of the give and take of ideas, parties, and politicians—in other words pragmatic electoral politics. I propose incorporating a thesis suggesting that partisan politics, particularly the relative health and strength of political parties at different times, has influenced the development

⁴⁰ The classic statement concerning the symbiotic nature of American racial politics, or its permanence, comes from W.E.B. DuBois. For a contrary view of American racial politics see Myrdal, Gunnar, *An American Dilemma: The Negro Problem and Modern Democracy* (New York: Harper & Brothers, 1944). In 1944, Myrdal believes that by the year 2000, the difference between white and black would be no different than that of Catholic versus Protestant.

of the American welfare state. The component I hope to add to understanding the reshaping of the welfare state is how the preeminent coalition of various political eras used their ideas, political power, and electoral imperatives to define and redefine the welfare state.

Admittedly, the comparative European welfare state literature has articulated elements of this thesis before. One early foray on the topic found that reforms conducive to socialism were possible when there were mass movements of organized labor, trade unions, and parliamentary activity.⁴¹ Some authorities still articulate this “old politics” thesis—that parties on the left are responsible for the budding and maintenance of welfare states.⁴² However, some scholars believe that the strength of leftward parties in promoting the politics of the welfare state is on the wane.⁴³

In a related, but separate vein, another scholar, using a bivariate regression model, determined that the most influential political variable for expenditures on the welfare state, in advanced industrial democracies, was the strength of conservative political parties. The more power that parties on the Right accrue, the more they exert influence in keeping expenditures low.⁴⁴ Other comparative European books stress that partisan politics in Christian Democratic and social democratic states led to nations with differing,

⁴¹ Stephens, John D., *The Transformation from Capitalism to Socialism* (Atlantic Highlands, NJ: Humanities Press, 1980), pp. 87-88

⁴² See Garrett, Geoffrey, *Partisan Politics in the Global Economy*. (New York: Cambridge University Press, 1998).

⁴³ Pierson, 1994; Pierson, Paul, ed. *The New Politics of the Welfare State* (New York: Oxford University Press, 2001).

⁴⁴ Castles, Francis G. “The Impact of Parties on Public Expenditures” in *The Impact of Parties: Politics and Policies in Democratic Capitalist States* ed. Francis G. Castles (Beverly Hills, CA: Sage, 1982), pp. 83.

yet generous welfare provision.⁴⁵ A twist in the European welfare state comparative literature is that parties on the left may have more success in retrenching welfare states than parties on the right.⁴⁶

I diverge from the European literature because I emphasize the importance of electoral eras within a given case. The European literature does not reflect my arguments concerning conservative governments attempting to win majorities and promoting an alternative “market-driven” philosophy toward social benefits. Also, this literature evaluates governmental systems with fewer veto points than the United States.

Punctuated Equilibrium

Path dependence has rapidly become the standard theoretical model for interpretative schema of the shaping of the welfare state. Pierson explains path dependence as the idea that “preceding steps in a particular direction induce further movement in the same direction.”⁴⁷ In other words, path dependence means that once a country’s institutions commence going down a particular track, the costs associated with reversal are very high. Path dependence has been used effectively to explain why processes such as welfare state retrenchment has proven so difficult to implement in the

⁴⁵ See especially Esping-Andersen, Gosta, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990); Huber, Evelyne and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001), pp. 1-7.

⁴⁶ Ross, Fiona, “Beyond Left and Right: The New Partisan Politics of Welfare.” *Governance* Vol. 13 (2000): 155-183; Green-Pederson, Christoffer, *The Politics of Justification: Party Competition and Welfare State Retrenchment in Denmark and the Netherlands from 1982 to 1998* (Amsterdam: Amsterdam University Press, 2000). See also Starke 2006.

⁴⁷ Pierson, Paul. 2000. “Increasing Returns, Path Dependence, and the Study of Politics” in *The American Political Science Review*. Vol. 94, No. 2 (June), pp. 251-267.

United States.⁴⁸ However, I challenge the notion that “particular courses of action, once introduced, can be almost impossible to reverse.”⁴⁹

My theoretical argument connects with the path-dependent literature, but emphasizes a facet normally downplayed—the prospect for disruption of an established path with a new course created by external exogenous shocks, or punctuations. Therefore, the model of punctuated equilibrium, as discussed most often in the agenda-setting literature, more closely articulates the conception of American social policy I aim to convey.⁵⁰ However, I use the term “equilibrium” advisedly. As William Riker ably demonstrates, equilibria are virtually impossible to achieve in electoral politics, there are simply too many opportunities for instability: voters, legislators, and veto points.⁵¹ Even the partial equilibria, or periods of stability, as proposed by Baumgartner and Jones, are not as applicable to social policy. The programs surveyed in this dissertation are often in flux with proposals to amend established social benefits.⁵²

What I am proposing is a model where an exogenous shock disrupts, punctuates, or terminates the overarching ideological structure of an era. Before the 1930s, the United States was primarily a nation with a small federal edifice that provided few benefits. The economic shocks of the Great Depression ended this path and replaced it with a system that provided social benefits under the federal aegis. In turn the economic

⁴⁸ See especially Pierson 1994; Hacker 2002.

⁴⁹ Pierson 2000.

⁵⁰ Simply put, agenda setting is the process whereby issues receive attention in the policy-making process. For a succinct review of much of the literature, see Cobb, Roger W. and Marc Howard Ross, ed., *Cultural Strategies of Agenda Denial: Avoidance, Attack, and Redefinition* (Lawrence, KS: University Press of Kansas, 1997), pp. 3-24.

⁵¹ Riker, William, “Implications from the Disequilibrium of Majority Rule for the Study of Institutions”, *American Political Science Review* 74 (1980): 432-46.

⁵² Baumgartner, Frank R and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 1993).

and culture shocks of the 1960s and 1970s disrupted this ideological path. A new era that tied market incentives to social policy replaced the government-sponsored structure. Within these two epochal ideological eras, politics and social programs never achieved stability. The dominant ideological paradigm would put limits on the scope of social policy debate. However, there were numerous challenges contesting how much the welfare state would conform to the favored ideological image of each era. In general, ideological advocates became bolder as time passed, building and pushing an ideological orientation to its limits.

Roosevelt set the model for government-sponsored benefits. Truman attempted to expand further the welfare state by introducing national health insurance. Eisenhower confirmed the social spending initiatives of the era. Lyndon Johnson, with the Great Society and the creation of Medicare and Medicaid, pushed the Democratic version of the welfare state to its greatest extent. During the Nixon presidency, his Republican market-based proposals began at a small level, but succeeding administrations expanded the scope and daring of market proposals, extending to more issue areas and within arenas incorporating evermore market-based mechanisms. George W. Bush attempted to infuse market mechanisms into most realms of social policy. It is likely that the Republican conceptualization of the welfare state reached its greatest extent during his administration.⁵³ Thus, a modified punctuated equilibrium best describes what I aim to demonstrate in this thesis. In other words, ideological punctuations are followed by years

⁵³ The importance of punctuated equilibrium is recognized by Tuohy, Carolyn Hughes, *Accidental Logics: The Dynamics of Change in the Health Care Arena in the United States, Britain, and Canada* (New York: Oxford University Press, 1999). According to Tuohy, “accidents of history” created new frameworks, or logics, which explain the variability in health care change across the three nations. See also Blyth 2002.

where the new ideological foundations are tested and expanded until exogenous shocks cause that model to decay.

The arguments set forth in the literature survey and theoretical underpinnings sections suggest a prominent role for ideology. Scholars have not often viewed American politics through the prism of party politics. This is particularly true when considering the operationalization of American social politics within broadly defined eras. The next section addresses the position that scholars have attributed to the role of ideological factors since the middle decades of the twentieth century.

Ideology

Twentieth century academics noted that ideology seemed to play a minimal role in shaping American political dynamics, at least since the Great Depression. The political parties leaned toward an ideological consensus, with the content of politics reduced to identification and representation of various interest groups. By the 1980s, it became clear to academics that interest groups no longer had hegemonic influence, thus creating needed revision in the theory of how American politics operated. I would like to take the revisionism a step further. Not only has ideology, to a strong degree, superseded interest group politics, but the politics of consensus was always something of a mirage, at least for social policy. While at times Republicans and Democrats converged in policy-making, these were ephemeral moments that yielded little political gain for the compromising party.

The End of Ideology Thesis

Mid-twentieth century academics remarked on the lack of an ideological core in the structure of American politics. Instead of clashing over large philosophical issues,

political parties representing diverse sets of pressure groups attempted to make themselves heard above the cacophony of competing interests. Some observers, such as Arthur Schlesinger, heralded the perceived turn in American politics, celebrating the “vital center” and a relatively activist federal government.⁵⁴ Others, most notably Theodore Lowi, mourned the new state of affairs, believing the United States had turned into a “second Republic” with poor policymaking resulting from what he termed “interest-group liberalism.”⁵⁵

Lowi argued that before the New Deal robust debate concerning the size of the federal government had characterized political life. However, with the advent of the New Deal and solidifying more in each successive administration, “the old dialogue passed into the graveyard of consensus.”⁵⁶ A conclusion that Lowi reached is that Republicans and Democrats no longer primarily represent alternative ideological schools. “The most important difference between liberals and conservatives, Republicans and Democrats, is to be found in the interest groups they identify with.”⁵⁷

Grant McConnell also argued that the distinctive feature of American politics was troublesome interest groups. According to McConnell, the decades that followed the wake of the Second World War demonstrated that the “orthodoxy of private power had hardened.”⁵⁸ He also suggested that interest-group politics led to a “revulsion against

⁵⁴ Schlesinger, Arthur M., *The Vital Center: The Politics of Freedom* (Boston: Houghton Mifflin, 1949).

⁵⁵ Lowi, Theodore J., *The End of Liberalism: The Second Republic of the United States* 2nd ed. (New York: Norton, 1979 [1969]).

⁵⁶ *Ibid.*, p. 43.

⁵⁷ *Ibid.*, p. 51.

⁵⁸ McConnell, Grant, *Private Power and American Democracy* (New York: Alfred A. Knopf, 1966), p. 352.

ideology; even against large goals in politics”.⁵⁹ The general consensus of this generation of scholars was that American politics now constituted, as one book by Daniel Bell posited in the title of his book, an “end of ideology.”⁶⁰

A political environment devoid of ideology was not attractive to many mid-twentieth century political scientists. The accepted view was that a cozy relationship among key actors known as the “Iron Triangle” controlled policy. The triumvirate consisted of affected industries, the federal bureaucracy who regulated them, and key members of Congress, especially from relevant committees and subcommittees.⁶¹ A casualty of the Iron Triangle was the public interest; none of these actors had much use for expertise that might speak to the diffuse good.

Expertise Ascendant

Cascading events caused the prevailing view of government run by interests to seem obsolete. Beginning in the late 1970s, the federal government adopted policies advocated by economists but antithetical to the desires of entrenched interests. The first manifestation of this phenomenon was a wave of deregulation. Between 1978 and 1980 the federal government deregulated the airline, trucking, and telecommunication industries. Martha Derthick and Paul Quirk explained this deviation from accepted textbook political science behavior as a sign that ideas had more salience than previously thought. Several preconditions, including the convergence of elite opinion, the initiatives of officeholders, the limited clout of industries, and the idiosyncratic congressional

⁵⁹ Ibid., p. 353.

⁶⁰ Bell, Daniel, *The End of Ideology* (New York: Collier Books, 1961).

⁶¹ See Bernstein Marver H., *Regulating Business by Independent Commission* (Princeton, NJ: Princeton University Press, 1955) for an example of a description of Iron Triangles.

structure, allowed for the triumph of deregulation.⁶² Derthick and Quirk did not emphasize political competition in their analysis. Indeed, on the contrary, they point out that Republicans such as Gerald Ford and Democrats such as Jimmy Carter and Ted Kennedy all favored deregulation.

The shift toward deregulation during the Carter years was not an anomaly. In 1986, six years into Ronald Reagan's presidency, a major tax reform plan was enacted with the overarching goal of treating all types of income alike and closing tax loopholes. The passage of this act exemplified another victory of policy expert recommendations defeating powerful interests.⁶³ Subsequent scholarship shows that in other arenas interests are not as powerful as the iron triangle model posits. The federal government has at times imposed losses on many large-scale interests and producers, even such titans as the agricultural industry.⁶⁴ In 1978, Hugh Heclo refined the iron triangle model. He suggested that "issue networks", fluid coalitions of participants that move in and out from these networks more accurately described how the enactment of policies for administrative purposes actually unfolded.⁶⁵ Heclo's framework, in general, has supplanted the iron triangle model. The new emphasis on expertise in politics has James

⁶² Derthick, Martha and Paul J. Quirk, *The Politics of Deregulation* (Washington, D.C.: Brookings, 1985), pp. 238-245.

⁶³ Conlan, Timothy J., Margaret T. Wrightson, and David R. Beam, *Taxing Choices: The Politics of Tax Reform* (Washington, D.C.: CQ Press, 1990); Patashnik, Eric M., *Reforms at Risk: What Happens After Major Policy Changes are Enacted* (Princeton, NJ: Princeton University Press, 2008), pp. 33-54.

⁶⁴ Sheingate, Adam, *The Rise of the Agricultural Welfare State: Institutions and Interest Group Power in the United States, France, and Japan* (Princeton, NJ: Princeton University Press, 2001); Mucciaroni, Gary, *Reversals of Fortune: Public Policy and Private Interests* (Washington, D.C.: Brookings, 1995).

⁶⁵ Heclo, Hugh, "Issue Networks and the Executive Establishment" in *The New American Political System* ed. by Anthony King (Washington, D.C.: American Enterprise Institute, 1978), pp. 87-124.

Q. Wilson lamenting that “old-style client politics is everywhere on the defensive” replaced with policies that suggest there is “a unitary, general interest”.⁶⁶

Ideology, Partisanship, Expertise

I agree with Derthick, Quirk and other scholars’ revisions to the older literature which suggested that American politics is essentially managed in an ideological vacuum. However, even this newer scholarship does not fully capture the connection between partisanship, ideological foundations, and expertise. I argue that all three of these elements are interrelated and central to the development of American social policy.

The key is that at the heart of government policy, some relatively simple ideas prevail. Experts wishing to debate the validity of policy options do not fill legislatures or presidential staffs. Instead, politicians have more interest in pursuing re-election with the processes of government shaped toward electoral imperatives.⁶⁷ As a corollary, politicians intuitively gravitate to relatively simple conceptual frameworks, easily explained, with which to build policy. I argue that before the late 1960s, the politically acceptable policy vehicle of choice was to create government sponsored programs with specified benefits. These programs could have elaborate designs with complex methods to calculate monetary or in kind distributions, but at heart they were government programs with fixed benefits. This consensus crumbled during the 1970s and 1980s. Market-based remedies, in many cases, began replacing entrenched government

⁶⁶ Wilson, James Q. “New Politics, New Elites, Old Publics” in *The New Politics of Public Policy* ed. by Marc K. Landy and Martin A. Levin (Baltimore, MD: Johns Hopkins University Press, 1995), pp. 249-267.

⁶⁷ Mayhew, David R., *Congress: The Electoral Connection* (New Haven, CT: Yale University Press, 2004 [1974]); Arnold, Douglas R., *The Logic of Congressional Action* (New Haven, CT: Yale University Press, 1990). Mayhew demonstrates how electoral incentives shape legislator behavior and Arnold builds on this model by showing that voting for public interest remedies is not always antithetical to the reelection interest.

formulas.⁶⁸ Competition became the hallmark of many subsequent policy reforms. As we will see, proposals abounded to infuse market mechanisms into health care, Medicare, Social Security, welfare, and, beyond the scope of this dissertation, education policy.

The shift toward market mechanisms affected the dynamics of partisanship. Sometimes the move toward markets did result in a politics of convergence, such as during the early deregulatory period chronicled by Derthick and Quirk, but these moments are fleeting and consensus soon broke down. Once many Democrats had moved right to embrace aspects of deregulation, the Republicans took a shift further to the right, as evidenced by the election of Ronald Reagan, who pursued additional deregulation, moving to unshackle various industries from government strictures. Targeted arenas included consumer affairs, environmental protection, and the financial sector.⁶⁹ Much of Reagan's agenda was unpalatable to Democrats, and the parties diverged sharply in policy-making. Clinton injected market mechanisms into his health plan hoping for some bipartisan support, but Republicans soon found political advantage in moving right again. Health Savings Accounts became the preferred Republican remedy to health care concerns. Briefly both parties converged on Medicare reform in

⁶⁸ The literature on the use of market mechanisms in various facets of public policy is immense. See Kettl, Donald F., *Sharing Power: Public Governance and Private Markets* (Washington, D.C: Brookings, 1993); Kuttner, Robert, *Everything for Sale: the Virtues and Limits of Markets* (New York: Alfred A. Knopf, 1997); Landy, Marc K., Martin A. Levin, and Martin Shapiro, eds. *Creating Competitive Markets: The Politics of Regulatory Reform* (Washington, D.C.: Brookings, 2007); Brown, Lawrence D. and Lawrence Jacobs, *The Public Abuse of the Private Interest: Market Myths and Policy Muddles* (Chicago: University of Chicago Press, 2008).

⁶⁹ For a thorough study of the politics of deregulation of two government agencies, the Environmental Protection Agency and the Federal Trade Commission, see Harris, Richard A. and Sidney M. Milkis, *The Politics of Regulatory Change: A Tale of Two Agencies* 2nd ed. (New York: Oxford University Press, 1996).

the late 1990s with the passage of the Balanced Budget Act of 1997, only to see that consensus unravel with the election of George W. Bush.

I maintain that the ideological animating feature of the last forty years has been the pro-market emphasis with both political parties maneuvering within that framework. Republicans and Democrats have attempted to sort out what specific market mechanisms to adopt, much as during the middle of the twentieth century the parties debated what government sponsored benefits to approve. Reforms that have lasted, such as deregulation, all promote the unleashing of market forces. Other reforms, such as the tax overhaul in 1986 did not have a solid grounding in market mechanisms and did not retain support over the long-term. The 1986 tax reform effort soon fell prey to politicians nibbling around its edges, such as George H.W. Bush cutting capital gains taxes, followed by a more thorough gutting during the Clinton and George W. Bush administrations.⁷⁰

Policy expertise, at least in the realm of social policy, had uses even in the supposed era of iron triangles. A whole technocracy developed in the Social Security Administration, led by luminaries such as Edwin Witte and Robert Ball. House Ways and Means Chairman Wilbur Mills became extraordinary knowledgeable about the fiscal dimension concerning social policy while relying heavily on advice from government experts. Think tanks had not yet emerged a prime public face for advocacy. Yet Lyndon Johnson lauded the “analysis” and “painstaking research” of the Brookings Institution, which he called a “national institution” during his presidency.⁷¹ While there are always

⁷⁰ See Patashnik, 2008 for details of the decay of the 1986 tax reform effort.

⁷¹ Quoted in Rich, Andrew, *Think Tanks, Public Policy, and the Politics of Expertise* (New York: Cambridge University Press, 2004), p. 1.

experts to advance clashing ideas, politicians are more inclined to listen to ones who proffer certain advice than others. In the 1970s, it became more conducive to listen to market economists who were on the fringes during the 1950s and 1960s. In hindsight, deregulation was as much a triumph for market ideological forces as it was a sign that professional expertise was superseding interest group liberalism.

I argue that the United States has never really had long-lasting politics of consensus with a single or non-ideological cast, at least in the social policy arena. In certain eras, particular ideas gain ascendancy over others. In the welfare state of the 1930s to 1960s the concept of government imposed benefit structures and both parties worked within that framework. Other ideological currents were not yet palatable to politicians. All that changed in the 1970s with a market driven social policy coming to the fore. Bipartisanship and consensus, while it occurs, is the exception, not the rule, and breaks down quickly. Therefore, ideology and expertise are complimentary components of partisanship.

Political hegemony gives license to determine the frame of proposed remedies for policy ailments. The majority simply ignores ideas out of the mainstream or advanced by a minority party, which then faces the unenviable choice of whether to acquiesce to the prevailing ideology or cling to their principles. While the former option is frequently hailed as bipartisanship, acquiescence leaves the minority unable to sufficiently contrast itself with the majority. The latter choice is often lambasted as obstructionism, yet is the only pragmatic strategic course, with proper handling and some luck, to propel the minority back into the coveted status of a majority party. When the party in power fails

to govern adequately or otherwise implodes, a vigorous minority that provides a clear contrast with the majority is in the best position to reap electoral benefit.

Finally, social policy battles are not fought at all times in most programs. Decades of consensus can follow before battles flame up concerning how to structure a program. Therefore, it is necessary to view the welfare state as a whole. Across the spectrum of programs, there has been near continuous battles since the Great Depression. Yet within each particular program, conflict has emerged intermittently. Therefore, it is necessary to consider the welfare state as a whole to appreciate how partisanship has formed the contours of social policy and not isolate single case studies.

Globalization

This chapter has been framed around domestic politics. In a world where business does not stop at national borders, however, welfare states and economies are facing radical restructuring because of global markets. Global capitalism creates dislocation and uncertainty partly because developed nations are competing with low-wage countries that have skeletal welfare states, such as India and China. A possible result is permanently changing work patterns, with the potential of high unemployment or underemployment.⁷² In addition, aging industrialized populations need workers to support the retirees.⁷³ The anticipated end result is that worldwide economic integration

⁷² See especially Huber, Evelyne and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001).

⁷³ Castles, Francis G., *The Future of the Welfare State: Crisis Myths and Crisis Realities* (New York: Oxford University Press, 2004).

will force the reduction of social protections, or an era of “permanent austerity”.⁷⁴ A prediction, *en vogue* in previous decades, hypothesized that nations would substantially reduce taxes to attract business investment, thereby causing retrenchment in most welfare states—a “race to the bottom”.⁷⁵

However, dramatic tax cutting has not become a worldwide phenomenon in the developed welfare states. On the other hand, a less anticipated development, rising inequality, has become evident. Welfare states in many European nations as seem to have the capability to ameliorate the effects of rising inequality; the United States welfare state has failed to follow suit.⁷⁶ Inequality has risen sharply in the United States over the last several decades.⁷⁷

⁷⁴ Tanzi, Vito, “Globalization and the Future of Social Protection”, *Scottish Journal of Political Economy*, 49 (2002): 116-127; Pierson, Paul, ed., *The New Politics of the Welfare State* (New York: Oxford University Press, 2001).

⁷⁵ Swank, Duane, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States* (New York: Cambridge University Press, 2002); Glatzer, Miguel and Dietrich Rueschemeyer, *Globalization and the Future of the Welfare State* (Pittsburgh, PA: University of Pittsburgh Press, 2005).

⁷⁶ The proposed causes of growing inequality, such as globalization, are contested. Inequality is a worldwide phenomenon, yet is more pronounced in the United States than in most OECD nations. See Jacobs, Lawrence and James A Morone, “Conclusion: Prospering in the Age of Global Markets” in *Healthy, Wealthy, & Fair: Health Care and the Good Society* edited by Morone and Jacobs (New York: Oxford University Press, 2006). Also see the review essay, Starke, Peter, “The Politics of Welfare State Retrenchment: A Literature Review”, *Social Policy & Administration*. 40 (February 2006): pp. 104-120.

⁷⁷ A standard measure of inequality is calculating the Gini coefficient. The Gini coefficient is measured on a scale of 0 to 1, with 0 representing a completely equal society and 1 a completely unequal society. When Richard Nixon was first elected in 1968, which I argue marks the transition to the beginning of the Republican welfare state era, the Gini ratio for household income stood at .386. From that point onwards, the Gini Coefficient has generally increased annually, giving evidence of growing inequality. In 2006, the Gini coefficient rose to .470, the highest level during the forty years that the statistic has been calculated. Data accessed from the U.S. Census bureau, accessed December 2, 2007. <http://www.census.gov/hhes/www/income/histinc/h04.html>

While globalization affects the welfare state in many ways, and such forces will undoubtedly increase, it does not explain this dissertation's dependent variable—how and why the United States government cuts particular programmatic benefits, others maintained, and even expand some. Globalization is a background structural condition that fails to explain much of the variance in domestic politics. Globalization's effects have not yet been fully appreciated in the United States as entitlement spending outstrips revenue sources. A different mechanism is necessary to explain the maintenance, expansion or reduction of individual programs.

Conclusion

The first aim of this chapter was to emphasize that pragmatic partisan politics played an important role in contributing to and shaping the welfare state. The second part of the chapter underscored how partisanship and ideology contributed to the shaping of the American polity. In making these arguments, I revisited past debates of social policy and the foundations of American politics, situating myself somewhat apart from previous literature.

After two chapters, I have explicated the thesis and surveyed the previous literature, in the process hopefully turning upside down conventional wisdom. The next four chapters will delve into the intricacies of how politics shaped the social programs that constitute the welfare state. The third chapter will survey the building of the Democratic welfare state in an era of Democratic ascendancy. The fourth, fifth, and sixth chapters will trace how in the fields of pension, health, and antipoverty policies the renewed strength of the conservative coalition resulted in a shift toward incorporate

market mechanisms in the welfare state and eventually change the foundation of social policy.

Chapter 3: The Republican Conundrum, 1930-1968

From the onslaught of the Great Depression during Herbert Hoover's hapless presidency to the waning days of Lyndon Johnson's administration, conservatives primarily vacillated between two competing responses toward the growth of the American welfare state: outright hostility and reluctant acquiescence. The lack of a more imaginative riposte toward liberal initiatives was a reflection of the political weakness that plagued proponents of limited government in this era. A conservative alternative to contrast with nourishing programmatic benefits, such as building a market-oriented state, failed to appear prominently on the political agenda because the right did not have the resources necessary to control the levers of policy-making. Conservatives, caught in a web of reacting to the liberal agenda, failed to focus attention on a coherent conservative domestic vision.

The literary critic, Lionel Trilling, vividly captured the essence that conservatism had sunk into an ideological trough. "In the United States at this time liberalism is not only the dominant but even the sole intellectual tradition. For it is the plain fact that nowadays there are no conservative or reactionary ideas in circulation . . . [merely] irritable mental gestures which seek to resemble ideas."¹ Yet Trilling was only half-correct in his assessment. A steadfast minority still articulated conservative ideas.² However, this conservative minority was simply so browbeaten politically that it could not elaborate or call attention to its agenda. The Republican Party had a vexing problem. The majority party before the Great Depression rooted its governing strategy in laissez-

¹ Trilling, Lionel, *The Liberal Imagination* (Garden City, NY: Doubleday, 1950), p. vii.

² See the discussion in Phillips-Fein, Kim, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (New York: Norton, 2009).

faire ideology. When the utility of that ideological paradigm collapsed after 1930, so too did the G.O.P majorities. A dilemma facing the Republicans was whether to philosophically pivot to the left or contrast themselves with the liberalism of the Democratic Party. Both choices proved problematic and the Republican Party stayed in the minority for most of a generation.

The political ammunition at the disposal of the Republican Party was minimal during the mid 1930s and mid 1960s. The Democratic presidents of the era, Franklin Roosevelt and Lyndon Johnson, respectively, leveraged their propitious moments to legislate numerous programs into existence. Even when Republicans could marshal political strength intermittently during the 1940s and 1950s, they merely stanching the programmatic profusion, but did not reverse it.

The Republican Party suffered internal fissures over how to respond to the welfare state, running social liberals for presidents in the 1940s and 1950s, despite reservations from many in the rank-and-file. These two decades marked a critical period of intra-contestation for the Republican Party, with conservatives battling moderates and liberals for control. Ironically, the Republican Party's inability to elect the moderate Thomas Dewey for President in 1944 and 1948 followed by Dwight Eisenhower's failure to build a congressional majority allowed the conservative factions within the party to triumph over moderates and liberals. Serving as the *coup de grace* was the election of 1958, which eliminated many moderate and liberal leaning members from the

congressional party, helping institutionalize the rightward course the G.O.P took during the 1960s.³

In American political history, no partisan regime reigns unchallenged. While Democrats shaped the quintessential heart of the welfare state, conservative Republicans had some partial success in playing the role of pesky skirmishers, lurking in the shadows, ready to ambush Democratic presidents' grand designs. Most notably, Republicans abetted in thwarting the establishment of the financing mechanism to ensure the long-term solvency of Social Security, and were complicit in submerging the drive for national health insurance. Moreover, when proposed social programs offered the prospect of ameliorating conditions for African-Americans, conservative Republicans found as valuable allies largely like-minded Democrats from the South.

Republicans made an additional contribution to the future political development of the welfare state during the era of Democratic dominance. They hazily envisioned an alternative model by which to organize the welfare state. Their alternative, a market-based approach, was defined by competition, private entrepreneurship, and individualism. Elements of this approach surfaced during the protracted debate over national health care and work requirements for welfare. The achievement of future Republican leaders was to bundle these three ideational strains together fairly cohesively across the entire spectrum of social policy.

³ Recognizing the significance of the 1958 election in eliminating moderate and liberal Republicans from the congressional party are Carmines, Edward G. and James A. Stimson, *Issue Evolution: Race and the Transformation of American Politics* (Princeton, NJ: Princeton University Press, 1989). For the demise of a powerful leftwing of the Republican Party, see Rae, Nicol C. *The Decline and Fall of the Liberal Republicans: From 1952 to the Present* (New York: Oxford University Press, 1989).

The Republican “market” alternative evolved slowly. In this era Republicans had neither the political strength nor polished artifice developed by a well-funded intellectual infrastructure. This initially hampered conservatives’ ability to forge a concrete, proactive social policy agenda to oppose Democrats. Many Republicans, still rooted in the traditional principles of maintaining balanced budgets, limited government intervention, and states’ rights, were unwilling to assist in formulating a welfare state.

This inclination toward anti-statism had venerable roots in the American ethos. There was certainly a bipartisan consensus before the New Deal that the federal government should remain small and not intervene in affairs best left to the private sphere. An expansive welfare state, similar to those found in continental Europe, was unimaginable to mainstream political actors as late as 1930. This nearly ubiquitous consensus served the Republicans very well from an electoral perspective. The GOP had maintained the edge as the dominant political party stretching from the Civil War until the early days of the Great Depression. In order to understand the politics of the American welfare state during the Democratic heyday into the modern period, it is necessary to briefly look backward and review the American political landscape as it reached the eve of the financial crisis on Wall Street in 1929.

Triumphant Conservatism, 1877-1930

After the election of 1876, the forces of Radical Republicanism responsible for advocating civil rights for former slaves and incorporating them into the polity had become a spent force. Union troops withdrew from the states of the old Confederacy and northern Republicans tacitly sanctioned the disenfranchisement of African-Americans in the South. The Democratic Party became that region’s predominant political force as the

‘Solid South’ voted Democratic as a block in subsequent elections. This mattered little to the Republican Party, which dominated throughout most of the rest of the country.

Between 1860 and 1932 only two Democratic presidents served, one of them due to a schism within the Republican Party. Democrats were able to compete at a congressional level during the nineteenth century, though after Republican William McKinley soundly defeated Democrat and Populist William Jennings Bryan in the 1896 election, Republicans dominated in Congress, too.

Salient political issues during the period included the protective tariff and whether the currency would be backed solely by gold or with additional silver reserves.⁴ Creating an activist government doling out universal programmatic benefits was on neither party’s agenda. That said, a semblance of a welfare state already existed. The Grand Army of the Republic (G.A.R.), comprised of Union Civil War veterans, lobbied for pensions. Veterans’ pensions had long existed in some form, yet demands from the G.A.R. brought forth government-issued pensions on an as yet unprecedented scale. Veterans of the Union army were already among the most socially prominent members of society, and therefore needed the benefits less than any other constituency.⁵ Rife corruption exacerbated the redistributive perverseness of this “inverted” welfare state. The motley array of well-connected Union veterans receiving pensions proved an evolutionary dead-end for the United States welfare state. The pensions ultimately died out with the Civil

⁴ Bense, Richard Franklin, *The Political Economy of American Industrialization, 1877-1900* (New York: Cambridge University Press, 2000). Bense argues that the Republican Party was the agent that allowed for the United States to rapidly industrialize and maintain a flourishing democracy—somewhat of an anomaly from a comparative perspective.

⁵ Jensen, Laura. *Patriots, Settlers, and the Origins of American Social Policy* (New York: Cambridge University Press, 2003).

War generation. All other state-sponsored pensions, most notably for widows with children, were meager and provided at the state level.⁶

Confined largely to the South, the Democratic Party included white voters who were usually against benefit structures that might aid the large number of African-Americans who also lived there. Therefore, the demands for liberalization in social policy most often came from within the Republican Party, taking the form of a movement known as progressivism. The most noted progressive was former Republican President Theodore Roosevelt, who during the 1912 election campaigned against his Republican successor, William Howard Taft. Roosevelt ran as a Bull Moose, and included in his platform a call for national health insurance among other ‘progressive’ stances, a challenge to traditional conservative Republicanism. Roosevelt, while having startling success for a third-party candidate, failed to win the presidency, and with his defeat died the idea of an early entrée for national health insurance. The stillborn birth of national health insurance, however, did not preclude policy successes for progressives in other arenas.⁷ They introduced scientific management techniques for administrative purposes, reformed congressional procedures by overthrowing the powers of the regnant Speaker of the House of Representatives, and advocated the spread of various regulatory laws. However, they were a peripheral force in the Republican Party. Industrialists still held the great levers of power. As the historian, Gabriel Kolko, has argued, the architects of many reforms were the industrialists themselves. These titans of business attempted to

⁶ Skocpol, Theda. *Protecting Soldiers and Mothers: the Political Origins of Social Policy in the United States*. (Cambridge, MA: Harvard University Press, 1992).

⁷ There were Republican, Democratic, and Independent progressive politicians. The most influential came from within the Republican ranks, since the G.O.P was usually the majority party.

maintain the essence of longstanding political and social relations in a changing economic climate.⁸

To an observer in the 1920s, it would have seemed unlikely that the United States would adopt social protections along the lines of nations on the European continent. There was no hint that a socialist or labor political party in the United States could make electoral headway. Numerous Democratic politicians had little interest in upsetting traditional norms, as they were also allied with industrial leaders, especially in the north. For instance, the 1928 Democratic Presidential nominee, Al Smith, viewed government intervention in the economy with suspicion. The Democratic opposition was weak and divided over policy.⁹

Conversely, there was an overwhelming Republican majority with *laissez-faire* conservative politicians having the upper hand in policy deliberations within the party. G.O.P. presidents were entrenched throughout the decade. The president presiding over this time of general prosperity, Calvin Coolidge, remarked in 1925, “the chief business of the American people is business.”¹⁰ His successor, Herbert Hoover, was a capable and proven manager, leading the reconstruction efforts after the massive flooding that occurred on the banks of the Mississippi River in 1927. There were few hints the political trajectory that the United States had long taken was approaching a dead end. Then an economic earthquake struck.

⁸ Kolko, Gabriel. *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916*. (New York: Free Press, 1977 [1963]).

⁹ For a concise summary of Democrats failing to reconcile policy differences between proponents of federal activism and those who favored a stricter *laissez-faire* mentality, see Craig, Douglas. “Newton D. Baker and the Democratic Malaise, 1920-1937.” *Australasian Journal of American Studies*, 25(1) (2006): 49-64.

¹⁰ Speech given to the American Society of Newspaper Editors on January 17, 1925. Excerpts found at <http://www.asne.org/index.cfm?id=46>. Accessed September 27, 2008.

The World Turned Upside Down, 1929-1936

Panic ensnared the nation when the financial markets on Wall Street collapsed in October 1929. ‘The Great Crash’ was merely the most visible symbol of the crisis. Ill-advised policy measures followed, including the Federal Reserve tightening credit and the passage of the onerous Smoot-Hawley tariff in 1930, contributing to the severity of the downturn. Farmers had largely missed the prosperity of the 1920s and with the onset of deteriorating harvests and poor weather in the 1930s many found survival in the agriculture business difficult. The unemployment rate increased steadily during Hoover’s presidency from 2.9% in 1929 to 22.9% in 1932.¹¹ With a global economic slowdown, the United States faced its most severe economic crisis in history.

Hard times had electoral consequences. The elections of 1930 and 1932 mark the most definitive example of a realignment happening over the course of one or two elections. The Democrats, vastly outnumbered after the 1928 elections (there were 269 Republicans versus 165 Democrats in a chamber comprised of 435 seats—minor parties not included), gained 51 seats in the House in the 1930 election, and after the death of two Republican congressmen, had sufficient numbers to organize the House.¹² In 1932, the Democratic Presidential candidate, Franklin Roosevelt, almost assured of victory, campaigned cautiously, committing himself to very little during the summer and autumn. The campaign mattered little. Economic desperation allowed for Roosevelt to crush

¹¹ Isolating the unemployment rate from civilian private non-farm labor show the trend even more dramatically. That rate increased from 4.1% in 1929 to 31.7% in 1932. See Sutch, Richard and Susan B. Carter, *Historical Statistics of the United States: Earliest Times to the Present, Millennial Edition: Volume Two, Part B: Work and Welfare* (New York: Cambridge University Press, 2006), pp. 2-82.

¹² Nohlen, Dieter, ed., *Elections in the Americas: Volume I* (New York: Oxford University Press, 2005), p. 699.

Hoover in both the popular vote and the Electoral College. Roosevelt carried the popular vote 57.4%-39.7% and the Electoral College 472-59.¹³ Riding in on his coattails were significant Democratic majorities in both Houses of Congress—the breakdown in the House of Representatives was 313 Democrats to 117 Republicans and in the Senate 59 Democrats to 36 Republicans (minor parties not included--there were a total of 96 seats in the Senate).¹⁴

Republicans would fail to occupy the White House for the next twenty years and had a prolonged fourteen-year exile from majority status in both houses of Congress. They had few political resources to marshal in order to oppose the victorious Democrats. One conservative journalist bemoaned the new situation: “The trouble is that we are voyaging on an uncharted sea; the old signs and portents have disappeared, or are useless.”¹⁵ The Republican Party’s unprecedented dip in fortunes paralleled the poorest performing economy in American history.

Roosevelt, despite campaigning cautiously, governed energetically, most notably by rushing emergency legislation through during the first 100 days of his presidency. The stunned Republicans never managed to unite in force to oppose the opening salvo of New Deal legislation (see Table 1 and 2). Old regional and policy divisions reasserted themselves among Republicans with some more progressively inclined members offering measured rhetorical support for the administration. Acts emanating from Roosevelt’s

¹³ National Archives. See <http://www.archives.gov/federal-register/electoral-college/scores.html#1932> accessed April 2, 2008.

¹⁴ Nohlen, Dieter, ed. *Elections in the Americas: Volume 1* (New York: Oxford University Press, 2005), pp. 699, 704.

¹⁵ The journalist is Herbert Bayard Swope. The quote is found in Weed, Clyde P. *The Nemesis of Reform: The Republican Party During the New Deal*. (New York: Columbia University Press 1994), p. 122.

first 100 days include efforts to shore up the banks (Emergency Banking Act), cut government employees' salaries (Economy Act), restore industrial production using government intervention (National Industrial Recovery Act), help agriculture (Agricultural Adjustment Act), reduce unemployment (the Federal Emergency Relief Act), promote development in a particular region (the Tennessee Valley Authority) and banking regulation (Glass-Steagall Act).¹⁶ The Emergency Banking Act and Glass-Steagall Acts passed without recorded roll call votes. However, as Table 1 and 2 also show, the Republicans deeply divided over Roosevelt's emergency legislation. Their votes did not substantively matter to the outcome since Democrats held large majorities in both chambers and voted overwhelmingly for the New Deal. However, even in the depths of the Great Depression, many Republicans recoiled at the notion of government intervention in the economy, serving as sentinels guarding against 'socialism'.¹⁷

TABLE 3.1: HOUSE VOTES DURING ROOSEVELT'S 100 DAYS (1933)¹⁸

Bill (B)/ Amendment (A)

	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
LEGISLATION	YES	NO	YES	NO	YES	NO

¹⁶ Ibid., pp. 122-140.

¹⁷ While the conservatives who voted against the legislation from the 100 Days are reminiscent of the caricature of recent Republicans wishing to void all social legislation in the conventional narrative, these 'paleo-conservatives' differed from almost all contemporary Republicans concerning taxation policy. Paleo-conservative Republicans viewed a balanced budget as sacrosanct. They were willing to raise taxes (the majority of the G.O.P membership voted for a sales tax as an amendment to the National Industrial Recovery Act which was opposed by the most of the Democrats). The political calculation was, however, not to raise taxes, but rather to torpedo the National Industrial Recovery Act by insisting to pay for it through an unpopular tax.

¹⁸ Source for Tables 1 and 2: Herring, E. Pendleton, "American Government and Politics: First Session of the Seventy-third Congress, March 9, 1933 to June 16, 1933." *The American Political Science Review*, (28:1) (February 1934), pp. 65-83.

Economy Act (B)	69	41	197	92	266	138
National Industry Recovery Act (B)	54	50	267	25	325	76
Agricultural Adjustment Act (B)	39	73	272	24	315	98
Federal Emergency Relief Act (B)	74	30	252	12	331	42
Tennessee Valley Authority— Original (B)	17	89	284	2	306	91
Tennessee Valley Authority— Conference (B)	11	84	245	28	259	112
Elimination of Civil Service Requirement (A to F.E.R.A)	0	105	215	51	215	161
Inflation of Currency (A to A.A.A)	30	79	273	7	307	86
2.5% sales tax (A to N.I.R.A)	73	32	64	228	137	265

TABLE 3.2: SENATE VOTES FROM ROOSEVELT'S 100 DAYS (1933)

LEGISLATION	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
	YES	NO	YES	NO	YES	NO
Economy Act (B)	19	19	43	4	62	13
Federal Emergency Relief Act (B)	12	15	42	2	55	17
Tennessee Valley Authority (B)	14	17	48	3	63	20
Agricultural Adjustment Act— Original (B)	15	16	48	4	64	20
Agricultural Adjustment Act—	13	17	39	11	53	28

Conference (B)						
National Industrial Recovery Act—Original (B)	10	20	47	4	58	24
N.I.R.A.—Conference (B)	5	23	41	15	46	39
Inflation of Currency—(A to A.A.A)	13	18	50	3	64	21
Taxation of tax-exempt securities (A to N.I.R.A)	12	17	32	20	45	37
1.75 % Sales Tax (A to N.I.R.A.)	19	11	9	45	28	57

According to Anthony Downs, in *An Economic Theory of Democracy*, political parties act rationally to changes in public perception by trying to incorporate the median voters' preference in the party's program to maximize political appeal. Thus, in order to win elections in the 1930s, the Republican Party would have to move leftwards in order to curry the favor of voters.¹⁹ After the first 100 days of Roosevelt's administration, Republican reactions at best tepidly validated the Downsian approach to understanding party behavior. However, any Republican acceptance of Democratic initiatives quickly stopped moving according to Downsian precepts; after some moderate support early in Roosevelt's tenure, the Republicans regrouped and became a vociferous, although not always effective, minority in opposing New Deal programs, particularly those that built the welfare state.

¹⁹ See Downs, Anthony, *An Economic Theory of Democracy* (New York: Addison Wesley, 1985 [1957]) and Weed, 1994, pp. 3-4.

The unprecedented electoral success of the Democratic Party helped stamp out intra-party dissent. Personal foes of Roosevelt and principled conservative Democrats opposed the New Deal. Some of them banded together and formed the American Liberty League in 1934. However, they failed to move most party regulars and as Roosevelt tightened his control over the party, the opposition faded. The League disbanded in 1940.²⁰ Southern Democrats on the whole supported the early New Deal, despite the innate conservative philosophy of many members of the caucus. Roosevelt's TVA proved a boon to the lives of many southerners, some of whom had no electricity beforehand, thus the legislators were quiescent.

The Republican Party took a further beating during the midterm 1934 elections. The new Congress that assembled in 1935 featured only 103 Republicans in the House and 26 in the Senate. While the Democratic electoral victories undoubtedly vindicated liberals who believed their policies had the stamp of popular approval, some Republicans drew a different lesson. The moderate acquiescence to New Deal measures offered little or no political cover—congressional Republicans continued to go down to defeat. Finally, with signs that the worst of the economic crisis was abating, these conservatives found it appalling to see the federal government take steps that appeared socialistic. Republicans, despite retaining a number of western Progressives in their ranks, particularly in the Senate, coalesced around a strategy of opposition to the Democratic majorities.²¹ Roosevelt, the shrewd politician, was aware of the dangers he faced from

²⁰ See Wolfskill, George. *The Revolt of the Conservatives: A History of the American Liberty League* (Boston: Houghton Mifflin, 1962).

²¹ Patterson, James T. *Congressional Conservatism and the New Deal: the Growth of the Conservative Coalition in Congress, 1933-1939*, (Lexington, KY: University of Kentucky Press, 1967), pp. 32-33.

the Republican opposition. That said, he also faced imminent political danger from the restless populist left. Francis E. Townsend, an elderly physician, proposed that the federal government pay every individual over 60 years of age a \$200 monthly pension to alleviate senior poverty. His vision resonated with throngs of Americans as ‘Townsend Clubs’ spontaneously assembled throughout the nation.²² Perhaps even more threatening to Roosevelt was the appeal of the flamboyant Louisiana politician, Huey ‘the Kingfish’ Long. The Cajun autocrat, elected to the U.S. Senate in 1932, proposed a massive redistribution scheme that would include taxing very wealthy corporate and individual elites at confiscatory rates. He seemed a potentially distracting and formidable foe if he chose to oppose Roosevelt’s nomination in 1936.²³

Roosevelt understood that the exultation so evident during the first 100 days of his administration with the passage of unprecedented emergency legislation was still, perhaps, inadequate to both make progress against the Depression as well as to sustain a formidable legacy. In 1935, at least partially driven by pressure on the left, he pushed through Congress what has become known as “the second New Deal.” One legislative element was the Works Progress Administration (WPA), which hired those who were unemployed to work on public projects. A more enduring legacy was what became known as the Social Security Act of 1935 (SSA), a legislative feat that created the modern version of the American welfare state, where none had formerly existed. As aforementioned, the president knew that such a departure from precedent was risky and

²² For a comprehensive treatment of the Townsend Movement, see Holtzman, Abraham. *The Townsend Movement: A Political Study*. New York: Bookman Associates, 1963).

²³ For more on Long, see Hair, William Ivy, *The Kingfish and his Realm* (Baton Rouge, LA: Louisiana State University Press, 1991) and Williams, Harry T., *Huey Long*. (New York: Knopf, 1969).

would offer fodder for both the populist left and conservative right. Roosevelt, as he was so wont to do, threaded a delicate path in fending off challenges from all sides. He proposed a program that achieved liberal ends by conservative means. Roosevelt sought not to create a program of handouts, but rather establish an insurance system which workers would contribute toward throughout their careers by means of a payroll tax. When reflecting on how his administration designed the contributory system Roosevelt said, in his imitable way, “we put those payroll contributions there so as to give the contributors a legal, moral and political right to collect their pensions. With those taxes in there, no damn politician can ever scrap my Social Security Program.”²⁴

The SSA was a sprawling piece of legislation containing eleven titles. Title 1 created an old age assistance program for the elderly. Roosevelt envisioned Title 1 serving a temporary stopgap measure that would fade away and be replaced by the provisions of Title II. This title provides the substance of what we call Social Security. This title called for workers to contribute a share of their wages, matched by an employer contribution, to a social insurance system that would pay out a pension to the retiree starting at the age of 65. Other titles of the SSA created unemployment insurance, aid to dependent children, and benefit for other physically impaired individuals.²⁵ Notably, the measure excluded universal health insurance, a political calculation on the part of Roosevelt in order not to weaken the necessary political coalition.

²⁴ Quoted in Nash, Gerald, Noel H. Pugach, and Richard F. Tomasson, eds., *Social Security: The First Half-Century* (Albuquerque, NM: University of New Mexico Press, 1988), p. 12.

²⁵ Social Security Act. Public Law 74-271. *United States Statutes at Large: Volume 49, 74th Congress 1935-1936, Part I* (Washington, D.C.: United States Government Printing Office, 1935), pp. 620-648.

The conservative rump remaining of the Republican Party in Congress had no desire to abet in the passage of a program that, in their view, reeked of socialism, despite the inclusion of conservative means. The key vote testing congressional support for the SSA was on a motion to have the SSA recommitted to committee for further study—an attempt to kill the bill. Only a lone Republican member (Frank Crowther of New York) voted with the majority of Democrats in that preliminary vote to force the SSA to a final vote in the House (see Table 3). When the Republicans were voted down on the recommit motion, many members, probably to avoid electoral retribution, switched sides to support the legislation.²⁶ The final SSA vote sailed through both chambers (the Senate had no equivalent preliminary vote). As the recommit vote in the House shows, Republicans were not comfortable with an expanded role for government and rallied the caucus to nearly unanimously oppose the bill in the preliminary vote. However, once passage became inevitable, many Republicans acquiesced to the Democratic majority.

TABLE 3.3: HOUSE AND SENATE VOTES RELATING TO SOCIAL SECURITY ACT (1935)²⁷

LEGISLATION	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
	YES	NO	YES	NO	YES	NO
Recommit Motion (House)	94	1	55	252	149	253

²⁶ See Weed, 1994, p. 162 and Edward Berkowitz and Larry DeWitt. “Conservatives and American Political Development: The Case of Social Security, 1934-1956” in Glenn, Brian J. and Steven Teles, *Conservatism and American Political Development* (New York: Oxford University Press, 2009), pp.53-85.

²⁷ Sources for Table 3: *The Congressional Record*, (Washington, D.C.: Government Printing Office, April 19, 1935), pp. 6068-6070; *Congressional Record*, June 19, 1935, p. 9650; supplemented by Weed, 1994, pp. 213-219.

Final Vote (House)	76	18	296	15	372	33
Final Vote (Senate)	17	5	60	1	77	6

Roosevelt had reached the acme of his power. The normally fractious Democratic Party rallied around Roosevelt in 1936 at the party's national convention. An assassin's bullet felled Huey Long in 1935, eliminating Roosevelt's only serious intra-party rival. Southerners willingly supported abolishing the requirement that a super-majority of two-thirds of delegates were needed to nominate a presidential candidate. Nominations now could constitute a simple majority, essentially voiding the South's veto power over a presidential candidate.²⁸ The South freely gave away the power of the veto because the Democratic Party was united behind a strong leader.

Republicans were weak against a cohesively united Democratic front. Elite business leaders formed an alliance, the Liberty League, spearheaded by the du Pont brothers. These titans of business loathed Social Security and many other New Deal innovations. The Kansan oil executive, politician, and Republican presidential nominee, Alf Landon, was sympathetic to their cause, but found it expedient to ask the Liberty League to refrain from endorsing him, since association with business tycoons had become a political liability. Nonetheless, Landon eagerly accepted large contributions from the du Ponts and other alliance members. Roosevelt took pleasure in pointing out the plutocratic nature of the Republican nominee's support.²⁹

²⁸ Lowndes, Joseph E. *From the New Deal to the New Right: Race and the Southern Origins of Modern Conservatism* (New Haven, CT: Yale University Press, 2008), p. 13.

²⁹ Phillips-Fein, 2009, pp. 19-22.

Roosevelt led the Democratic Party to victory in the 1936 presidential election, crushing the beleaguered Republican Landon by carrying every state except Vermont and Maine. The congressional Republicans fared no better, reaching the nadir of the party's electoral fortunes. Its House contingent stood at 89 and its Senate membership dwindled to 17—approximately one-fifth of all congressional seats. The disaffected populists, who aligned with the conservative priest Charles Coughlin to form the short-lived Union Party, received a meager 2% of the popular tally and no electoral votes for presidential candidate William Lemke.³⁰

The seeming triumph of Democrats and government activism was something of a mirage. The conservative impulse remained rooted in the American political culture. A backlash movement was growing even in the midst of this crushing defeat for the Republicans. An act of hubris helped awaken the conservative spirit, empowering the Right, and pushing Roosevelt into a political thicket.

The Bipartisan Conservative Alliance: 1937-1945

When the new Congress assembled in 1937, the Roosevelt juggernaut seemed unstoppable. In the House of Representatives, committed conservatives opposed to the New Deal numbered approximately 110 in the House—80 Republicans, 30 Democrats—a paltry quarter of the membership. The conservative ranks in the Senate stood at 28 stalwart anti-New Dealers of whom 10 were Republicans. The election on the whole had not thinned the ranks of staunch conservatives. Most of the Republicans who lost or retired were moderates and progressives in marginal districts. The puny remnant of the

³⁰ See Bennett, David H., *Demagogues in the Depression: American Radicals and the Union Party, 1932-1936* (New Brunswick, NJ: Rutgers University Press, 1969) for a full treatment about the Union Party.

Republican caucus in the House was full of ideologues who refused to countenance the New Deal.³¹ Conservative prospects in the Senate were even bleaker than in the House among Republicans. Since senators ran statewide, they represented a more diverse constituency than House members and consequently faced more pressures to acquiesce. In the words of one Republican, “the emotional tide is now and has been *with* the Democrats. . . a Republican Senator attempting by speech to stem this tide cuts about as sorry a figure as a man who attempts to stem a cyclone with an open umbrella. It is better to seek a cellar until the storm passes.”³² It appeared an inauspicious time for conservatives.

Conservatives, however, had one last ally: the Supreme Court. The Court had methodically overturned key New Deal legislation, such as the NRA (1935) and the AAA (1936). Being stymied by the Court infuriated Roosevelt. After the election, with virtually no consultation with the membership, he delivered a speech to Congress. The notorious February 5, 1937 speech presented a proposal to expand the Supreme Court from 9 to 15 members, one for every justice who was over 70 years of age. In addition, he requested authority to increase the number of lower court judges on similar grounds. Roosevelt stated that the courts were overworked and justices became less productive as they aged. Roosevelt’s thinly veiled excuse for “court-packing” fooled no one. It was obvious the president wanted to appoint friendly liberal justices to the Court.³³ The

³¹ Patterson, 1967, pp. 80-82.

³² George W. Maxey to Senator James Davis, January 9, 1937. Quoted in Patterson, 1967, p. 101. Italics in the original.

³³ McKenna, Marian C., *Franklin Roosevelt and the Great Constitutional War: the Court-Packing Crisis of 1937* (New York: Fordham University Press, 2002).

“court-packing” scheme proved to be one of Roosevelt’s two biggest political miscalculations.

Republicans, whose morale before the proposal could not have been lower, united in opposition. Neither the conservatives nor the remaining progressives wanted to see the president accrue such power. Democrats were also dismayed. The Court was a venerable institution that many thought ought not to be subject to tampering. Conservative Democrats allied themselves with moderate members of their caucus and together with Republicans they forged a powerful coalition. A vast semi-organized letter-writing campaign gave at least the appearance that the public was opposed to the “court-packing” scheme. House leaders wanted the Senate to act first in order to protect vulnerable incumbents who would all face reelection in 1938. The Senate conservatives made clear they were ready to filibuster. As the weeks passed, the exchanges became increasingly bitter in the Senate, as party regulars probably did not have the two-thirds majority to silence a filibuster. Roosevelt was forced to retreat. The president had formerly appeared invincible; now the Rooseveltian myth had been shattered.³⁴ It mattered little that the swing vote on the Court, Owen J. Roberts, switched from hindering Roosevelt’s projects to ruling in favor of the New Deal. The conservatives were energized and the next stroke of ill fortune for the president cemented the alliance between conservatives of both parties.

The economy had been steadily improving until August 1937. Many conservatives grumbled that there was no longer the need for vast government intervention. However, a more powerful argument soon emerged. The economy stalled

³⁴ McKenna 2002; Patterson, 1967, pp. 119-127.

in the autumn of 1937 and unemployment rose from 9.2% in 1937 to 12.8% in 1938.³⁵

This ‘Roosevelt Recession’ could not be blamed on Hoover or Republicans. The responsibility lay squarely with the president. The Democratic Party’s reputation as an economic ameliorative agent was tarnished. When Congress went back into session in 1938, nervous Democrats, dreading the next election, were reluctant to give the president more power by expanding the executive branch as he wished. The recalcitrant Democrats allied themselves with the Republicans to hand the president another humiliating defeat.³⁶

An angry Roosevelt made his second great miscalculation. In the 1938 primaries he campaigned against many of the Democrats antagonistic to the New Deal. By following such a course, he created implacable foes who were virtually all returned to office. In the 1938 elections, Republicans made startling gains, winning back many districts that were normally represented by the G.O.P. In the new House that gathered in 1939, the Republicans gained 80 seats in the House and 8 in the Senate.³⁷ Roosevelt could no longer get his way with Congress regarding New Deal legislation. The conservative bipartisan alliance had become a working majority. While Roosevelt remained personally popular, and was re-elected to a third term in 1940 and a fourth term in 1944, Republicans were elected in more robust numbers than they had in the mid 1930s. After the 1942 elections, Democrats held the House by a slim 222 to 210 margin.³⁸ The G.O.P seemed to have found a winning formula—or at least a way to cut its losses--by steadfastly opposing New Deal programs. The Republicans had shifted

³⁵ The unemployment of the civilian private nonfarm labor increased from 13.3% in 1937 to 18.3% in 1938. Sutch and Carter, 2006, 2-82.

³⁶ Patterson, 1967, pp. 226-229.

³⁷ McKenna, 2002, 545-554; Patterson, 1967, 290.

³⁸ Nohlen 2005, 699.

from functioning as a somewhat inchoate opposition during the early New Deal to a more disciplined parliamentary contingent that served as a thorn to pro-New Dealers.

Congress shifted from a liberal orientation to a bastion of conservative influence, particularly in matters relating to social policy.

While the drums of war were beating on the European continent in 1939 and 1940, conservatives in America were winning legislative battles pertaining to domestic policy. Most significantly, they sabotaged the financing mechanism for Social Security Insurance as originally designed by the SSA. The original intent of the SSA was to build a cash reservoir to finance old-age pensions. The legislation provided that starting in 1937 a 2.0% payroll tax should be collected (half paid by employer and half by employee). The rate was scheduled to increase to 3.0% in 1940, 4.0% in 1943, 5.0% in 1946, and 6.0% in 1949 (again, half paid by employer and half by employee).³⁹ The newly empowered conservative coalition was in no mood to allow the enactment of these scheduled tax increases. Led by Republican Senator Arthur Vandenberg of Michigan, what turned into a long-standing precedent commenced with the 1939 Social Security Amendments, which eliminated the rate increase scheduled for 1940. The 1939 Act passed with bipartisan support as the Secretary of the Treasury, Henry Morgenthau, delivered his support for the legislation in order to placate the business lobby which was clamoring for tax relief.⁴⁰

³⁹ Berkowitz and DeWitt, p. 76.

⁴⁰ Leff, Mark H. "Speculating in Social Security Futures: The Perils of Payroll Tax Financing, 1939-1950", *Social Security: The First Half-Century*, ed. Gerald D. Nash, Noel H. Pugach, and Richard F. Tomasson (Albuquerque, NM: University of New Mexico Press, 1988), pp. 243-278, p. 247.

A pernicious legacy of the 1939 Social Security Amendments were the attempts to exclude African-Americans from receiving coverage under the program. The Buck Amendment to the 1939 Act provided that many forms of agricultural labor, very often filled by African-Americans, not receive coverage. In addition to farmhands, those who packaged and graded fruit were not eligible for Social Security. While it is difficult to quantify how many workers were excluded, the numbers were certainly in the hundreds of thousands. Southern Democratic legislators controlled both the House Ways and Means Committee and the Senate Finance Committee. The Ways and Means Committee bills introduced under closed rules (no amendments could be offered) and at the time the Democratic leadership on Ways and Means assigned all Democratic members to committee assignments. These two committees could effectively cajole liberals into backing off from their demands and could hold undesirable legislation hostage. With unsympathetic Republicans in the minority, liberals in Congress and the administration were essentially outmaneuvered.⁴¹

Provoking more partisan in 1942 and 1943 controversy were successful efforts to block scheduled payroll tax increases meant to put Social Security on sound footing. The Roosevelt administration strenuously objected to these efforts, threatening vetoes and trying to cajole Democratic members of Congress to support the administration. However, attempting to make the Social Security system solvent for the long-term was not a high priority for these Democrats, and with obligations to spend vast sums for the war effort, the Democrats did not support the administration in sufficient numbers. The veto threat for the 1942 Revenue Act proved empty—while not approving of the

⁴¹ Lieberman, Robert C. *Shifting the Color Line: Race and the American Welfare State*. (Cambridge, MA: Harvard University Press, 1998), pp. 101-103.

Amendment that rescinded the scheduled tax increase, Roosevelt needed the revenue furnished from the other parts of the bill for the war effort. The Senate vote on the Amendment to the 1942 Revenue Act which froze the Social Security tax rate at 2.0% was the only Social Security vote for many years that could be construed as close (see Table 4).

TABLE 3.4: SOCIAL SECURITY FINANCING VOTES 1942-1943⁴²

LEGISLATION	REP. YES	REP. NO	DEM. YES	DEM. NO	TOTAL YES	TOTAL NO
1942 Amendments (Senate)	26	2	24	33	50	35
1943 Revenue Act (House)	146	30	91	72	273	102
Revenue Act Veto Override (House)	196	4	103	91	299	95
Revenue Act Veto Override (Senate)	33	1	38	13	72	14

⁴² Sources for table include *Congressional Record*, October 9, 1942, p. 8010; partisan affiliation for senators found in the seventy-seventh congress for on www.senate.gov; *Congressional Record*, February 7, 1944, pp. 1358-1359; partisan affiliation researched from www.house.gov; *Congressional Record*, February 24, 1944, p. 2013; *Congressional Record*, February 25, 1944, p. 2050. The Democratic tallies include minor parties.

The 1943 Revenue Act once again obstructed a scheduled tax increase. This time Roosevelt vetoed the bill, however his support in Congress had dried up and both Houses overrode his veto (see Table 4). While Democrats were split on how much to support the president, the vast majority of Republicans registered their displeasure of the provisions of the SSA through these votes on financing the program.

While these Social Security votes showed the lackluster enthusiasm for securing an existing program, liberals in Congress, somewhat incongruously, were fighting for a full ‘cradle-to-grave’ welfare state that included national health insurance. In 1943, proponents of such an approach coalesced around the Wagner-Murray-Dingell bill. Roosevelt finally decided to cast his lot with the reformers and promised to propose national health insurance upon the conclusion of the War. As a preliminary means to set the agenda Roosevelt called on Congress in 1944 to pass an ‘economic bill of rights’ for citizens of the country, which would include national health insurance.⁴³

Roosevelt died before the conclusion of military combat in 1945. He had enormous successes in fashioning the welfare state and setting its shape and contours. He cast a huge penumbra over the presidential office for his successor, Vice-President Harry Truman. Truman would attempt to fulfill the Rooseveltian legacy by advocating national health insurance. At the same time, conservatives thought it a propitious moment to undo the New Deal with Roosevelt removed from the scene. These dueling perspectives led to dramatic political clashes during Truman’s presidency.

Truman and the Republicans: 1945-1952

⁴³ Starr, Paul. *The Social Transformation of American Medicine: The Rise of a Sovereign Profession and the Making of a Vast Industry*. (New York: Basic Books, 1982), p. 280.

Truman attempted to use Roosevelt's death as a catalyst to ignite the fires of popular fervor for national health insurance. Such a strategy succeeded for Lyndon Johnson after John Kennedy's death in 1963 in order to enact Medicare and Medicaid. Truman, however, could not finesse such a move. Many, including some Democrats, saw his administration as not a continuing source of robust new initiatives, but a tired, spent, and enervated regime waiting to be extinguished.

Republicans hoped to capitalize on sentiment yearning for a new course. They certainly were not going to give a sympathetic hearing to national health insurance. Truman's plan ran into immediate trouble in the House. A conservative committee chairman, Clarence F. Lea (D-CA) of the Interstate and Foreign Commerce Committee, bottled up the measure and refused to hold hearings. With this inauspicious omen, Senate finance chairman James Murray (D-MT) opened the Labor and Public Welfare committee hearings on April 2, 1946 imploring members not to label the proposal "socialistic" or "communistic." Immediately Robert A. Taft (R-OH), the ranking member of the committee, interrupted Murray exclaiming, "It is in my mind the most socialistic measure this Congress has ever had before it." Livid, Murray shouted down Taft who then walked out of the hearings with the Republicans Party, launching a tirade on how Truman's health plan came straight from the Soviet constitution.⁴⁴

Taft subsequently introduced his own health proposal, the Taft-Smith bill. Taft's proposal was probably not a serious policy alternative; it was rather a subterfuge to

⁴⁴ Quoted in Starr, Paul. 1982. *The Social Transformation of American Medicine*. New York: Basic Books, 283.

distract from Truman's plan.⁴⁵ Nonetheless, the Taft bill contained the kernel of future Republican proposals for the welfare state. The substance of the Taft proposal was that the federal government would subsidize low-earning individuals who wish to purchase health insurance from private insurers out of a pool of \$200 million. A strict means test would be employed. Taft showed a preference for the private marketplace to a government-sponsored system and wanted to allow for theoretical personal freedom in what to purchase, hallmarks of Republican attempts to reconstruct the welfare state in the future. Critics pounced on Taft's plan as hopelessly inadequate. \$200 million was a mere pittance for the problem at hand, would distract from universal health insurance, and would potentially ostracize recipients who would have to prove their impoverished status.⁴⁶

After Taft's and Murray's verbal sparring, the committee's hearings did not go well as a parade of interests testified against the plan. Just as in 1946, an evident pugilistic atmosphere would surround all future attempts to implement national health insurance. This first round of hearings in the Senate led to no action with too many forces arrayed against the notion, namely special interests, the Republican Party, and an at best ambivalent public.

There was no time before the midterm 1946 elections for Truman to leave a domestic policy mark.⁴⁷ Post-war economic adjustments left the economy staggering.

⁴⁵ When the Republicans assumed majority status from 1947-1948, Taft made no attempt to implement his plan, rather holding hearings eviscerating national health insurance as a socialist enterprise.

⁴⁶ Blumenthal, David and James A Morone. *The Heart of Power: Health and Politics in the Oval Office* (Berkeley, CA: University of California Press, 2009), pp. 57-98.

⁴⁷ The only possible exception was that Truman signed the Hospital Survey and Construction Act, otherwise known as Hill-Burton. Yet this legislation was for future

Confident Republicans, finally resurgent, smartly nationalized the campaign by running against “controls, confusion, corruption, and communism.” That alliterative theme was neatly encapsulated with the slogan, “Had Enough? Vote Republican.”⁴⁸ The election, as predicted, proved a bloodbath for the New Deal coalition. Republicans took majorities in both chambers of Congress, gaining 54 House seats and 13 Senate seats. Cast adrift were the old staunch New Dealers as southern Democrats remained entrenched. Congress had become a conservative bastion. Truman seemed an early lame duck.

Republicans were eager to govern and leave a stamp on the domestic landscape. They turned upon Social Security. They had successfully thwarted all scheduled increase in taxes to finance the program. In all, eight scheduled tax hikes were scuttled between 1939 and 1950, thus ensuring that Social Security would become a pay-as-you-go program, never fully solvent.⁴⁹ Yet Republicans wanted to extend their reach further and stifle the growth of the Social Security program. They designed two bills to undercut the scope of Social Security coverage which were adopted without roll call votes except for the Senate vote pertaining to the second of the two bills. The first piece of legislation exempted magazine and newspaper vendors from Social Security coverage (HR 5052). The second bill narrowed the definition of an employee and would leave some workers classified as salesmen, truck drivers, taxi drivers, and journeymen without coverage, thus excluding as many as three-quarters of a million workers from obtaining Social Security

construction and provided for few immediate tangible benefits. Hill-Burton was the only salvageable component of the comprehensive health bill that Murray and others hoped to pass.

⁴⁸ Boylan, James. *The New Deal Coalition and the Election of 1946*. (New York: Garland, 1981), p. 135.

⁴⁹ DeWitt, Larry. 2007. “Financing Social Security, 1939-1949: A Reexamination of the Financing Policies of this Period.” *Social Security Bulletin*. 67 (4): p. 58.

insurance (HJR 296). Truman vetoed both bills, blasting them with blistering language.⁵⁰

The president, however, had little congressional support and was overridden both times (see Table 3.5). Every Republican in the Senate voted against Social Security at least once.

TABLE 3.5: SOCIAL SECURITY VOTES 1948⁵¹

LEGISLATION	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
	YES	NO	YES	NO	YES	NO
HR 5052 Veto Override (H)	204	2	104	26	308	28
HR 5052 Veto Override (S)	46	0	31	7	77	7
HJR 296 (S)	37	2	37	4	74	6
HJR 296 Veto Override (H)	203	4	95	71	298	75
HJR 296 Veto Override (S)	36	2	29	10	65	12

These two veto overrides proved to be pyrrhic victories for the Republicans.

Truman successfully used the veto overrides as a cudgel when he blasted the Republican

Congress during the 1948 campaign. Truman masterfully framed the Republican

⁵⁰ See <http://www.ssa.gov/history/hststmts.html#veto>, accessed October 31, 2008 for Truman's rationales for vetoing HR 5052 and HJR 296.

⁵¹ Sources for votes: HR 5052, *Congressional Record*, April 14, 1948, pp. 4432-4433; *Congressional Record*, April 20, 1948, p. 4595; HJR 296, *Congressional Record*, June 4, 1948, p. 7134; *Congressional Record*, June 14, 1948, pp. 8093, 8191; partisan affiliation researched from www.house.gov; The Democratic tallies include all opposition parties.

Congress as a “do-nothing” institution. When Truman called a special session of Congress, the morose Republicans played into the president’s hands by accomplishing little except criticizing the president and seeming petty.

The press, nonetheless, had anointed Thomas Dewey, the Republican nominee for president, as the heir apparent. The campaign was treated as pro forma by all but Truman. The Democratic Party was deeply divided as conservative South Carolina Governor Strom Thurmond and liberal former Vice-President Henry Wallace both bolted from the party and ran as third party candidates. Democrats looked forward to the presidential election with wan enthusiasm, expecting another clobbering at the polls. However, a surprise was in store. Truman upended Dewey in the biggest presidential upset ever. His victory had coattails; Democrats took control of both chambers of Congress.

Many stunned Republicans interpreted the election results as an indication that opposition to Social Security and the welfare state was no longer tenable if the party wished to maintain competitiveness. A chastened Taft acknowledged that Republicans had to make allowances for a welfare state or “or we will lose the free enterprise system.” Taft’s apparent about-face elicited opprobrium from his Ohio colleague, John W. Bricker (R-OH), who would not blemish his principled conservative credentials. Bricker argued with Taft over the necessity of sponsoring any form of the welfare state in a debate that seeped into the pages of national news outlets.⁵²

Truman’s reelection signaled something of a rethinking about the Social Security program. For the first time since its inception, Congress did not block an increase in the

⁵² “Senator Taft Warns G.O.P Must Back Welfare Plans: Argues Heatedly with Bricker, Malone”, *Chicago Daily Tribune*, April 14, 1949, p. N11.

scheduled payroll tax, as the total tax increased from 2.0% to 3.0% in 1950.⁵³

Furthermore, the Social Security Amendments of 1950 (SSA 1950) ended what had been Congress's ambivalence about the program. The SSA 1950 covered an additional ten million workers, benefits were increased by an average of 77%, and dependents and spousal survivors became eligible for benefits.⁵⁴ With the passage of these Amendments, for the first time in 1951, as Roosevelt envisioned, the insurance portion of the program paid out more than the old age assistance facet, with the insurance growing rapidly and old age assistance shrinking in proportion over subsequent years.⁵⁵ The SSA 1950 transformed Social Security into serving as part of the fabric of the American political system.

Republicans understood to a large extent what was at stake and many opposed the expansion of the program. Nearly four-fifths of all voting House Republican members wished to recommit the SSA 1950 back to committee in order to kill it. This showed that the fighting welfare state spirit was still very much alive within the congressional party, although less so than in 1935, when only one lone Republican member voted not to recommit the original Social Security legislation. The Republican minority, doomed to fail in this recommittal motion since the southern Democrats nearly unanimously stood by the party line, also switched their votes in the final tally more readily. Only twelve Republicans voted against the SSA 1950 in the final vote, less than ten percent of the voting caucus. In 1935, nearly a fifth of the caucus voted against Social Security in the

⁵³ Employers paid 1.5% and employees contributed 1.5%. See Leff, 1988, p. 270.

⁵⁴ Beland, Daniel, *Social Security: History and Politics from the New Deal to the Privatization Debate*. (Lawrence, KS: University Press of Kansas, 2005), p. 121.

⁵⁵ Derthick, Martha, *Policymaking for Social Security*. (Washington, D.C.: Brookings Institution, 1979), p. 274

final vote. Congressional Republicans still harbored grave doubts about Social Security, but the House members were not as steadfastly opposed as they were fifteen years before. Senate Republicans, somewhat anticlimactically, voiced reservations about the legislation, but all those voting favored the 1950 SSA with the exception of two members. (Table 3.6).

TABLE 3.6: SOCIAL SECURITY AMENDMENT VOTES 1949-1950⁵⁶

LEGISLATION	REP. YES	REP. NO	DEM. YES	DEM. NO	TOTAL YES	TOTAL NO
RECOMMIT (HOUSE)	112	27	1	205	113	232
FINAL (HOUSE)	128	12	205	2	333	14
FINAL (SENATE)	34	2	47	0	81	2

Republican arguments centered around the notion that Social Security payments tended to place inflationary strains on the monetary system as well as hurting the chances of balancing budgets. Representative Edward Miller (R-MD) argued that increased payroll taxes would augment the cost of each hour of labor, thereby inevitably upping prices. Miller diagnosed the nation's economic ailments as revolving around deficit spending and inflation, much as traditional Republicans had argued. Miller also touched

⁵⁶ Sources for table include *Congressional Record*, October 5, 1949, 13972-13974; *Congressional Record*, June 20, 1950, p. 8910. Partisan affiliation found on www.house.gov.

on the theme of freedom of choice and suggested that Social Security should be an option instead of imposed by the government. Miller went so far as suggesting that “security and ‘the welfare state’ have mutually antagonistic aims”, quoting the *Wall Street Journal*.⁵⁷ Miller was certain that a welfare state would effectively cause the currency to rot, weakening the nation’s system of private economic enterprise. Miller’s concerns notwithstanding, Congress easily enacted the SSA 1950.

Truman, despite dealing with a Republican Congress, was able to get a Social Security bill expanding benefits passed shortly before the 1952 election. Taft and the Republicans, on the whole, apparently thought better of fighting the measure and acquiesced to an expansion of benefits, even without an increase in the payroll tax to finance the measure. On May 19, 1952 the House failed to reach the requisite two-thirds to suspend the rules and pass the bill with 52 Republicans voting in favor of Social Security expansion and 99 voting against. However, remarkably, Republicans rethought the issue and the ranking Republican on Ways and Means, Daniel Reed (R-NY) reintroduced the measure.⁵⁸ Under a standard rule, requiring merely a majority vote, the measure sailed through Congress with 164 Republicans voting for and 20 against the 1952 Social Security Amendments on June 17, 1952.⁵⁹

Truman won on Social Security, what he could not budge from legislative paralysis was national health insurance. The American Medical Association (AMA) went apoplectic when Truman was reelected; gathering all the financial resources it could

⁵⁷ Miller, Edward T. in *Congressional Digest* 1949, Volume 28, Number 12, pp. 311-313. Quote found on page 311.

⁵⁸ Berkowitz, Edward D. *Mr. Social Security: the Life of Wilbur J. Cohen* (Lawrence, KS: The University Press of Kansas, 1995), p. 74.

⁵⁹ *The Congressional Record*, May 19, June 17, 1952, pp. 5485, 7387.

to fight national health insurance. Truman reintroduced his health care bill. The AMA pulled out all the stops in fighting the legislation, even circulating a specious quote from Lenin that read, “socialized medicine is the keystone to the arch of the socialist state”.⁶⁰ Republicans both stoked and responded to the AMAs campaign. They willingly took contributions from the AMA for the 1950 congressional elections. The Red Scare that overtook the nation essentially doomed national health insurance which opponents of the measure all too readily tied to communism. As early as 1947, Senator Homer Ferguson (R-MI) called illicit spending on socialized medicine as toting the Moscow Party line. The visceral invective only worsened over time. Opinion polls showed that support for national health insurance, while widespread, was soft. After the AMA’s campaign, poll numbers in support of Truman’s plan dropped precipitously. In 1945, 58% of the public responded favorably to a survey question posing the query of whether national health insurance should be implemented. That percentage dropped to 36% by 1949.⁶¹

Democrats were not blameless in hastening the demise of national health insurance. They proved unwilling to compromise with proposals that were floated as alternatives. Two competing bills emerged as choices. Crafting the first bill was a bipartisan team, Lister Hill (D-AL) and George Aiken (R-VT), who repackaged the Taft proposal. The second bill was a pure Republican alternative, sponsored by Senators Ralph Flanders (R-VT), Irving Ives (R-NY) and Representative Richard Nixon (R-CA). The provisions of the bill included scaling premiums to income. Notably, there would be no means test, thus individuals at all income levels would have the choice to participate. The plan empowered private markets and would most likely give the government a larger

⁶⁰ Starr, 1982, p. 285.

⁶¹ Starr, 1982, pp. 282-285.

hand in national health insurance while maintaining individual choice. These private plans were to be non-profit, which would have caused great consternation from commercial insurers and thus would probably not be viable politically, according to one account. Yet the same source acknowledges that Democrats were hidebound and self-defeating by not working to compromise with the Republicans.⁶² Unlike Taft's ephemeral plan, Flanders-Ives was assiduously reintroduced throughout the 1950s, championed by Jacob Javits (R-NY) who served both in the House and the Senate, suggesting a real commitment to health insurance. One last note of import is that one of the bill's sponsors, Richard Nixon, would later become president. Nixon's presidency would prove to be the catalyst for a new sorting out of the politics of the welfare state. His willingness to think outside of normal conservative constraints was evident as early as his career in the House.

Truman's unpopularity ran so deep that Republicans realized that the presidency, which had eluded them for twenty years, would finally go their way in 1952. An epic battle brewed within the party for the nomination. Depending on the candidate, the party could reformulate its policy positions. The two leading candidates were war-hero Dwight Eisenhower, whose ideological proclivities were not well known and "Mr. Republican", Senator Robert A. Taft, a staunch, but also pragmatic conservative.

Eisenhower and 'Modern Republicanism': 1952-1960

Taft had a long record which burnished his conservative credentials. Taft had opposed social security at its inception, although he moderated his views a bit as the years progressed. However, he consistently opposed increasing taxes to finance the

⁶² Altmeyer, 1966, p. 172.

program, offering the cryptic justification, “we don’t want to build a house that someone else is going to occupy.”⁶³ Privately, Taft could not conceal his disdain for Eisenhower. In his personal correspondence, he wrote, “if we get Eisenhower we will practically have a Republican New Deal Administration with just as much spending and socialism as under Mr. Truman.”⁶⁴ Publicly, Taft campaigned as an advocate of “liberty rather than the principles of socialism.”⁶⁵

Favoring Eisenhower were moderates and liberals, although in reality he was an ideological mystery. He had on December 8, 1949, spoken to a Chamber of Commerce meeting in Galveston, Texas where he argued that Social Security sapped individual will and self-sufficiency. He concluded that individuals desiring Social Security should go to a federal penitentiary. In prison, “they will get all the security they want.”⁶⁶ The general’s personal popularity made him a juggernaut that could not be easily halted. Neither Eisenhower nor Taft had enough pledged delegates to secure the nomination outright in Chicago. Yet, Eisenhower had outperformed Taft in the primaries and it took little convincing to swing the Minnesota delegation, which had pledged support to the somewhat shopworn favorite son Harold Stassen, to put Eisenhower over the top. Democratic nominee Adlai Stevenson campaigned hard against Eisenhower and the Democrats recycled Eisenhower’s quotes about Social Security to some effect. The general’s non-partisan persona and popularity were too much to overcome, and he won

⁶³ Quoted from Leff, 1988, p. 253.

⁶⁴ Quoted from Patterson, James T. *Mr. Republican: A Biography of Robert A. Taft*. (New York: Houghton Mifflin, 1972), p. 515.

⁶⁵ *Ibid.*, p. 499.

⁶⁶ Quoted in Jew, Victor. 1983. *A ‘Fork in the Road?’ The Eisenhower Administration and Social Security Policymaking, 1953-1954*. Madison, WI: unpublished thesis.

the 1952 election. After twenty years of the New Deal and Fair Deal, how would a Republican President and Republican Congress react to Social Security?

For advocates of Social Security 1953 did not augur well. Old Social Security champions, such as Arthur Altmeyer the director of Social Security, were forced to retire. Carl Curtis, a Republican congressman from Nebraska who deplored the Social Security system was named chair of a special subcommittee of Ways & Means to investigate the whole Social Security system. Curtis thought the notion of Social Security as “insurance” was a sham; he hoped to discredit the whole program by making that clear. After refusing to appear before the subcommittee, the former Social Security director, Altmeyer, in a rare event was compelled to testify through a subpoena. Three days were reserved where Curtis hoped to expose that Social Security was a fraud by embarrassing a chief witness. The event boomeranged on Curtis. Altmeyer testified on November 27, 1953 and while readily conceding that social insurance did not function like private insurance, it was not a sham since a contract was not a precondition for social insurance. John Dingell (D-MI) came to Altmeyer’s aid and soon Curtis’s team seemed flummoxed as it argued ludicrously irrelevant points of semantics. With nothing substantive to build his case on, Curtis cancelled the last two days of Altmeyer’s testimony.⁶⁷ Curtis was also hearing from his normally reliably conservative Nebraska district, where a Lincoln newspaper challenged the hypocrisy of Curtis accepting pensions for members of Congress while opposing Social Security and the Nebraska Citizens Committee began organizing against the congressman.⁶⁸

⁶⁷ Jew, 1983, pp. 77-78.

⁶⁸ Ibid., p. 81.

The futile hearings became a turning point. The secretary of the new department of Health, Education, and Welfare, Oveta Hobby, who initially opposed Social Security, agreed with administration officials, such as Stassen, who thought that it was necessary to modernize the Republican Party and support Social Security. Taft's untimely early death in 1953 removed another conservative barrier. Eisenhower himself came out to support Social Security. He wrote in an oft-cited letter, "Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history."⁶⁹

Curtis and ranking Ways and Means member Daniel Reed pitched the idea of a flat pension benefit recommended by the U.S. Chamber of Commerce to a frosty reception at the Eisenhower White House. The plan was derisively called "Townsendianism" and was construed to be antithetical to the notion of workers contributing for their own retirements.⁷⁰ Eisenhower had no interest in undermining the Social Security system, and instead, became a somewhat unlikely champion of the program.

Eisenhower committed himself, with a Republican Congress, to expand Social Security. Curtis's alternative flat pension bill died in his own Ways and Means committee. The 1954 Amendments to Social Security built on the incremental nature of expansion of benefits similar to the 1952 Amendments. Ten million more workers were swept into the program, including farm operators and the tax base was raised from \$3,600

⁶⁹ See *Presidential Papers of Dwight David Eisenhower*, Document #1147, November 8, 1954, retrieved from <http://www.eisenhowermemorial.org/presidential-papers/first-term/documents/1147.cfm> accessed May 2, 2010.

⁷⁰ Jew.

to \$4,200, and an increase in benefits.⁷¹ What is most remarkable is that the bill passed with full support from a Republican President and Congress. In the House, 182 Republicans voted in favor of the 1954 Social Security Amendments with only two against.⁷² They were acquiescing to the liberal demands of the times which favored expansion of what was fast becoming a popular program.

The Eisenhower administration, noticeably bereft of remarkable domestic accomplishments ran hard as the champions of Social Security during the 1954 midterm congressional elections.⁷³ The strategy proved a failure. Democrats took control of Congress and would not relinquish control of the House for forty years or the Senate for twenty-six years. Republicans could not beat Democrats at the liberal game. It proved unconvincing for Republicans to run as the party which supported Social Security when for so many years it had opposed such measures. Just as the Democrats did not have great success at one-upping Republicans as the champions of the virtues of markets in the 1970s and 1990s, Republicans had trouble playing on the Democratic home turf.

Eisenhower, however, drew a different lesson. He wished to obliterate any resistance in the party from accepting Social Security and elements of a welfare state as it stood starkly in contrast to the tenor of the times. He thought that his party should more strongly advocate Social Security expansion in subsequent elections when musing about the lessons from 1954. Republicans of the time largely agreed. It seemed easier than fighting Social Security on principle to acquiesce to benefit expansions virtually every

⁷¹ Berkowitz, 1995, p. 91.

⁷² The Senate passed the bill without a recorded roll call. *Congressional Record*, June 1, 1954, p. 7468. Party affiliations researched from www.house.gov.

⁷³ Lawrence, W.H. "G.O.P Chiefs Coin Campaign Slogan: Peace, Prosperity." *New York Times*, September 1, 1954, p. 1.

election cycle and try to take credit for the increase in benefits or at least minimize negative electoral consequences. Throughout the 1950s and 1960s, legislators frequently enacted benefit expansions that would only come to an end during the Nixon administration when Social Security was indexed. The official Republican response to Social Security had become one of acquiescence allowing the program to become firmly entrenched.

The Eisenhower administration settled into an uneasy pattern of a Republican president opposed by congressional Democratic majorities. Eisenhower tried to contain what were in his views bloated budgets.⁷⁴ Beyond this annual battle, the most noteworthy development was the trajectory of the development of health insurance during the Eisenhower administration.

Eisenhower was an implacable foe of national health insurance. However, he took the attitude that to assure the continued private dominance in the health care domain, some concessions were called for to restrain calls for compulsory insurance. In 1954, to augment the administration's domestic legacy, Eisenhower called for a "reinsurance" system. The purpose of reinsurance was to protect private insurers against catastrophic losses from riskier groups. While the goal was commendable, the problems were the details. The proposal called for an extremely modest \$25 million one-time federal commitment with the glaring drawback that private insurers would have to account for their losses to the government in order to receive aid. The private insurers did not want accountability or federal government scrutiny and Eisenhower's allies in Congress soon abandoned the president. Despite appeals for party loyalty, 38% of Republicans defected

⁷⁴ Morgan, Iwan W. *Eisenhower versus 'the Spenders': The Eisenhower Administration, the Democrats, and the Budget, 1953-1960* (New York: St. Martin's Press, 1990).

from the party line and combined with the opposition Democratic votes, defeated reinsurance in the House.⁷⁵

A more lasting legacy from the Eisenhower administration was codifying the tax expenditure benefits for business to offer health insurance with the Revenue Act of 1954. While there had been special tax treatment for health insurance prior to 1954, regulations were somewhat loose and haphazard. The tax exclusion of employer contributions for health care would prove socially beneficial according to the Eisenhower administration. Therefore the medical expense deduction, as passed by Congress, solidified employer based health insurance. The gaping loss of tax revenue because of the deduction did not provoke debate. Private insurers were given a privileged place in the American social policy hierarchy, one never afforded to the federal government. One further piece of Eisenhower health legislation was the Employees Health Benefits Program of 1959, also constructed around the notion of an employer (the federal government) giving employees health insurance through private insurers.⁷⁶

Eisenhower's second term proved more conservative than his first as he engaged in prolonged battles with the Democratic Congress over spending. Eisenhower could never offer a robust domestic initiative to make the G.O.P more appealing. While remaining personally popular, the party's fortunes dipped. The 1958 congressional elections proved especially jarring, as the Republicans lost 48 seats in the House and 13 in the Senate. The election fatalities were not ideologically uniform. The staunch conservatives tended to come from safe Republican seats and were reelected. It was the

⁷⁵ Hacker, Jacob S. *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States*, (New York: Cambridge University Press, 2002), p. 238.

⁷⁶ *Ibid.*, pp. 239-243.

moderates and liberal Republicans who suffered defeat.⁷⁷ The truncated conservative caucus was becoming noticeably feisty, much like it had been during the depths of the Great Depression. Despite Eisenhower's attempt to modernize the Republican Party, it became apparent that the modernizers were really the antiquated membership of the party. The party would take a rightward turn during the 1960s, bred both by political necessity and the ideological proclivities of elected members. They would battle liberals in an effort to stop the second great wave of the building of the American welfare state.

Fighting the Great Society: 1961-1968

Health care is a pesky issue. The burgeoning costs associated with health care have caused consternation among both the public and policy-makers responding to rising costs.⁷⁸ The problem was especially acute for older, retired Americans. Many businesses were reluctant to provide health care for those not working, especially for a demographic group which consumes a large amount of the health care pie. Insurers found the elderly non-profitable. Thus, there was growing demand that the federal government step in and provide some sort of insurance support for seniors.

The Eisenhower administration resisted the notion of establishing a new federal program to tackle the problem. John F. Kennedy, who narrowly defeated Nixon in 1960, pledged, as part of his New Frontier, hospital insurance for the aged.⁷⁹ Two members of Ways and Means introduced Kennedy's proposal in what is known as the King-Anderson Medicare proposal. However, Kennedy did not have the support of the chairmen of

⁷⁷ Carmines and Stimson, 1989.

⁷⁸ CBO Testimony. January 31, 2008. *Growth in Health Care costs*. <http://www.cbo.gov/ffpdocs/89xx/doc8948101-31-HealthTestimony.pdf> accessed October 29, 2008.

⁷⁹ Marmor, Theodore R. *The Politics of Medicare*. 2nd ed. (New York: Aldine de Gruyter, 2000), p. 31.

Ways and Means or Senate Finance, despite Democratic control of Congress. Wilbur Mills (D-AR), could bottle up King-Anderson in the Ways and Means committee in the House and the only way to extract the bill was to have the majority of members in the chamber sign a discharge petition. Vote counters knew that the numbers simply were not there to discharge the petition.

Why the resistance to government-sponsored hospital insurance for the aged? For one reason, according to traditionalists, it was a further federal intrusion into the private sphere. Many members of the medical profession interpreted Medicare as antithetical to their interests. The AMA feared for physician's autonomy as well as their economic vitality. It waged an extensive campaign against Medicare, which included sending a record to physicians' wives that featured rhetorical flourishes of Ronald Reagan inveighing against socialized medicine. Reagan opined that if an insurance program for the elderly passed, socialism would result and that "one of these days you and I are going to spend our sunset years telling our children and our children's children what it was like in America when men were free."⁸⁰

King-Anderson was hopelessly mired in the bowels of the Ways and Means committee during Kennedy's presidency. Two events changed the political calculus in favor of passage of a Medicare bill. Kennedy was tragically assassinated in 1963 and his successor, Lyndon Johnson, argued skillfully that passing Medicare would fulfill Kennedy's legacy. Johnson, the shrewd congressional tactician, knew how to navigate

⁸⁰ Reagan quote found in Morone, James A. *The Democratic Wish: Popular Participation and the Limits of American Government*. (New Haven, CT: Yale University Press, 1998), p. 262. The Republican 2008 Vice-Presidential nominee, Sarah Palin, gave a garbled version of this quote from Reagan in her concluding remarks in the Vice-Presidential debate. She did not mention that Reagan originally uttered these words to torpedo Medicare.

the shoals of Congress. Further, 32 new Democrats, most of them liberal, were elected in 1964, providing for a tenuous liberal majority in the House.

Republicans, having learned lessons from the 1930s, decided it best not to always be negative. They also were forging their own identity as to how best to construct a welfare state. They crafted their own alternative to King-Anderson. Wilbur Mills rightly worried that Medicare was too narrowly confined, being just a hospital insurance program. Republicans exploited that tension by proposing a more-far reaching measure.⁸¹

John Byrnes (R-WI), the ranking member on Ways & Means, proposed a voluntary program for seniors. The program would not only pay for a large portion of hospital charges, it would also pay 80% of other medical expenses after a deductible. Two-thirds of the funding would come from the treasury with the final third financed through a sliding scale of premiums that depended on how much a person was paid from Social Security. The federal government would not administer the program. Presumably private agencies would serve as the intermediaries between the patient and the federal government. Gerald Ford, the Republican leader, endorsed the proposal, and it served as a political contrast with the limited benefits from the Medicare hospitalization proposal of King-Anderson.⁸²

The AMA also rolled out an alternative, described as “Eldercare.” The AMA proposed that seniors would buy private health insurance, based on the consumer’s income. The program would be administered at the state level, although the federal

⁸¹ Feingold, Eugene, *Medicare: Policy and Politics. A Case Study and Policy Analysis*. (San Francisco: Chandler Publishing Company, 1966), p. 142.

⁸² Ibid. pp. 142-143.

government would subsidize costs for low-income individuals. The AMA succeeded in giving bipartisan legitimacy to its proposal as Thomas Curtis (R-MO) and A. Sidney Herlong (D-FL), who both sat on Ways and Means, co-sponsored the bill. Despite the fanfare, the bill was never seriously considered by Ways and Means, as even the sponsors hardly called attention to the proposal in subsequent debates. The AMA spent a prodigious amount of money promoting the plan—nearly \$1 million in advertisements in the first quarter of 1965.⁸³

With a vigorous Republican alternative and the limited scope of King-Anderson, the Ways and Means faced a quandary. Republicans could make hay if Democrats passed only a hospitalization bill. The impasse was finally resolved when Ways and Means Chairman Wilbur Mills suggested building a “three-layer cake.” The hospital insurance proposed incorporated in King-Anderson became Part A of Medicare in the Social Security Act of 1965. Insurance for physician care outside of hospitals became Part B of the program, therefore obviating the Republican complaint that Medicare had too narrow a focus. The third part of the legislation was the implementation of Medicaid, a health program primarily aimed at the poor, another goal of reformers.⁸⁴

Republicans were not enthusiastic about another large expansion of the welfare state and in the House rallied to try to block the Medicare bill. In the crucial vote to substitute the Republican Byrnes bill for the Democratic legislation, all but ten Republicans voted to replace Medicare with the Byrnes bill (see Table 3.7). After passage became inevitable, on the final vote, many Republicans switched their vote in

⁸³ Ibid., pp. 140-141.

⁸⁴ Marmor, 2000, pp. 47-53; Zelizer, Julian, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (New York: Cambridge University Press, 1998), pp. 241-247.

favor of Medicare. In the Senate, the indefatigably conservative Carl Curtis (R-NE)—who was appointed to the Senate shortly after he contested Social Security during the Eisenhower years—sponsored an Amendment to strip the Social Security Act of 1965 of its Medicare provisions (Parts A and B). He argued that Part A was a version of the washed-up King-Anderson bill and that “there is not any private enterprise provision in Part B.”⁸⁵ He only drew 17 fellow Republicans and 8 southern Democrats to join him in voting for his Amendment. Shortly afterwards during the same day (July 9, 1965) Medicare easily passed in its final vote in the Senate (see Table 7). Republicans once again challenged another initial foray in building the welfare state, like they had with Social Security. They no longer took the strategy of acquiescence, just like their presidential nominee, Barry Goldwater had not in the 1964 election. Republicans returned to the position of resistance, although they had offered a forlorn alternative to show how they would prefer to build the welfare state, presuming that it must exist.

TABLE 3.7: MEDICARE VOTES⁸⁶

LEGISLATION	REP.	REP.	DEM.	DEM	TOTAL	TOTAL
	YES	NO	YES	NO	YES	NO
Byrnes Substitute (House)	121	10	63	225	184	235
Medicare (House)	65	73	248	42	313	115

⁸⁵ Quoted from the *Congressional Record*, July 9, 1965, p. 16100.

⁸⁶ Sources: *Congressional Record*, July 9, 1965, pp. 16100, 16157; Feingold, 1966, 143-147.

Curtis Amendment (Senate)	18	12	8	11	26	64
Medicare (Senate)	13	14	55	7	68	21

Welfare before Nixon

Aid to Dependent Children (ADC) was included as Title IV of the Social Security Act of 1935. The program developed from worthy widows' pensions created in many states during the Progressive era. Roosevelt was apparently unenthusiastic about his creation, writing in a letter that he hoped to move recipients away from relief to work.⁸⁷ The program, however, was by no means temporary, and enrollment exploded over time.⁸⁸ Those receiving cash assistance also underwent a demographic shift as the program included children born out of wedlock and non-white women. With the altered demographic make-up, during the 1940s and early 1950s, both public and elite opinion changed from ensuring that women had the opportunity to rear children at home to persuading them to leave the dole and join the work force.⁸⁹ In the first major revamping

⁸⁷ Reeves, Richard, *President Nixon: Alone in the White House* (New York: Simon & Schuster, 2001), p. 100; Novak, Robert D. and Rowland Evans, *Nixon in the White House: The Frustration of Power* (New York: Random House, 1971), p. 242.

⁸⁸ In 1940, 840,000 children were enrolled in ADC, in 1950 the rolls had swelled to 1,640,000, and by 1960 the numbers had expanded to 2,310,000. Source: *Social Security Bulletin: Annual Statistical Supplement*. 2001. Table 9.G1, p. 328.

⁸⁹ Cauthen, Nancy K. and Edwin Amenta., "Not for Widows Only: Institutional Politics and the Formative Years of Aid to Dependent Children." *American Sociological Review*, 61:3, (1996), pp. 427-448; Mittelstadt, Jennifer. *From Welfare to Workfare: The Unintended Consequences of Liberal Reform, 1945-1965* (Chapel Hill, NC: University of North Carolina Press, 2005).

of ADC, the 1956 Social Security Amendments included language encouraging mothers receiving relief to work. The great liberal champion of Social Security, Wilbur Cohen, underlined the necessity of work requirements the following year. He made a critique that conservatives would repeat in more strenuous form for decades about the program. “Money is not the entire solution . . . in fact, continued payment of assistance may only perpetuate the problem.”⁹⁰

If liberals had little interest in preserving the status quo for welfare in the 1950s, conservatives of both parties had none. In 1960 the Louisiana state legislature forbade mothers with illegitimate children to receive benefits, throwing at least 23,000 mothers off the rolls. In 1961 in Newburgh, New York, an obscure official, city manager Joseph Mitchell, made national newspaper headlines by withholding benefits from some eligible recipients. He grandiosely claimed he was fighting a war against welfare. The federal bureaucracy overturned the Louisiana action and Mitchell relented when confronted with adverse rulings from the courts.⁹¹ The Louisiana and New York affairs struck a receptive chord with the public. In a Gallup Poll survey from 1961 a mere 10% of respondents believed that a mother on welfare who had additional illegitimate children should received a larger benefit to cope with more mouths to feed. Nearly three-quarters of respondents thought that the state should have the authority to secure a court order to require the mother to name the father in order to obtain support for the child or children.⁹²

⁹⁰ Quoted in Mittelstadt, 2005, p. 4.

⁹¹ Ibid. pp. 86-102.

⁹² *The Gallup Poll 1935-1971: Volume 3*, pp. 1731-1732.

Barry Goldwater, the conservative Republican Senator from Arizona, praised Mitchell's actions "as refreshing as breathing the clean air of my native Arizona."⁹³

The Kennedy administration responded by proposing further funding for ADC with the caveat that "welfare mothers" were given further incentives to work. Cohen, the assistant secretary for Health, Education, and Welfare, engineered with his allies in Congress the 1961 ADC-Unemployed Parent provision followed in 1962 by the Public Welfare Amendments. The 1962 legislation clearly indicated that recipients were expected to join the labor force. Work training programs originally created for impoverished men with children were opened to mothers, income incentives were added to not count small sums earned against welfare benefits, day care services for children were promoted, and the federal government would invest money into rehabilitation research.⁹⁴ The Public Welfare Amendments also renamed the program Aid to Families with Dependent Children (AFDC).

Conservatives at this juncture did not have the numbers to influence welfare legislation. Liberals designed the 1956, 1961, and 1962 legislation. Some conservatives offered measured rhetorical support for the laws because of the emphasis on personal responsibility, yet were not assuaged when the bills called for additional spending.⁹⁵ All ten Republicans on the House Ways and Means Committee voted against reporting the Public Welfare Amendments of 1962.⁹⁶ Most Republicans in the House followed suit, attempting to recommit the legislation and substitute a Republican alternative that called for vastly less spending (Table 3.8). Once passage became inevitable, many Republicans

⁹³ Quoted in Mittelstadt, 2005, p. 85.

⁹⁴ Ibid. pp. 114-125.

⁹⁵ Mittelstadt, 2005, p. 126.

⁹⁶ *Congressional Quarterly Almanac*, 87th Congress, 2nd session. 1962, p. 216.

resorted to their inveterate tactic of shifting their votes to favoring the legislation—an attempt to avoid the stingy label during election season. Even more Republicans voted for the conference report which disposed of some of the most egregious spending in Republican eyes. The Senate approved the Public Welfare Amendments on a voice vote.⁹⁷

TABLE 3.8: PUBLIC WELFARE AMENDMENTS OF 1962 (HR 10606)⁹⁸

LEGISLATION	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
STAGE	YES	NO	YES	NO	YES	NO
RECOMMIT MOTION	144	18	11	215	155	233
PASSAGE OF BILL	96	66	224	3	320	69
CONFERENCE REPORT	123	33	235	1	358	34

Liberals abetted making welfare a political football by expanding ADC. The public seemed to notice the increase of funding for the program more than the additional work requirements, helping set up ADC/AFDC as the most reviled program of the entire welfare state. As early as 1960, welfare had proven that it could arouse passions from the electorate.

Reforms in Housing

⁹⁷ Ibid.

⁹⁸ Sources for table: *Congressional Quarterly Almanac*, 87th Congress, 2nd session. 1962, pp. 600, 622.

New Deal and Great Society ambitions boomeranged in the subsidized housing policy area, much like welfare. Part of the problem was the bifurcation of housing policy into middle and lower income units. The mortgage interest deduction, a virtually accidental tax expenditure first established in 1913, alongside with the GI bill after the second World War, provided solid foundations for middle class home ownership.⁹⁹ No equivalently popular programs ever emerged for low-income housing. The first concerted effort to tackle housing issues for the impoverished systematically at the federal level reaches back to 1937 with the passage of the Federal Housing Act. Members of Congress initiated discussions concerning housing legislation. Especially influential on this count was Senator Robert Wagner (D-NY) who proposed national housing legislation in 1936.

In a familiar pattern, there was early Republican opposition to a national housing program. A purist foe of the welfare state, Senator Arthur Vandenberg (R-MI), engaged in verbal sparring on the floor of the Senate arguing against the bill on economic grounds. Vandenberg asked Wagner, “To what extent are the resources provided in the bill going to meet the sum total of the problem?” Wagner answered that Vandenberg had “asked a very embarrassing question” since the proposed resources were admittedly far too small for the housing demand. Vandenberg pressed Wagner again, asking, “Is there a figure available which indicates the sum total of the demand and need?” Wagner answered, “Yes” while refusing to supply a total, admitting that he had no wish to provide Vandenberg with the means to “fight” the bill. Vandenberg and Wagner engaged in a

⁹⁹ Howard, Christopher, *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton, NJ: Princeton University Press, 1997); Mettler, Suzanne, *Soldiers to Citizens: the GI Bill and the Making of the Greatest Generation* (New York: Oxford University Press, 2005).

long back and forth where Wagner refused to provide figures and Vandenberg expressed concern that once this program commenced, it would have to expand rapidly to cover the needy population. Wagner insisted that much of the funds provided were loans, not grants, but Vandenberg was dubious that these loans would be repaid. Vandenberg asked whether the treasury department had prepared a report “as to the effect of this burden upon the public credit in any aspect?” Wagner admitted none had been prepared. Vandenberg also pointed to the opposition of the National Lumber Dealers’ Association in his remarks.¹⁰⁰

Despite Vandenberg’s spirited opposition, the Senate voted to pass the Federal Housing Act of 1936 by a vote of 42-24, with the majority of Republicans voting against the bill (Table 3.9). The legislation moved to the House, where it fell into the hands of Chairman Henry Steagall (D-AL) of the House Committee on Banking and Currency. He personally opposed the bill and would only move it if the Roosevelt administration—which had been conspicuously on the sidelines—would support the bill.¹⁰¹ It was already well into summer and the bill never emerged from committee in 1936.

TABLE 3.9: Proposed and Enacted Federal Housing Legislation, 1936-1937¹⁰²

Legislation	Rep.	Rep.	Dem.	Dem.	Total	Total
	Yes	No	Yes	No	Yes	No

¹⁰⁰ Debate found in *The Congressional Record*. June 15, 1936, pages 9346-9348. 74th Congress 2nd Session.

¹⁰¹ McDonnell, Timothy L. *The Wagner Housing Act: A Case Study of the Legislative Process* (Chicago: Loyola University Press, 1957), pp. 210-212.

¹⁰² Sources for table: *The Congressional Record*, June 16, 1936, pp.9565-9566; August 4, 1937, p. 8196; August 8, 1937, pp. 8368, 8373; August 18, 1937, pp. 9293-9294. Democratic totals include Wisconsin Progressive Senator Robert M. LaFollette Jr. who no longer affiliated himself with a major political party.

Housing Act 1936; Senate	5	10	37	14	42	24
Byrd Amendment 1937; Senate	13	0	27	39	40	39
Byrd Amendment 1937; Senate 2 nd vote	16	0	28	39	44	39
Housing Act 1937; Final Senate Vote	7	8	57	8	64	16
Housing Act 1937; House Recommit Vote	72	1	68	220	140	221
Housing Act 1937; Final House Vote	23	48	252	38	275	86

The proponents of housing legislation regrouped for the 1937 legislative season and this time were able to obtain a firm commitment from Secretary of the Interior Harold Ickes that the administration would support congressional efforts. Debate was again rancorous in the Senate. A non-economic concern came to the fore in opponents' remarks. Senator Charles O. Andrews (D-FL), expressed his dismay at legislation that would offer "an inducement" for people "from our country or foreign countries or anywhere else and take advantage of our government in supplying them with homes." Wagner rose to defend the immigrant, yet a great deal of skepticism still pervaded the Senate as to the merits of the bill.¹⁰³

¹⁰³ *Congressional Record*, August 2, 1937, p. 7978.

Many of the objections from Vandenberg and Andrews among others were somewhat assuaged through the passage of the Byrd Amendment to the housing legislation. Senator Harry Byrd (D-VA), a watchdog for the treasury, wanted to make sure that construction costs would not soar uncontrollably. Byrd asked Wagner what the average cost to construct a housing unit was. Wagner answered “\$4,000 per family unit and \$1,000 per room, on an average for the whole country.” Byrd eventually used these numbers to write an amendment to cap the cost of home construction. This was a controversial move. The figures cited by Wagner were a national average. In large cities with higher labor and transportation costs for materials the stated figures were well below the norm. Urban advocates complained that only substandard housing units could be constructed at such a low cost, if at all, in large urban areas. Nonetheless, the Byrd Amendment passed by a single vote and again by five votes in the Senate (Table 4.4). The Amendment enjoyed unified Republican support. One rueful New Deal Democrat, Sherman Minton (D-IN), who noted that Republicans usually complained about the Senate Democratic “steam roller” suggested that there was an opposing “elephant” steam roller at work here.¹⁰⁴

While the Byrd Amendment took much of the force out of the legislation, it did ensure its passage in the Senate. Vandenberg himself dropped his opposition although a plurality of Republicans voted against the legislation, which passed overwhelmingly (Table 3.8). With the administration’s support, Steagall let the bill get through his committee for a vote on the floor in the House. Republicans, along with some southern Democrats, still tried to stop the legislation by getting it recommitted. Every Republican

¹⁰⁴ *Congressional Record*, August 6, 1937, p. 8360.

in the House, except for one, voted to recommit the legislation (Table 3.8). When it became clear the legislation would pass a number of Republicans switched their position in the final roll call tally. Just like Social Security, housing legislation passed with extremely scant Republican support in a preliminary vote.

Unlike Social Security, however, low-income housing policy was never deemed a successful program and enjoyed widespread support only on a fleeting basis. The severity of the post World War II housing shortage made housing issues a priority for President Harry Truman. The 1937 legislation had not provided enough incentive for builders to provide low-income housing in areas of greatest need. Republicans during the 1948 campaign promised action also, although they preferred to let private enterprise to take the lead and the federal government only step in as a last resort.¹⁰⁵ Truman and the Democrats won the election and fashioned legislation according to their way of thinking. The goal of the legislation was “a decent home and a suitable living environment for every American family.”¹⁰⁶ The legislation provided for slum-clearance and prioritized low-income families for public housing.¹⁰⁷ It altered the Byrd Amendment from the 1937 legislation by limiting construction costs to \$1,750 a room, with an exception in higher cost areas of \$2,500 per room, ill-defined as “in areas where it would not be feasible without such increase to construct sound housing.”¹⁰⁸

The bill passed in the House along a vote that pitted Republicans and southern Democrats against the rest of the Democratic caucus. The debate was often rancorous. At

¹⁰⁵ *Congressional Quarterly Almanac*, Vol. 5, 1949, 81st Congress, p. 276.

¹⁰⁶ Public Law 171, S. 1070, *United States Statutes at Large*. 81st Congress, 1st Session, p. 413, July 15, 1949.

¹⁰⁷ Von Hoffman, Alexander. “A Study in Contradictions: The Origins and Legacy of the Housing Act of 1949.” *Housing Policy Debate*, 11 (2): 2000.

¹⁰⁸ *Congressional Quarterly Almanac*, Volume V, 81st Congress, 1949, p. 275.

83 years of age, although still feisty, a Democrat, Adolph Sabath (D-IL), angrily accused Republicans and southern Democrats of entering an “unholy alliance” and checking the passage of any sort of national housing strategy. A 69-year-old southern Democrat, Edward Cox (D-GA), charged the bill was “socialistic” and would create an “omnivorous bureaucracy.” Despite their advanced years, Sabath and Cox became so overwrought during the debate that they descended into fisticuffs.¹⁰⁹ After a number of feints and parries conservatives failed to get the bill recommitted and this time the Republicans largely held together in the final vote on S 1070 (Table 3.10).¹¹⁰

In the Senate, the redoubtable conservative Ohio Senator, John W. Bricker, proposed numerous Amendments to sabotage the legislation; in the end all his and other Republican amendments were voted down, but gained the support of the majority of the Republican caucus. To make the bill unpalatable to southerners, Bricker proposed passing a measure so that racial discrimination would be prohibited (Table 3.10). Republicans and Democrats split strongly along party lines on this Amendment. In the final Senate vote, however, the bill passed by a wide bipartisan vote. Republicans did not really have an alternative housing strategy at this juncture, except to repeat versions of what the southern Democrat, Cox, had said, while praising the virtues of private enterprise.

Table 3.10: Federal Housing Act of 1949 (S 1070)

Legislation	Rep.	Rep.	Dem.	Dem.	Total	Total
Stage	Yes	No	Yes	No.	Yes	No

¹⁰⁹ *Congressional Quarterly Almanac, Volume V*, 81st Congress, 1949, p. 282.

¹¹⁰ Source, *Congressional Record*, 1949, pp. 8677-8678. The Senate was able to join together in a more favorable consensus than House members.

Bricker Race Amendment (S)	29	6	3	40	32	46
Final Vote (S)	24	11	33	2	57	13
Recommit (H)	133	31	37	209	170	241
Final (H)	34	131	192	55	227	186

Congress tinkered with housing legislation frequently between Truman's and Nixon's presidency. Yet most of the legislation dealt with providing a supply of housing for low-income individuals that gave tenants little choice or empowerment.¹¹¹ None of it worked very well. Government estimates indicated that many of those receiving housing or rental assistance defaulted on their payments. Incentives to lure private capital made housing projects into notorious tax shelters whose owners had no interest in maintaining the units they developed.¹¹² Finally the new Department of Housing and Urban Development (HUD) was rife with corruption. In 1971 and 1972 alone, 48 HUD employees and private realtors were imprisoned for, among other charges, defrauding the

¹¹¹ Stone analyzes how, in her view, the best government programs promote a sense of personal initiatives. Stone, Deborah. *The Samaritan's Dilemma: Should Government Help Your Neighbor?* (New York: Nation Books, 2008), pp. 249-255.

¹¹² Lilley, William III and Timothy D. Clark. July 1, 1972. "Urban Report/Increased Costs, Scandals, Social Ills Plague Low-Income Housing Programs." *National Journal*, pp. 1075-1083.

government, accepting bribes, and submitting false claims.¹¹³ In short, assumptions about human behavior, structural flaws in program design, and perverse incentives combined to create a policy fiasco.¹¹⁴

Stunningly, despite the problematic results from housing policy, successive presidents had failed to change course. The liberal housing strategy enshrined in the Housing Acts of 1937 and 1949 always addressed the supply of housing and went unchallenged until Lyndon Johnson's presidency. The effect was to erect large-scale tenements clustering impoverished families in close proximity.¹¹⁵ Many housing projects had become crime-infested slums. The poor often were aggregated into ghettos. Jolting exposes, such as Lee Rainwater's sociological study of the Pruitt-Igoe housing projects in St. Louis, vividly captured the ensuing debacle.¹¹⁶ It was not in the interests of either the liberal Democrats in Congress or any of the presidents in the middle of the twentieth century to admit the limitations of liberal ideology; much like later Republican presidents and congresses refused to countenance that supply-side tax policy and market incentives are not a panacea. So a succession of administrations and congresses continued to plow money into federally subsidized housing projects. It would take the opposition party to point out the futility of these operations. Yet it took the Republicans a long time to effectively make that case. The Eisenhower administration refused to back away from

¹¹³ *Congress and the Nation, Volume III, 1969-1972*. Washington, D.C.: Congressional Quarterly.

¹¹⁴ Kisteneff, Alexis Pierre. *The New Federalism of Richard Nixon as Counter-Revolution to the New American Liberal State: A Study in Political Theory and Public Policy* (unpublished Ph.D dissertation, Brown University, 1977).

¹¹⁵ Some housing projects were considered more successful than others; yet by Nixon's presidency most observers generally viewed federal housing policy as a fiasco.

¹¹⁶ Rainwater, Lee. *Behind Ghetto Walls: Black Families in a Federal Slum* (Chicago: Aldine, 1970.)

the general housing strategy initiated by the Democrats, boxed in by the dominant ideological orientation of governance. Again, the parallels with the 1990s and 2000s is striking. At the end of the twentieth and beginning of the twenty-first century, Democrats often embraced markets; they also found increasing taxes anathema, except on a small coterie of extremely affluent citizens.

Congressional conservatives, when exerting tangential influence, only worsened the prospects for the housing projects. They inserted a categorical policy of evicting families whose income exceeded defined poverty levels from the projects, thus aggravating the concentration of destitute individuals.¹¹⁷ Unions, landholders, and contractors all inflated costs for building projects in order to maximize profits. The federal government, since the passage of the Byrd Amendment, required strict cost controls on the total funding for projects, without regulating the other facets of building. Therefore, bureaucrats were forced to skimp on amenities, such as insulation for heating pipes in some housing projects.¹¹⁸ Popular and elite consensus concerning the failure of the projects cried out for a new approach.

Conclusion

This chapter opened with a quote from Lionel Trilling's 1950 book *The Liberal Imagination*. Trilling was hyperbolic when he said conservatives of the era were devoid of ideas. Nonetheless, he captured the spirit of the time which was that conservatism was on the defensive. In matters of social policy, Republicans were catapulted into a mainly

¹¹⁷ von Hoffman, Alexander. "High Ambitions: The Past and Future of American Low-Income Housing Policy", *Housing Policy Debate* 7 (3), 1996, p. 435.

¹¹⁸ Ibid., 434.

reactive position, unable to control the agenda, a rude awakening for a party that had controlled the political fortunes of the United States for so long.

Republicans were unable to stop Roosevelt's emergency legislation, and the formation of Social Security. When in 1947 and 1948 they attempted to roll back Social Security and aspects of the New Deal, voters revolted. Eisenhower essentially banished rhetoric advocating eliminating Social Security from his platform, as he acquiesced in a "me-too" spirit to what was fast becoming a popular pension program. Republicans were again on the defensive in the mid-1960s and unable to resist the implementation of Medicare.

It would be dangerous to portray Republicans as mere ciphers, unable to resist the New Deal and the Great Society. They successfully shaped the Social Security program as a pay-as-you-go entity by helping halt all scheduled tax increases to finance the program between 1939 and 1950. They mobilized conservatives to leave national health insurance an unrealized dream during the period. Eisenhower solidified the basis of an employer based health care system during his presidency. Yet, these events, while clearly important in the formulation of the American welfare regime, all functioned in a reactive capacity from the dominant liberal philosophy and agenda of the period. The Republican Party was at heart a party that resisted the formation of a welfare state, but at times, for electoral imperatives, found it necessary to acquiesce to programmatic growth. Republicans had success in holding universal health insurance at bay but failed in stopping the birth of Social Security.

During these decades Republicans also planted the seeds for an alternative conceptualization of the welfare state. Admittedly, they often were pre-emptive in nature

and not meant as serious proposals that the party wished to enact. Further diminishing the significance of their proposals was that Republicans always proposed paltry amounts of money to fund these initiatives. Such minimal financing undercut the notion that they were serious policy proposals. Yet proposals were there nonetheless that emphasized the private sector in purveying both health and Medicare benefits, that emphasized individual choice and to some extent a reliance on competitive markets. These proposals include the Taft-Smith and Flanders-Ives bills for health care, and the Byrnes bills for Medicare. These proposals were more important in pointing in what direction future Republican social policy proposals would lean, rather than for their effect at the time.

Another evident theme from the period is that the Republicans were often left in a conundrum as to how to best respond to Democratic social policy demands. When they clung to principled conservatism, they found themselves relegated to the status of a minority party. Yet a go-along “me-too” acquiescent approach did not yield lasting Republican majorities. Such claims that Republicans should be rewarded for expanding Social Security benefits were unconvincing and voters did not reciprocate by keeping Republicans in the majority. The best solution to such a vexing situation was to reorient the American polity’s political orientation, whipping up fervor for conservative causes. Such an outcome did indeed take place. Using a new intellectual infrastructure, the defeat of many congressional Republican moderates, purging moderates and liberals from controlling the presidential nomination process in the 1960s, and the economic and social

crises of the 1970s all contributed to a switch in the respective positioning of both major political parties.¹¹⁹

A final aim of this chapter was to offer an interpretation of the era that stressed continuity over variance. Admittedly, Republican fortunes both waxed and waned during the period. This phenomenon can be understood by viewing the broad context and then analyzing the ebb and flow of particular moments in time. Broadly, the era was one of a liberal, Democratic hegemonic ascent.¹²⁰

Having said that, the fact is that public opinion moving away from the favored ideological approach of the administration in power is a time-honored feature of American politics. Political scientist James Stimson notes that during a liberal presidency, public opinion concerning domestic policy usually shifts in a rightward direction until a conservative sweeps into office. Then the cycle repeats itself with public opinion moving in a liberal direction again.¹²¹ Substantiating this claim is polling data from recent decades. While evidence is sparse about the nuances of public opinion from the 1940s, there is no reason to suspect that popular sentiment operated according to a different pattern. Thus, after Roosevelt's first term, the energy moving the New Deal went in a slow decline. Eventually—in 1946—Republicans regained control of Congress. However, while the Democrats were able to govern for well over a decade and implement many facets of their policy agenda, Republicans made only tentative steps in a

¹¹⁹ For a discussion of how the conservatives captured the nominating process of the Republican Party, see Brennan, Mary C., *Turning Right in the Sixties: The Conservative Capture of the GOP* (Chapel Hill, NC: University of North Carolina Press, 1995).

¹²⁰ This theory tracks Skowronek's rendering of the period as one of a New Deal regime. See Skowronek, Stephen. *The Politics Presidents Make: Political Leadership from John Adams to Bill Clinton* (Cambridge, MA: Harvard University Press, 1997).

¹²¹ Stimson, James A. *Tides of Consent: How Public Opinion Shapes American Politics* (New York: Cambridge University Press, 2004).

conservative direction before the public relapsed back in a liberal mode and threw the Republicans out. The country moved in a rightward direction again in Truman's second term, but after Eisenhower became president, the country soon went back to electing Democrats to control Congress. So while Stimson's theory helps clarify the politics of the moment, the overall trajectory slanted in a liberal direction.

In a very close election in 1968, the Republican nominee, Richard Nixon, vanquished Democrat Hubert Humphrey. This new Republican administration would mark a turning point. The Nixon administration straddles two opposing political positions. In some respects it is a continuation of the liberal New Deal, while in other ways it is pointing toward a new growth in conservative politics. This ambiguity is also found in how Nixon conducted his politics of the welfare state. Nonetheless, his presidency became a harbinger for future Republican social policy initiatives while in some respects cementing the New Deal's liberal legacy.

Chapter 4: First Market Stirrings: 1969-1980

Between 1968 and 1980 the tectonic plates of American politics underwent a seismic shift. The assumptions of hegemonic liberalism, the regnant ideology from the 1930s until the 1960s, dissolved. In its stead emerged a more conservative era, punctuated by a new respect for market mechanisms, deregulation, and a revolt against taxes. The politics of the welfare state, too, began to change. Republican responses evolved from resistance. The G.O.P began to offer an increasingly cogent alternative. The first stirrings of a pro-market, individually driven Republican welfare state became evident. Republicans were by no means a majority political party, yet. But they mobilized political resources to serve them well. Nixon, through haphazard trial and error, proved instrumental in developing an alternative vision for facets of social policy, based on adherence to market principles. In order to build a Republican majority, he promoted a strategy to reconstitute Democratic programs for the welfare state.

An indication political momentum was veering toward the right is that the first president of the era, Republican Richard Nixon, governed more liberally than the Democratic president, Jimmy Carter, at the close of the 1970s. The irony is all the richer when one considers that Nixon was elected with impeccable foreign, not domestic, policy credentials, while Carter's gubernatorial background made him a virtual mirror image of the Republican. The tenor of the times trumped presidential resumes.

Political scientist Stephen Skowronek broadly captures this underlying dynamic in his presidential taxonomy. He labels Nixon a "pre-emptive" president, governing from the opposition party when the political era was still undergirded by New Deal liberalism. Jimmy Carter features as a "disjunction" president, representing the dying embers of the

New Deal coalition, before giving way to a robust new conservative era.¹ Defining political epochs as “liberal” or “conservative” is rather inexact, there are always cross-cutting ideological currents to be found at any given point in time. Instead of categorically pinpointing with precision how to label the parade of presidents, perhaps positing that a more gradual secular realignment, at least in regards to social policy, is a more accurate depiction of the shift away from New Deal liberalism.² From the outset of the Nixon years to the close of the Carter years, a pro-market, conservative dynamic inexorably gained momentum, regardless of partisan majorities in Congress or who governed in the White House.³

Nested within Nixon’s rather liberal domestic agenda were three programmatic areas where the president aimed to sever the cord binding old social policy constructs to the New Deal and Great Society. The welfare, housing, and health arenas all invited reform efforts. Critics alleged that these programs operated with bloated budgets, and worse, often fostered a climate filled with perverse incentives that skewed behavior in unintended directions. A common critique was that the anti-poverty programs of welfare and housing not only failed to produced employment and increase the quality of housing, they undermined progress along all these fronts. While the quality of health care had seen general improvement, after the introduction of Medicare and Medicaid in 1965 costs

¹ Skowronek, Stephen, *The Politics Presidents Make: Leadership from John Adams to Bill Clinton* (Cambridge, MA: Harvard University Press, 1997).

² Political science literature that discusses the notion of secular realignment includes Key, V.O. 1959. “Secular Realignment and the Party System.” *Journal Of Politics*, vol. 21: pp. 198-210; Carmines, Edward G. and James A. Stimson. 1989. Princeton, NJ: Princeton University Press, pp. 142-143.

³ The partial exception this was the election of many new Democrats to Congress in 1974. However, these “Watergate babies” who benefited from the Nixon’s administration’s gross corruption, had remarkably little long-term effect in shaping the policy regime according to liberal dictates.

escalated rapidly. In a sop to the American Medical Association, Congress legislated away regulatory and bureaucratic powers to control costs. Physicians and medical providers responded by duly increasing expenses and fees faster than the rate of inflation.

In all three programmatic areas, the Nixon administration arrived at a preferred policy remedy in a highly unsystematic fashion. Political dictates often determined and constrained his social policy agenda. Through a sometimes tortured process, Nixon advocated innovative remedies that aligned with a personal responsibility, pro-private enterprise and pro-market approach. Nixon promoted the Family Assistance Plan as a solution to the welfare crisis, vouchers as a balm for housing blight, and health maintenance organizations as a way to rein in escalating medical costs. The nascent market stirrings have an ad hoc, almost random, thrust to them. At times Nixon's efforts seemed to toggle between amateurism and cool calculation; he was navigating through uncharted waters while operating within constraints set by a Democratic Congress. Further, skeptics, particularly those concerned with welfare, charged that presidential promises advocating responsibility, enterprise, and the private sector, amounted to no more than hollow rhetoric.

Ironically, when Democrats controlled both the executive and legislative branches after the 1976 elections, the move toward market-oriented policies accelerated. Carter's own cautious innovations with big government fell flat. On the other hand, market social policy proposals and experiments begun by Nixon often continued or were reformulated in the Carter administration.

Nixon's Domestic Ambitions

Most Nixonian scholars portray the president as uninterested in the workings of domestic policy.⁴ Such assessments derive from Nixon's penchant to deliver quotable piths such as, "I've always thought this country could run itself without a president. All you need is a competent Cabinet to run the country at home."⁵

Probing beneath the surface of Nixon's caustic pronouncements, however, a more nuanced picture appears. Nixon may not have thought about domestic issues in great detail or cared about the intricacies of social programs, yet he had a sweeping vision. He aggressively pursued the building of a legacy. To be a political survivor—not to mention augmenting his future ranking among presidents—he considered it imperative to deliver a set of domestic accomplishments.

This quest to find a domestic perch obviously animated Nixon when Daniel Patrick Moynihan, a Democrat who had disagreed with Lyndon Johnson, became a trusted adviser to Nixon in late 1968 and early 1969. Moynihan gave Nixon Robert Blake's new biography on the 19th Century Tory Prime Minister of Britain, Benjamin Disraeli. The crux of the biography was that Disraeli was a conservative who implemented what could be readily construed as liberal reforms. Nixon clearly fancied he could be the twentieth century American version.⁶ Much has been made of Nixon's southern strategy in order to secure a new Republican majority. A similar dynamic was operating in the social policy domain. While Nixon's strategy for the welfare state was never fully thought out or articulated in a sweeping grand vision, he began the effort to

⁴ Perlstein, Rick. 2008. *Nixonland: The Rise of a President and the Fracturing of America*. (New York: Scribner, 2008); Patterson, James T. *Grand Expectations: The United States, 1945-1974*. New York: Oxford University Press, 1996).

⁵ Quoted in Patterson, 1996, p. 719.

⁶ Black, Conrad, *Richard M. Nixon: A Life in Full* (New York: Public Affairs, 2007), pp. 585-586. The biography is Blake, Robert. *Disraeli* (New York: St. Martin's, 1967).

recast the central pillars of the welfare state. Without ascribing too much purposive agency to Nixon, he was rebranding social policy in a Republican form, overhauling the Democratic welfare state edifice.

Encumbering Nixon, however, was his position as the titular standard-bearer from a party that generally avoided domestic commitments. He also had no use for the lavish spending of domestic programs proposed and perpetuated by New Deal and Great Society Democrats. Where most political leaders would have thought themselves intractably constrained, Nixon deftly created opportunity. He began the process of rearticulating what were solidly Democratic programs into a market-based, Republican shape. The key was to discover policy solutions not monopolized by the Democratic Party and to convince Republican politicians that a proactive federal social policy agenda was not apostasy to conservative principles. Nixon partially succeeded. First, he introduced the notion that Republicans could build the welfare state. Second, he pushed market mechanisms to a greater extent than ever before in attempts to create social policy. Thus, the onerous Republican conundrum of the previous generation—how to politically maneuver in the age of a detested liberal welfare state—became less vexing. Nixon broke the logjam in these three areas.

Another theme emerges from conservative efforts to incorporate market mechanisms into social policy. Race and poverty proved a qualifying constraint for the implementation of market mechanisms. At heart markets are liberating, fostering freedom and choice. However, many conservatives look askance at giving license to what is viewed as irresponsible behavior. Tenets of libertarianism, therefore, clash with social mores. Nixon's least successful initiative, welfare reform, in large part failed due

to underlying tensions between the two principles of choice and fostering preferred values. In the future, some Republican politicians, such as Newt Gingrich (R-GA), would attempt to reconcile these two divergent strands of conservative thought by implicitly suggesting that controlling unproductive behavior better prepares the poor and minorities for participation in a market economy.

Alternative readings of Nixon's domestic policy hearken back to earlier themes of Republican governance, particularly federalism. Nixon himself, early in his administration, rationalized his early approach to domestic policy as "New Federalism." He included the goals of revenue sharing with states, using block grants as the primary vehicle for distributing cash to states and localities, and, in the opposite direction, federalizing aspects of social provision. The uniting thread behind these reforms was the impulse to improve the performance of government. Thus Nixon could pursue both decentralization, reflecting his conservative heritage, and centralization in areas such as welfare, all in the name of efficiency and good government.⁷ My thesis suggests that a more lasting outcome of Nixon's domestic policy was inserting a market dynamic into social policy. Of the three policy areas surveyed in this chapter, the one that the White House made the most concerted effort to promote was the overhaul of welfare.

WELFARE

First Stirrings of a Republican Idea

Nixon ran in the 1968 election as a law-and-order Republican. Rioting and the never ceasing conflict in Vietnam plagued the nation. The Democrats seemed to self-immolate at their convention in Chicago when Mayor Daley overzealously set his riot

⁷ Conlan, Timothy, *From New Federalism to Devolution: Twenty-Five Years of Intergovernmental Reform*. (Washington, D.C.: Brookings, 1998) especially pp. 1-35.

police on protesters and reporters. At the more smoothly run Republican convention in Miami Beach, Florida, Nixon inveighed against “more billions for government jobs, government housing, government welfare.” Instead Nixon offered the alternative vision that government should “use its tax and credit policies to enlist [in the battle for the needy] the greatest engine of progress ever developed in the history of man—American private enterprise.”⁸ Nixon’s campaign did not offer substantive details for domestic policy, presuming that the safest course was to run away from the Johnson legacy without promising much of anything. That course proved myopic—Nixon barely squeaked by the hard-charging Democrat Hubert Humphrey in the final popular vote tallies.

Nixon, the consummate politician, once elected decided to shift course and appear domestically engaged. Just moving away from a traditional conservative resistance mode was a major innovation for a national Republican politician. Some congressional Republicans, such as House Conference Chair, Melvin Laird (R-WI), had arrived at the conclusion that in order to return to the majority, the G.O.P had to be seen as more than resistors to the welfare state and were searching for what to offer the public.⁹ Yet most of the Republican congressional caucus was intransigent; they were not prepared to move. Evidence for such a position comes from a paper written by two political scientists, Bill Cavara and Aaron Wildavsky.

⁸ Nixon, Richard. “Address Accepting the Presidential Nomination at the Republican National Convention in Miami Beach, Florida.” *The American Presidency Project*, ed. by John T. Woolley and Gerhard Peters. August 8, 1968, Accessed at <http://www.presidency.ucsb.edu/ws/print.php?pid=25968>, January 12, 2009.

⁹ Moynihan, Daniel Patrick. *The Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan*. (New York: Random House, 1973), pp. 64-65.

Cavara and Wildavsky interviewed 50 members of Congress at the outset of the Nixon administration in March 1969 about the feasibility of a guaranteed income for the poor.¹⁰ They reached the conclusion that “income by right is not politically feasible in the near future. The President will not support it and Congress would not pass it if he did.”¹¹ Buttredding the political scientists’ position, Richard Nixon had derisively attacked the conception of a guaranteed income in the campaign. However, through no fault of their own, Cavara and Wildavsky’s prediction proved utterly mistaken, as the president proposed a version of a guaranteed income on national television on August 8, 1969—less than half a year after Cavara and Wildavsky conducted their interviews--and the House of Representatives would go on to pass the proposal on April 16, 1970.¹²

Nixon’s remarkable ability to think past traditional parameters of a conservative politician, partly because he appeared apathetic about domestic policy, catalyzed the turnabout. He was a shrewd and cunning politician fully able to bob and weave when a confluence of circumstances made it expedient for him to change his original position. He seized on the idea of a guaranteed annual income and the negative income tax was in circulation, although not yet in mainstream political discourse. Also, the advocates for the program were in place in the administration (Moynihan) and Congress (Laird). The proposal attracted Nixon because it would weaken the strength of the social workers, whom Nixon disdained. Finally, bureaucrats within the Johnson administration had worked on a similar proposal which Johnson himself had quashed, afraid that a guaranteed income would be construed as a repudiation of his strategy for fighting

¹⁰ Cavara, Bill and Aaron Wildavsky. 1970. “The Political Feasibility of Income by Right.” *Public Policy*, Vol. 18, No. 3 (Spring), pp. 321-354.

¹¹ Cavara and Wildavsky, 1970, p. 349.

¹² Moynihan, 1973, p. 1.

poverty.¹³ The prospects for a guaranteed income proposal were probably enhanced because Johnson had killed the idea—Nixon had shown himself quite capable of looking at what Johnson advocated and taking the opposite tact in the past.¹⁴

Nixon tasked Richard Nathan with the search for a social policy to solve what Nixon termed the “welfare mess.”¹⁵ Nathan’s task force proposed increasing funding for AFDC and moderately altering the program. The domestic policy chief, Arthur Burns, abhorrently attacked the proposed expenditures on welfare in a classic traditional conservative stance and effectively struck down Nathan’s plan. Moynihan had no interest in salvaging Nathan’s proposal as he had now become attracted to the conception of a guaranteed annual income.

The guaranteed income uses a negative income tax mechanism some economists posited would serve as an effective weapon in combating poverty. The principle behind a negative income tax is that the government makes payments to individuals rather than collect taxes from them. Usually this would occur when an individual’s income is low. As income reaches higher levels the proportion coming from the government would decrease until it vanishes when income reaches a certain level. Individuals with incomes in excess of such a level would then owe taxes.¹⁶ The conception of a negative income tax harkened back to 1946 when an economist, George Stigler, briefly proposed the

¹³ Steensland, Brian. *The Failed Welfare Revolution: America’s Struggle over Guaranteed Income Policy* (Princeton, NJ: Princeton University Press, 2008), p. 73.

¹⁴ For instance, during Lyndon Johnson’s presidency, Nixon habitually advocated Vietnamese policy at odds with the Johnson’s—no matter whether Johnson was promoting escalation or a drawdown. See Perlstein, 2008, p. 138 for an analysis of Johnson, Nixon, and Vietnam.

¹⁵ Steensland, 2008, p. 86.

¹⁶ Steensland, 2008, p. 32.

notion as superior to enforcing a minimum wage to alleviate poverty.¹⁷ The libertarian economist, Milton Friedman, employed and refined the concept in his popular book *Capitalism and Freedom*.¹⁸ The theory of a Negative Income Tax came to the attention of Melvin Laird (R-WI), who included an essay from Friedman entitled “The Case for the Negative Income Tax” in a compilation of essays called *Republican Papers* that appeared during the 1968 campaign season.¹⁹ Thus, the negative income tax was a market remedy, developed by economists, that spoke to Nixon as a plausible remedy for the ills that plagued traditional welfare.

There were three conservative ways of thinking about welfare on display in the Nixon administration.²⁰ George Shultz, the secretary of Labor, took a pure laissez-faire stance in assessing welfare. He believed that the AFDC program was the primary culprit for self-perpetuating poverty with its perverse incentives. Once that program was eliminated, presumably recipients, with the correct incentives, would rationally begin working.

A second critique was Daniel Patrick Moynihan’s emphasis on family structure. He believed that there was a culture of poverty among the poor that necessitated a remedial strategy. Moynihan’s thinking often conflated the broken social system of the poor with the image of African-American families. Moynihan had a different set of concerns than Shultz. Despite the differences Moynihan and Shultz were united on the

¹⁷ Stigler, George. “The Economics of Minimum Wage Legislation.” *American Economic Review*. 36(3): 1946, pp. 358-363.

¹⁸ Friedman, Milton, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962).

¹⁹ Laird, Melvin R. *Republican Papers* (New York: Fredrick A. Praeger, 1968).

²⁰ I am indebted to Brian Steensland for first developing this typology, see Steensland, 2008.

policy solution. Moynihan even grandiosely claimed in a memo to Nixon “for two weeks’ growth in the Gross National Product you can all but eliminate family poverty in America. And make history.”²¹

Arthur Burns represented the traditional Republican line of hostility toward involving the federal government in social provision. He was an implacable foe to a guaranteed income.²² Nixon shocked Burns by not dismissing the guaranteed income proposal. Instead, Nixon requested that Burns create an alternative proposal. Burns drew up a blueprint that turned out to be not very different from the eventual Republican welfare proposal of the Gingrich Congress nearly twenty years later. In this proposal, Burns suggested the primacy of work and that mothers of young children should join the labor force. His goal was not to eliminate poverty but rather reduce the numbers on the welfare rolls.²³ However, Burns proved a failure as an advocate. He had long since begun to fray at Nixon’s nerves with interminable exhortations imploring the president to remain committed to conservative principles. A frustrated Burns was lecturing Nixon’s advisor John Ehrlichman about how antithetical a guaranteed income was to Nixon’s conservative policy when Ehrlichman amusedly replied “don’t you realize the President doesn’t have a philosophy?”²⁴ As Ehrlichman demonstrates, Nixon was not tethered to traditional conservative ideology, allowing for the exploration of new ideas in the quest to create a Republican majority. Nixon was not afraid to violate old Republican philosophy by advocating for unprecedented market innovations to social policy.

²¹ Quoted in Steensland, 2008, p. 92.

²² Steensland, 2008, p. 81.

²³ Steensland, 2008, pp. 92-97.

²⁴ Quoted in Reeves, Richard. 2001. *President Nixon: Alone in the White House*. New York: Simon & Schuster, p. 58.

Origins of the Family Assistance Plan

The final guaranteed income proposal would cover all poor families, both those who were already dependent on relief and those that worked at low wages. For a family of four the basic benefit would consist of \$1,600 worth of income. For every dollar earned over \$1,600, the benefit would decrease by fifty cents. A wrinkle in the program was that the first \$720 earned by a family would be disregarded in the calculations. Therefore, the income ceiling to be eligible for any cash was \$3,920. This also happened to be the approximate poverty line.²⁵ No state could reduce a payment if it already had a higher benefit level under AFDC than calculated under the president's proposal. The program would terminate AFDC, giving \$2.2 billion to the poor and another \$1.7 billion to the states. Another point was that the guaranteed income was for families, not individuals. The program was dubbed the "Family Assistance Plan" (FAP).²⁶

A racial dimension entered into FAP. Arthur Burns noted that the biggest winners were not those already served by AFDC (usually conceived of as African-American mothers), but rather the working poor—in essence increasing the welfare rolls. Indeed, according to Burns' calculations, over 90% of those who benefited were not unemployed African-American families. Nixon made the strategic assessment that he should sell FAP as a solution to the welfare crisis when its main beneficiaries were white workers.

Nixon appeared on television on August 8, 1969 and discussed the abominations of welfare and how FAP would resolve the stigma of AFDC. Nixon went further and insisted that his proposal was not a guaranteed income policy so as to not contradict his

²⁵ Howard, Christopher. 1997. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton, NJ: Princeton University Press, p. 66.

²⁶ Steensland, 2008, pp. 115-116.

themes from the previous election campaign. Nixon went through verbal circumlocutions explaining that his proposal required work, while a guaranteed income did not. Yet the only work requirement was that an employable recipient must accept employment or job training. The consequence for refusing employment was that the recipient would lose a portion of his or her share of the family's benefits. In a family of four, with one employable member who refused work, the benefit would decrease from \$1,600 to a still robust \$1,300.²⁷ Nixon's speech justifying his own proposed program that was clearly something different than advertised was, to say the least, rather bizarre.

The rationale behind this dissonance between reality and image was baldly political. Partisan calculations always had motivated elements of Nixon's staff. Early in the process of discussing FAP, Nixon's director of the Office of Economic Opportunity, Donald Rumsfeld, queried whether Nixon should pursue programmatic benefits for minorities and the poor in the hope of swiping some Democratic votes, or focus on Republican constituents, an effort to bolster the base.²⁸ Vice-President Spiro Agnew's answer to that question was that FAP would "not be a political winner and will not attract low income groups to the Republican Party."²⁹ One of the strongest arguments suggested by Burns, forcing Nixon to hesitate were the results of a Gallup survey. In a poll reported on January 5, 1969, only 32% of the public favored a guaranteed annual income (although the poll posited a higher income threshold of \$3,200). 62% expressed opposition. A remarkable point is that even the lowest income group, those who earned less than \$3,000, marginally opposed the idea. Only 43% favored while 44% frowned on

²⁷ Moynihan, 1973, p. 220.

²⁸ Steensland, 2008, p. 104.

²⁹ Quoted in Steensland, 2008, p. 114.

a proposal that would materially benefit them. Ominously, in Nixon's eyes, the only subgroup to favor a guaranteed income were non-whites, with 73% favoring and only 18% opposed. 65% of whites were opposed to a guaranteed income with only 29% supporting.³⁰ In order to avoid backlash, Nixon framed FAP as not increasing welfare for the working poor, but solving the problems of AFDC. The rather garbled presentation of FAP in his speech thus became a necessity. FAP was the only feasible solution that Nixon was willing to consider to formulate a domestic welfare legacy.

In the short term, Nixon understood the political logic behind corraling public support. Gallup polling reported on August 31, 1969 showed that 65% of the public had a favorable conception of Nixon's FAP with 20% unfavorable.³¹ Yet FAP had the characteristic of a policy abandoned at the orphanage. Many in Nixon's administration expected the congressional Democrats take charge of the proposal and the congressional Republicans to play along. Yet FAP did not have the texture of a New Deal program, making Democrats skeptical (precisely why Nixon proposed it!). Republicans were not natural cheerleaders either, many still locked in a resistance mode to any welfare state expansion. The Congress began deliberations with only tepid support, which would allow for the proposal's dramatic unraveling.

The operating dynamics undermining FAP included backlash from Democrats and a solution posited by economists had no popular basis for support. Selling FAP as a program that would remedy images associated with African-American poverty would create discomfort with many conservatives. Nonetheless, FAP was an important Republican pivot away from opposition to social policy toward creating a new view of

³⁰ *The Gallup Poll 1935-1971: Volume 3*, p. 2177.

³¹ *The Gallup Poll 1935-1971: Volume 3*, p. 2213.

social policy. Yet conservatives were torn between promoting a market-based welfare state that accentuated freedom to make choices and placing controls on behaviors deemed undesirable, often interlinked with racial biases.

Death by a Thousand Cuts³²

Elements within the Nixon administration began an immediate public relations blitz promoting FAP. The early results paid dividends: according to administration calculations nearly nine-tenths of newspaper editorials were favorable. However, a caveat to the enthusiasm was that editorialists opined more about the broken nature of the current welfare system than Nixon's remedies.³³ Also auguring poorly was the gathering of an improbable coalition of interests implacably opposed to FAP.

Enthusiasm for FAP was lowest in Dixie. Here racial issues were paramount. The southern economy revolved around low-wage employment. Many southern leaders feared that FAP would raise the cost of labor, making the region a less desirable place for business. Racial fears intersected with economic anxieties. Some southern politicians stereotyped African-Americans as lazy loafers who would prefer welfare benefits instead of working. One congressman, Phillip Landrum (D-GA), said, "there's not going to be anybody left to roll these wheelbarrows and press these shirts. They're all going to be on welfare."³⁴ In this era, many conservatives from the south, such as Landrum, were still Democrats, and would only transition to the Republican Party in subsequent decades. As

³² Graetz, Michael and Ian Shapiro use this terminology in their book *Death by a Thousand Cuts: The Fight over Taxing Inherited Wealth*. 2005. Princeton, NJ: Princeton University Press to describe the elimination of the estate tax during the George W. Bush administration. The title also seems quite applicable in describing the demise of FAP.

³³ Steensland 2008, p. 123.

³⁴ Quoted in Steensland 2008, p. 125.

southern whites cast an increasing number of ballots for Republican politicians, it would make the contradiction between the promotion of markets, and exerting control over individuals not trusted with making their own decisions, all the more evident.

Although many lower-class working whites would have benefited from FAP, they never made their voice heard. Perhaps they were unaware of the intricacies of the FAP proposal, or they did not want “welfare” from government. Indeed, FAP threatened both racial and patriarchal hierarchies since the income of all lower earning African-Americans and women would be raised to the level of low-earning men. However, there is a paucity of evidence to draw definitive conclusions of what motivated the muted response of low-earning southern white workers who, as a group, would have made the greatest gains from the legislation.³⁵

A second source of interest group opposition came from the reliably Republican U.S. Chamber of Commerce. Its leadership feared that FAP threatened the low-wage labor market. It would allow this constituency to become dependent on a government program, with the implicit threat of making this group less productive and more expensive to employ. In the early months of 1970, the Chamber made defeating FAP its primary objective. One oddity is that most of the Chamber’s members (86%) actually favored FAP according to internal polling.³⁶ The leadership seems to have dismissed

³⁵ Bartels points out that members of Congress attach no weight to the preferences of constituents in the poorest third of the income distribution in a sample of votes affecting these low-income individuals. Bartels portrays this phenomenon as generalizable across modern American politics. The case of FAP provides evidence confirming Bartels hypothesis. See Bartels, Larry M. *Unequal Democracy: The Political Economy of the New Gilded Age* (Princeton, NJ: Princeton University Press, 2008), p. 265.

³⁶ Steensland, 2008, p. 130.

those numbers as reflecting current dismay with the welfare system and that members did not realize the larger implications of the legislation.

A final constituency opposed to the legislation was northern civil rights groups. They distrusted Nixon and were outraged at his rather negative characterization of the welfare population. Most civil rights groups were based in the north which had much higher AFDC benefits than southern states, therefore those African-Americans already on welfare would gain minimal additional benefits. This interest group thought that benefit levels were exceedingly low and called for a much higher threshold for a guaranteed income.³⁷

Since FAP was a tax measure, the proposal would have to first wend its way through the House Ways and Means Committee, which had very few members who knew much about welfare. The chairman, Wilbur Mills (D-AR), was ambivalent, but eventually agreed to co-sponsor, along with John Byrnes (R-WI), the ranking member the “Family Assistance and Family Planning Act of 1970.” There was testimony both in favor and against the legislation, but many of the arguments became lost in the minutiae, because the committee was hearing more pressing concerns about increasing Social Security benefits.³⁸ The committee reported the measure by a vote of 21-3, with reluctant conservative Republicans merely trying to give a victory to Richard Nixon at this early stage of his administration.³⁹

³⁷ Steensland, 2008, pp. 128-130.

³⁸ Moynihan, 1973, pp. 424-428.

³⁹ U.S. House of Representatives. 1970. *Family Assistance Act of 1970: Report on Ways and Means on H.R. 16311 Report no. 904*. 91st Cong. 2nd Sess. Washington, D.C: Government Printing Office (U.S. Congressional Serial Set Volume 12884-1).

The ambiguous ideological structure of FAP is reflected in the preliminary vote on whether to allow a closed rule (meaning that no member could offer amendments) and the final vote in Congress. The House voted for a closed rule by a relatively narrow margin and in the final vote enacted FAP by a wider margin. 59% of Republicans in the House and 63% of the Democrats voted in favor of FAP on April 16, 1970 (see Table 4.1).⁴⁰ Conservative members of the G.O.P were skeptical that this was a liberal bill painted over with a Republican veneer. In the words of Senator Hugh Scott (R-PA) as reported by the conservative periodical *The National Review*, which had now been in publication for nearly fifteen years, “the conservatives were getting the rhetoric while the liberals got the action.”⁴¹

The striking observation to be made about the vote totals is not the partisan but rather regional breakdown. Southern members of the House voted overwhelmingly against the legislation, with only 17 voting yes and 79 voting no.⁴² William Colmer (D-GA), spoke for many of these legislators when he stated FAP was a threat “to our system of government, to our way of life.”⁴³ Democrat Lloyd Bentsen eviscerated one of the few southerners who voted for the bill, George H.W. Bush (R-TX), in the 1970 Texas Senate race. During the late stages of the campaign, the victorious Bentsen castigated Bush for voting to spend billions on welfare.⁴⁴ The margin of victory for FAP was provided by northern members of Congress whose constituents would not benefit as much as those in

⁴⁰ Congressional votes found in *Congressional Quarterly Almanac, 91st Congress, 2nd Session*. 1970, pp. 16-17 H

⁴¹ “Deeper and Deeper Still,” *National Review*, March 24, 1970, p. 293.

⁴² Moynihan, 1973, p. 437.

⁴³ Quoted in Moynihan, 1973, p. 433.

⁴⁴ Wicker, Tom. 1970. “Welfare Reform Crunch: The Nation,” *The New York Times*, November 26, p. 31.

southern districts. Thus, the thesis of Thomas Frank's *What's the Matter with Kansas?*—that economically disadvantaged white citizens vote against their self-interests is illustrated, in this example, by southern members of Congress voting to keep benefits away from their constituents.⁴⁵

TABLE 4.1: HOUSE VOTES ON FAMILY ASSISTANCE PLAN (HR 16311)⁴⁶

Votes	REP. YES	REP. NO	DEM. YES	DEM. NO	TOTAL YES	TOTAL NO
Vote on Rule	79	91	126	92	205	183
Final Vote	102	72	141	83	243	155

In general, liberals were more supportive of the bill, yet not entirely. John Conyers (D-MI), an African-American representative, voted against FAP on the grounds that it did give welfare the status of an entitlement and presumably the benefit could eventually be terminated.⁴⁷

⁴⁵ Frank, Thomas. 2004. *What's the Matter with Kansas? How Conservatives Won the Heart of America*. Even though Bartels points out shortcomings to Franks' thesis, such as that poorer whites are more likely to vote for Democrats than wealthier whites, in the 2004 presidential election, whites in the poorest third of the income distribution still split between George W. Bush and John Kerry in almost even numbers. Positing that voting for Bush reflects against the material self-interests for the bottom third of the income distribution, it becomes difficult to explain the voting behavior of the poor whites who voted for Bush in numbers commiserate with Kerry without resorting to Franks' thesis. See Bartels 2008, pp. 72-73. Also see Gelman, Andrew. *Red State, Blue State, Rich State, Poor State: Why Americans Vote the Way they Do* (Princeton, NJ: Princeton University Press, 2008).

⁴⁶ Source for table: *Congressional Quarterly Almanac 91st Congress, 2nd Session*. 1970, pp. 16-17 H.

⁴⁷ Moynihan, 1973, p. 433.

Instead of gaining momentum, FAP's fortunes took a downward trajectory. The aforementioned interest groups mobilized against the bill, as did conservative periodicals that were initially supportive, such as the *National Review*. Of even graver concern, newspaper editorialists were focusing more attention on budgetary policy, and pointed out that FAP would be a large additional expense to the treasury and create larger deficits. Furthermore, inflation was at worrisome levels, and policy-makers feared that FAP could contribute to a worsening inflationary spiral.⁴⁸

After passage in the House, FAP was reported to the Senate Finance Committee. Two Republican Senators were unabashedly hostile to the legislation and unswayable. One was Carl Curtis (R-NE), who previously had fought Social Security benefits on the floor of both the House and Senate. His receptivity toward FAP was just as cold; he complained during hearings that FAP would demean the "sterling character" of the working poor. The other Republican Senator, and ranking member of the committee, John Williams (R-DE), used his sophisticated analytic mind to tie the legislation in knots. First he complained about what is known as the "notch effect"—which is a point on an earnings schedule where one more dollar of income would create a net loss. Williams colorfully characterized the problem by complaining that a welfare recipient would be "better off just to spit in the boss' face to guard against a pay raise."⁴⁹ William's concern so worried chairman Russell Long (D-LA), that he suspended the hearings for the administration to fix the proposal. The administration was able to rectify the notch effect, but only at the price of decreasing work incentives. Williams lambasted

⁴⁸ Steensland, 2008, p. 142.

⁴⁹ Quoted in Burke, Vincent J. and Vee Burke. 1974. *Nixon's Good Deed: Welfare Reform*. New York: Columbia University Press, pp. 154-155.

the revised version of FAP, this time decrying the legislation as soft on work.

Nonetheless, the administration still thought that nine of the seventeen members of the committee would vote in favor of FAP.⁵⁰

That was not to be. Serving as the coup de grace in killing FAP was a rebellion from liberal Democrats on the committee. Senator Eugene McCarthy (D-WI) convened press events in the Capitol with testimony from northern welfare recipients about the meagerness of the proposed benefit levels and some beneficiaries would lose money under FAP. Shortly before the committee's vote three liberals defected from supporting FAP. In the end, FAP was voted down in committee 10-6 and did not reach the Senate floor, where the administration thought it had a majority of possibly sixty senators who favored the legislation.⁵¹

Nixon tried to pass FAP again in 1971 calling it "White House priority number one" of his domestic agenda.⁵² The bill was assigned the symbolically important HR1 number when it came before the Ways and Means Committee. Nonetheless, 1971 was a virtual reprise of 1970. The legislation was refashioned as benefit levels were raised and the total cost swelled to \$6 billion. However, opposition was more fierce as Governor Ronald Reagan (R-CA), weighed in by expressing opposition to FAP.⁵³ The House passed the legislation on June 22, 1971 overwhelmingly, yet on a critical procedural vote to delete FAP from the larger bill the vote was closer (Table 4.3). Fewer House members supported FAP in the test vote than in 1970 because both conservatives and liberals

⁵⁰ Steensland 2008, p. 149-153.

⁵¹ *Congressional Quarterly Almanac, 91st Congress, 2nd Session.* 1970, p. 1040. Steensland 2008, pp. 153-154.

⁵² *Congressional Quarterly Almanac, 92nd Congress, 1st Session.* 1971, p. 519.

⁵³ Steensland, 2008, pp. 161, 168.

defected. The Senate Finance Committee once again proved to be the bottleneck. The Committee put off action until 1972 when FAP died an unceremonious death. All Republicans on the committee abandoned Nixon's position and a "workfare" bill advocated by Long was substituted that would strip all family benefits, among other provisions, if an employable recipient refused to work.⁵⁴ Nixon refused to compromise with either Long or liberals who demanded more generous benefits.⁵⁵ Thus, FAP collapsed.

TABLE 4.1: HOUSE VOTES ON 1971 VERSION OF FAP (H.R. 1)

Votes	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
	YES	NO	YES	NO	YES	NO
PRELIMINARY	83	93	104	141	187	234
FINAL	112	64	176	68	288	132

Nixon quickly abandoned his "first" domestic priority. He used welfare as an issue to batter his Democratic opponent, Senator George McGovern (D-SD), during the presidential campaign of 1972. McGovern had supported versions of a GAI in the past. Nixon blasted McGovern as coddling welfarists. In Nixon's rendition, the nation had to choose "between the work ethic that built the nation's character and the new welfare ethic that could cause the American character to weaken."⁵⁶ The Republican platform stated that the party would "flatly oppose programs or policies which embrace the principle of a

⁵⁴ *Congressional Quarterly Almanac 92nd Congress, 2nd Session*. 1972, p. 905.

⁵⁵ Burke and Burke, 1974, pp. 186-187; Steensland, 2008, p. 174.

⁵⁶ Quoted in Steensland, 2008, p. 176.

government-guaranteed income. We reject as unconscionable the idea that all citizens have the right to be supported by the government.”⁵⁷

FAP was an early entrant from a Republican administration trying to build a social policy program outside of a liberal Democratic mode. It caused confusion, as both the public and political community had difficulty digesting it. Even though the proposal failed, two Republican impulses are discernible. The first is a laissez-faire, free-market ideology, where the government compassionately provides welfare benefits, while concurrently, in the eyes of advocates such as Schultz’s, encourages work incentives. A second impulse, which resonated with many Republicans, as well as conservative southern Democrats in this era, was the emphasis placed on personal responsibility. This consideration, in the end, overwhelmed any appeal inherent in the legislation. Importantly, FAP illustrates that Republicans were beginning to consider adding innovative market-based incentives, broadly defined, to a social policy program, yet traditional welfare was not the laboratory for such innovations. It seems that traditional concerns about the deleterious behavior, as well as bias against the symbol of lower-class African-Americans receiving benefits, precluded crafting a welfare program that increased payments. Over the years, the primacy of “workfare” as well as the ideal of getting recipients to participate in a market economy took precedence over narrowly tailoring benefits according, in essence, to a libertarian taxation model. In other behavioral issues, often associated with racial stereotypes, qualified markets.

The EITC

⁵⁷ *Republican Party Platform of 1972.*

<http://www.presidency.ucsb.edu/showplatforms.php?platindex=R1972>. Accessed January 14, 2009.

Without FAP, it is doubtful that the Earned Income Tax Credit (EITC) would have been speedily enacted. Out of FAP's wreckage two pieces of legislation were created. One was Supplemental Security Income (SSI) enacted in 1972, which created a national income floor for the elderly, blind, and disabled.⁵⁸ More interesting for the purposes of this narrative was the creation of the EITC.

Russell Long (D-LA), the chairman of the Senate Finance Committee, became convinced that the tax code was an appropriate vehicle to aid the working poor.⁵⁹ California Governor Reagan, in written testimony, recommended providing low-income workers a "rebate of their social security taxes, including the employer's contribution thereto", which may or may not have helped persuade Long in how to craft his eventual proposals.⁶⁰ Long reintroduced the work bonus concept in 1973 and attempted to attach a tax credit for the working poor to legislation in 1974. The House thwarted both moves.⁶¹ However, in 1975, the new chairman of Ways and Means, Albert Ullman (D-OR) attached the EITC to tax legislation. The EITC would be available to all low-income individuals, regardless of familial status. The Senate version targeted a narrower population, low-income workers with dependent children, but offered a larger tax credit. In conference, the Senate version triumphed. The whole episode had a subterranean quality as no hearings were held, decisions were made with little public attention or

⁵⁸ Conlan, Timothy. 1998. *From New Federalism to Devolution. Twenty-Five Years of Intergovernmental Reform*. Washington, D.C.: Brookings Institution Press, pp. 84-85.

⁵⁹ Howard, 1997, p. 68.

⁶⁰ Reagan's quote is found in *Social Security Amendments of 1971: Hearings before the Committee on Finance United States Senate, 92nd Congress, 1st and 2nd Sessions on H.R. 1, Part 4*. 1971, p. 1926.

⁶¹ Howard, 1997, p. 69.

record, and the EITC was attached to an unremarkable tax bill. The new president, Gerald Ford, had no involvement in the origins of the EITC.⁶²

Another fascinating development is that arguments about corrupting the working poor through handouts, as advanced by the Chamber of Commerce during the FAP debate, played no role in the creation of the EITC. The Senate may have had some residual concern from the previous debate by insisting that the EITC be targeted at those most likely to collect AFDC benefits and not serve as a general subsidy to the entire population of the working poor. But the future expansion of the EITC, with bipartisan approbation, showed that rewarding the working poor would become a very popular notion, while AFDC continued to be reviled. Thus, it appears that the impulse toward helping the deserving poor through government tax policy supersedes the notion that government policy for low-income workers runs contrary to the creed of unbridled American individualism. On the other hand, the undeserving poor, AFDC mothers who do not work, received very little sympathy from the public. Issues of race and class pervade all subsequent discussions of AFDC. The symbolism of AFDC contaminates all other welfare state programs, although most other programs are paradoxically popular.

Another policy arena, serving the impoverished was public housing. While not receiving the same attention as welfare, there was substantial movement during the Nixon administration on reorganizing housing policy. A key idea that would gain subsequent popularity was structuring federal government assistance through market incentives, particularly through vouchers, rather than supplying subsidized housing for the poor.

HOUSING

⁶² Howard, 1997, pp. 69-72.

Nixonian Housing Strategy

Lyndon Johnson declared the 1968 Housing and Urban Development Act a “Magna Carta to liberate our cities” during the signing ceremony on August 1.⁶³ Despite the revolutionary characterization, the Act really represented the culmination, and indeed logical extension, of New Deal housing policy. The incoming Nixon administration wished to develop a new housing strategy, yet did not stray far from recycling the by now clichéd Republican mantra of reliance on the private sector to provide homes. Nixon himself sent mixed signals about his intentions when he appointed a figure well versed in conventional urban policy, George Romney, as Secretary of Housing and Urban Development (HUD). Predictably, the Democratic Congress was not sympathetic to the invective about the “evils of the socialization of housing.”⁶⁴ The upshot is that low-income housing during Nixon’s first term experienced an unprecedented cash infusion with increasingly caustic press coverage of both HUD and its *modus operandi*.⁶⁵

This spending spree coincided with mounting evidence from both anecdotal and systematic analyses conducted under government auspices demonstrating that the New Deal version of housing policy was inadequate.⁶⁶ However, Democrats were loath to jettison old ideas in favor of new approaches. Senator Philip A. Hart (D-MI) contended, “the [housing] programs are not inherently defective even though they have become a

⁶³ *Lyndon B. Johnson Presidential Papers*. “Remarks Upon Signing the Housing and Urban Development Act of 1968” (August 1, 1968, #426). Retrieved from www.presidency.ucsb.edu

⁶⁴ Such terminology appears in White House memos. See, for example, the memo from Ken Cole to John Erlichman stamped September 28, 1970. *Nixon Archive Center*. “Nixon Presidential Materials Staff: White House Central Files” Subject Files: HS [Housing]. Box 1: Folder [Ex] HS 10/1/70—12/31/70 1 of 2.

⁶⁵ Hays, R. Allen. *The Federal Government and Urban Housing: Ideology and Change in Public Policy*. 2nd ed. (Albany, NY: State University of New York Press, 1995).

⁶⁶ See von Hoffman, 1996.

magnet for corruption and speculation.”⁶⁷ Senator William Proxmire’s (D-WI) chief of staff, Kenneth A. McLean, declared that the senator “has the uneasy feeling that as bad as the situation is, no one has a plan to improve it.”⁶⁸

Peabody’s “Funding the People” Strategy

Nixon’s first term signified the apotheosis of the liberal order of housing policy, while also marking its endgame. The aforementioned McLean’s assertion notwithstanding, a new strategy for housing policy was emerging. At the forefront of the re-evaluative efforts was a Boston Brahmin, Malcolm Endicott Peabody Jr., whose experiences with New Deal housing policy during the 1960s left him thoroughly disenchanted. Peabody saw first hand the failures of federal housing policy when he served as the Civil Rights Coordinator for his elder brother, Governor Endicott Peabody (D-MA). The younger Peabody chaired a committee for low-income housing from 1963-1965, which included state legislators, including most famously a fresh-faced Michael Dukakis, along with representatives from the private sector. The committee developed a rental assistance plan, the nation’s first housing voucher program, which continues its mission today. Malcolm Peabody, deeming the program a success, became firmly committed to the voucher principle. Hoping to pursue his own political career as a Republican, he sought the nomination for Congress from the 3rd district of Massachusetts in 1968. He lost the nomination, but was tapped to serve as Deputy Assistant Secretary for Equal Opportunity of HUD.⁶⁹

⁶⁷ Lilley, William III and Timothy B. Clark, “Urban Report/Immense costs, scandals, social ills, plague low-income housing programs” *National Journal*, July 1, 1972 pp. 1075-1083, p. 1083.

⁶⁸ Ibid.

⁶⁹ Interview with Malcolm Endicott Peabody, April 25, 2009.

In his capacity as Deputy Assistant Secretary, Peabody formulated a coherent Republican philosophy for both housing and education, with implications for the larger spectrum of an expansive social policy. He called it a strategy for “Funding the People”, a philosophy first set forth in a 1969 *Washington Monthly* article.⁷⁰ The overarching thesis of the article discussed the logical method through which to channel funds directed toward social policy goals. Peabody claimed that government provided vouchers would give beneficiaries limited autonomy over spending decisions. Previously, the federal government tended to involve itself directly in supervising and funding social programs. According to Peabody, using the voucher approach, would help to catalyze a process of “stimulating individual initiative, self-reliance, and responsibility [that] are crucial to any program designed to improve the quality of life.” Also, Peabody wrote, “that more often than not, private industry can provide more attractive and more economical goods and services than government can.”⁷¹ He contended moreover that overhead costs for voucher programs tend to be cheaper than when government gets directly involved.

Peabody articulated a sweeping thematic vision that could have served as the foundation for a Republican strategy in constructing social policy. His philosophy was succinct, consistent, and did, in fact, become something of a precursor for future Republican efforts. Yet developing a partisan strategy based on vouchers was deeply ironic. Peabody’s inspiration for vouchers came from the GI Bill, usually, and accurately, portrayed as promoting large spending from the federal government. The GI Bill created unprecedented government intervention in constructing the social fabric of

⁷⁰ Peabody, Malcolm E., Jr. “Funding the People,” *The Washington Monthly*. Volume 1: Spring 1969, pp. 61-66.

⁷¹ *Ibid.*, p. 61.

the nation.⁷² It provided direct cash assistance to veterans for housing and education, giving them choice in how to spend the money. The federal government's role was primarily to provide institutional accreditation and distribute cash to the veterans to use for specified purposes. Peabody also pitched Social Security as a system that directly funds people which he found roughly analogous to vouchers.⁷³ Most stalwart conservative Republicans have classically been skeptical of government-sponsored programs on a massive scale such as Social Security. Likewise, Democrats have never liked voucher programs, especially in education. Yet Michael Dukakis, often caricaturized as the quintessential liberal politician, helped create a very early voucher program.

Peabody argued for a partisan ideological strategy with consistency across policy arenas. He thought Republicans should adopt a pro-voucher “fund the people” mantra. Peabody was roughly analogous to George Schulz during the FAP debate in the sense that he advocated for a market remedies. Both were not interested in paternalistic policies setting controls over human behavior. The Republican Party would adopt a laissez-faire approach for many issue areas. However, race and poverty often qualified conservative support for market-based remedies.

Rental Certificates

Peabody, an ideological prodigy, with his expansive voucher formulation for a Republican social agenda, had the most influence on policy-making in the housing arena during the Nixon era. Housing policy proved susceptible to incorporating vouchers

⁷² See Mettler, Suzanne. *Soldiers to Citizens: The G.I. Bill and the Making of the Greatest Generation* (New York: Oxford University Press, 2005) for a detailed analysis of the consequences of the G.I. Bill.

⁷³ Peabody, “Funding the People”, p. 63.

because Peabody was in the HUD bureaucracy, would have an ally in the Senate (Edward Brooke R-MA), and versions of the principle of providing direct cash assistance had been bandied about since the Great Depression. A special subcommittee, chaired by Senator Robert A. Taft (R-OH) investigated the idea of providing “rent certificates” during the Second World War for low-income individuals. Taft himself did not like the idea and quashed it. The subcommittee thought it would significantly increase the relief roles, could retard efforts to clear slums, and require further regulation. Again, in 1953, a presidential Advisory Committee on Government Housing Policies and Programs considered rent certificates. Some thought that rental certificates would encourage reconstruction and rehabilitation. Yet the committee thought the negative possibilities outweighed the positives, repeating the fears of Taft and his committee.⁷⁴

The rental certificate idea did not disappear. Congress enacted a program inspired by the concept in 1965. Congressman William B. Widnall (R-NJ), somewhat dubious about Lyndon Johnson’s housing policy that focused on the supply of low rent housing, agreed to support Johnson’s rent supplements program in return for a “low-rent housing in private accommodations” program. Windall’s proposal became Section 23 of the 1965 National Housing Act. The program called for each public housing agency to provide low-rent housing in privately owned accommodations as long as the cost was equal to or less than public housing. The rents charged were to be “within the financial range of families of low incomes.”⁷⁵ Section 23 still failed to grant the poor the agency of a full-

⁷⁴ Struyk, Raymond J. and Marc Bendick, Jr., ed. *Housing Vouchers for the Poor: Lessons from a National Experiment*. (Washington, D.C.: The Urban Institute Press, 1981), pp. 25-26.

⁷⁵ *Statutes of the United States at Large*. 89th Congress, 1st Session Public Law 89-117—August 10, 1965, pp. 455-457, volume 79.

fledged voucher program. Instead, the instrumental actor in negotiations was the public housing agency. Yet Section 23, which established a foothold for housing in the private sector, did have some of the principles of a direct cash assistance program. Section 23's creation was more of an academic exercise than one that exerted a large-scale effect on policy. After enactment, the program languished as Johnson, and for that matter Nixon during his first term, cared little for Section 23 and the program remained mired in obscurity and underutilized.

The National Housing Allowance Experiment

Peabody and a number of housing advocates wished to go further than Section 23 and proceed with a full-fledged voucher program.⁷⁶ Their natural ally in the Senate was Senator Edward Brooke (R-MA). Brooke was the first African-American Senator since Reconstruction and made housing policy one of his specialties. Ironically, he had to defeat Peabody's brother, Endicott, in the 1966 election in order to be seated in the Senate. Brooke made his first mark on housing policy when in 1969 he introduced an Amendment that capped rents (the Brooke Amendment) at 25% of the poor's income in subsidized dwelling units.⁷⁷

HUD officials had to proceed cautiously and furtively to get Brooke to introduce housing vouchers. They deemed the White House, especially Moynihan, more concerned about FAP, and thought housing vouchers an unwelcomed diversion.⁷⁸ HUD Secretary

⁷⁶ Momentum began moving in that direction with the release of the December 1968 Kaiser Committee report that recommended housing allowances (Struyk and Bendick, 1981, p. 29).

⁷⁷ Hays, R. Allen. *The Federal Government and Urban Housing: Ideology and Change in Public Policy*, 2nd ed. (Albany, NY: State University of New York, 1995), p. 98.

⁷⁸ Struyk and Bendick, 1981, p. 30.

George Romney also viewed housing vouchers with suspicion.⁷⁹ During the hearings to pass the 1970 Housing and Urban Development Act in the Senate, nary a witness or member of Congress addressed a specific housing voucher proposal.⁸⁰ However, despite the odds, Peabody urged Brooke's staff member on the Senate Banking Committee, Timothy D. Naegele, to advocate for the measure. He convinced Brooke, a member of the Senate Banking Committee, to promote vouchers. Fellow Republican senators would not stand for a full-fledged program, but agreed to an experimental voucher, or "housing allowance" program to be inserted as Section 504 of the 1970 Housing and Urban Development Bill. According to Peabody, the HUD officials who were to administer the experimental housing voucher program were stunned to find Section 504 tucked in to the legislation.⁸¹

The White House reacted coldly to Section 504. Kenneth Cole, the deputy to John Ehrlichman, Nixon's chief domestic policy adviser, raised concerns about Section 504 in a memorandum to his boss stamped September 28, 1970.⁸² At this stage, the White House viewed Section 504 as an unwelcomed intrusion antithetical to the president's program. On the other hand, there were some high-level allies for an experimental housing voucher program. The Economic Opportunity Office Chairman, Donald Rumsfeld, favored the utilization of several voucher experiments in housing,

⁷⁹ Interview with Malcolm Endicott Peabody, April 25, 2009.

⁸⁰ At least two witnesses mentioned housing vouchers positively as an abstract notion during the hearings. See U.S. Senate, Committee on Banking and Currency. *Bills Related to Housing and Urban Development: Hearings before the Subcommittee on Housing and Urban Affairs*, Parts I and II. Housing and Urban Development Legislation of 1970, United States Senate, 91st Congress, 2nd Session, 1970, pp. 798, 1039.

⁸¹ Interview with Malcolm Endicott Peabody, April 25, 2009.

⁸² *Nixon Archive Center*. "Nixon Presidential Materials Staff: White House Central Files" Subject Files: HS [Housing]. Box 1: Folder [Ex] HS 10/1/70—12/31/70 1 of 2

contrary to White House wishes.⁸³ Despite the obscure origins of the housing voucher program from an entrepreneurial mid-level bureaucrat, section 504 housing vouchers were part of the final legislation signed into law by Nixon on December 31, 1970.⁸⁴

From Experiment to Administration Policy

Section 504 mandated the HUD secretary to establish trial allowance experimental programs. Eventually, Phoenix and Pittsburgh were chosen for this voucher experiment. In each city, 1,800 low-income households were chosen to participate in the venture.⁸⁵ According to the legislation, “the housing allowance provided to any family of low income shall not exceed the difference between 25 per centum of the family’s income and the maximum fair market rental established.”⁸⁶ In other words if a family’s income was \$500 a month and a standard local rent for a suitable residence was \$200 a month, the family would qualify for a \$75 allowance. This is because $25\% \times \$500 = \125 ; $\$200 - \$125 = \$75$. To express as a formula, $25\% \times \text{family income} = y$; $\text{rent} - y = \text{allowance}$. If a family chose to live in a residence with a less expensive rent than the predetermined standard, they could pocket the savings. Conversely, if they wished to live in more expensive housing (perhaps to be near family or work) they could pay for the difference out of their income. Thus, the voucher program emphasized personal choice and gave voucher recipients a stake in determining how their funds would be used.

⁸³ Kotz, Nick. “White House Orders OEO to cut next Budget by 50%.” *The Washington Post*, October 13, 1970, p. A1.

⁸⁴ United States Statutes At Large 91st Congress 2nd Session 1970-1971. Vol. 84 Part 2, pp. 1786-1788; Public Law 91-609. Dec. 31, 1970.

⁸⁵ Struyk and Bendick, 1981, p. 8.

⁸⁶ United States Statutes At Large 91st Congress 2nd Session 1970-1971. Vol. 84 Part 2, pp. 1786-1788; Public Law 91-609. Dec. 31, 1970, p. 1786.

Unlike many policy prescriptions, this one not at first oversold. Peabody himself said housing allowances were not a “panacea.” Peabody and others within HUD warned that a voucher experiment could falter in tight housing markets, such as in New York City, where vacancy rates were minimal and a dearth of suitable alternatives for the impoverished existed.⁸⁷ Yet Peabody and others were thrilled with preliminary results from housing allowance experiments. Ironically, since the Phoenix and Pittsburgh pilot studies were not set up until 1972, the evidence cited were two experiments stemming from local initiative. In the fall of 1970 Kansas City established a housing program deemed highly successful. Wilmington, Delaware also established a similar program under Model Cities.⁸⁸

It took the Nixon administration some time to see the significance and utility of housing vouchers. As late as December 1972 his White House advisers were grasping for some sort of new solution to the housing crisis. Cole warned in a memorandum to Ehrlichman that if Nixon “be in the position of cutting or zero funding many programs” he must “regardless of budgetary circumstances, be in the position of proposing an alternative” or “solution”. However, the housing voucher concept continued to elude Cole. He instead insisted that an Urban Community Development Revenue Sharing plan as the only feasible alternative to the old Democratic strategy.⁸⁹

⁸⁷ Peabody, Malcolm E., Jr. “A New Way to House the Poor: Housing Allowances.” *The New Republic*, March 9, 1974, pp. 20-23, 23.

⁸⁸ Peabody, Malcolm E., Jr. “Housing Allowances: A New Way to House the Poor.” *HUD Challenge*. July 1972, pp. 10-14; Struyk and Bendick, 1981, p. 8.

⁸⁹ *Nixon Archive Center*. “Nixon Presidential Materials Staff: Staff member and Office Files: John D. Ehrlichman: Notes of Meetings with President, 1969-1973, Box 13, File 9.”

Yet by the beginning of Nixon's second term, the White House has completely changed course from staunch opposition to enthusiastic advocacy for vouchers. Triggering this reversal was Nixon's desire to deliver a swift clean break from the muddled legacy of New Deal/Great Society housing policy. On January 8, 1973, outgoing Secretary George Romney announced a moratorium on all new housing projects and the need for a through reassessment of strategies to cope with urban poverty. The moratorium demonstrated Nixon's increasing comfort with pursuing a domestic conservative agenda more so than in his first term. Replacing at HUD the relatively liberal George Romney was a conservative, James Lynn.⁹⁰

Nixon now thought he operated from a position of strength, having won 49 states in the 1972 general presidential election which he interpreted as a popular mandate. Bickering with the Democratic Congress had become incessant. As part of what is sometimes labeled the "imperial presidency", Nixon propitiated a doctrine of executive impoundment of funds appropriated by Congress. Housing became the newest line in that struggle between the executive and legislative branches. Nixon's advisers thought it advantageous to single out housing since Nixon could quite reasonably contend that the housing programs, as currently constituted, could not be properly administered. The administration thought it could win by refusing to spend appropriated congressional funds in both the judicial branch as well as in the broader court of public opinion.⁹¹ Another political rationale behind the moratorium was that Nixon wished to restrain what he viewed were bloated programs that egged on inflation.⁹²

⁹⁰ Hays, 1995, pp. 134-135.

⁹¹ Ibid., p. 138.

⁹² Interview with Malcolm Endicott Peabody, Jr. April 27, 2009.

Along with the announcement of a housing moratorium, Nixon commissioned a study, entitled “Housing in the Seventies” for recommendations about the future course of housing. Its final recommendation had already been pre-determined. The Nixon administration had finally understood the potential advantage in promoting vouchers, also known as housing allowances. They were untested, at least on a national basis, and had advocates, such as Peabody, who thought they could ameliorate the hitherto inexorable woes of housing policy.⁹³

In a special message delivered to Congress on September 19, 1974, nearly six months after the announcement of the moratorium, Nixon announced the results of the HUD study. Nixon intoned that housing policy “requires[s] a different approach than we have taken in the past.”⁹⁴ He argued that federal programs “have produced some good housing—but they also produced some of the worst housing in America. Our recent study makes this clear—and so does my own experience.” He explained that low-income individuals have lost “their basic right to choose the house they will live in and the place they will live in. Too often they are simply warehoused together wherever the Government puts them. They are treated as a class apart, with little freedom to make their own decisions.”⁹⁵ Nixon explained that “instead of treating the root cause of the problem—the inability to pay for housing—the Government has been attacking the symptom”, in other words housing supply. Nixon then proposed direct cash assistance,

⁹³ “State of the Union Message to the Congress on Community Development”, *Public Papers of the President: Richard Nixon*. March 8, 1973, Paper # 73, pp. 171-180, p. 176.

⁹⁴ Public Papers of President Richard Nixon. Paper # 264, “Special Message to the Congress Proposing Legislation and Outlining Administration Actions to Deal with Federal Housing Policy.” September 19, 1973, pp. 800-813, p. 801.

⁹⁵ *Ibid.*, p. 807.

or vouchers, which would “be the most equitable, least expensive approach to achieving our goal of a decent home for all Americans.”⁹⁶

Nixon boldly suggested scrapping section 235 and section 236 of the federal housing program, the main vestige of New Deal and Great Society housing. Indeed, the only part of the old housing program that Nixon countenanced should be part of future policy was Widnall’s section 23 program, since it exhibited some of the principles behind direct housing assistance.⁹⁷

Nixon had plucked vouchers from obscurity. The president also exhibited in his congressional speech his propensity to offer relatively simple solutions as panaceas to complicated policy questions. For instance, Peabody and many within HUD warned that vouchers would not work well in tight rental markets. Nixon ignored such caveats. The housing experiments commissioned by the 1970 Act were still in the planning stages and the president could make no empirically verifiable claims to the results of those trials. Nixon made no mention of caveats such as urban areas that had few rental vacancies.

Soon after this speech, Nixon became swept up in the developing Watergate scandal. While the Nixon’s administration’s efforts concerning housing petered out, Congress took the torch and the locus of the debate shifted to the legislature.

The Democratic Congress was uncomfortable with a policy based on vouchers, yet was itching to overhaul the system and avoid a presidential veto. The Senate moved first (S 3066). Ignoring Nixon’s veto threat, it reinserted much of the funding for section 235 and 236 housing, the building programs that Nixon had deemed failed. Over half a

⁹⁶ Ibid., p. 808.

⁹⁷ Jacobs, Barry G, Kenneth R. Herney, Charles L. Edson, and Bruce L. Lane. *Guide to Federal Housing Programs* (Washington, D.C.: Bureau of National Affairs, 1982), p. 25.

billion dollars was authorized for traditional public housing and rental assistance during fiscal years 1975-1976. The Senate then added Nixon's proposed voucher program as a second experiment, authorizing 43 million in direct payments over fiscal years 1975-1984. In contrast to the relative pittance for direct cash assistance, S 3066 would provide nearly \$900 million for a new section 8 derived from Widnall's section 23 housing program over fiscal years 1975-1976.⁹⁸ The new section 8 was a hodgepodge: existing housing would work the way Widnall envisioned, yet provision was made for new housing fully involving the private sector in construction. In numerous ways the section 8 new housing program was not much of a change from traditional public housing construction, although the government's relation to private contractors involved some changes.

Peabody's voucher program, while not terminated, was hardly funded any better than it had been in the 1970 legislation. The Senate decided on a two-pronged approach for housing. (1) a commitment to traditional New Deal housing and (2) funding Widnall's rental program for existing housing as a compromise between traditional housing and a full scale voucher. Section 23 (Widnall's program) allowed recipients to choose to live in private dwellings with rental assistance from the government. It differed from Peabody's housing vouchers because it did not give the money directly to the recipients, a government agency paid the rent (with contributions, depending on income, from the beneficiary). It also did not let a recipient keep the cash if he or she chose to live in a residence cheaper than standard rental rates.

⁹⁸ "Senate Committee Reports Omnibus Housing Bill", *CQ Weekly*, March 9, 1974, pp. 621-625, 621.

Senate Republicans on the Banking, Housing and Urban Affairs Committee were not assuaged by the inclusion of section 23. Republicans argued that the Democrats had taken the administration's proposal "and amended it to such a degree that the concepts. . . have all but been destroyed." The result was "a hybrid that contains many of the inequities and pitfalls of our existing programs."⁹⁹ Nonetheless, the Senate passed the substance of the committee's bill on March 11 by a vote of 76-11.¹⁰⁰

The House approached the matter differently. Hearing the veto threat from the White House, they passed a bill that did not include funding section 235 and 236, the traditional housing strategy. They also eliminated the experimental housing allowance program. The House decided to make a new section 8 (including Widnall's proposal for existing housing) the essence of national housing strategy (except for block grants to be used at some local discretion). The House authorized \$1.225 billion over fiscal years 1974-1975 for the program.¹⁰¹ Three Republican conservatives dissented from the House Banking and Currency Committee's report, complaining of "excessive costs."¹⁰² The House, like the Senate, passed its version with overwhelming bipartisan approval.

After much haggling in conference, sections 236 and 236 were kept, but funded on a much smaller scale than originally envisioned by the Senate. The housing voucher program was reinserted at \$40 million, still a relatively small program. The eclectic section 8, was to be used as the primary strategy for housing in the bill. Secretary Lynn

⁹⁹ Ibid., p. 625.

¹⁰⁰ "Senate Passes Housing Bill Without a Major Change." *CQ Weekly*, March 16, 1974, pp. 691-695, 691.

¹⁰¹ "House Passes Omnibus Housing Bill, 321-25." *CQ Weekly*, June 29, 1974, pp. 1702-1706

¹⁰² "House Committee Reports Major Housing Bill." *CQ Weekly*, June 22, 1974, pp. 1649-1666.

signaled that the bill was close enough to the administration's objectives that the president would sign. On August 13 the Conference Report cleared the Senate followed by the House on August 15. Gerald Ford signed the legislation as the Housing and Community Development Act of 1974 on August 22.¹⁰³

The Nixonian brush with market-based reforms in social policy suggests two lessons. First the importance of legislative and electoral arena politics. Nixon put a new conceptual market-based conceptual model on the table, which Congress could not ignore, but did amend through the legislative process. The outcome from committee and floor action in two chambers, conducted through the prism of partisanship and electioneering, fashioned social policy in unpredictable ways. Essentially Democrats were often suspicious of the new market model.

Second, there is a subtle line where retrenchment ends and a new market state begins. The two are entwined. However scholars have downplayed the latter element of the equation while playing up the former. Nixon himself, in open public pronouncements, suggested that the new market orientation was his primary motivation. Nixon proved willing to experiment with anti-poverty policy. He commenced with a radical welfare reform plan that stalled although pieces of the wreckage were eventually enacted. Likewise, housing vouchers, had promise to serve as a domestic legacy, although in the end, the Congress was not ready for a full-fledged voucher program, but would accept building on a compromise rental certificate program. As in anti-poverty policy, Nixon also shifted health policy toward a market direction, by bringing a relatively new concept, HMOs to the fore of national policymaking.

¹⁰³ Public Law 93-383. *United States Statutes at Large*. 93rd Congress, 2nd Session 1974, Volume 88, Part 1, pp. 633-741.

HEALTH

The NHI Debate

Contemplating national health insurance (nhi) routinely sent conservative Republicans into fits of near apoplexy. It was a subject best left unmentioned. Yet with accelerating health inflation the issue could not be avoided. Senator Edward M. Kennedy (D-MA) was persistent in demanding Congress consider a comprehensive—and expensive—nhi package. The indefatigable liberal envisioned European-style lifelong coverage involving large-scale federal government support and regulation. Other members of Congress, including a few Republicans, such as Senator Jacob Javits (R-NY), had their own ideas for introducing nhi, although in a less grandiose fashion than Kennedy.

The Nixon administration had no appetite to roll back Medicare and Medicaid, yet did not wish to dramatically augment the burgeoning expenditures on the welfare state. Events forced Nixon's hand. In 1970 the House Ways and Means Chair, Wilbur Mills (D-AR) announced hearings on the Medicare and Medicaid program. Nixon's staff feared that these proceedings could serve as a backdoor entrée for a Democratic nhi proposal. The administration reached the hurried conclusion that in order to stay in control of the process Nixon had to develop and press for his own plan.¹⁰⁴ A Republican program would aim to accomplish some of the objectives of nhi without an accompanying prohibitively large price tag. While Nixon failed to enact nhi, he changed the discourse of health policy around market images.

¹⁰⁴ Brown, Lawrence D. *Politics and Health Care Organization: HMOs as Federal Policy* (Washington, D.C.: Brookings, 1983), p. 205.

The administration determined in mid-1970 that President Nixon would deliver a major health policy address at the beginning of 1971. Within the department of Health, Education and Welfare (HEW) two task forces were initiated to investigate options for the administration to pursue. The menu of choices topped over 250.¹⁰⁵ Out of this welter came a comprehensive administration that contrasted starkly with Kennedy's more public-focused approach. Nixon envisioned that the private sector would continue to provide the bulk of coverage. At the heart of the plan was a mandate requiring employers to provide workers with basic health insurance. For self-employed, unemployed, the poor, and eventually businesses that employed fewer than ten people, the federal government would assist in directly provide coverage. Poor people would get free coverage while wealthier individuals would share premium expenses.¹⁰⁶

The Nixonian universal health insurance proposal was never enacted. During the first term, Nixon essentially let the comprehensive proposal languish. In the second term, Caspar Weinberger, the new HEW Secretary, made a furious attempt to resurrect the plan. Wilbur Mills took an interest in the legislation and melded a compromise bill that carried many of the general principles of Nixon's legislation.¹⁰⁷ CHIP (the comprehensive health insurance plan) passed in a show of hands by a single vote, 12-11, in the House Ways and Means Committee.¹⁰⁸ Nonetheless, Mills was uncomfortable reporting the bill to the floor since so many members of the committee, including many

¹⁰⁵ Ibid., pp. 212-213.

¹⁰⁶ The small business provision was inserted later in committee hearings and have become standard in all subsequent health proposals. See Morone, forthcoming, Nixon chapter.

¹⁰⁷ Blumenthal, David and James Morone. *At the Heart of the Oval Office* (Berkeley, CA: University of California, 2009).

¹⁰⁸ *Congressional Quarterly Almanac*. August 24, 1974, p. 2275.

Republicans, opposed the legislation.¹⁰⁹ Soon not only was Nixon swept from office, but the powerful Mills self-immolated through a sex scandal.

The most striking facet of Nixon's health proposal was that it was a template for future health proposals. It offered a vision for a more conservative method to achieve universalism. Many scholars have recognized how the United States health care system operates in a "hidden" fashion, in a public and private partnership. Proposals for nhi often seek to use the public and private welfare state arrangements of American social policy. Another component of these "hidden" mechanisms is that suggestions for securing nhi are also a project to incorporate market mechanisms.

Especially important was the measure he advocated to control costs. Health Maintenance Organizations were a largely unheralded concept, largely confined in practice to the west coast. It was merely one of the 250 options, and not a particularly prominent one, that the two HEW committees researched. However, HEW Secretary Elliott Richardson saw possibilities for HMOs that the experts did not.¹¹⁰ Furthermore, while nhi languished in limbo, the HMO portion was separated from the general legislation and a version enacted.

The HMO Panacea: Between Retrenchment and Reformulation

HMOs (health maintenance organizations) were a new concept in the debate about health care policy. They required health care consumers to pay an annual fee to their health care organization, which in order to turn a profit, had incentives for having participating medical providers limit the provision of medical services for a consumer. As aforementioned, the administration was casting about for an alternative to Democratic

¹⁰⁹ Morone *Ibid.*

¹¹⁰ Brown, 1983, p. 213.

proposals for controlling costs—which usually involved more state sponsored regulation. Through serendipity, a few advocates for the nascent HMO movement pitched the idea to members of HEW who in turn promoted the concept to the White House. The promise of easy start-up costs, self-regulation, and an especial emphasis on markets and competition made the HMO model attractive to a receptive administration.¹¹¹ Top policy-makers rescued the concept from the hands of specialized bureaucrats more than once. While Nixon in his State of the Union speech failed to reference HMOs, it became clear in his health message to Congress that they were a central component of his cost-control efforts for health care.¹¹²

The administration did not speak with one voice on HMOs. Richardson and others at HEW firmly believed that by putting a relatively small amount of seed money on the table, HMOs would eventually flourish in a few years—in a White Paper the department promised 1,700 by FY 1976 with as many as 40 million people enrolled.¹¹³ The Office of Management and Budget (OMB) thought of HMOs as a pilot project that still had to be demonstrated to work in the real world. Others, such as Donald Rumsfeld at OEO opposed and advocated community health centers to be run by OEO—a pure power grab away from HEW. While the administration settled on HMOs, the internal

¹¹¹ Ibid., p. 210.

¹¹² “Annual Message to the Congress on the State of the Union, January 22, 1971,” *Public Papers of Richard M. Nixon, 1971*, (U.S. Government Printing Office), #26, pp. 50-58.

¹¹³ “Towards a Comprehensive Health Policy for the 1970s: A White Paper” in *Hearings before the Committee on Ways and Means, House of Representatives Ninety-Second Congress First Session on the Subject of National Health Insurance Proposals: Part 1 of 13 Parts*, 1971, p. 94.

contradictions were never entirely resolved leading the administration to rush a sketchy proposal, with overly optimistic cost estimates, forward to Congress.¹¹⁴

In Senate hearings, the Democrats, particularly Kennedy, methodically eviscerated the Nixon plan in the sense that Nixon suggested far too few dollars to secure a national network of HMOs. Despite the weaknesses of the Nixon plan, the reputation of HMOs were not tarnished as a suitable solution to spiraling health care costs. HMO policymaking then moved to the halls of Congress as Nixon lost interest and even became somewhat hostile to HMOs when he heard that donations from medical professionals were lagging because many doctors held HMOs in opprobrium. Nonetheless, Nixon placed a market health care remedy, HMOs, on the political agenda, although he lost control of his own innovation during the legislative process.¹¹⁵

Three competing HMO bills emerged in Congress. Democrats held substantial majorities in both Houses, with 255 seats in the House and 54 seats in the Senate versus 180 and 44 Republican seats, respectively, after the 1970 elections. Even after Nixon's landslide reelection, Democrats still controlled 243 versus 192 Republican seats in the House, and the Democrats actually increased their Senate advantage to 56 versus 42 Republican seats.¹¹⁶ So with virtual impunity Democrats could manipulate Nixon's proposal. Some Democrats viewed HMOs as a virtual panacea and were willing to fund HMOs at commiserate levels. William Roy (D-KS) even envisioned spending over one

¹¹⁴ Brown, 1983, pp. 212-219.

¹¹⁵ Bauman, Patricia. "The Formulation and Evolution of Health Maintenance Organization Policy, 1970-1973." *Social Service and Medicine*, Vol. 10: March/April, 1976, pp. 129-142.

¹¹⁶ Figures from Nohlen, Dieter. *Elections in the Americas, Volume I* (New York: Oxford University Press, 2005), pp. 700, 705.

billion dollars on HMOs.¹¹⁷ Kennedy's bill called for even more spending of over \$5 billion over five years.¹¹⁸ The bill bearing the administration's imprimatur called for a relatively small \$60 million pilot program in order to avoid provoking a large new government investment in health care.¹¹⁹ The congressional sausage-factory churned out a compromise piece of legislation that combined the three different HMO bills. The final legislation signed by Nixon, the HMO Act of 1973, provided 375 million dollars for loans to private entities to help start HMOs throughout the nation over FY 1974-1978 as an experimental measure.¹²⁰ Despite a Republican president placing HMOs on the agenda, a number of Senate Republicans bemoaned the expense. A small majority of Republicans voted for the legislation with Democrats favoring by lopsided numbers (See Table 4.6). In the House both parties supported the bill by large margin. After the conference committee resolved chamber differences, oppositions dissolved and the bill passed by a voice vote in the House and with just one opposing vote in the Senate.

Ironically, as the vote for the HMO Act of 1973 indicates, the Republican congressional caucus had not caught up with the president concerning the gathering market wave in social policy. The Democratic Congress took ownership of a Republican president's proposal, putting too many resources into a bill for the comfort of traditional conservatives. By 1973, the Republican Party's reputation for budgetary prudence and frugality was in its final stages, as Republican efforts to balance the budget would attenuate beginning by the early 1980s.

¹¹⁷ Brown, 1983, pp. 235-238.

¹¹⁸ Ibid., p. 234.

¹¹⁹ Ibid., p. 261.

¹²⁰ Ibid., p. 266.

TABLE 4.2:	REP.	REP.	DEM.	DEM.	TOTAL	TOTAL
HMO ACT	YES	NO	YES	NO	YES	NO
OF 1973 (HR						
7974, S						
14)Legislative						
Action						
House	156	27	213	13	369	40
Senate	23	18	46	7	69	25

Medicare HMOs

HMOs were viewed by policy-makers as a remedy toward the rapidly escalating costs of Medicare. Early in Nixon's tenure, some principled conservatives in Congress adeptly moved beyond the mere retrenchment mode, to a position of working to reshape liberal institutions. One Senator who fit this mode was Delaware's John Williams, the ranking Republican on the Senate Finance Committee. The budget conscious senator, who had been one of twenty-one to vote against the original Medicare legislation of 1965, continued to monitor program closely.¹²¹ By 1969, he had, at least overtly, dropped opposition to the program,¹²² yet he still wished to restructure the program in a way to control spiraling costs.

The Medicare legislation of 1965, in trying to mitigate opposition from the AMA, had provided for physicians to be reimbursed for "reasonable" charges, as determined by

¹²¹ *Congressional Record* 111 (June 9, 1965): p. 16,157.

¹²² Committee on Finance, United States Senate, *Medicare and Medicaid. Hearings before the Committee on Finance. 91st Congress: 1st Session* (Washington, D.C.: U.S. Government Printing Office, July 1-2, 1969), p. 286.

the doctors themselves. The result was that physicians had incentives to raise fees rather than contain them. Between 1956 and 1964 costs had risen at an annual rate of 3%; between 1965 and 1967 the costs soared at a rate of 6.5% and in 1967-1968 retreated only to 5.5%.¹²³ Likewise, hospitalization expenses increased dramatically for similar reasons.

At Williams' behest, Finance chairman Russell Long (D-LA), convened hearings on the Medicare program.¹²⁴ Long himself was most interested in publicizing shocking anecdotal stories of fraud and abuse in the Medicare program. Williams looked at the program systematically, concentrating on the implications of rising costs and the solvency of Medicare. In language reminiscent of later debates, the alarm was raised that the hospital trust fund would go bankrupt in six years. Officials from the executive branch also testified that changes had to be made to the Medicare program if it was to continue to function "in the black."¹²⁵

Striking throughout this whole process is how susceptible Democratic members of Congress, such as Kennedy, were to working within the framework of policy solutions proposed by a Republican White House. This suggested a latent acquiescence that New Deal and Great Society remedies were no longer always defensible. Furthermore, the somewhat symbolic departure from fee-for-service health care, with an entrance of market mechanisms in the health care arena, signified the beginning of a change toward a politics of the welfare state. Republicans showed, that for the first time in modern

¹²³ Ibid., 28.

¹²⁴ Ibid., 2. Senator Clinton Anderson (D-NM) is also given credit for requesting the hearings.

¹²⁵ Ibid., 84.

American politics, that they could make alternative proposals and with modifications, implement reforms on what had traditionally been seen as Democratic turf.

The outcome from the hearings was that some senators agreed that cost controls were needed as a broader strategy of containing health care costs. The bipartisan 1972 Social Security Amendments, passed without a dissenting vote in the Senate and only one in the House, provided for professional standard review organizations (PSROs), comprised of medical professionals, to review costs from physicians and hospitals.¹²⁶ Another provision of the legislation established a small optional HMO program for Medicare.¹²⁷ Spurred onward by the administration and a conservative Republican senator, Medicare had been substantially retooled. Republicans played a significant role in refashioning an important aspect of social policy.

Nixon's Legacy: Toward a Republican Social Policy

The final verdict on Nixon is still muddled. He is both a Janus-faced conservative and liberal. Noam Chomsky is not far off the mark when writing in 2000, "Richard Nixon [was] in many respects the last liberal president . . .".¹²⁸ Nixon proposed an income floor for families, increased domestic spending, tightened regulations, entered a bidding war with Congress over environmental spending and even went to China. On the other hand, Robert Mason also, quite plausibly, suggests that "Nixon attempted to foster

¹²⁶ Social Security Amendments of 1972. Public 92-603. *United Statutes at Large: Volume 86, 92nd Congress, 1972* (Washington, D.C., Government Printing Office), pp. 1,329-1,493.

¹²⁷ Brown, *Politics & Health Care*, pp. 382-387.

¹²⁸ Chomsky, Noam. *Rogue States: The Rule of Force in World Affairs* (Cambridge, MA: South End Press, 2000), p. 80.

an electoral realignment that would benefit conservative politics.”¹²⁹ Nixon exploited the southern strategy, rhetorically attacking mandated busing, stoked white backlash, and worked hard to appoint conservative justices to the Supreme Court, as evidenced by the Clement Haynsworth and G. Harold Carswell nomination fiascos.

Nixon had too many countervailing forces tugging at him to pinpoint him ideologically. Hence, he was anything except consistent. Overall, he seems to have moved rightward over the course of his presidency, probably mirroring the overall ideological tilt of the era.¹³⁰ He abandoned his welfare proposals, began vetoing environmental legislation, and rhetorically lambasted liberal demands. Nixon is a complex figure, which helps obscures many from recognizing his pioneering contribution to Republican social policy. He is better remembered as the unctuous figure who became engulfed and disgraced in a scandal of his own making. However, his domestic presidency perhaps proved a more telling indicator of the eventual trajectory of American politics than Watergate. Nixon helped insert market discourse in the politics of social policy which has reverberated until the twenty-first century.

¹²⁹ Mason, Robert. *Richard Nixon and the Quest for a New Majority* (Chapel Hill, NC: University of North Carolina Press, 2004), p. 3.

¹³⁰ This is somewhat at odds with James Stimson’s theory of public mood swings. He demonstrates that public opinion usually moves inversely with the ideological proclivities of the political party controlling the executive office. However Stimson’s data shows that during the Nixon era, there were not the dramatic classic fluctuations in policy mood swings concerning the welfare state that characterized the late 1970s and mid 1990s. With a Democratic Congress and mixed signals concerning the welfare state from the administration, public mood did not swing as fully. Where Nixon operated according to textbook theory is when Democrats gained in macropartisanship identification with the recession and Watergate scandals of 1973 and 1974. See Stimson, James A. *Public Opinion in America: Moods, Cycles and Swings* 2nd ed. (Boulder, CO: Westview Press, 1999), pp. 79-82; Erikson, Robert S., Michael B. Mackuen, and James A Stimson, *The Macro Polity* (New York: Cambridge University Press, 2002), p. 121.

At the nexus of this mixture of liberalism and conservatism were Nixon's contributions to social policy. He was an innovator on several dimensions—housing, welfare, and health care—without ever committing himself to seeing through his domestic agenda. One overlooked facet of Nixon's administration was his promotion of a market-based social policy emphasizing personal responsibility and competition. A number of bureaucratic and political entrepreneurs, including Moynihan, Shultz, Peabody, and Richardson, all pointed Nixon in the direction of a new system of market mechanisms. The housing voucher and HMO legislation were clearly market oriented in substance. The better known welfare reform effort, FAP or a guaranteed income, in many ways runs contrary to market principles. Yet Nixon clearly envisioned the concept as a market-based solution, akin to a voucher, with personal responsibility an added incentive and sold it as such rhetorically. He created a surreal scenario where Nixon seemed to be advocating a liberal policy as conservative.

Perhaps more important is that FAP was something of a policy anomaly. While it piqued Republicans interests in reforming welfare, the actual proposed policy was soon discarded. Republicans, including Nixon by the time of his reelection, looked askance at guaranteed incomes, preferring time bound welfare benefits with stringent work requirements. On the other hand, Nixonian market-based measures such as housing vouchers and HMOs were much more the wave of the future for Republican policy-makers. What FAP succeeds in demonstrating is the limits to the logic of market-based social policy. Race and poverty forms a boundary line to the dominance of market solutions in all areas of the Republican welfare state.

Coda to the Nixon Era: the Ford and Carter Presidencies

Gerald Ford's stormy tenure was hardly propitious for domestic reform. Measures relating to the welfare state, such as the EITC, were largely leftovers from the Nixon administration. Probably the biggest change in social policy was the passage of the Employee Retirement Income Security Act (ERISA). That legislation, while meant to shore up private pensions, was really looking backwards to a fading era, where defined-benefit pensions were virtually ubiquitous.¹³¹ Ford earnestly continued following Nixon's course in housing policy and never managed to get a major health or welfare plan off the ground during his short presidency. In the wake of Watergate, in a nation ravaged by inflation, social policy innovation was not at the forefront of the largely traditional Republican Gerald Ford's agenda.

Ford's presidential tenure was cut short by losing the hotly contested 1976 election. The outcome from the polling was that the Democratic nominee Jimmy Carter, a little-known southern governor from Georgia, prevailed. He promised a government marked by honesty while washing away the corruption that Carter diagnosed as endemic to the culture of Washington, D.C. There was hope from liberals that with unified government, since Democrats retained control of Congress by healthy margins (61 Democrats versus 38 Republicans in the Senate; 291 Democrats versus 144 Republicans in the House), the stars had finally aligned to pursue vigorous action in policy arenas such as health and welfare. Such promise proved illusory; instead the Carter presidency served as an interregnum before the coming of a Republican government reinvigorated with a philosophy emphasizing the reduction of taxes. In Skowronek's parlance, Carter

¹³¹ Wooten, James A. *The Employee Retirement Income Security Act of 1974: A Political History* (Berkeley, CA: University of California Press, 2004).

proved the classic disjunction president, unable to control events, representing the last flame of the New Deal and Great Society era.

Carter's persona captured the dynamic of drifting away from large-scale government interventionism to a new era of market principles. One close observer posited that "Carter believes fifty things, but no one thing. He holds explicit, thorough positions on every issue under the sun, but has no large view of the relations between them."¹³² The lack of having a large, easily conveyed, ideological vision certainly harmed Carter's prospects with both Congress and in communications with the wider public. He antagonized Congress by not sufficiently prioritizing his agenda and compounded the problem with not having sensitivity to members' parochial needs, such as by inveighing against virtually sacrosanct water projects. Economic stagnation, gloomy public pronouncements, such as the infamous malaise speech, and the eventual Iran Hostage scandal all abetted in turning the Carter presidency into a one-term affair. Endless debate can be given to how much of the president's problems were of Carter's own making and how much lay outside of his scope of influence. Certainly both personal foibles and structural conditions helped make the Carter presidency synonymous with failure.

Carter's Agenda for the Welfare State

Jimmy Carter is often critiqued as a president with no clear priorities. Yet, in an exception to that general rule, he conveyed a clear sense that he wanted to approach welfare reform before attempting to bring about national health insurance (nhi). This emphasis was foreign to many liberals who thought Carter had his agenda backwards.

¹³² Fallows, James. "The Passionless Presidency," *Atlantic Monthly*, May 1979, p. 42.

Yet Carter expressed commitment to the dignity of work, the private sector, and markets when contemplating how to leave his footprint on the welfare state. An expansionist social policy was anathema to Carter's disposition and the demands of the public fisc.¹³³ Nixon's market-type proposals for the welfare state were FAP, HMOs, and housing vouchers. Carter proposed a Nixon-esque welfare program, renewed the promotion of HMOs, while largely ignoring housing policy.

Welfare

Carter cared deeply about poverty, observing first-hand the plight of the poor from his days as a peanut-farmer in Georgia. While readily prioritizing welfare over health care, Carter was ambiguous and indecisive in how to best refashion cash assistance to the poor for better results. He wanted to simplify and streamline a whole cadre of programs—AFDC, food stamps, EITC, and SSI among others—while spending no more federal dollars than currently committed. Achieving these two goals proved too ambitious. In a pluralistic nation, where welfare benefits had substantial local variation, no good compromise could be reached that would not engender resistance. Further, during the late 1970s there was an expansion of impoverished families and individuals at the bottom of the economic spectrum making it virtually impossible to propose a comprehensive program without requiring a vast infusion of funding.¹³⁴

Interdepartmental disputes, mixed signals, and Carter's proclivity to micromanage, in part because he did not appoint a chief of staff, led to months of delay

¹³³ The essence of Carter's domestic policy is captured by the title of an economic study of his presidency. See Biven, Carl W. *Jimmy Carter's Economy: Policy in an Age of Limits* (Chapel Hill, NC: University of North Carolina Press, 2001).

¹³⁴ Patterson, James T. "Jimmy Carter and Welfare Reform", in *The Carter Presidency: Policy Choices in the Post-New Deal Era*, ed. By Gary M. Fink and Hugh Davis Graham (Lawrence, KS: University Press of Kansas, 1998), pp. 117-136.

before a proposal emerged from the administration. In the summer of 1977, the Secretary of HEW, Joseph Califano, presented Carter a “monster memo”, containing 62 single-spaced pages with an additional 75 pages of tables, that aimed to present a comprehensive welfare reform plan. With some changes, Carter publicly presented the plan on August 6, 1977, dubbed the “Program for Better Jobs and Income.”¹³⁵

The exceedingly complex proposal read like a document constructed by Byzantine bureaucrats. Yet, sifting through the verbiage, at heart it was strikingly reminiscent of Nixon’s failed FAP proposal. It envisioned another version of a guaranteed annual income that Califano assured the president favored private enterprise over public sector employment with strong work incentives. The plan comprised two tiers of payments, one for those able to work and another for the indigent who could not work. Like Nixon’s proposal, Califano’s struggled with providing incentives for work while maintaining benefit levels that were not deemed too costly.¹³⁶

The reaction to Carter’s welfare proposal was almost a virtual reprise of the reception to FAP. Liberals and conservatives whipsawed the proposal. Liberals complained of inadequate benefit levels that would hurt northern states and cities. Vociferous conservative voices complained, despite Califano’s assurances, that PBJI was an ill-disguised unearned handout that would vastly expand the welfare rolls. Congress, already hardened by its experiences with FAP never let the PBJI progress further than Califano’s draft statement. The relevant committee chairs, Albert Ullman (D-OR) of the House Ways and Means Committee and Russell Long (D-LA) of the Senate Finance

¹³⁵ Ibid., 127-128.

¹³⁶ Lynn, Laurence E. Jr. and David deF. Whitman, *The President as Policymaker: Jimmy Carter and Welfare Reform* (Philadelphia: Temple University Press, 1981) pp. 193-226.

Committee all disliked the proposal, and it soon died as Carter moved on to other priorities toward the end of his term.¹³⁷

The first conclusion to be drawn about the now nearly forgotten PBJI episode is that Carter was comfortable in making a proposal quintessentially Nixonian and departed significantly from Lyndon Johnson's approaches. Second, and perhaps more important, the time to propose a GAI had passed. Both liberals and conservatives opposed the notion. With the failure of the PBJI, the GAI concept disappeared from the national agenda as no subsequent president considered resurrecting the idea.

Health Care

Health policy exemplifies how Carter was caught between the clutches of large government liberalism and a more austere market driven age. Carter enthusiastically revived HMOs as a policy remedy to escalating health care costs while gingerly approaching nhl. Carter fully believed the United States financially constrained and could not afford a policy foray that would yield nhl. He emphasized cost control over increasing the scope of coverage. In the end, congressional opposition and Carter's decision to prioritize welfare reform essentially doomed all aspects of a Carter health agenda.¹³⁸

Structural flaws in the 1973 HMO legislation and Gerald Ford's insistence that HMOs were merely a demonstration project not worth more than an \$18 million dollar investment nearly left HMOs a stillborn policy. However, Ford signed amendments to the HMO legislation that removed some of the most objectionable provisions to the HMO

¹³⁷ Patterson, 1998, p. 128-130.

¹³⁸ Blumenthal and Morone, *The Heart of Power: Health and Politics in the Oval Office* (Berkeley, CA: University of California Press, 2009), pp. 248-282.

industry (PL 64-460) on October 8, 1976.¹³⁹ The election of Jimmy Carter signaled a firm administration commitment to HMOs when he appointed Secretary Joseph Califano and undersecretary Hale Champion. In 1978, Congress was contemplating an additional \$400 million worth of funding to jumpstart HMOs. However, Senator Sam Nunn (D-GA) almost single-handedly waged a campaign defusing the HMOs juggernaut. As vice-chairman of the Permanent Subcommittee on Investigations of the Governmental Affairs Committee, Nunn's staff publicized complaints against HMOs in California's MediCal program in April 1978. Followed by media reports of HMO "horror" stories shown in primetime television hours, took much of the luster away from HMOs. The uncomplimentary HMO tales of woe included deliberately excluding ill patients, closing clinics on weekends and evenings, limited physician staffing, and costs exceeding fee-for-service providers.¹⁴⁰ Kennedy, realizing that the winds were blowing against HMOs, agreed to pare back funding for the project to \$170 million. Essentially the infant HMO program was preserved with all plans for expansion dashed.¹⁴¹

NHI fared even worse than HMOs. Carter delayed proposing a program, angering Kennedy. Senate Finance Chair Russell Long (D-LA) eventually proposed a nhi program that Carter had some sympathy for. In order not to lose control of the process, seventeen months before the next presidential election, Carter proposed a variant of the Nixon plan for nhi. The Carter version included catastrophic care, an employer mandate and a series of structural reforms, such as the promotion of HMOs. The plan went nowhere as Kennedy, sparring for a fight, announced he would run against Carter. The

¹³⁹ Brown, 1983, p. 345.

¹⁴⁰ Ibid., p. 373.

¹⁴¹ Ibid., pp. 372-376; Kingdon, John W. *Agendas, Alternatives and Public Policies*, 2nd ed. (New York: Longman, 2003), p. 28.

president was not willing to use scarce political capital to push through nhi with the inevitable pushback from conservatives and special interests, such as the AMA, looming. In 1980, Congress abandoned considering the Carter plan, as all eyes turned toward the November election after Carter survived a messy primary struggle from Kennedy.¹⁴²

Housing

Housing was another policy arena that the Carter administration was not willing to invest resources. The administration did not want to make expensive federal commitments to housing, as the president was suspicious of the efficacy of most housing programs. However, cities such as New York and Philadelphia were teetering on bankruptcy and looked for a federal rescue package. Since big cities had supported Carter overwhelmingly at the polls, the mayors thought they had reason to expect a sympathetic hearing from Carter. The president dodged from proposing any large-scale initiatives until the middle of his presidency. He gave one major speech on March 27, 1978, the subject on housing and urban policy.¹⁴³ Carter suggested a rather vaguely defined partnership between federal, state, and local authorities with an emphasis on private enterprise. The speech received a mixed reception from urban advocates, mayors, and other interested parties. Soon other events pressing events subsumed any housing momentum and Carter's tepid support of his own program dissipated. No unique Carter housing program existed outside of empty rhetoric.¹⁴⁴ Instead, a report published by the President's Commission for a National Agenda in 1980 saw no future for the

¹⁴² Blumenthal and Morone, *op cit*.

¹⁴³ Sugrue, Thomas J. "Carter's Urban Policy Crisis." *The Carter Presidency: Policy Changes in the Post-New Deal Era* (Lawrence, KS: University Press of Kansas, 1998), pp. 137-157, p. 151.

¹⁴⁴ For a succinct review of Carter's housing policy, see Sugrue, 1998.

impoverished residents in the Rustbelt cities dotting the landscape of the north and Midwest. The poor were urged to relocate to the Sunbelt where economic prospects seemed brighter.¹⁴⁵

Section 8, as established by Congress in 1974, remained the mainstay of housing policy. Even some old-fashioned public housing projects, despite thoroughly discredited, commenced. The private sector proved reluctant in providing resources to erect shelter for the poorest of the poor, thus leaving very unsatisfactory public housing as the only viable recourse.

One major difference between housing and health policy is the Carter administration's adoption of Nixonian market remedies. In health, Carter enthusiastically embraced HMOs. However, he failed to correspondingly favor housing vouchers. The much ballyhooed housing allowance program, originally sanctioned by Congress in 1970 and trumpeted by Nixon in 1973, was allowed to wind down to an inglorious end in 1979-1980.¹⁴⁶ Reauthorization was not forthcoming by Congress. However, reams of data had been collected about housing allowances, setting in motion possibilities for the next unabashedly pro-housing voucher administration.

Conclusion

Carter's welfare state agenda largely failed. Intellectually, Carter was more indebted to a Republican president, Nixon, than his Democratic predecessors when considering anti-poverty and health policy. Carter proposed a GAI in the mold of Nixon

¹⁴⁵ "President's Commission for a National Agenda for the Eighties," *Urban America in the Eighties: Perspectives and Prospects* (Washington, D.C.: Government Printing Office, 1980).

¹⁴⁶ Frieden, Bernard J. "Housing Allowances: An Experiment that Worked" in *Federal Housing Policy & Programs: Past and Present* ed. by J. Paul Mitchell (New Brunswick, NJ: Rutgers University Press, 1985), p. 365.

and promoted HMOs like Nixon. Only in housing, an area of low importance to Carter, did he fail to follow Nixon's example and promote vouchers. Thus, Carter's plans for the welfare state could almost be read as a third term for Nixon. However, Carter operated very much in Nixon's shadow. The country was moving rightwards as opinion polls showed liberal ideas were held in very low esteem by the late 1970s.¹⁴⁷ Perhaps Carter's largest domestic contributions were his pro-market policies of instituting deregulation in a host of industries in tune with the rightward turn cutting across the nation.

Turning Right

A thematic underpinning alluded to throughout this chapter is the conservative shift underway in the country. The two clearest manifestations of this phenomenon during the Carter era was the movement toward deregulation and the advent of the tax revolt. After considering these two facets the movement rightwards, a brief assessment of the underlying causes for the shift away from the New Deal and Great Society is in order.

Deregulation

President Ford first embraced deregulation to combat inflation.¹⁴⁸ Carter, taking the policy prescription further, firmly believed in deregulation as a rational means to reconstruct government. The appeal inherent in deregulation is that markets would be allowed to function more efficiently without offsetting government intervention that skews behavior and breeds systemic inefficiency. Between 1975 and 1980, the airline, trucking freight, and telecommunication industries underwent complete transformation

¹⁴⁷ Stimson, James. *Tides of Consent* (New York: Cambridge University Press, 2004).

¹⁴⁸ Derthick, Martha and Paul J. Quirk. *The Politics of Deregulation* (Washington, D.C.: Brookings, 1985), p. 45.

due to deregulation. Also, the securities, railroad, and banking industries shifted, in part, toward unprecedented deregulation. Arrayed against policy analysts and politicians, such as Carter and Kennedy, interested in the “public good” were the affected industries. Much to the surprise of some, particularly academic, observers, the parochial interests proved no match against the forces sponsoring deregulation. Derthick and Quirk present this ideational triumph of ideas as a demonstration that the American political system is capable of overcoming entrenched interests when expert opinion and public sentiment converge.¹⁴⁹ There is strong merit in this presentation.

What is missing in this narrative, however, are the pragmatic partisan politics that made the outcome of deregulation possible. Derthick and Quirk analyze deregulation in isolation of other political variables, particularly the tax revolts spreading across the country. As politicians perceived the country lurching toward the right, with accompanying economic trouble, they became more susceptible to pro-market, conservative policy remedies. While governmental agencies began leading in the deregulating efforts in earnest in the mid 1970s, Congress largely followed only in 1978 and afterwards as the tax revolt blossomed and economic malaise had become a semi-permanent feature of American politics. While expert opinion triumphed allowing for the deregulation of selected industries, this was in large part because of the underlying political climate.

Proposition 13 and tax revolts

¹⁴⁹ Ibid., pp. 237-258.

The rightward shift of the late 1970s is often portrayed as epitomized by an incipient tax revolt.¹⁵⁰ This episode was not a product of coalescing expert opinion. Numerous economic policy experts, including liberal Democrats and fiscally conscious Republicans, thought dramatic tax cutting, while perhaps good politics, inherently irresponsible.¹⁵¹ The driving force behind the tax revolt were popular activists.

The most dramatic symbol of the tax revolt, indeed its catalyst, was the passage of Proposition 13 in California on June 6, 1978 by an overwhelming margin of 65% to 35%.¹⁵² Proposition 13 set a ceiling on property taxation and prohibited the state and local governments to raise taxes without a two-thirds majority vote within the affected jurisdiction. The passage of the Proposition reverberated nationally. It elicited a somber reaction from Carter who told the press on July 28, 1976, “I think the passage of Proposition 13 has sent a shock wave through the consciousness of every public servant.”¹⁵³ On a more jubilant note, former California governor Ronald Reagan celebrated the rebellion against “costly, overpowering government.”¹⁵⁴ Republican Congressman Jack Kemp (R-NY), a former football star who had turned into one of the more cerebral big-idea members of the G.O.P caucus, characterized Proposition 13 as the

¹⁵⁰ See, for instance, Edsall Thomas and Mary Byrne Edsall, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics* (New York: W. W. Norton and Co., 1991).

¹⁵¹ Collins, Robert M. *More: The Politics of Economic Growth in Postwar America* (New York: Oxford University Press, 2000), p. 177.

¹⁵² Sears, David O. and Jack Citrin. *Tax Revolt: Something For Nothing in California* (Cambridge, MA: Harvard University Press, 1982), pp. 188-192; Martin Isaac William. *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, CA: Stanford University Press, 2008), p. 106.

¹⁵³ Quoted in Martin, 2008, p. 126.

¹⁵⁴ Ibid.

commencement of “a coast-to coast appeal for a solution to oppressive tax rates.”¹⁵⁵

Indeed, the citizen behind Proposition 13, Howard Jarvis, who claimed he was to the “right of Barry Goldwater” became an overnight sensation. Anti-property tax measures immediately took grip in states as diverse as New York, Michigan, and Massachusetts where the incumbent governor, Michael Dukakis, was voted out of office in a Democratic primary because of the tax issue.¹⁵⁶

Yet Proposition 13 was probably over-interpreted at the time. Despite the seeming shift in popular opinion to the right by the order of several magnitudes overnight, unique circumstances set the stage for the passage of the initiative. The property tax is a peculiar local revenue source which is a vestige of an earlier era of taxation. It affects residents inequitably, with senior landholders harmed disproportionately. To mitigate against the ravages of appreciating land values, conventionally tax assessors had discretion to value properties below market rates. However, in order to rationalize tax assessments, states such as California began attempting to make real estate taxes more uniform and dispensed with special privileges. Thus the property tax became an onerous burden threatening the security of long-time residents. For years, both liberals and conservatives simmered over this “unfair” tax, especially in California. Many who opposed the property tax favored welfare state services, as they were interested in security, not incentives for individualistic dynamism.¹⁵⁷

¹⁵⁵ Quoted in Collins, Robert M. *More: The Politics of Economic Growth in Postwar America* (New York: Oxford University Press, 2000), p. 178.

¹⁵⁶ Martin, 2008, pp. 75, 113-120.

¹⁵⁷ Martin, 2008, pp. 15-18.

Nonetheless, a confluence of circumstances in 1978 allowed Proposition 13 and the revolt against property taxes to be declared a revolt against all taxes and a rallying cry for the Republican Party and conservatives. In the spring of 1978, polls showed that it was unclear whether Proposition 13 would pass. In the past, the California legislature had always pre-empted a tax revolt by taking measures to alleviate the tax burden through relatively small exemptions for homeowners. But this time the legislature deadlocked, with all Republicans voting against the remedy proposed by the majority Democrats.¹⁵⁸ Second, a new Los Angeles County assessor, Alexander Pope, had been appointed and was running for election in November. Normally, new assessments would be made available for public consumption in October, but Pope, fearing the voters' wrath, decided to distribute property assessment values in May, just before the balloting on Proposition 13. The new assessments frequently had property values doubling over earlier appraisals.¹⁵⁹ A firestorm of popular resentment broke out. Overnight, the fortunes for Proposition 13 passage jumped from even odds to an overwhelmingly favorite in polling. Governor Edmund G. "Jerry" Brown, sensing disaster, tried to get LA County to overturn its assessment, which the county in a hidebound manner refusing. It had already budgeted for an increase in tax revenue. The result was the passage of Proposition 13 with a more moderate tax ballot measure, Proposition 8, narrowly going down to defeat, 53-47%.¹⁶⁰

Interpretations of Proposition 13 usually suggest it was the outcome of pent up resentment by overburdened taxpayers. Yet Proposition 13 served more as a causal agent

¹⁵⁸ Sears and Citren, 1982, pp. 25-26.

¹⁵⁹ Martin, 2008, p. 105.

¹⁶⁰ Ibid., pp. 105-107.

of the movement against taxes than the effect of widespread taxpayer wrath. After witnessing what happened in California, tax-cutting advocates took up the cause of property tax reform in other states. More importantly, it decisively reshaped the political foundations of the Republican Party. Traditional Republican orthodoxy called for balanced budgets over tax cuts. Now new firebrands, particularly Jack Kemp, were challenging the party's philosophical moorings.

Kemp began his crusade when the Humphrey-Hawkins bill, a liberal bill aimed at increasing employment and the fullest statement of Keynesian theory, was on the agenda in 1975.¹⁶¹ The contrasting Kemp-McClure bill, never enacted, instead aimed to decrease taxes on businesses. Yet in 1978, a conservative tax-cutting bill drastically decreased the rate of taxation on capital gains, which Carter grudgingly signed.¹⁶² However, Kemp soon shifted his thinking toward a new theoretical framework, called supply-side economics. Columnist Jude Wanniski transmitted economist's Arthur Laffer's brainchild to Kemp. The theory smoothed over the detrimental rough edges of cutting taxes (large deficits and debt) by claiming that lower taxes would actually increase revenues for the treasury since free-market enterprise would prosper with lower taxes and the total economic pie would grow. In a perhaps apocryphal story, Laffer demonstrated his "curve" to Dick Cheney (R-WY) on a napkin at a restaurant.¹⁶³ Kemp soon teamed with Senator William Roth (R-DE) to propose a bill cutting individual taxes by 30%. While professional policy experts often lampooned the idea, many conservative politicians latched onto the concept. Ronald Reagan, using supply-side logic, predicted "a surge of

¹⁶¹ A version of Humphrey-Hawkins was enacted in 1978. See Collins, 2000, pp. 167-171.

¹⁶² Collins, 2000, p. 178-179.

¹⁶³ Martin, 2008, p. 130.

dollars in the [California state] Treasury, brought on by increased spending that results from property tax cuts” from the passage of Proposition 13.¹⁶⁴

The surge in state tax revenues never materialized. More significantly for the political environment, nor did the collapse of Californian services from the passage of Proposition 13.¹⁶⁵ In the near-term, California functioned much as it had before. A new political issue had appeared and Reagan ran on it decisively for the 1980 Republican Party presidential nomination. He stamped out intraparty dissent with his convincing victories in the primary over George H.W. Bush (who characterized supply-side economics as “voo-doo”) and then the general election.

Deregulation and the tax-cut movement are both evidence of pro-competitive market forces taking center stage within the American political system. Deregulation was meant to foster productive markets and Proposition 13 was interpreted as the clarion call to remove government shackles from the citizenry, allowing for individual entrepreneurship via the market. Both deregulation and tax reduction developed popular support. Yet deregulation appealed to a broad range of policy experts while cutting taxes elicited a bipartisan challenge from much of the intellectual classes. This disparity in approbation from experts may have lead the two policy arenas to be viewed in isolation of one another. This is a pity, because both were symptomatic of the country turning right. Expert opinion itself, while helpful if aligning with favored ideological proclivities, is a relatively minor variable, easy to ignore if it challenges preferred policy. Expertise did not fuel the tax revolt and was peripheral to the rightward movement overtaking the nation. While Derthick and Quirk demonstrate it mattered for

¹⁶⁴ Quoted in Martin, 2008, p. 130.

¹⁶⁵ Ibid.

deregulation, their narrative is tendentious since the broader political climate is not surveyed in their study.

The Rightward Shift

Deregulation and tax issues were prominent issues symbolizing and aiding in the shift toward a more conservative era. A cottage industry has developed identifying the underlying the causes for the shift away from the New Deal and Great Society in the late 1970s.¹⁶⁶ Many arguments turn on economic factors. These include the two oil crises of 1973 and 1979, stagflation, the punishing interest rates orchestrated by Fed Chairman Paul Volcker to wring out inflation, globalization, decline in growth of productivity, stagnating living standards, the irrevocable shift by Johnson and Nixon away from the gold standard for the monetary supply, economic insecurity and demographic inequality. Culture also played a role, as Vietnam War era protests, urban rioting, school busing, and the black power movement elicited a backlash. While it is difficult assess how much each of these factors mattered, the country took an indisputable right turn as measured by a change in voting trends and party identification from overwhelmingly Democratic to

¹⁶⁶ Collins 2000; Berkowitz, Edward D. *Something Happened: A Political and Cultural Overview of the Seventies* (New York: Columbia University Press, 2006); Blyth, Mark, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (New York: Cambridge University Press, 2002); Prasad, Monica, *The Politics of Free Markets: the Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (Chicago, University of Chicago Press, 2006); Reich, Robert B. *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life* (New York: Knopf, 2007); Kuttner, Robert, *Revolt of the Haves: Tax Rebellions and Hard Times* (New York: Simon and Schuster, 1980); Kuttner, Robert, *The Squandering of America: How the Failure of our Politics Undermines our Prosperity* (New York: Knopf, 2007); Schulman, Bruce J. and Julian E. Zelizer, *Rightward Bound: Making America Conservative in the 1970s* (Cambridge, MA: Harvard University Press, 2008); Berman, William C. *America's Right Turn: From Nixon to Clinton* (Baltimore: Johns Hopkins University Press, 1998); Smith, Mark, A. *The Right Talk: How Conservatives Transformed the Great Society into the Economic Society* (Princeton, NJ: Princeton University Press, 2007).

near parity between Republicans and Democrats. Republicans began routinely winning presidential elections while trimming and eventually erasing Democratic majorities in Congress.

Conclusion

The 1970s marked a transition away from the New Deal and Great Society. The shift was subtle, not readily observable to many contemporaries. One book, written in the immediate years after the decade ended, expressed the notion in its title that “it seemed like nothing happened” during the decade.¹⁶⁷ In social policy a Republican president, Richard Nixon, for political and pragmatic reasons, began to experiment with market-oriented proposals for housing, welfare, and health. It is easy to overlook how difficult it was to make a major transition to begin undoing the previous generation’s governing philosophy. The calamities of the mid and late 1970s, as well as the personal preferences of a Democratic President, Jimmy Carter, help institutionalize some of Nixon’s market policy strategies for the welfare state. Carter’s tenure also marked the gaining momentum of deregulation and tax revolts helping mark a more conservative policy direction that the country was embarking on.

The 1970s were essentially a harbinger for what was to come. The country would move dramatically to the right over the next twenty-five years on many fronts including social policy. The focusing events were two conservative revolts separated by fourteen years—the Reagan Revolution of 1980 and the Republican Revolution in Congress in 1994.

These two “revolutions” bookended a concerted market movement in welfare state policies during the 1980s and early 1990s.

¹⁶⁷ Carroll, Peter N. *It Seemed Like Nothing Happened: The Tragedy and Promise of America in the 1970s* (New York: Holt, Rhinehart, and Winston, 1982).

Chapter 5: The First Conservative Revolution: 1981-1988

The election of Ronald Reagan as president in 1980 severed ties to the old liberal order to a greater degree than any other moment in time. Largely latent ideological currents in American politics became readily apparent for the first time in decades. At his inauguration, Reagan intoned, “In this present crisis, government is not the solution to our problem; government is the problem.”¹ It seemed Reagan interpreted his victory as sanctioning a substantial reduction in social programs in order to lubricate the American economic engine. Indeed, his administration made strides toward such an effort early in his presidency. However, as is well known, retrenchment endeavors met with only limited success.² What is less understood is that on a number of social policy fronts the Reagan administration, through trial and error, often attempted to reconstruct the welfare state according to markets, once outright retrenchment proved problematic. Reagan’s approach to social policy proved a logical extension to the programmatic reorientation begun in the Nixon administration.

The move toward a market-based social policy, while intertwined with the 1980 election, is a broader phenomenon than the voters’ verdict from a discrete election. During the Reagan years, Republicans suffered electoral setbacks in 1982 and 1986, yet Democratic victories failed to staunch the pro-market flow. Policies catering toward market-based reforms were launched in a diverse array of fields. The regulatory apparatus, education, and as reviewed in detail in this chapter, the welfare state, all became fodder for innovation. Democrats of this era never attempted to establish a

¹ “Inaugural Address, January 20, 1981.” *Public Papers of Ronald W. Reagan: 1981* (Washington, D.C.: U.S. Government Printing Office), pp. 1-4, 1.

² Pierson, Paul. *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (New York: Cambridge University Press, 1994).

coherent anti-market platform, instead merely capitalizing on retrenchment threats leveled at the welfare state. Often Democrats became co-opted in believing that market remedies were the most innovative and appropriate responses to policy problems. A dominant model of a government-centered welfare state originally propagated by Democrats was fast waning. The 1980s witnessed a fuller realization of market-based social policy than the first stirrings evident the previous decade. Despite the pendulum swinging, at this juncture movement toward market-based policies was incremental.³ Further, the nature of change varied across policy areas.

The new low-income support policy, rhetorically at least, was workfare. This reflected the conservative paternalist notion that the poor should earn their income through work instead of spending a stipend provided by the federal government. Characterizations of the Reagan administration usually emphasize retrenchment in welfare. However, such a bald assessment is only partially true. Housing policy underwent a major transformation toward a market paradigm. The Reagan administration's vigorous advocacy for vouchers, along with promoting concepts such as enterprise zones and the privatization of the housing stock, superseded the old New Deal and Great Society approaches. In health care, a number of political elites embraced market mechanisms. While the Reagan administration failed to incorporate a voucher schema in Medicare it largely succeeded in revitalizing the sputtering HMO movement. Public pensions, after an early administration fiasco, were kept off-limits from privatization and market mechanisms. Social Security, in its New Deal formulation,

³ An early study arguing for the perceived changes in the framework of policy discourse are the essays in Chubb, John E. and Paul E. Peterson, eds. *The New Direction in American Politics* (Washington, D.C.: Brookings, 1985).

remained unchallenged in mainstream policymaking channels for fifteen years.

However, the Reagan administration proved pivotal in shifting the structure of private pensions. In health and pension policy the shift toward market mechanisms did not happen only through overt executive and legislative action, but rather, through more indirect mechanisms. Policymakers were at best only dimly cognizant of these rather subterranean shifts.

Aiding Republican electoral efforts was Reagan's sunny demeanor that helped to defuse all Democratic charges against his policies—hence the image of the Teflon president. With an assist from a rebounding economy, Reagan swept to a decisive reelection victory, carrying 49 states in 1984. Despite widespread public approbation of Reagan by the electorate, skeptics have equated Reaganism as a synonym with welfare state retrenchment—paradoxically viewed as a politically risky position. To unravel this dilemma, nuance is needed in describing Reagan's social policy. He continued along the path of Nixon in reconstructing the welfare state according to a market formulation. While market mechanisms are sometimes treated as the equivalent of hidden retrenchment, they are also a viable alternative paradigm for social policy.

Reagan's Welfare State: Retrenchment vs. Reconstruction

Reagan promoted a vision centered on a few truths. Free enterprise is good, excessive taxation is an encumbrance to prosperity, government is bad, the Soviet Union is evil, and the United States is the world's great hope. The welfare state, while associated with these principles, was in some respects a second order project for Reagan that does not always clearly connect with his core verities. To lucidly capture the essence of Reagan's philosophy toward the broad welfare state is therefore difficult: a profound

statement of principles never existed. Instead, the interested observer has to go through various haphazard statements made by the president and his advisers to understand how much of a safety net Reagan's philosophy would permit.

A key distinction to make is Reagan in the role of ideologue versus Reagan the political pragmatist.⁴ He exhibited both traits which often lacked synergy. Political pragmatism often called for treading slowly when confronting established social benefits, particularly those with a large middle class constituency. Reagan never seemed committed to slashing vast swaths of the established welfare state, expressing ambivalence toward social policy.

The Retrenchment Ideologue?

Some of Reagan's most noted quotations exude an unmistakable hostility toward the welfare state. Long before entering presidential politics, Reagan served as a spokesman for the American Medical Association (AMA), which fought an embittered, and unsuccessful, battle against Medicare. The AMA, in 1962, distributed a recording to doctors' wives—Operation Coffee Cup--featuring Reagan's dulcet voice delivering an overwrought harangue against Medicare. He suggested that the enactment of Medicare would pave the way for other obtrusive federal programs and "we will awake to find that we have socialism." Americans would then "spend our sunset years telling our children and our children's children what it was like in America when men were free."⁵ Shades of

⁴ Robert Collins forcefully argues in favor of this dual reading of Reagan in Collins, Robert M. *Transforming America: Politics and Culture during the Reagan Years* (New York: Columbia University Press, 2007).

⁵ An audio recording of the speech can be found at <http://www.youtube.com/watch?v=z43NCL6Fxug>. See Skidmore, Max J. *Medicare and the American Rhetoric of Reconciliation* (University, Alabama: University of Alabama Press, pp. 127-128) for the written text of salient portions of the speech.

this invective once again come forth in his inaugural address where the new president famously diagnosed government a malady inflicting the vitality of the American people. Finally, when Reagan characterized his election victory in 1980 as “not so much a victory of politics as . . . a victory of ideas, not so much a victory for any one man or party as . . . [a] victory for a set of principles”, it is hard not to imagine the president wielding an ideological ax, ready not only to cut taxes, but also to chop social provision accordingly.⁶

Yet a canvass painted from the president’s own words could also render a different image. Luckily, Reagan kept a fairly comprehensive diary, where he shared his thoughts on a wide range of matters. Here he demonstrates nuance in his views about social policy, failing to come across as a fervent ideologue aiming to dismantle the welfare state. Plaintively, he wrote in 1982, “the press is dying to paint me as now trying to undo the New Deal. I remind them I voted for F.D.R 4 times. I’m trying to undo the ‘Great Society.’ It was L.B.J’s War on Poverty that Led to our present mess.”⁷ Shortly thereafter, Reagan makes his point clearer, “The Demos. are screaming and lying like bandits charging us with cutting Soc. Security—we aren’t touching Soc. Security.”⁸ In general, he fails to reflect deeply on matters concerning social policy throughout his diaries. When references to the welfare state appear, he usually assumes a defensive posture, arguing how his opponents are mischaracterizing his efforts.

Reagan’s tone of outrage conceals that his administration did attempt in 1981 to reduce benefits for early Social Security retirees. After getting burned on the issue,

⁶ “Remarks at the Conservative Political Action Conference Dinner, March 20, 1981.” Ibid., pp. 275-279, 275.

⁷ Reagan, Ronald. *The Reagan Diaries*, ed. Douglas Brinkley (New York: Harper Collins, 2007), Thursday, January 28, 1982, p. 65.

⁸ Ibid., Wednesday May 5-Friday May 7, 1982, p. 84.

Reagan retreated. When Reagan refers to social policy, there is a detectable defensiveness because of the tension between deep conservative principles and pragmatism.

Reagan, when campaigning and then serving as president, moved away from earlier positions advocating a voluntary component to Social Security and demonizing Medicare. During his single debate with Carter in 1980, Reagan clearly grasped that Medicare was not a program to handle with reckless abandon. Instead, when Carter attempted to score a political point by referencing the memorable performance from Operation Coffee Cup, Reagan parried the thrust by laconically delivering the line, “there you go again.”⁹

Political pragmatism reinforced that Reagan could not go far in downsizing middle-class entitlements without pushback. Ultimately, most of the welfare state avoided major reductions in funding. The proverbial conservative bark was larger than the bite. One way to analyze Reagan is that as an idealist he was in favor of efforts to trim social spending. When those faltered, Reagan the pragmatist was deft enough to change course, which often meant introducing market mechanisms into social policy.

Programs with ‘universal’ constituencies, primarily pension and health benefits, were largely immune to significant retrenchment. Only anti-poverty programs suffered more than modest reductions. Even these in general were not downsized, merely restrained from growing as fast as anticipated in pre-Reagan policy. For example, AFDC’s growth rate was reduced in Reagan’s first budget by 14% more than Carter proposed. This was done through diverse measures, such as placing an income ceiling

⁹ Collins, 2007, pp. 48-49.

for state AFDC benefits and requiring states to count stepparent's incomes.¹⁰ Trimming benefits at the margins also slowed programmatic growth in Medicaid and Food Stamps. A few programs that had origins during the 1970s, most notably the Comprehensive Employment and Training Act (CETA), were completely eliminated.¹¹

However, besides a few exceptional programs such as CETA and reducing the rate of increases in spending on longstanding anti-poverty programs, widespread retrenchment to the welfare state is largely overstated.¹² Congress followed by enacting much of the president's program, although funding programs a bit more generously than Reagan proposed.¹³ Hugh Heclo is precisely on target when he summarizes, "[Reagan] and his administration did little to enact—or even prepare the groundwork for—an agenda of limited government."¹⁴

Tax Cuts Triumphant

While Reagan failed to dismantle the welfare state he succeeded in leaving an indelible mark on American political culture by cementing a change in philosophy behind taxation and budgetary principles. Hitherto, the Republican Party had earned the

¹⁰ Palmer, John L. and Isabel V. Sawhill, eds. *The Reagan Record: An Assessment of America's Changing Domestic Priorities* (Cambridge, MA: Ballinger, 1984), pp. 363-364.

¹¹ See especially *Ibid.*, pp. 363-379.

¹² Overall budget outlays demonstrate that social spending cuts were hardly noticeable considering the overall budget during Reagan's presidency. Government spending, as a percentage of GDP, hovered around 22% throughout Reagan's presidency (FY 1982-1989). During Carter's presidency, outlays were, on average, a full percentage point smaller, approximately 21% (FY 1977-1981). See Office of Management and Budget: Historical Tables: Table 1.3: "Summary of Receipts, Outlays, and Surpluses or Deficits in Current Dollars, Constant (FY 2000) Dollars, and as Percentages of GDP: 1940-2014." Accessed June 7, 2009 at <http://www.whitehouse.gov/omb/budget/Historicals/>; calculations by author.

¹³ Palmer and Sawhill, 1984, pp. 368, 370, 376.

¹⁴ Heclo, Hugh, "The Mixed Legacies of Ronald Reagan." *Presidential Studies Quarterly*, 38 (4): 2008, pp. 555-574, 558.

deserved reputation for budgetary prudence. Taxes were never popular with the Republican caucus; however, avoiding large deficits primarily influenced Republican fiscal thinking.¹⁵ Starting with Reagan, low tax rates became paramount, replacing budget discipline as the Holy Grail that GOP politicians would strive to obtain.

Three events occurred in the spring and summer of 1981 that both fulfilled the promise and demonstrated the limitations of the Reagan Revolution. Two were unmitigated triumphs for the administration; the third, an embarrassing setback. The administration victories included the enactment of the Economic Recovery Tax Act of 1981 (ERTA) and the passage of the Gramm-Latta Omnibus Budget Reconciliation Act (OBRA) of 1981. Concurrent with these historic reorientations of the tax code and budget apparatus, the administration became embroiled in a fiasco when it proposed reductions in Social Security benefits.

The post World War II steeply progressive taxation structure with relatively high rates on wealthier individuals ended abruptly. After dramatically recuperating from an assassination attempt, Reagan proposed a ten percent reduction in personal tax rates, clearly inspired by Kemp-Roth's tax reduction proposal from the late 1970s. Congress, jolted from its Carter-era torpor, responded with decisiveness. A surreal climate gripped Washington, with both Republicans and Democrats entering a bidding war to lay claim to the mantle as the true champion of the taxpayer. When the frenzy ended, the Republican

¹⁵ Kimmel demonstrates that Republican presidents in the first half of the twentieth century made valiant efforts to balance the budget. See Kimmel, Lewis Henry. *Federal Budget and Fiscal Policy, 1789-1958* (Washington, D.C.: Brookings, 1959), passim. Nixon also became disgruntled with Democratic efforts to increase domestic funding. For more about his impoundment battles with Congress, see Shuman, Howard E. *Politics and the Budget: The Struggle Between the President and Congress* (Englewood Cliffs, NJ: Prentice Hall, 1992), pp. 223-228.

tax-cutting bill, ERTA, included income rate reductions averaging a cumulative 25% with an immediate cut in the top rate from 70% to 50%. Tax brackets were indexed to inflation beginning in 1985, the business investment tax credit was augmented, and other tax code provisions liberalized. The Democratic alternative also proposed tax cuts more than party leaders thought responsible. They were inserted in the vein hope of holding the caucus together.¹⁶

The Republican controlled Senate easily passed ERTA. The key vote was the Senate Finance substitute that reduced taxes across the board 25% (Table 5.1, vote #3). The Senate's final passage was through a voice vote. House Speaker Tip O'Neill (D-MA) attempted to rally the Democratic-controlled House to vote against the Republican bill. However, many conservative Democrats, especially from the South, deserted the Speaker and voted with the Republicans. In the crucial vote to substitute the Republican alternative for the Democratic bill, 48 Democrats joined with the G.O.P. (Table 5.1). These "boll-weevils" essentially proved that an ideologically conservative majority existed in the Congress (see Table 5.1, vote 1). All told, it was easily the biggest tax cut in history and it was permanent.¹⁷

Table 5.1: ERTA Tax Votes

	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No

¹⁶ Fullerton, Don. "Inputs to Tax Policy-Making: The Supply-Side, the Deficit, and the Level Playing Field" in *American Economic Policy in the 1980s* (Chicago: University of Chicago Press, 1994), pp. 165-208, 180-182. The Democratic plan also tilted tax relief toward individuals at the lower end of the income scale. See Fessler, Pamela, "Delays Charged: Finance Committee Clears President's Tax Cut Plan; House Panel Sets Timetable," *Congressional Quarterly Almanac* (June 27, 1981), pp. 1130-1131.

¹⁷ Collins, Robert. *More: The Politics of Economic Growth in Postwar America* (New York: Oxford University, 2000), p. 198.

Vote #1	190	1	48	194	238	195
Vote #2	190	1	133	106	323	107
Vote #3	52	1	37	10	89	11

Vote #1: House vote on Republican Substitute Amendment to reduce tax rates

Vote #2: Final vote in House, HR 4242

Vote #3: Senate Finance Substitute to reduce tax rates, HJ Res 266

Sources: Votes 1-2: *CQ Weekly*, August 1, 1981, p. 1,412; Vote 3: *CQ Weekly*, August 1, 1981; p. 1,419.

ERTA, while an amalgam of tax reductions, at heart institutionalized the supply-side economic principle as Republican gospel. This economic theory stipulated low tax rates for upper income individuals would vastly augment growth, thus leading to revenue flowing to the treasury, offsetting the lower tax rates.¹⁸ ERTA flouted, in this case, the principle that professional economic expertise matters in policy-making. Supply-side economics had a suspect intellectual lineage. A non-mainstream economist, Arthur Laffer, attempted to rehabilitate the image of classical economics, by essentially Christening aspects of eighteenth and nineteenth century theory as “supply-side.” Inspired by Adam Smith’s conceptualization of the “invisible hand” of market competition as a superior way to manage economies than excessive government planning and Jean Baptiste Say’s theory of the promotion of production over demand, Laffer

¹⁸ The most important claim that supply-siders made is that low tax rates would expand the economy. The assertion that the expansion would vastly increase government revenues to the point that the budget could be balanced was considered of secondary importance and sometimes given as a tentative claim. See Wilentz, Sean. *The Age of Reagan: A History, 1974-2008* (New York: HarperCollins, 2008), p. 121 for this caveat.

succinctly posited that supply-side theory could be portrayed by drawing a curve of the relationship between tax rates and economic growth.¹⁹

Jude Wanninski of the *Wall Street Journal* picked up on Laffer's arguments and introduced him to Jack Kemp, whom Wanninski described as "quite a piece of horseflesh."²⁰ The persuasive Kemp converted many within the Republican congressional caucus to supply-side theory with Reagan becoming an adherent. While experts, such as eventual Nobel Laureate Paul Krugman dismissed supply-side economics as pseudo-scientific and its promoters as "cranks", the concept was easily explained and had intuitive appeal.²¹ A *Washington Post* editor, William Greider, revealed that the director of the Office of Management and Budget (OMB), David Stockman, believed supply-side economics was merely warmed-over trickle down theory. Stockman thought the real purpose behind the promotion of a suspect brand of economics was redistribution in reverse—alleviating the tax burden of the rich.²² The instrumental agent responsible to maneuver Reagan's economic agenda toward enactment, Stockman's revelations whispered to Greider were astonishing considering the OMB director's position.

Stockman pursued an agenda of cutting both taxes and social spending. He worked from an advantageous position; he developed the reputation of virtual omniscience on all matters pertaining to the budget. The cartoon characterization of Stockman is that he had the heart of an ogre, an implacable foe of the welfare state. In

¹⁹ Collins, 2000, pp. 182-185.

²⁰ Quoted in Collins, 2000, p. 185.

²¹ Krugman, Paul, *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations* (New York: Norton, 1994), pp. 89-92.

²² Greider, William. *The Education of David Stockman and other Americans* (New York: Dutton, 1982), p. x.

truth, he believed in some provisions of the safety net, particularly for the truly needy, although he thought the entrenched welfare state wasteful. Stockman's churlish image developed when he attempted to merge the supply-side economic paradigm with the traditional "root-canal" Republican economic theory of balanced budgets.²³ Therefore, he went along in promoting ERTA, but always cast a wary eye at the budget.

Stockman's star shined when he masterminded orchestrating the use of Reconciliation as an instrument to force reductions in the escalation of funding for anti-poverty programs—Reagan's other great victory from 1981. By bundling the cuts together in one package, it proved difficult for congressional members to defend parochial interests.²⁴ Conservative "Boll-Weevil" Democrats in the House provided the margin for victory. OBRA passed with a coalition of approximately 30 Democrats deserting the Speaker's position in key procedural votes (Table 5.2, Vote #1-3).

Table 5.2: Gramm-Latta Omnibus Budget Reconciliation Act (OBRA) of 1981

Legislative Action	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
Vote #1	1	188	209	29	210	217
Vote #2	188	0	31	208	219	208
Vote #3	189	0	27	212	216	212
Vote #4	185	3	47	190	232	193
Vote #5	52	0	27	15	80	15

Vote #1: Motion to end debate and vote on the Democratic version of budget.

Vote #2: Motion to insert Latta (Republican) substitute

²³ Ibid., p. 16.

²⁴ Pierson, Paul. *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (New York: Cambridge University Press, 1994), p. 16.

Vote #3: Motion to permit a single vote on the reconciliation bill as endorsed by Reagan

Vote #4: Final House Vote

Vote #5: Final Senate Vote

Sources: Votes 1-3: *CQ Almanac 1981*, June 27, 1981, p. 1,160; Vote 4: *Congressional Record*, June 26, 1981; Vote 5: June 25, 1981, p. 13,933.

Even in the midst of the euphoric spirit of these two most memorable moments of the Reagan Revolution, Stockman foresaw impending troubles. The same time as OBRA sailed through the House in May and approximately two months before ERTA moved to the floor for debate, Stockman orchestrated the unveiling of another component of his budgetary plan.²⁵ In his conversations with Greider, Stockman admitted, “there was a certain dimension of our theory that was unrealistic.”²⁶ In order to maintain the position that Reagan was serious about cutting the deficit, \$44 billion worth of “future savings to be identified” or the “magic asterisk” was inserted in the budget mockups to keep the Revolution on track. Stockman needed sizable cuts in future budgets to prevent ballooning deficits. With military spending off-limits, the OMB director knew that major middle class entitlement programs, namely Social Security and Medicare, would require restructuring diminishing benefits in order complete the line currently filled with the magic asterisk.²⁷ It proved a major miscalculation to looking at Social Security for cuts. Here the Reagan Revolution stalled.

²⁵ There were technically two iterations of the Gramm-Latta Budget which are distinguished as Gramm-Latta I and Gramm-Latta II. Gramm-Latta I which set the foundations for Reagan’s budget was debated in mid May and Gramm-Latta II, which set the final budget numbers, passed in June.

²⁶ Greider, 1982, p. 44.

²⁷ Stockman, David. *The Triumph of Politics: Why the Reagan Revolution Failed* (New York: Harper & Row, 1986) pp. 124-135.

Stockman overruled skeptical political advisers when targeting Social Security. As a former congressman, he presumably knew the inherent perils when tackling programs with powerful constituencies. Stockman convinced Reagan that the Secretary of Health and Human Services, Richard Schweiker, should propose cuts in Social Security benefits to take effect nearly immediately.²⁸ The cost of living adjustment (COLA) would be frozen for three months and basic benefit calculations would be reformulated. However, the severest cuts would be to early retirees. Under contemporary law, when a worker retired at 62, he or she qualified for 80% of the full 65 old year retiree's benefit. Stockman proposed slicing that benefit to 55%. The technical presentation obscured the president to the nature of the impending fusillade. According to William Niskanen, acting chairman of Reagan's economic advisers, the president's eyes glazed over.²⁹ Stockman, however, insists that the president took an active role in the discussion and pronounced himself "enthusiastic" about the plan to reduce early retirement benefits.³⁰

Schweiker, in a futile attempt to inoculate Reagan, announced the proposal, without consultation with Congress, on May 12, 1981.³¹ It became an immediate crisis for the administration and a shot of adrenaline for demoralized congressional Democrats. Democratic politicians vied with each other to see who could blast the package with the most colorful adjective. Terms such as "insidious, cruel, despicable, rotten, stone-

²⁸ Pierson, 1994, p. 66. Stockman later claimed that he did not determine that the cuts would effect with such immediacy. He suggests bureaucrats within HHS made the decision of making the date January 1, 1982. Stockman, 1986, p.p. 190-191.

²⁹ Niskanen, William A. *Reaganomics* (New York: Oxford University Press, 1988), pp. 37-39

³⁰ Stockman, 1986, pp. 186-187.

³¹ Light, Paul C. *Artful Work: The Politics of Social Security Reform* (New York: Random House, 1985), p. 123.

hearted, and punitive” were all bandied about.³² The resulting public furor could not be quelled and the administration beat a hasty retreat. However, the Senate voted 96-0 in a resolution supporting Social Security offered by Robert Dole (R-KS) and could only defeat by a single vote, 49-48, a harshly worded resolution penned by Daniel Patrick Moynihan (D-NY). Not a single Senate Republican rose to defend the Social Security cuts.³³

The limits of the Reagan Revolution had been realized in the midst of the Revolution’s triumphs. Most of the subsequent Reagan years were spent undoing portions of the 1981 tax cuts.³⁴ In his memoirs, Stockman lamented that the Reagan Revolution “would be only a half-revolution--and a fiscal disaster” because it failed to confront the welfare state and deficit spending headed dramatically higher.³⁵ Another Stockman legacy was an attempt to clumsily revive the Nixonian strategy of obfuscation during the Social Security debate. Stockman is quoted suggesting that he had no interest in spending “a lot of political capital solving some other guy’s problem in 2010.”³⁶ Instead Stockman bluntly revealed that the real motivation behind Social Security reform was to “permit the politicians to make it look like they’re doing something *for* the beneficiary population when they’re doing something *to* it.”³⁷

³² Claude Pepper (D-FL) voiced the first two adjectives, Tip O’Neill (D-MA) the next three, and Ted Kennedy (D-MA) the final term. See Light, 1985, p. 124.

³³ Ibid., p. 125.

³⁴ The reversal began as quickly as the passage of the 1982 Omnibus Budget Reconciliation Act. After the Social Security debacle, a committee studied ways to resolve Social Security finances. It eventually recommended, among other measures, an increase in the payroll tax which Congress adopted and Reagan signed in 1983.

³⁵ Stockman, 1986, p. 265.

³⁶ Quoted in Pierson, Paul. *Dismantling the Welfare State: Reagan, Thatcher, and the Politics of Retrenchment* (New York: Cambridge University Press, 1994), p. 65.

³⁷ Quoted in Greider, 1982, p. 46.

Stockman's candor has become fodder for scholars to suspect a much more insidious and widespread plot to dismantle the welfare state. Questions of politicians' intentions and their use of obfuscation have become pervasive in writing about conservatives and social policy.³⁸ An emergent question after the passage of ERTA was whether the Reagan administration had a hidden agenda to defund the welfare state by "starving the beast" of funds.

Starve the Beast

Some suspected supply-side economics was merely a ruse to legitimate the creation of intentional deficits. The theory, called "starve the beast," suggests that the pressure of deficits would allow for the reduction or even elimination of the welfare state. One of the first to propound this theory was Moynihan during the mid 1980s. Moynihan suggested the Reagan administration quite deliberately created a doubling of the national deficit to spur action for domestic spending reductions.³⁹

Reagan fueled this suspicion by telling a story, years earlier, during the campaign to pass Proposition 1, a ballot measure to limit income taxes in California, as governor. In words to a sympathetic business group during 1973, "You can lecture your teenagers about spending too much until you are blue in the face, or you can accomplish the same goal by cutting their allowance. We think it is time to limit the government's allowance .

. . .⁴⁰

There is some documentary evidence to support the charge that some with conservative inclinations had conceived of "starve the beast" well before the 1980s. In

³⁸ Obfuscation is a major theme in Pierson 1994.

³⁹ See Collins, 2000, pp. 204-205.

⁴⁰ Quoted in Collins, 2000, pp. 206-207.

the vanguard, Milton Friedman wrote in a *Newsweek* column in 1967 that in order to downsize government one must oppose all tax increases and accept deficits as “the lesser of evils.”⁴¹ Neoconservative Irving Kristol wrote in *The Wall Street Journal* in 1980, that liberals “always spend generously, regardless of budgetary considerations, until the public permits the conservatives an interregnum in which to clean up the mess—but with the liberals retaining their status as the activist party, the party of the “natural majority.” Kristol advises neoconservatives to “play at this game” and “vigorously advocate tax cuts . . . with the budget remaining a secondary consideration.” If Kemp-Roth leads to budgetary imbalances, “those problems “ are “to be coped with by liberal interregnums.”⁴² Kristol, here, is suggesting that the way toward creating a Republican majority was to adopt supply-side economics, not because he thought it would necessarily work, but rather because it would lead to a conservative majority. While Kristol was not advocating dismantling the welfare state, the implications of his theory would allow for the creation of deficits, the building blocks for starve the beast. Here, however, the evidence for a conspiratorial defunding of the welfare state ends. There is no smoking gun, merely a collection of references that muse about the viability of such an approach.

There is countervailing evidence suggesting that Moynihan’s charges were overstated. Reagan himself expressed distress about deficits in his diaries, calling them

⁴¹ *Newsweek*, August 7, 1967, p. 68; Collins, 2000, p. 206 identifies this quotation.

⁴² Kristol, Irving. “The Battle for Reagan’s Soul.” *The Wall Street Journal*. May 16, 1980, p. 22. This article is identified by Smith, Mark. *The Right Talk: How Conservatives Transformed the Great Society into the Economic Society* (Princeton, NJ: Princeton University Press, 2007).

“horrendous.”⁴³ Reagan had campaigned on balancing the budget and most adroit politicians know that there sometimes are consequences for fobbing off campaign promises without good reason.⁴⁴ The OMB director, Stockman, recalls, “In truth, no six of the six hundred players in the game of fiscal governance in the spring and summer of 1981 would have willed this outcome [of impending large deficits].”⁴⁵ Even liberals describe the congressional cheerleader for supply-side economics, Jack Kemp (R-NY), as a “bleeding-heart” conservative.⁴⁶ It is difficult to believe that Kemp had any interest in undermining funding for social provision—he wanted to improve the efficacy of funds spent.

Thus, evidence for starve the beast strategy, is at best, opaque. Despite Moynihan’s assertion, deliberate deficit-creation seems not to have been at the forefront of Reagan’s agenda.⁴⁷ Instead of viewing the Reagan Revolution as primarily a means to dismantle the welfare state, it can also alternatively be thought of as an attempt to reconstruct social policy. Reagan, as aforementioned, was deeply pragmatic. His pragmatism did not allow him to follow the wishes of his devout followers by downsizing popular programs, or even, as Hecla notes, to lay the foundations for future cutting. However, he succeeded in moving social policy toward a market orientation, following in Nixon’s footsteps.

⁴³ Reagan, 2007, Monday January 3, 1983, p. 123; see also July 21-26, 1982 (p. 94) for Reagan’s worries about deficits affecting worldwide money markets.

⁴⁴ “Transcript of Reagan Speech Outlining Five-Year Economic Program for U.S.” *The New York Times*, September 10, 1980, p. B4.

⁴⁵ Quoted in Stockman, 1986, pp. 267-268.

⁴⁶ See, for instance, Kuttner, Robert. “Bleeding-Heart Conservative”, *The New Republic*. June 11, 1990: pp. 22-25.

⁴⁷ Morgan, Iwan. *The Age of Deficits: Presidents and Unbalanced Budgets from Jimmy Carter to George W. Bush* (Lawrence, KS: University Press of Kansas, 2009), p. 92.

Welfare State Reconstruction

My thesis suggests that the Reagan administration moved welfare state policy in a pro-market direction. Analysts at the time, from both the left and the right, to some degree concur with portions of my thesis. In a study about Reagan's domestic policy published in 1984, Martin Anderson, a Reagan adviser, squared off against Stuart Eizenstat, Carter's chief policy director, assessing the aims of Reagan's social policy. Anderson, in his essay, insisted that that the Reagan administration was trying to improve social provision—not destroy it. He accused academics and the press as “cheerfully ignorant of Reagan's social welfare philosophy” or even having “chosen to ignore or misrepresent it.”⁴⁸ While Anderson does not thematically characterize Reagan's social policy in the term of markets, he does suggest that the president had an alternative vision of the welfare state, not wishing to merely dismember it.

Anderson insisted that Reagan was committed to reducing welfare dependency through the promotion of workfare.⁴⁹ Much of Reagan's efforts to shore up the economy would reduce poverty. Anderson suggested that through the elimination of fraud and waste, social programs would work better and eligibility requirements more fairly set. He also categorically stated that the principle of a guaranteed income was no longer viable. To stitch together this somewhat unwieldy agenda, Anderson described the initiative as Reagan's version of New Federalism, since some powers would be devolved

⁴⁸ Anderson, Martin. “The Objectives of the Reagan Administration's Social Welfare Policy.” *The Social Contract Revisited: Aims and Outcomes of President Reagan's Social Welfare Policy*, ed. D. Lee Bawden (Washington, D.C.: Urban Institute Press, 1984), pp. 15-27, 15.

⁴⁹ Anderson, 1984, p. 16. Most empirical analyses of the early Reagan administration dispute Anderson's assertion that Reagan's early efforts were successful in promoting work. See below.

to states and local communities.⁵⁰ In 1982, Reagan went through the efforts to revive a short-lived plan for “New Federalism,” a strategy soon abandoned. The notion of an overarching New Federalism then largely disappears from the national political agenda. While Anderson may not have quite characterized Reagan’s social policy in terms of a market welfare state, he certainly saw elements of a new social policy. In a recent interview, he said that from Nixon to Reagan social policy “got better and better.”⁵¹

Eizenstat wrote a rebuttal to Anderson. He propounds that Reagan was after deep cuts in the welfare state. In one sentence he describes Reagan’s program as “a celebration of the private marketplace over government.”⁵² Eizenstat is on to an important point without quite reaching it. Reagan not only celebrated the private sector, he, in effect, was placing the marketplace within government. He was following in Nixon’s footsteps by crafting market-based social policy, inserting competitive mechanisms in the welfare state.

The Democratic Party, steeped in the tradition of social welfare, never managed to forge an adequate response disputing the utility of markets in social policy. Liberals proved adept at articulating dismay and hostility toward proposed retrenchment, however, the coherence vanished when market mechanisms appeared on the agenda. Democrats would at varying times embrace, oppose, and at other times shrug with indifference when market proposals surfaced.

WELFARE

⁵⁰ Ibid., p. 19.

⁵¹ Telephone interview with Martin Anderson, July 8, 2009.

⁵² Eizenstat, Stuart E. “Comments.” *The Social Contract Revisited: Aims and Outcomes of President Reagan’s Social Welfare Policies* (Washington, D.C.: Urban Institute, 1984), pp. 28-32, 30.

Welfare Wars

The scholarly verdict on Reagan's welfare policies has been harsh. He is usually portrayed as launching a "war against welfare", pitilessly leaving the destitute without recourse for more than the most meager of government benefits.⁵³ Particularly for his first term, scholars have marshaled evidence that Reagan slashed expenditures for AFDC. Even worse, many portray the president as a hypocrite, rhetorically extolling the virtues of work while removing actual work incentives from the AFDC program.⁵⁴ Here it appears that the retrenchment narrative is unassailable.

Nonetheless, my position is that the Reagan's administration's policies toward welfare are more complex. While certainly he was at war with the AFDC program, it is less clear that he wished to dismantle welfare provision in its entirety. Instead, the administration seemed keen to transform the provision of welfare. Some have taken the state experimental workfare proposals of the Reagan administration as essentially a verbal stalking horse for retrenchment. While there is a dimension of that evident, the administration's professed efforts at reform should be taken as a serious policy making effort. The retrenchment narrative gets even muddled later in Reagan's presidency as the president renewed attention toward welfare in his second term by devoting attention to

⁵³ One well-known study detailing the thesis that Reagan waged unmitigated attacks on welfare beneficiaries is Piven, Frances Fox and Richard A. Cloward. *The New Class War: Reagan's Attack on the Welfare State and its Consequences* (New York: Pantheon, 1982). Pierson (1994), pp. 115-26, largely presents a similar narrative, portraying Reagan's workfare proposals as an element of retrenchment.

⁵⁴ See for instance, Brown, Michael. *Race, Money and the American Welfare State* (Ithaca, NY: Cornell University Press, 1999), p. 353; Noble, Charles. *Welfare as We Knew It: A Political History of the American Welfare State* (New York: Oxford University Press, 1997), p. 120.

the subject in a State of the Union Speech.⁵⁵ Reagan became a champion of the Earned Income Tax Credit (EITC), lifting an obscure program to the forefront of federal anti-poverty policy, and signed the Family Support Act of 1988. Thus welfare policy received renewed attention during the Reagan administration. In the judgment of social policy scholar Edward Berkowitz, Reagan, just in his first three years, affected more change in AFDC than any president since Franklin Roosevelt.⁵⁶

Yet an even greater Reagan legacy emerged concerning welfare. He promoted the concept of state experimentation for AFDC with provision of workfare, making many governors the leading innovators in welfare policy. This helped set the stage for radical welfare reform in the mid 1990s. Finally, a vast new controversial literature concerning welfare policy was emerging during the 1980s, some of which the Reagan administration highlighted in public pronouncements. A caustic welfare discourse had entered the public vernacular by the end of the Reagan presidency.

AFDC and Workfare

The California Plan

Reagan took enormous pride in presiding over welfare innovation in his second term as Governor of California from 1972 to 1976. During the 1980 presidential campaign, he pointed toward his welfare reform program as his greatest policy achievement as governor.⁵⁷ Reagan, as president, boasted on national television that he

⁵⁵ “Address Before a Joint Session of Congress on the State of the Union.” *Public Papers of President Ronald Reagan: 1986*. February 3, 1986, pp. 125-130.

⁵⁶ Berkowitz, Edward D. “Changing the Meaning of Welfare Reform.” *Maintaining the Safety Net: Income Redistribution Programs in the Reagan Administration*, ed. John C. Weicher (Washington, D.C.: American Enterprise Institute, 1984), p. 23.

⁵⁷ Bauer, Gary. “The Man Who Gave Us Welfare Reform (Robert B. Carleson, 1931-2006).” *The Weekly Standard*, May 8, 2006, pp. 14-15.

slashed the state welfare rolls, saved the taxpayer money, and increased funding for the truly needy. The President stated, “We never had a single case of anyone suddenly appearing and saying I’m destitute. I’ve been cut off welfare.”⁵⁸

The California welfare program that Reagan took such pleasure in instituting relied on the interrelated themes of cutting the welfare rolls while promoting workfare. Reagan’s point man for devising this reform was Robert Carleson, originally a bureaucrat within the California department of Public Works.⁵⁹ Running against the grain of the era, where proposals of a guaranteed income were en vogue, Carleson crafted a program that required community work of a six or twelve month duration in useful occupations that would serve as a segue into training for the private labor market. Carleson aimed to ferret out fraud in the welfare system and ensure the distribution of benefits to the “needy, not greedy.”⁶⁰

In the early 1970s, California was facing a “welfare crisis” with an explosion of the state welfare rolls. In Reagan’s first term alone, the AFDC rolls nearly doubled from fewer than 800,000 cases to more than 1.5 million.⁶¹ After the initiation of Reagan’s welfare reform plan, the rolls declined dramatically, approximately by 300,000 during Reagan’s second term as governor. Carleson attributed the precipitous decline in the welfare rolls to the merits of the Reagan reform program.⁶² Many experts disagreed. Michael Wiseman, an economist with AFDC expertise, suggested that only a quarter of

⁵⁸ Quotation from “The President’s News Conference.” *Public Papers of the President: Ronald Reagan*. March 6, 1981, pp. 205-212, p. 208.

⁵⁹ Berkowitz, 1984, p. 31.

⁶⁰ Nathan, Richard P. *Turning Promises into Performance: The Management Challenge of Implementing Workfare* (New York: Columbia University Press, 1993), pp. 18-19.

⁶¹ *Ibid.*, p. 18.

⁶² Mathews, Jay. “Reagan’s Words on Welfare Rolls Raise Hackles.” *Washington Post*, September 25, 1981, p. A10.

the reduction came from Reagan's program. An improved economy, smaller families, liberalized birth control and abortion laws, all helped to contribute to a decrease in the rolls.⁶³ Carleson and Wiseman vehemently disagreed to what degree the rolls were augmented through fraudulent behavior on the part of AFDC recipients.⁶⁴

Perhaps more damaging to the program's reputation was that the workfare component of the legislation, the California Work Experience Program, proved to be an illusory balm for unemployed AFDC recipients. The program was intended to create 30,000 jobs; yet, at its zenith, some sources suggest a mere 1,000 jobs, mostly in government, came to fruition. A report from California's Employment Development Department concluded that California workfare "did not prove to be administratively feasible and practical."⁶⁵

Nonetheless, Reagan, and not his more liberal policy critics, controlled both the narrative and policy-making apparatus. Reagan brought Carleson with him to Washington after election as president. Carleson, when apprising Stockman about

⁶³ Ibid., Carleson contests this assessment. See Carleson, Robert B. "The Reagan Welfare Reforms." *The Journal of the Institute for Socioeconomic Studies*. Summer 1980: pp. 1-13.

⁶⁴ Mathews, "Reagan's", 1981.

⁶⁵ Quotation and data from Kirp, David L. "The California Work/Welfare Scheme." *The Public Interest*. Number 83, Spring 1986, p. 39. Also cited in Pierson 1994, p. 123. According to the "Report to the California State Legislature on State Personnel Board activities under the Welfare Reform Act of 1971" (Sacramento, CA: State Personnel Board, 1971), p. 6, a grand total of 3,626 people were moved from welfare to permanent employment under the program between 1972 and the end of 1975. Reagan insisted vastly more, (76,000) welfare recipients entered the private workforce through his program. The basis of his claim is obscure to me. See "Remarks and a Question-and-Answer Session on the Program for Economic Recovery at a Breakfast for Newspaper and Television News Editors." *Public Papers of the President: Ronald Reagan*, February 19, 1981, p. 136.

welfare reform, told him “here is something that has already been approved. All you have to do is plug it in. It’s like a cassette.”⁶⁶

Reagan Promotes State Experimental Reforms

As part of the Omnibus Budget Reconciliation Act of 1981 (OBRA), also known as Gramm-Latta, Reagan and Carleson introduced workfare. The most salient workfare facet of Reagan’s proposal was that states would be required to augment AFDC with work incentive demonstration projects for recipients.⁶⁷ This proposal replicated the California plan more in spirit than in details. The administration decided it best to leave the workfare component to state experimentation.⁶⁸ Ideally, the cross-fertilization of demonstration projects would yield new insights in how best to structure welfare reform.

This was one of the few battles that Reagan compromised on early in his administration. Even the Republican controlled Senate hesitated in mandating states to innovate. Instead the Senate Finance Committee changed the “workfare requirement” for states into a “workfare option.” States, which previously complained of hurdles when wishing to change incentives in AFDC programs, now had the authority to innovate with workfare. Both chambers of Congress duly adopted the Senate’s language, and the president signed OBRA without requirements that states set up demonstration projects

⁶⁶ Quoted in Berkowitz, 1984, p. 34.

⁶⁷ “Welfare Benefits Cut by Reconciliation.” *Congressional Quarterly Almanac*, 1981, p. 473. See this source for other workfare provisions that ended up to be relatively minor vehicles for states to use to implement workfare.

⁶⁸ Ironically, on this point many academics agreed with the administration. The notion of a “utopian” comprehensive federal welfare solution had fallen out of favor. See Doolittle, Frederick, Frank Levy, and Michael Wiseman, “The Mirage of Welfare Reform.” *The Public Interest*, Vol. 47 (Spring 1977), pp. 62-87.

(see Table 5.2 for OBRA votes).⁶⁹ As with housing vouchers and health maintenance organizations, the genesis of welfare reform came through demonstration projects.

Assessing State Innovation

Despite the voluntary nature of state experimental demonstration projects, up to 39 states eventually introduced workfare innovations.⁷⁰ In all, the administration claimed that the OBRA legislation was a limited success. In 1981, before OBRA, only 7% of the AFDC population, or fewer than 400,000 recipients, participated in workfare programs.⁷¹ In 1985, according to testimony from James Miller, the director of OMB in the latter portion of Reagan's presidency, 17% of the AFDC population, about 741,000 recipients, engaged in workfare by means of state programs.⁷²

States developed a smorgasbord of workfare programs after the passage of OBRA. Among the menu options: In Utah additional benefits would accrue to a recipient who met targets for working and demonstrating self-reliance. In Pennsylvania, an AFDC recipient who obtained full time employment received a voucher for day care

⁶⁹ "Welfare", *CQ Almanac 1981*, p. 474.

⁷⁰ Up from Dependency: A New National Public Assistance Strategy. Report to the President." *Domestic Policy Council*, Washington, D.C.: 1986, p. 31. Accessed at <http://www.eric.ed.gov/ERICDocs/data/ericdocs2...pdf>. Accessed July 17, 2009.

⁷¹ In 1967 Congress established Work Incentive Legislation (WIN) as a vehicle within AFDC to encourage work. The Reagan administration deemed WIN a failure. Despite spending \$365 million for the program very few AFDC recipients joined the ranks of the employed.

⁷² "Statement of James C. Miller, III, Director of OMB, before the Public Assistance and Unemployment Compensation Subcommittee of the Ways and Means Committee." April 1, 1987, pp. 66-77 of Welfare Reform: Hearing before the Committee on Finance United States Senate, 100th Congress, First Session, April 9, 1987 (Part 1 of 3), p. 71.

services for a year as well as medical insurance.⁷³ In San Diego, California, an AFDC recipient was financially penalized for not working.⁷⁴

Despite what the Reagan administration presented as encouraging signs from its welfare reform package inserted into OBRA in 1981, it could hardly be claimed that measures approached anywhere near an optimal level, that is solving the general welfare conundrum. At least 83% of AFDC recipients still failed to participate in any work related activities despite the myriad collection of state programs as of 1985. Welfare dependency became a resurgent issue; vigorous critiques from commentators were focusing on the issue in polemical terms. While data is limited, it seems that many in the public did not notice the small increase in working AFDC recipients. Further, some scholars contend that in certain states, that any change in the culture of AFDC dependency was imperceptible.⁷⁵ By 1986, Reagan was refocusing again on welfare reform. In hearings before the Senate Finance Committee many of the witnesses treated the subject as if there had been no substantive reform of welfare. Governors, legislators, and administration officials by and large deemed that OBRA had not gone far enough and were searching for a more decisive measure to overturn prolonged welfare dependency.

Constricting AFDC

Much of the scholarly literature has largely overlooked the Reagan administration's promotion of experiments formulated at the state level focused instead on the federal AFDC program itself. Through tightening eligibility standards, up to

⁷³ "Up from Dependency", p. 54.

⁷⁴ Friedlander, Daniel and Gary Burtless. *Five Years After: The Long-Term Effects of Welfare-to-Workfare Programs* (New York: Russell Sage Foundation, 1995), pp. 6-7.

⁷⁵ For example, see Mead, Lawrence, M. *Government Matters: Welfare Reform in Wisconsin* (Princeton, NJ: Princeton University Press, 2004), p. 65, for the assessment that OBRA changed little in Wisconsin.

500,000 families were removed from the rolls by the Reagan administration, although at least some probably found their way back on AFDC due to an unexpected rise in the rolls following 1982. The most severe cutbacks in AFDC, though, had nothing to do with administration policy. States set individual AFDC payments to clients and, in general, let these benefits erode with inflation. Thus “Reagan’s War” against AFDC is in some respects really a non-federal struggle with states wishing to avoid becoming “welfare magnets.”⁷⁶

The president’s AFDC policy was especially vulnerable on another point. By necessity a politician puts himself or herself in peril by not living to the principles of his or her own rhetoric. Here, Reagan fell short. Negative press coverage ensued when the CBO and the Center for the Study of Social Policy at the University of Chicago, found that OBRA, and subsequent administration proposals, erased many work incentives from AFDC.⁷⁷ Under the pre-1981 AFDC law, caseworkers were told to disregard the first \$30 a welfare recipient earned a month and a third of his or her salary above the \$30 level when calculating AFDC benefits. This served as a work incentive, since a recipient could keep some welfare benefits without suffering penalty. Further, AFDC recipients were allowed to claim work-related expenses, such as travel to and from work, without penalty. The Reagan administration very nearly eliminated both the work disregard and bonus. After four months of work the AFDC recipient would lose the bonus and only

⁷⁶ Pierson, 1994, pp. 118-119.

⁷⁷ Spencer, Rich. “Welfare Cuts Boomerang, Study Finds.” *The Washington Post*. March 9, 1982, p. A17. For a defense of Reagan’s policy of eliminating work incentives, by claiming they were counterproductive and increased welfare dependency see “Final Report: Evaluation of the 1981 AFDC Amendments” (Health and Human Services, 1983), pp. 1-2.

could have it reinstated after a year.⁷⁸ For a president who lauded workfare, this was an embarrassing revelation.

The Reagan administration did have a response for the charges of hypocrisy, although it is buried in obscure testimony. According to OMB chief James Miller, “there is no evidence that transitional [work disregard and bonus] benefits encourage people to take jobs or that the lack of them prevents people from leaving the rolls. Indeed, there is some evidence to the contrary.”⁷⁹ To rephrase, Miller is suggesting that carrots do not function as well as sticks in promoting AFDC recipients to work. He is supported by some policy research conducted in California. Due to administrative decisions and court orders, the rate at which AFDC benefits in California were taxed changed four times, therefore presumably altering the incentive calculation of whether to work. Analysis of the data suggests, despite the variation in tax rates, there was no discernable impact on the chances an AFDC recipient would become employed.⁸⁰ Members of the Reagan administration, despite their general prowess in matters of communication, failed to widely disseminate this message.

The academic literature has pointed out that OBRA did not alter the likelihood of AFDC recipients joining the permanent workforce, but did shrink the rolls.⁸¹ The

⁷⁸ Berkowitz, 1984, pp. 26-27.

⁷⁹ Statement of James C. Miller”, p. 74. Further complicating the issue of tax incentives for AFDC recipients is that there is evidence that men and women behave differently. One scholar who reviewed the evidence suggested taxing AFDC earnings at a much higher rate for women than men. See Moffet, Robert. “Work Incentives in Transfer Programs (Revisited): A Study of the AFDC program.” *Research in Labor Economics*, ed. Ronald G. Ehrenberg. Volume 8, 1986: Part B, pp. 389-439, p. 424.

⁸⁰ Doolittle, et al., 1977, pp. 82-83.

⁸¹ Hutchens, Robert M. “The Effects of the Omnibus Budget Reconciliation Act of 1981 on AFDC Recipients: A Review of Studies, *Research in Labor Economics*. Ed. Ronald G. Ehrenberg. Volume 8, 1986: pp. 351-387.

decrease in the number of AFDC recipients could be read in two very different ways. A liberal could be disenchanted because it would appear that some of the truly needy were suffering. A conservative could make the counterclaim that AFDC created perverse incentives, including fraud, and the (at least temporary) reduction in the rolls was justified.

After 1981, very little structural change occurred in the AFDC program during Reagan's first term.⁸² Further efforts to trim the rolls in the 1983 budget were soon subsumed in Reagan's proposed New Federalism Initiative. Reagan wanted to remake AFDC into a program purely administered by the states in exchange for the federal government taking full control of Medicaid.⁸³ The New Federalism proposal met with general ambivalence or disdain from all other involved parties, and was one of those seemingly grandiose concepts that proved ephemeral. While welfare resonated as a policy topic, probably in part because of its racial dimension, the administration would not tackle it with full force again until the second term.⁸⁴

In sum, the polarized claims of the literature concerning Reagan's first term welfare policy are too extreme. Reagan did not dismantle AFDC, but he largely failed to transform it into a model workfare program. Once again, there were minimal efforts in the guise of optional state demonstration projects toward building a new welfare state

⁸² Minor changes were also made to AFDC as part of the 1984 Deficit Reduction Act, including reinstating some of the income disregards for AFDC recipients. See *United States Statutes at Large*. 98th Cong., 2nd Sess., July 18, 1984, Vol. 98, Part 1, Public Law 98-369, Sections 2621-2644.

⁸³ Pierson, 1994, p. 120.

⁸⁴ In the mid-1980s, 43% of AFDC recipients were African-American, despite constituting 12% of the entire national population. See Chilman, Catherine S. "Welfare Reform or Revision? The Family Support Act of 1988." *The Social Service Review*. 66(3): September 1992), pp. 349-377, p. 352.

with workfare requirements for AFDC recipients to better integrate into a market economy. Evidence for this becomes clearer as Reagan, his allies, and critics, all treated welfare reform as a policy area to explore with renewed vigor during the second term.

Ramping Up Welfare Reform: The Second Term

Welfare reform proceeded on dual levels during Reagan's second term. On one plane was the very public, congressionally led, welfare reform hearings that directly led to the passage of the Family Support Act of 1988. The Family Support Act was hailed as a bipartisan solution to the welfare enigma. It seemed that an ideological accord had been reached between conservatives and liberals.

On another dimension, welfare reform occurred nearly out of sight, on a virtually subterranean level. The Reagan administration established a Low Income Opportunity Advisory Board, bypassing Congress, that reshaped the state waiver process begun by the OBRA legislation from 1981. In essence, this board would ensure that state waivers could only propose reform measures favored by conservatives. Despite the spotlight placed on the Family Support Act, the reform effort that had by far the most influence on the future direction of welfare reform was the establishment of the somewhat obscure board.

The Hollow Promise of the Family Support Act

Reagan's advisers decided that widespread unsatisfactory perceptions with AFDC made an effective target for Reagan's attention in his second term.⁸⁵ In his State of the Union speech for 1986, Reagan quoted Franklin Roosevelt, who once said, "welfare is a narcotic, a subtle destroyer of the human spirit." Reagan added, "we must now escape

⁸⁵ Pear, Robert. "President Reported Ready to Propose Overhaul of Social Welfare System." *The New York Times*, February 1, 1986., p. 12.

the spider's web of dependency.” Toward those ends, he tasked his Domestic Council to present him a report by December 1, 1986 assessing welfare programs.⁸⁶ Congress, not content with leaving reform to the administration, particularly with a social policy expert like Moynihan in the Senate, proceeded on its own accord with welfare reform.

At first there was partisan jostling concerning welfare reform. In 1985, Moynihan, along with Charles Rangel (D-NY) and Harold Ford (D-KY) introduced the Family Economic Security Act. This piece of legislation was a hodgepodge of liberal leaning ideas meant to encourage AFDC recipients to join the workforce. The Act included increasing AFDC expenditures, extending Medicaid coverage, making the Work Incentive program (WIN) and its demonstration projects permanent, increasing the standard deduction and personal exemption, and expanding the Earned Income Tax Credit.⁸⁷ The Family Economic Security Act enshrined the carrot approach to welfare reform, an approach anathema to most Republicans. With some massaging, this proposal became the framework for the \$5.7 billion Family Welfare Reform Act of 1987 that the House enacted after rampant partisan bickering. On a key procedural vote, not a single Republican supported the bill (Vote #1, Table 5.3). The Republicans introduced an alternative that gave the states more room for innovation and stiffening the work requirements so that fewer AFDC mothers would be exempt. The House voted by a scant 7 vote margin to move forward in the procedural vote, rejected the Republican

⁸⁶ “Address Before a Joint Session of Congress on the State of the Union.” *Public Papers of President Ronald Reagan: 1986*. February 3, 1986, pp. 125-130, p. 128.

⁸⁷ Howard, Christopher. “Protean Lure for the Working Poor: Party Competition and the Earned Income Tax Credit.” *Studies in American Political Development*. Volume 9, Fall 1995: pp. 404-436, p. 422. For more on the Earned Income Tax Credit see later in the chapter.

alternative, and passed the bill by a somewhat wider margin in the final vote (Votes # 1-3, Table 5.3).

TABLE 5.3: Welfare Reform, 1987-1988, HR 1720.

Legislative Action	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
Vote #1	0	170	213	36	213	206
Vote #2	170	6	3	245	173	251
Vote #3	13	163	217	31	230	194
Vote #4	41	2	52	1	96	3
Vote #5	142	19	205	34	347	53
Vote #6	44	1	52	0	96	1

Vote 1: Adoption of the rule for House to consider Democratic version of welfare reform on December 15, 1987.

Vote 2: House Republican Welfare Reform Substitute on December 16, 1987

Vote 3: Final Vote on House version of welfare reform, December 16, 1987

Vote 4: Senate version of welfare reform, June 16, 1988.

Vote 5: House vote on Conference report, September 30, 1988.

Vote 6: Senate version on Conference report, September 29, 1988.

Sources: Vote 1: *CQ Almanac 1987*, p. 146-H; Vote 2-3: *CQ Almanac 1987*, p. 148-H; Vote 4: *CQ Almanac 1988*, p. 31-S; Vote 5: *CQ Almanac 1988*, p. 114-H; Vote #6: *CQ Almanac 1988*, p. 55-S.

The administration expressed its displeasure by threatening a veto, and the Senate chose not to consider the legislation in the hopes of finding a mutually bipartisan compromise. Despite the wrangling in the House, advocates such as Moynihan and numerous state governors thought welfare reform too important an issue to allow for a

partisan freeze.⁸⁸ Over the course of 1987 and 1988, a carefully crafted truce emerged that endured long enough to pass what was hailed as meaningful welfare legislation.⁸⁹

The Senate Finance Committee convened hearings in April 1987. Some of the most heralded testimony came from Governor Bill Clinton (D-AR), who along with Governor Michael Castle (R-DE), represented the National Governors Association. Clinton advocated for a “carefully thought out, incremental process” to reform welfare since the issue had festered for years and could not be resolved, in his judgment, all at once.⁹⁰ An almost adulatory tone pervaded as witnesses, especially the governors and senators, spoke of each other in an effusive manner. The testimony, in essence, supported a new bundling of many old strategies: ways to encourage work, participation and giving states flexibility from federal regulation. The most striking feature of the hearings was the almost saccharine odes to bipartisanship. Giving legitimacy to the efforts, Reagan had voiced his support for the governors’ reform initiatives. After meeting with Reagan in February 1987, Clinton is quoted as saying “[Reagan] agreed to support more of our program than I thought he would . . . I feel much better about the prospects of welfare reform than I did yesterday.”⁹¹

Portions of the report, “Up from Dependency,” which Reagan had commissioned, were presented in the hearings. It castigated how cash had become replaced with non-cash benefits as a vehicle of assistance, in particular food stamps. According to “Up

⁸⁸ Rovner, Julie. “Welfare Reform: The Issue that Bubbled up from the states to Capitol Hill.” *Governing*. December, 1988: pp. 17-21.

⁸⁹ “After Years of Debate, Welfare Reform Clears.” *CQ Almanac*, pp. 349-364, pp. 349-351.

⁹⁰ “Welfare Reform Hearing”, 1987, p. 20.

⁹¹ Quotation from Herbers, John. “In the Main, Reagan Backs Governors’ Plan on Welfare.” *The New York Times*, February 2, 1987, p. A20.

from Dependency,” “non-cash benefits diminish personal choice and self-responsibility among welfare recipients. A welfare recipient can spend cash to meet his perceived needs, but with non-cash benefits becomes more dependent on the rules and decisions of others.”⁹² Once again, the Republican notion of cash vouchers as a means of income support is mentioned. Yet, by and large, Congress primarily ignored this element of the report when the actual legislation was written. Moynihan, the Senate’s expert on social policy, was the key architect in conceiving and moving the Family Support Act legislation.

The Senate passed a much smaller welfare reform measure on June 16, 1988 with only three dissenting votes (Vote #4, Table 5.3). This gave welfare reform momentum going into the Conference Committee. Three months later, a bipartisan version of HR 1720 emerged. The provisions of the Family Support Act included terminating the old Work Incentive (WIN) portion of AFDC and replacing it with a program entitled Job Opportunities and Basic Skills Training (JOBS). By October 1, 1990 the states were to have the JOBS component in place. Benchmarks were set that 7% of eligible AFDC recipients were to be working by 1993 and 20% by 1995 as a result of JOBS. While some segments of the population, women with very young children and the elderly would be exempt, states must require participation in JOBS depending on available child-care and training resources. In addition, absent parents were expected to provide support for their children.⁹³ The means to achieve these benchmarks often entailed detailed involvement by states in caseloads. Problems included that not all states had the targeted

⁹² “Up from Dependency”, p. 15.

⁹³ Chilman, 1992, p. 350.

population in computer files, creating implementation debacles.⁹⁴ Despite the lofty nature of its goals, in the judgment of one scholar, “the act might more properly be termed welfare revision” than reform.⁹⁵

Despite looming problems, it seemed a nearly unprecedented ideological accord had finally been reached on welfare. Liberals in Congress, in general, agreed that work was necessary for AFDC recipients to remove the stigma attached to the program. They also approved that the bill increased the likelihood that AFDC recipients could become self-sufficient through employment opportunities while ameliorating thorny problems such as child-care and support from missing fathers. Many conservatives in Congress applauded the notion of work incentives and thought the legislation would decrease excessive labor costs.⁹⁶ Unlike the contentious earlier vote in the House from 1987, the Family Support Act passed with only one dissenting vote in the Senate and 53 in the House (Votes # 5-6, Table 5.3). At the signing ceremony for the Act on October 13, 1988, Reagan noted that the Family Support Act emulated his reform efforts in California from the early 1970s, was Congress’s answer to his call for welfare reform in 1986, and promised that the act would lead to “reform that will lead to lasting emancipation from welfare dependency.”⁹⁷

However, in its effort to win bipartisan approbation, the Family Support Act probably sowed the seeds that rendered it ineffective. The Family Support Act, a very incremental piece of legislation, raised expectations too high. An ominous sign was that

⁹⁴ Ibid., p. 358.

⁹⁵ Ibid., p. 369.

⁹⁶ Ibid., p. 356.

⁹⁷ “Remarks on Signing the Family Support Act of 1988.” *Public Papers of President Reagan: 1988*. October 13, 1988, pp. 1329-1330, p. 1329.

the Act was highly complex, requiring the states to become intricately involved in AFDC case management without providing ample resources. Further it soon became apparent that in an economic downturn, there might not be anywhere near enough private sector jobs for welfare recipients. These factors made many observers frustrated with the Family Support Act. Some thought the Family Support Act merely gave license for welfare business as usual.

The rapprochement between Republicans and Democrats, liberals and conservatives, turned into a *modus vivendi*. Not long after Reagan signed the bill, the only remaining accord between the ideological poles was that welfare needed reform. The two sides were soon at loggerheads at how to achieve that reform. In four short years, Clinton would campaign on ending “welfare as we know it” and Republicans, in less than eight years, would successfully dismantle AFDC once and for all. Moynihan would subsequently argue that the Family Support Act was not given enough time to be effective; his complaints fell on deaf ears.⁹⁸ The Reagan administration had pushed welfare reform featuring both retrenchment and workfare forwards. The 1980s served as a precursor for the more radical welfare reform of the 1990s. Instrumental to the 1990s reform were the politics of state waivers introduced during the Reagan presidency.

State Waivers

More important than the Family Support Act for the direction of future welfare reform efforts was a renewed push to allow states greater latitude in experimentation. Reagan introduced the Low-Income Opportunity Improvement Act on February 26, 1987 establishing a board to oversee applications for state demonstration projects. The “Up

⁹⁸ Weaver, *Ending Welfare as we Know It* (Washington, D.C.: Brookings, 2000), p. 232.

from Dependency” report authorized by the administration favored the approach that all welfare reform should be initiated at the state level. Democrats in Congress, according to Charles Hobbs, a domestic policy adviser to Reagan, “yawned” at the proposal.⁹⁹ Since the Democrats now controlled the Senate, they had the resources to bury the bill.

Hobbs and Reagan decided to bypass Congress and implement the waiver process through the powers of the executive branch. On July 20, 1987, Reagan signed an Executive Order creating the Interagency Low-Income Opportunity Board.¹⁰⁰ The new committee made its influence readily apparent. The board approved two waivers from normal AFDC procedures for New Jersey and Wisconsin. The Health and Human Services department had already written rejection letters that were to be sent to the two states.¹⁰¹ A major shift to allow welfare reform was in the works.

The nature of welfare reform, however, could only proceed through conservative experiments. The administration placed tight cost controls on any reform proposals made by the states. Thus, states could not suggest alternatives that would substantially increase spending, an approach favored by liberals. If a state wanted to implement welfare reform, it had to play by the administration’s rules, which meant welfare policies that usually contained more sticks than carrots, in order for the state not to inflate welfare costs.¹⁰² The irony is that if Congress had been more susceptible to working with Reagan

⁹⁹ Quoted in Teles, Steven M. *Whose Welfare? AFDC and Elite Politics* (Lawrence, KS: University Press of Kansas, 1998), p. 126.

¹⁰⁰ Fishman, Michael E. and Daniel H. Weinberg. “The Role of Evaluation in State Welfare Reform Waiver Demonstrations.” *Evaluating Welfare and Training Programs*, ed. Charles F. Manski and Irwin Garfinkel (Cambridge, MA: Harvard University Press, 1992), pp. 115-142, p. 116.

¹⁰¹ Teles, 1998, p. 128.

¹⁰² The point about the conservative nature of new state experiments is made in Teles, 1998, p. 127.

concerning state experiments, the more radical conservative waivers would never have been enacted. The failed Low-Income Opportunity Act of 1987 was written in a manner that would have made such efforts not permissible.¹⁰³

Perhaps part of the reason that the Reagan administration opposed welfare remedies attached with delivering “carrots” is that all such proposals had turned into albatrosses. AFDC was largely perceived as a quagmire by handing out unearned benefits. FAP proved impossible to enact, largely because it was perceived to be a “carrot” strategy. Many policy-makers were reluctant to dole out benefits to impoverished, frequently African-American women and children, who were not always viewed sympathetically. It was easy for the Reagan administration to retreat toward a budget-conscious position concerning welfare, since there was empirical evidence that AFDC had perverse incentives. More important, the public perception was that AFDC created major work disincentives.

Nonetheless, many Americans, both liberal and conservative believe with the right incentive structure, good results are possible. Nixon’s Secretary of Labor, George Schultz had believed that the correct programmatic structure would disentangle the unsavory aspects of welfare, leading him to support FAP. Ronald Reagan largely agreed that welfare could be resolved with the right incentives, although he would require workfare. The bridge between these camps turns out to have been a conservative Democratic Senator from Louisiana, Russell Long. The legislation he pushed through Congress in the mid 1970s, the Earned Income Tax Credit, was essentially rediscovered in the mid-1980s and could be seen as the best fix to the welfare problem.

¹⁰³ Ibid., p. 126.

Expanding The Earned Income Tax Credit

The Earned Income Tax Credit (EITC) had originated as a pilot program inserted by Long in legislation without debate in 1975. In 1978, again with little fanfare, the EITC became permanent and benefit levels were increased slightly, from \$400 to \$500 (\$1,354 to \$1693 in 2009 dollars) with no provision for adjustment due to inflation.¹⁰⁴ After that, the value of the EITC benefit eroded over the next seven years and the program shrunk. Mired in obscurity, the EITC was not in the forefront of policy debate. The Reagan administration certainly did not contemplate supplementing the program during the first term. However, some academic and government policy entrepreneurs saw merit in the EITC and began a campaign to expand the benefit. The way the EITC was framed—a negative tax only for workers—made it consistent with the values of a market-based social policy. There are two explanations for the rapid escalation of the EITC benefit beginning in the 1980s. One is political, as outlined by Christopher Howard. The EITC engendered a competition between the Republican and Democratic parties. They battled each other in 1985 and 1986 attempting to be seen as the champion of the EITC.¹⁰⁵ A second reason, mentioned but not emphasized by Howard, is its inherent appeal to individualistic, American values.¹⁰⁶ The EITC was essentially a welfare program for “worthy” recipients, presumably working hard to fulfill their version of the American dream. It had intuitive appeal, easily packaged and sold, and consistent

¹⁰⁴ Rosenbaum, David E. “Carter asks for a new Welfare with emphasis on required work; New York could save \$527 million.” *The New York Times*, August 7, 1977, p. 1, 40. According to the article, the rationale behind Carter supporting the EITC was to ingratiate himself with Long who Carter thought pivotal in moving the Program for Better Jobs and Income. The phase-out for the EITC was increased from \$8,000 to \$10,000.

¹⁰⁵ Howard, 1995, p. 409.

¹⁰⁶ *Ibid.*, p. 407

with a market ethic. The EITC both helped individuals to participate in a market economy and was akin to a voucher for living expenses. The EITC fostered a sense of responsibility and choice, in contrast to demeaning benefits programs such as food stamps. The EITC did not carry the stigma of AFDC, a program associated with undeserved monetary handouts.

Like so many other facets of the Republican welfare state, it took the G.O.P time to embrace the EITC as part of their own version of social policy. One of the first individuals to promote the utility of the EITC was Eugene Sterling, the economic coordinator for the Treasury department study on taxation.¹⁰⁷ Others included Robert Greenstein from the Center of Budget and Policy Priorities and Joseph J. Minarik from the Urban Institute who both testified in favor of the EITC in front of the House Ways and Means Committee in 1984.¹⁰⁸

EITC benefits were adjusted upwards by 10% as part of the Deficit Reduction Act of 1984.¹⁰⁹ Democrats, at this juncture, embraced the EITC, helping move it into the policy mainstream. The 1985 Family Security Act proposed an expansion of the EITC along with AFDC benefits.¹¹⁰ While opposed to the 1985 bill, Republicans became intrigued with the notion of the EITC itself. Political circumstances provided the opportunity for Republicans to utilize the EITC in their proposals. Reagan's supporters feared that Democrats would use the issue of inequality and tax fairness as a campaign

¹⁰⁷ Howard, 1997, p. 148.

¹⁰⁸ See "Federal Tax Treatment of Low Income Persons" *Hearing before the Subcommittee on Oversight of the Committee on Ways and Means. House of Representatives, 98th Congress, Second Session.* April 12, 1984.

¹⁰⁹ Ventry, Dennis J. "The Collision of Tax and Welfare Politics: The Political History fo the Earned Income Tax Credit, 1969-99." *National Tax Journal*, Vol. 53, No. 4, Part 2, (2000): pp. 983-1,026, p. 1,001.

¹¹⁰ Howard, 1995, p. 422.

issue in the 1984 presidential campaign. As a preemptive measure, Reagan formed a commission to investigate the tax system.

The commission's report, released shortly after the presidential election of 1984, called for a dramatic overhaul of the tax system.¹¹¹ One facet of the reform effort that received bipartisan approval was to make the impact of changes neutral from a distributional perspective, favoring neither the rich nor poor.¹¹² In order to lower income taxes on higher earners, there was a need to give something to lower earners. The EITC proved the most amenable vehicle for it. Steurele recollects that Richard Darman, the deputy Secretary of the Treasury "loved" it.¹¹³ Oddly, the two authoritative studies of the 1986 Tax Reform Act mention nothing about the negotiations concerning the EITC, probably since the program was so unfamiliar.¹¹⁴ Nonetheless, Howard's studies provide evidence that the EITC was part of the "glue" for tax reform.¹¹⁵ Indeed, the EITC was enlarged more than even its most fervent supporters originally envisioned. The benefit level was raised to \$1,174 (\$2,258 in 2009 dollars) and with the new income phase-out level increased to \$21,287 (\$40,944 in 2009 dollars). In inflation adjusted terms, the benefit level was slightly higher than in 1975 and the phase-out level slightly lower.¹¹⁶ Reagan called the Tax Reform Act of 1986 "the best antipoverty bill, the best pro-family

¹¹¹ Howard, 1995, p. 420; Howard, 1997, p. 147.

¹¹² Howard, 1997, p. 148.

¹¹³ Howard 1995, p. 420; Howard 1997, p. 147.

¹¹⁴ Conlan, Timothy J., Margaret T. Wrightson, and David R. Beam. *Taxing Choices: The Politics of Tax Reform* (Washington, D.C.: CQ, 1990); Birnbaum, Jeffrey H. and Alan S. Murray. *Showdown at Gucci Gulch* (New York: Vintage, 1987).

¹¹⁵ Howard, 1995, p. 417.

¹¹⁶ Ventry, 2000, p. 1,002.

measure, and the best job-creation program ever to come out of the Congress of the United States.”¹¹⁷

Recognizing a low-income support program that is consistent with fundamental market values changed the politics of welfare. The Democrats were robbed of part of their welfare agenda, although both parties could share credit for shaping the EITC. The 1988 Family Support Act was enacted without reference to the EITC. The EITC, while good for low-income workers, put pressure on traditional welfare. Since AFDC now appeared to exist for less worthy individuals. The practical implications of the EITC, especially the complexity of claiming a little-known tax credit, that many low-income workers probably failed to know existed, were certainly problematic. Those who did not pay income taxes, of course, were no better off with the passage of the EITC. Yet the EITC, beginning in 1986 would last for nearly a decade as an unassailable policy, and leave an indelible imprint on American welfare policy.

Welfare's Fiercest Battle: The Intellectual Terrain

The most dramatic change in welfare during the Reagan era was not in actual policy output, but rather in the collective debate concerning AFDC in both the academy and popular press. As early as 1970, the urban scholar, Edward Banfield, had already identified problems with AFDC payments that subsequent conservatives would magnify in their writings. Banfield wrote that welfare “will encourage people to adapt either by reducing their incomes (the wife leaving her job, for example) or by lying.”¹¹⁸ The

¹¹⁷ Ronald Reagan. “Remarks on Signing the Tax Reform Act of 1986.” October 22, 1986. John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. <http://www.presidency.ucsb.edu/ws/?pid=36629> . Accessed November 7, 2009.

¹¹⁸ Banfield, Edward C. *The Unheavenly City: The Nature and Future of our Urban Crisis* (Boston: Little, Brown: 1970), p. 242.

recommendations that Banfield proposed to ameliorate low-income support policy, however, did not prove as influential over the long-term. His proposals included substantially more government regulation; preemptive intervention, including intensive birth-control education; a stronger, some may say intrusive, police presence; and restrictions on media reporting during urban riots.¹¹⁹

Critiques on welfare, particularly AFDC, became more frequent by Reagan's presidency. George Gilder noted the inadequacy of Reagan's welfare reforms in California and called for an extensive overhaul of AFDC. He explained, "any welfare system will eventually extend and perpetuate poverty if its benefits exceed prevailing wages and productivity levels in poor communities."¹²⁰ James Q. Wilson, Thomas Sowell, Lawrence Mead, and a series of articles in *the Public Interest* all weighed in with severe criticisms about the perverse incentives of AFDC.¹²¹

Charles Murray wrote the most influential anti-welfare book of all. *Losing Ground* proved to be the most celebrated, politically captivating, and in some respects the most extreme, of works critical of AFDC policy. Murray found success by turning into a popular commentator on welfare policy. He leveled withering criticism at the entire welfare apparatus. "The War on Poverty has become a domestic Vietnam" and "the most troubling aspect of social policy toward the poor in late twentieth century America is not how much it costs, but what it has bought" are among some of Murray's biting

¹¹⁹ Ibid., pp. 245-246.

¹²⁰ Gilder, George. *Wealth and Poverty* (Basic Books, New York: 1981), p. 121.

¹²¹ See Sviridoff, Mitchell. "Making Welfare Work." *The New York Times*, Nov. 24, 1985, p. BR 14.

commentary.¹²² He proposed “scrapping the entire federal welfare and income support structure for working-age persons, including AFDC . . .” as the first step toward the renewal of anti-poverty policy.¹²³ His replacement included incentives, that in his view, would give individuals the opportunity to excel on their own merits. For instance, cash vouchers for education would be a fundamental reform under this approach. “Billions for equal opportunity, not one cent for equal outcome” was Murray’s mantra. Since some “people are better than others” they deserve “more of society’s rewards.”¹²⁴ He implied that inequality was a virtue to be cherished, a staple of a meritocratic, individualistic society.

Murray lays out his thesis through the use of a thought experiment. He creates a fictional couple, Harold and Phyllis, and argues that welfare incentives would rationally lead Harold and Phyllis to not participate in the labor force and to have additional children while living apart. In others words, welfare destroyed the families and communities that it was meant to help. Murray’s succinct synthesis and extension of the anti-welfarist literature proved a resounding popular success.

Murray was put on a pedestal by the Reagan administration, giving him both legitimacy and attention. According to John Cogan, the associate director of the Office of Management and Budget, the ideas expressed in *Losing Ground* were “already an important part of the policy makers’ thinking” as early as 1985. Moynihan concurred, stating that *Losing Ground* “has quite panicked the social scientists and, to what degree

¹²² Quotations from, Murray, Charles. *Losing Ground: American Social Policy, 1950-1980* (New York: BasicBooks, 1994 [1984]), p. 145, and p. 9, respectively.

¹²³ Ibid, p. 227.

¹²⁴ Ibid., p. 233.

there are any left, the social activists.”¹²⁵ In 1986, administration officials convened a committee to study poverty with Murray’s ideas serving as one of the templates for the panel.¹²⁶

There was a liberal response with social scientists and journalists critiquing Murray’s use of evidence and his conclusions. Murray’s statement that welfare provided better benefits than working minimum wage jobs was flawed on numerous fronts. Under closer scrutiny, from a rational economic perspective, it was not beneficial for AFDC mothers to go on welfare instead of working, certainly throughout the entire nation after the mid 1970s and in most parts of the country before 1970.

- He did not include the EITC in his calculations.
- He failed to note that workers could qualify for food stamps.
- He used as a baseline for analysis AFDC payments in Pennsylvania which were quite atypical.
- He failed to take into account falling AFDC payments throughout the 1970s.
- He cited that the poverty rate remained static from 1968 to 1980, indicating that social programs do not work. He failed to adequately take into account that unemployment doubled, median per capita income stagnated, and the problematic economy of the 1970s.

¹²⁵ Quotations from Hume, Ellen. “A Book Attacking Welfare System Stirs Furor in Washington: Argument of ‘Losing Ground’ is that Aid Cripples Poor; Manna for Conservatives: Is Author on Shaky ground?” *The Wall Street Journal*, September 17, 1985, p. 1.

¹²⁶ Pear, Robert. “President Reported Ready to Propose Overhaul of Social Welfare System.” *The New York Times*, February 1, 1986, p. 12.

- He failed to note the disappearance of many farm jobs in the south with the mechanization of agriculture
- He did not grapple with other studies that suggest welfare has no correlation to illegitimacy.
- He did not engage studies that demonstrated affirmative action raised the number of employed African-Americans.
- He did not discuss that the rise in the underclass long predated the Great Society's War on Poverty.¹²⁷

A couple years after *Losing Ground* was published, William Julius Wilson wrote a riposte, citing structural and economic dislocations as culprits in creating the underclass.¹²⁸ Wilson's book was largely cited within academic circles in contrast to the broader reach of Murray's tome. The public profile cut by Murray far exceeded that of Wilson or any liberal commentator pointing out the empirical lacunae in Murray's study. Evidence for this is that policymakers, including the president, promoted Murray as the administration's foremost thinker on welfare. The Murray critique was an acceptable answer to why an "underclass" in American society was developing and the number of

¹²⁷ On these points and other flaws in Murray's study, see Jencks, Christopher. "How Poor are the Poor?" *The New York Review of Books*, Vol. 32, No. 8, pp. 41-49; "Losing Faith in 'Losing Ground,'" *The New Republic*, March 25, 1985, pp. 12-17; Hume, 1985, p. 1; Kuttner, Robert. "A Flawed Case for Scrapping What's Left of the Great Society," *Washington Post Book World*, December 17, 1984, pp. 34-35.

¹²⁸ Wilson, William Julius. *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy*. (Chicago, University of Chicago Press, 1987).

families without fathers in the household was on the rise.¹²⁹ The liberal academics failed to dislodge the central metaphor about welfare developed by Murray.

Some liberals instead responded by accepting portions of Murray's premises, although adding nuance. David Ellwood, a liberal whose empirical research suggested that welfare programs were not at fault in creating an underclass, acknowledged that AFDC nonetheless provoked public outrage and such benefits seemed demeaning to recipients.¹³⁰ Ellwood proposed increasing spending on incentives to get the poor to join the labor force. But in addition to carrots, he also proposed a stick: putting time limits on welfare benefits.¹³¹ Ellwood would find his himself employed by Clinton to reform welfare. To his chagrin, he would eventually see his stick applied to policy without the carrots.

While the right was strident in its criticism, many on the left were at best circumspect and ready to accept parts of the conservatives' critique. Part of this was because of general public antipathy toward welfare. There had never been a time in polling history when a majority of Americans thought more should be spent on low-income support.¹³² In this case, the ambivalence exhibited by many Democrats concerning AFDC benefits allowed them to lose control of the terms of the policy debate

¹²⁹ See, for instance, Blankenhorn, Steven. *Fatherless America: Confronting Our Most Urgent Social Problem* (New York: Basic Books, 1995) for a synthesis discussing the thesis of the decline in the family.

¹³⁰ Ellwood, David. *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988), ix-x.

¹³¹ Ibid., p. 218-219.

¹³² Hecló, Hugh. "The Political Foundations of Anti-Poverty Policy." *Fighting Poverty: What Works and What Doesn't* ed. Sheldon Danziger and Daniel Weiberg (Cambridge, MA: Harvard University Press, 1986), p. 330.

during the 1980s. Few were willing to risk their careers defending a program that raised public hackles.

Welfare policy highlights a paradox of the Republican welfare state. While in other policy arenas, market applications such as the promotion of cash vouchers, competition, and choice were gaining ascendance, the concept of a negative-income tax was falling out of favor. Mitigating the anomalous nature of this phenomenon was that the EITC, at this time lauded across partisan lines, aided low-income workers. Also it could be suggested that changing welfare policy in a more punitive direction emphasizing work would help prepare the poor to enter a market economy. Yet, these factors only partially absolve charges of asymmetry in Republican social policy. The negative income tax, akin to a cash voucher for living expenses that would have augmented choice for the poor, was no longer considered a viable project. The limits of promoting the market became evident. The so-called culture of poverty found in the ‘underclass’ undercut the appeal of market mechanisms in social policy. While the poor should be part of a market society, the actual voucher component in AFDC seemed to many conservatives out of place. Thus, controls, or sticks, were needed to redirect the behavior of the poor to require them to enter the labor force. Hardening these attitudes were traditional biases concerning race, gender, and class.

Therefore welfare diverges, in part, from other aspects of Republican social policy. Vouchers and market mechanisms proved unpopular in the design of anti-poverty income support policy, with the notable exception of the EITC. Conservative paternalism in some respects is responsible for the alternative emphasis. Welfare proved more amenable to retrenchment than Social Security, yet the promotion of markets in the

welfare state is still significant in this policy domain. The Earned Income Tax Credit sorts out “worthy” members of the lower class from the “idle” underclass. The goals of workfare were entirely consistent with preparing individuals to participate in a capitalistic society, perhaps the largest goal of a nation that often reveres the market ethos.

HOUSING

Vouchers

Chapter 3 described the strident ideological battles over housing policy for low-income persons where the preferred remedy was to increase the supply of low-income housing through building projects. In the decades after federal involvement in housing became a settled issue, the way actors worked was consistent with traditional descriptions in political science literature. Subgovernments, or iron triangles, explained how housing policy functioned. In this instance, congressional committees, bureaucrats in HUD, and members of affected interest groups, such as realtors, developers, bankers, the National Association of Housing and Redevelopment Officials and the Low-Income Housing Coalition all participated to influence policy.¹³³ The piecemeal nature of building projects was compatible with the committee structure in Congress, allowing for administration through these iron triangles.

Reagan’s subordinates were ready to challenge the iron triangles and move housing policy in a direction more in line with the general aims of the administration. As an ideological commitment it was ready to revive and push strongly for Nixon’s voucher proposals. The Reagan administration fought hard to eliminate all construction projects, much to the consternation of many members of Congress. The administration wished to

¹³³ Pierson 1994, pp. 87-88.

create a large-scale market-based system, eliminating the iron triangles, by doling out aid not piecemeal, but rather *en bloc*, through unalloyed cash vouchers.¹³⁴ Individuals with stakes in traditional housing policy attempted to put pressure on the administration. The President of Management Trend Company, a real estate broker, complained, “rent vouchers merely encourage slumlords to jack up the rents on their rat traps. Why not? Uncle Sam will pay more.”¹³⁵ Other letters with demands to see the president were largely shrugged off by the administration which had HUD officials write responses extolling the virtues of vouchers. While the arguments were couched in principle, financial incentives no doubt stirred the business interests favoring subsidized housing. Reduction in housing subsidies or a shift to vouchers would prove economically detrimental to the builders’ interests. The Reagan administration would eventually prove successful in significantly diminishing the strength of the once influential housing iron triangles.¹³⁶

The Reagan administration echoed the arguments advocated by Malcolm Endicott Peabody a decade before concerning the utility of housing vouchers. As a HUD official stated, “one of the advantages of the housing voucher program is that a consumer is permitted to make his own choices in the market place, a freedom that enhances personal dignity. By relying on market forces, a better match of consumer demands and housing supply is achieved. In addition by allowing recipients of housing assistance to make their own decisions on location, public controversy over the location of subsidized projects is

¹³⁴ Khadduri, Jill and Raymond J. Struyk. “Housing Vouchers for the Poor,” *Journal of Policy Analysis and Management* Vol. 1, No. 2 (Winter, 1982), pp. 196-208, p. 199.

¹³⁵ Reagan archives. WHORM subject Files. Box 1: HS Housing, File (050000-059999), letter from David E. Phillippe, President Management Trend Company to Michael Deaver, dated December 8, 1981.

¹³⁶ Pierson, 1994, p. 87.

avoided.”¹³⁷ In addition to these standard arguments, the administration had a new piece of information to promote the viability of housing vouchers. A number of social scientists had thoroughly studied the pilot housing voucher programs in several cities. A common fear pointed out by critics was that housing vouchers would increase rents for the less affluent, thereby mitigating the benefits of the vouchers. The studies of the pilot programs indicated otherwise. Vouchers had no effect on the prices in the rental market.¹³⁸ Thus the Reagan administration had evidence to trumpet in promoting its favored policy. Despite the results from the studies, opponents of housing vouchers cited increases in rents as a rationale to avoid them.

Just as Nixon discovered the merits of vouchers for Republican social policy, the Reagan administration found similar virtues. However, the Reagan administration was enthusiastic from the beginning, while the Nixon administration lurched toward a voucher policy only during the second term. Documents from Reagan’s transition indicate that vouchers were settled on even before Reagan took the oath of office as the mainstay for housing policy in lieu of section 8, section 235, and all public housing programs.¹³⁹ In addition to the perceived benefits listed above, a voucher program was much less expensive than subsidizing the building of new housing. A pro-voucher HUD secretary, Samuel Pierce, was then appointed to serve in the cabinet.

¹³⁷ Reagan Archives. WHORM subject Files. Box 1: HS Housing, File 9050000-059999), response from Albert D. Winn, Assistant Secretary, to David E. Phillippe, dated January 28, 1982.

¹³⁸ Barnett, C. Lance. “Expected and Actual Effects of Housing Allowances on Housing Prices.” *Real Estate Economics: Journal of the American Real Estate and Urban Economics Association*. Vol. 7 (3): pp. 277-297.

¹³⁹ Reagan Archives. Harper, Edwin L.: Files. Box 4 File OA 11264, Reports for the President Elect—Cabinet Briefings—HUD (2), nd.

Pierce was appointed as the token African-American to serve in Reagan's cabinet. He suffered from an *mélange* of problems. Numerous ill-advised remarks and decisions fueled the press's suspicion he was an incompetent cipher.¹⁴⁰ Worse, under his stewardship, HUD became a bastion for corruption that was largely exposed during the George H.W. Bush presidency. Emblematic of Pierce's anonymity was that Reagan himself did not recognize his HUD secretary at a luncheon for US mayors when he said to Pierce, "hello, Mr. Mayor."¹⁴¹ However, notably, when besieged, Pierce's line of defense often was to point to his firm support of housing vouchers as a timely innovation for future housing policy. In an internal administration document, Pierce's staff fended off charges made by a critical *Wall Street Journal* article by highlighting "Secretary Pierce is indeed proud of his work toward switching department housing assistance largely into a rent voucher system."¹⁴²

Reagan made a point of his advocacy for vouchers very early in his presidency. He signed an executive order on June 16, 1981 appointing the first executive housing commission since Johnson formed the Kaiser Committee in 1967.¹⁴³ The commission did not include a diversity of opinions. The Reagan administration stacked the committee

¹⁴⁰ See Teely, Sandra Evans. "Subsidies for Housing Will End, Pierce Says," *The Washington Post*. November 6, 1981, p. D11 who relates that Pierce contradicted himself on voucher policy within his own speech. For a scathing assessment of Pierce, see Schellhardt, Timothy D. "HUD Chief Pierce Gets Reputation for Reclusiveness, Lack of Interest." *The Wall Street Journal*, April 1, 1983, p. 15.

¹⁴¹ Associated Press. "If you've seen one official, you've seen them all, right?" *The Washington Post*. June 19, 1981, p. A11.

¹⁴² Article: Schellhardt, 1983, p. 15. HUDs response to the administration: Reagan Archives. Collection Meese, Edward, files. Box 32 File OA 11833, HUD—Secretary Samuel R. Pierce, JR.

¹⁴³ "Executive Order 12310—President's Commission on Housing," *Public Papers of President Reagan: 1981*, pp. 528-529, June 16, 1981: pp. 528-529; The President's Commission on Housing. *The Report of the President's Commission on Housing* (Washington, D.C.: GPO: 1982), pp. xv, xvii.

with like-minded officials to formulate policy recommendations consistent with the administration's philosophy, as opposed to diverse voices attempting to agree on broad principles.

The main thrust of the Reagan administration's voucher proposal, as articulated in the report, was to transform the section 8 existing housing program into a pure voucher system. The existing housing portion of section 8, as described in chapter 4, originally derived from Rep. William Widnall's (R-NJ) section 23 legislation. This program was organized through a federal agency, which would pay a landlord, a portion of a low-income tenant's rent, based on fair housing prices. This program had elements of a direct cash payment, although the voucher was not given to the low-income housing recipient. During Nixon's administration, Congress used the existing housing mechanism of section 8, largely in lieu of direct vouchers. Reagan called for changing the existing housing portion of section 8 in several ways. Instead of the Fair Market Value, a standard regional cost would be determined for rental values of dwelling units. The voucher from the federal government would be calculated as the difference between 30% of a low-income housing recipient's income and the standard cost. The recipient would then select the place to live. If the actual rent was less than the payment standard, the voucher recipient could pocket the difference. The beneficiary could also choose to live in a residence with a more expensive rent and make up the difference. The Commission advocated a system that would encourage direct payment of the subsidy to the tenant.¹⁴⁴

¹⁴⁴ Commission on Housing, 1982, pp. 17-30; Hays, R. Allen. *The Federal Government and Urban Housing: Ideology and Change in Public Policy*. 2nd ed. (Albany, NY: State University of New York Press, 1995), pp. 237-238.

In moving toward promoting vouchers, the administration did hope to save money on expensive construction costs and decrease the HUD budget. Despite lauding the voucher concept, the pecuniary concerns of the administration made it hesitant to promote vouchers extensively. The administration proposed that vouchers be limited to those who had incomes less than 50% of the median of the population. Previous renditions of vouchers had allowed those with incomes up to 80% of the median to qualify. Also, in an age when many households were spending a higher percentage of family income on housing, the Reagan administration ratcheted up the percentage of family income that was expected to pay for rent. The new proposal called for 30% of income to go for rent as opposed to the 25% standard of earlier policy. The Reagan administration was adamant no new monies be devoted to building subsidized housing.

The Reagan administration proposed in 1983 to create 80,000 vouchers as part of section 8 housing. A chary Congress eventually settled on appropriations for a demonstration project of 15,000 vouchers.¹⁴⁵ Democrats in the House were particularly circumspect. As Cushing N. Dolbeare, a low-income housing advocate, stated when commenting on congressional deliberations, “distrust of vouchers is definitely a philosophical thing.”¹⁴⁶ In 1984 the administration was back in the fray proposing more vouchers, this time an additional 91,000. An incredulous chairman, Edward Boland (D-MA) of the HUD/Independent Agencies Subcommittee of the Appropriations Committee, notably less enthusiastic about the voucher concept than the administration, observed the “request is far and away and beyond what the administration can actually utilize in fiscal

¹⁴⁵ *Congressional Quarterly Almanac*, 1983, “Compromise Reached on Housing Revenues,” pp. 277-283, 277.

¹⁴⁶ Stanfield, Rochelle L. “If Vouchers Work for Food, Why Not for Housing, Schools, Health, and Jobs?” *The National Journal*. April 23, 1983, pp. 840-844, 840.

1985.” Noting that the pilot project from the previous year was not yet running, he said, “there ought to be a further test of that demonstration project.”¹⁴⁷ The administration continued to request more vouchers. In 1986, the administration requested augmenting the number of vouchers by 50,000.¹⁴⁸

Vouchers were a minor part of large housing bills, which were always hard fought compromises between the administration and House Democrats. There were only three counted votes during the Reagan years specifically relating to housing vouchers. In 1985, an amendment proposed by Toby Roth (R-WI) called for making the voucher demonstration project permanent. His amendment was voted down in committee 20-14.¹⁴⁹ In a committee vote from 1987, ranking member Chalmers P. Wylie (R-OH) motioned to cut \$2.8 billion from existing rent subsidies (the program originally established by Widnall and then promoted by Democrats during the Nixon era) and adding \$1.4 billion for vouchers. That was voted down in committee along party lines, with the 29 Democrats opposed and the 19 Republicans in favor.¹⁵⁰ In 1988 the full House voted on an amendment offered by a Democrat to transfer \$271 million from the voucher program for other rental certificate uses under section 8. The full House showed support for the cash voucher concept this time. Only 85 members voted stripping the

¹⁴⁷ *Congressional Quarterly Almanac*, 1984, “\$56.5 Billion Approved for HUD, Agencies,” pp. 415-421, 415.

¹⁴⁸ *Congressional Quarterly Almanac*, 1986, “Program Termination and ‘Privatization’ Proposals” pp. , 536.

¹⁴⁹ *Congressional Quarterly Almanac*, 1985, “Stalemate Dooms Rewrite of Housing Policy,” pp. 303-305, 304.

¹⁵⁰ *Congressional Quarterly Almanac*, 1987, “Housing Authorization Clears at Last Minute,” pp. 682-691, p. 687.

money for vouchers and 330 voted against. 166 of 171 Republicans voted with the majority and 164 of 244 Democrats did likewise.¹⁵¹

Despite failing to convince Democrats in Congress of fully reversing course to promote vouchers instead of new housing construction, Reagan won a number of moderate victories and established vouchers on firmer footing, even if the policy was reserved for only the poorest. Expenditures for cash vouchers increased rapidly. For FY 1985, the total amount appropriated for section 8 vouchers was approximately \$1.6 billion (in real dollars).¹⁵² By FY 1989, the last budget of the Reagan administration, the total amount dedicated to section 8 vouchers had more than doubled to over \$3 billion (in real dollars).¹⁵³ During the Reagan years the total number of people receiving some form of section 8 rental assistance had doubled to approximately 2.2 million.¹⁵⁴ Rules governing the use of vouchers were also liberalized. In 1986, Toby Roth (R-WI) introduced an amendment, which was passed by voice vote, to establish a demonstration project allowing vouchers to be used for any private rental housing. Prior to Roth's amendment, the law restricted the use of many vouchers to rehabilitated rental housing.¹⁵⁵ In 1987, as part of the Housing and Community Development Act, the pilot voucher program was made permanent.¹⁵⁶

¹⁵¹ *Congressional Quarterly Almanac*, 1988, Vote # 197, June 22, 1987, p. 64-H.

¹⁵² Office of Management and Budget. "Budget of the United States Government, Fiscal 1985, Appendix", p. I-L1.

¹⁵³ Office of Management and Budget. "Budget of the United States Government, Fiscal 1989, Appendix", p. I-M1.

¹⁵⁴ Ellickson, Robert. "The Homelessness Muddle", *The Public Interest*. Spring 1990, pp. 45-60, 55.

¹⁵⁵ *Congressional Quarterly Almanac*, 1986. "Housing Reauthorization Fails Despite Pact", pp. 585-588, 587.

¹⁵⁶ Report of the President's Commission on Privatization, "Privatization: Toward More Effective Government," March 1988, p. 15.

Widnall's existing housing program, due to congressional insistence, remained larger than the voucher program during Reagan's presidency, although the voucher program grew rapidly. The most dramatic result of Reagan's re-orientation of housing policy was that new construction to supply the poor was dramatically reduced. The promotion of vouchers would become the main market mechanism that the Reagan administration implemented. Yet the Republican administration had other ideas that first appeared on the horizon: enterprise zones and selling the privatizing the public housing stock, either through sale or tenant management.

Enterprise Zones

Enterprise Zones are designated impoverished areas, often, but not exclusively, in cities. To lure private firms to these locations, governments would grant these businesses relief from regulations and provide tax relief. Presumably, this incentive would create economic development and improve the quality of life in blighted areas.

The concept of an enterprise zone first gained American policymakers' attention in 1979. There was no gestation period before enterprise zones were thrust to the forefront of urban development policy. The notion of an enterprise zone has both domestic and foreign antecedents. Jack Kemp, in a reported interview, claimed the inspiration behind his commitment for enterprise zones was from a post World War II program to develop Puerto Rico called "Operation Bootstrap" which cut taxes to promote industry.¹⁵⁷ The concept had also been promoted in Britain, first by a Labour Party

¹⁵⁷ Guskind, Robert. "Round Two for Enterprise Zones," *Planning*. September 1989, pp. 4-8, 5.

activist, Peter Hall in the late 1960s.¹⁵⁸ However, the concept soon attracted the attention of Conservative Party politicians. Geoffrey Howe, a Conservative Member of Parliament, had given the name “enterprise zone” to the concept which he was advocating in the late 1970s. An economist who worked for the think-tank Heritage Foundation, Stuart Butler, soon imported the idea to American audiences.¹⁵⁹ Jack Kemp (R-NY) was particularly enamored. Along with Robert Garcia (D-NY) he introduced legislation for federal Enterprise Zones in the House. Reagan also seized on the concept in his presidential campaign as a fresh idea to halt urban decline.¹⁶⁰

Enterprise zone theory melds well with Republican philosophy. First, it promises to help salvage poor neighborhoods without committing new federal monies while also reducing taxes. It also accords with the philosophy that government is a hindrance to economic growth, creating barriers that prevent citizens from flourishing in a capitalistic economy. According to a Reagan administration source, “the underlying concept of Enterprise Zones is to create a free-market environment in depressed areas through relief from taxes, regulations and other government burdens” while promoting the “involvement of private, neighborhood organizations.”¹⁶¹ A proactive Republican

¹⁵⁸ Gunn, Elizabeth, M. “The Growth of Enterprise Zones: A Policy Transformation.” *Policy Studies Journal*, Vol. 21, No. 3 (1993), pp. 432-449, 433.

¹⁵⁹ Butler, Stuart M. *Enterprise Zones: Greenlining the Inner Cities* (New York: Universe Books, 1981), p. 2.

¹⁶⁰ Richard Nixon had proposed proto-enterprise zone for African-Americans in urban areas in his campaign. See Weems, Robert E. and Lewis A. Randolph. *Business in Black and White: American Presidents and Black Entrepreneurs in the Twentieth Century* (New York: New York University Press, 2009), p. 138; Kotlowski, Dean J. *Nixon's Civil Rights: Politics, Principle, and Policy* (Cambridge, MA: Harvard University Press, 2001).

¹⁶¹ *The Administration's Enterprise Zone Proposal: Fact Sheet* (Washington, D.C.: Office of the Press Secretary, March 23, 1982), p. 1.

response to inner city problems also served well in refuting the notion that G.O.P was a political party that did not care about the poor.

The intuitive appeal of such a simple concept overwhelmed empirical concerns. As of 1981, there was little evidence that demonstrated that tax incentives would attract businesses and create jobs. Indeed, foreign experiments that resembled enterprise zones had largely proven to be ineffective.¹⁶² The newness of the concept in the United States meant that pilot studies were lacking. In this regard, enterprise zones were much different than the fairly well studied use of housing vouchers by the early 1980s.

Nonetheless, the ideological appeal of enterprise zones—not demands from interests or mainstream policy analysts—pushed the concept to the forefront of policymakers’ urban agendas. Some Democrats, craving any attention for urban problems, signed on to the enterprise zone agenda. The aforementioned Garcia was an early convert. Another New York Democrat, Charlie Rangel, originally opposed the concept, but later said he learned to “talk Republican” using words like “enterprise zones” to better get support for his constituents.¹⁶³

In general, however, Democrats were wary of Enterprise Zones. After his election as president, Reagan habitually proposed pilot enterprise zones. By 1984, the Republican Senate had passed enterprise zone legislation three times, always as an attachment to a broader bill. The bottleneck proved to be the House. The Ways and Means Chairman, Dan Rostenkowski (D-IL) opposed the concept, apparently due to the expense of the tax credit, which the Senate Finance Committee expected to cost \$1.3 billion over a three year demonstration period, at a time when Congress was hoping to

¹⁶² Gunn, 1993, p. 432 provides citations for the relevant literature.

¹⁶³ Gunn, 1993, p. 434.

reduce the use of tax credits. Enterprise zones were always dropped in conference committee.¹⁶⁴

Nonetheless, House opposition was slowly wilting. Steve Bartlett (R-TX), of the subcommittee on Housing and Community Development, sponsored an amendment to establish 75 enterprise zones nationwide. The subcommittee quashed Bartlett's proposal, but the full House Banking Committee rescued the concept and passed Bartlett's amendment by a slim margin, 26-22.¹⁶⁵ Still, Rostenkowski and the Ways and Means Committee were unbending. Finally, as part of the 1987 Community and Development Act, a token demonstration enterprise zone program was enacted. To get the measure through Ways and Means, no tax incentives were granted for private industry. It merely authorized HUD to select areas for demonstration federal enterprise zones. Critics alleged that the enterprise zone part of the legislation was so weak without tax benefits for private firms, that it would prove a failure.¹⁶⁶ Such a result could, in the eyes of advocates, unfairly tarnish the conceptual basis of enterprise zones.

By the end of the Reagan administration, enterprise zones had made little federal headway. Since there are approximately 2,000 locations in the United States that would fit the definition of distressed, as envisioned by advocates of enterprise zones, no federal proposal would have touched most of these areas.¹⁶⁷ The glacial pace of federal initiative

¹⁶⁴ *Congressional Quarterly Almanac*, 1984. "Enterprise Zones Fail," p. 168.

¹⁶⁵ *Congressional Quarterly Almanac*, 1985. "Stalemate Dooms Rewrite of Housing Policy," pp. 303-305, 304-305.

¹⁶⁶ Gunn, 1993, 435; Butler, Stuart M. "The Conceptual Evolution of Enterprise Zones," *Enterprise Zones: New Directions in Economic Development* ed. Roy E. Green, (Newbury Park, CA: Sage Publications, 1991), p. 39.

¹⁶⁷ Bendick, Marc, Jr. "Employment, Training and Economic Development." *The Reagan Experiment: An Examination of Economic and Social Policies under the Reagan*

did not constrain the states. Many of them developed versions of enterprise zones throughout the Reagan administration. Thus, by the time George H.W. Bush became president, enterprise zones were a much more familiar concept and would receive a sustained push from his HUD secretary, Jack Kemp.

Privatizing the Housing Stock

A third pillar of Reagan's promotion of markets in housing policy was his plans to privatize the low-income housing stock. The most controversial method of achieving this goal was to sell public housing to low-income tenants. June Q. Koch, assistant HUD secretary, explained that "behind all the demonstrations we're doing is the Administration's view of how you help low-income people, which is by helping them not to be poor."¹⁶⁸ In other words, the Reaganites were attempting to infuse market ideology into the conduct of the poor, avoiding all governmental dependence. The administration was trying to insert market mechanisms into housing policy from many angles, including putting the public housing supply up for sale with terms that could enable the poor to participate in the market economy. Jack Kemp introduced legislation that would sell public housing to tenants at 25% of market value.¹⁶⁹ Democrats, concerned that such measures were both infeasible and would put strain on the low-income housing stock, were not receptive. Indeed, Barney Frank (D-MA) introduced legislation to prohibit such sales.¹⁷⁰

Administration. John L. Palmer, Isabel V. Sawhill, eds (Washington, D.C.: Urban Institute Press, 1982), p. 267.

¹⁶⁸ Hagstrom, Jerry. "Letting Tenants Take a Turn at Management," *The National Journal*, August 3, 1985, p. 1798.

¹⁶⁹ Pierson, 1994, p. 91.

¹⁷⁰ Hagstrom, 1985, p. 1798.

While legislation was stalled in Congress, HUD moved on its own accord to start selling public housing. In June 1985, a demonstration project began selling units to tenants. By February 1988, a total of 184 units (of a total of nearly 1.2 million units) had been sold for an average of approximately \$30,000 (\$54,650 in 2009 dollars). Congress allowed the demonstration to continue, but not be expanded.¹⁷¹ Despite the appeal of selling off low-income housing for the administration, it was largely impractical. While in the United Kingdom there were successful programs to sell off the public housing supply, almost all residents of public housing in the United States were very poor and did not have the financial assets to purchase any housing, even on very generous terms. The Congressional Research Service estimated only 9% of residents could ever purchase their own housing.¹⁷² Since nearly half of public housing residents were elderly, purchasing housing also had at best limited appeal. An assistant HUD secretary, Warren T. Lindquist, estimated only 20,000 to 30,000 units had the potential to be sold to residents.¹⁷³

A more feasible method for getting tenants to take responsibility for housing projects and better participate in the market economy were tenant-management arrangements. While favored by the Reagan administration and advocated by his Commission on Privatization late in his presidency, it never became a mainstream policy. The few trumpeted success stories, particularly a project in St. Louis and one in Washington, D.C., both required dramatic infusions of cash from the federal government, making these very expensive enterprises. A similar cash injection for all projects

¹⁷¹ Report, 1988, p. 17.

¹⁷² Ibid.

¹⁷³ Hagstrom, 1985, 1798; Pierson, 1994, 92.

nationwide would have been financially prohibitive; with estimates of a total cost in excess of \$70 billion.¹⁷⁴

The Reagan administration consolidated the move in a market direction in housing policy. The voucher demonstration projects from the Nixon administration were pushed with renewed vigor, while enterprise zones and plans to privatize the housing stock, while not yet practical, were added to the agenda. There was a massive downscaling of the amount of public housing built, therefore accounting for the retrenchment of housing policy. Yet, according to testimony from HUD, a million more individuals were aided in housing assistance in 1988 than in 1981.¹⁷⁵ Democrats in Congress were partially responsible for this outcome, but so too was the Reagan administration's use of section 8 vouchers and rental certificates (Widnall's program). Both of these programs saw funding increases during the Reagan administration, particularly the nascent voucher program.

Despite these measures, which could be heralded as accomplishments, Reagan had lost control of the housing issue by the end of his administration. Homelessness emerged as an issue in the mid 1980s, making the administration appear callous for not supplying more housing for indigents. Homeless advocates, in all probability, vastly overestimated the number of homeless, suggesting numbers as vast as 3 million in the United States, which captured media attention.¹⁷⁶ Reagan's housing legacy would further be tarnished by the revelations of the patronage scandals at HUD during his administration.

¹⁷⁴ Hagstrom, 1985, p. 1798, Pierson, 1994, p. 92, "Report", 1988.

¹⁷⁵ *Congressional Quarterly Almanac*, 1988, "Reagan Requests \$1 Trillion for Fiscal 1988," pp. 573-591, 588.

¹⁷⁶ Collins, 2007, p. 119.

Anti-poverty areas such as welfare and housing were not the only policy arenas that moved in a pro-market direction. Reagan, in rather more cautious fashion, was willing to consider incorporating market mechanisms into health policy.

Health

The Republican Party platform for 1980 had no sympathy with the federal health programs sponsored by Democrats. “What ails American medicine is government meddling and the straitjacket of federal programs.”¹⁷⁷ The platform and candidate Reagan were vague on solutions, largely emphasizing “choice” as the preferred remedy.¹⁷⁸ After his election, it became clear that the administration would promote market mechanisms in order to restrain costs and improve efficiency. This was something of a gamble. As long ago as 1963, the Nobel Prize winning economist, Kenneth J. Arrow, had warned that the “welfare economics of medical care” was an example of a policy arena that did not operate according to routine market principles.¹⁷⁹

A majority of the federal government’s expenditures on health was for Medicare, a program primarily for the elderly. It encompassed more than 60% of all federal health outlays in 1981.¹⁸⁰ Therefore, most of Reagan’s policy proposals would focus on the Medicare program.

Medicare Vouchers

¹⁷⁷ Johnson, Donald Bruce, compiler. *National Party Platforms of 1980* (Urbana, IL: University of Illinois Press, 1982), p. 184.

¹⁷⁸ *Ibid.*

¹⁷⁹ Arrow, Kenneth J. “Uncertainty and the Economics of Medical Care.” *The American Economic Review*, Vol. 53, No. 5, December 1963, pp. 851-883.

¹⁸⁰ Davis, Karen. “Reagan Administration Health Policy.” *Journal of Public Health Policy*, Vol. 2 No. 4 (Dec. 1981), pp. 312-332, p. 316.

Similar to housing policy, cash vouchers were seen by the Reagan administration as a free market balm for the ills afflicting health care, particularly federal expenditures. They were purported to both increase efficiency of Medicare while containing costs without onerous government regulation. Alain Enthoven was an early proponent making the case for vouchers in Medicare in the late 1970s. The Reagan administration thought the concept worth pursuing and urged Congress to provide vouchers for Medicare and eventually Medicaid recipients so that a greater range of individuals could choose to purchase health care coverage from private insurance. If the Medicare recipient chose a plan that cost less than the voucher cash benefit, the Medicare beneficiary could pocket the extra cash.¹⁸¹ The theory behind these vouchers is that Medicare patients would most likely insure for catastrophic care and pay higher deductibles for routine care, so as to profit from the voucher. The Medicare patient would then have incentives not to overuse medical services in order to save money. Also, insurance companies would by necessity compete for business on a fairly fixed premium, thus enabling the federal government to pressure them to hold down costs in order to remain profitable. Likewise, insurance firms would put pressure on medical doctors and hospitals to keep costs down.¹⁸²

The pursuit of Medicare vouchers demonstrates Republican commitment to market ideals. The Democratic response is also noteworthy. At times, certain liberal politicians seemed ready to admit the limits of New Deal and Great Society programs. Ted Kennedy (D-MA) is most famous for advocating deregulation. Richard Gephardt (D-MO) also wished to be seen as on the forefront of cutting edge policy that would

¹⁸¹ Iglehart, John K. "Drawing the Lines for the Debate on Competition." *The New England Journal of Medicine*. Vol. 305, No. 5, June 30, 1981, pp. 291-296, p. 294.

¹⁸² Rich, Spencer. "Medicare Revamping Weighed: Voucher System Among Options U.S. is Studying." *The Washington Post*, August 12, 1981, p. A1.

improve programmatic delivery. This led to a tenuous alliance of certain Democratic politicians with Republican innovators. This trend should not be overstated in this early period. Democratic members of Congress who were pro-market tended to represent conservative districts and were less entrenched in Congress. Others would retreat from market remedies when not politically advantageous. Yet these early embraces of market social policy were a precursor of how the Democratic Party of the Clinton era in the 1990s would strategically embrace market based social policy. It also demonstrates that Democrats had not developed a cogent response to policy that revolved around markets in the welfare state.

The first bills introduced in Congress that promoted Medicare vouchers were offered late in the Carter administration. David Stockman (R-MI) was a major proponent and he co-authored legislation with Richard Gephardt (D-MO) to shore up the bipartisan support for this market-oriented initiative.¹⁸³ They proposed introducing an optional voucher program for Medicare recipients. Starting in the 1970s, Democrats were willing to move toward pro-market solutions in the delivery of health care—the promotion of HMOs and, in the case of Gephardt, vouchers.

Medicare vouchers became solidified as part of the Republican program once Stockman joined the Reagan administration and strongly urged vouchers as an integral part of the Reagan health care plan. The HHS secretary, Richard Schweiker, another member of the Reagan administration interested in the concept, established a task force

¹⁸³ Demkovich, Linda E. “No Deregulation Here.” *The National Journal*, August 1, 1981, p. 1,389.

and HHS group to work on options for legislation.¹⁸⁴ Senator David Durenberger (R-MN), the new chairman of the Senate Finance subcommittee on Health, took an interest in competition in the health marketplace. The most powerful Democrat associated with the introduction of Medicare vouchers, Al Ullman (D-OR), chairman of the Ways and Means committee, had been defeated in his 1980 reelection bid as part of the Reagan landslide. By defeating Ullman, the Republican electoral machine proved almost too efficient, by eliminating the chance for a bipartisan policy. Gephardt also moved away from the concept. Thus, any bipartisanship surrounding Medicare vouchers disappeared as it became exclusively associated with Republican strategy.¹⁸⁵

Even in the summer of 1982, the Ways and Means Committee gave approval to an optional Medicare voucher plan.¹⁸⁶ The Reagan administration signaled its approval of the Medicare proposal and unveiled its market based health care plan late in 1982.¹⁸⁷ Beneficiaries would be provided vouchers worth 95% of the amount spent on an average Medicare recipient per region.¹⁸⁸ Left unstated was how rapidly the voucher amount would increase in future years. Also, for this plan to work, it was expected that Congress would have to legislate for private insurance to be required to offer coverage at least as good as that which traditional Medicare provided.¹⁸⁹

¹⁸⁴ Oliver, Thomas R. "Health Market Reform in Congress: The Uncertain Path from Proposal to Policy." *Political Science Quarterly*. Vol. 106, No. 3 (Autumn 1981), pp. 453-477, 472.

¹⁸⁵ *Ibid.*, 462.

¹⁸⁶ "House Unit Votes \$5.3 Billion Tax Boosts, Outlay Cuts in Welfare, Social Insurance." *The Wall Street Journal*. July 16, 1982, p. 2.

¹⁸⁷ "Medicare Voucher Plan Gets Support From Reagan Official." *The New York Times*, August 4, 1982, p. B7.

¹⁸⁸ Pear, Robert. "Vouchers, Emerging as a Theme, Provoke Debate." *The New York Times*, February 8, 1983, p. A18.

¹⁸⁹ "Rx for Health Costs." *The Washington Post*. December 17, 1981, p. A30.

The advocates' most immediate problem with Medicare vouchers is that they failed to deliver immediate or near term budget savings, which is what the Reagan administration most wanted.¹⁹⁰ Senate Finance chair, Robert Dole (R-KS) stated "None of us believes that these [pro-competitive] proposals will provide us immediate savings. And it is immediate savings in addition to long-term reform, that we need."¹⁹¹ In order to deliver near-term savings, the Reagan administration proposed capping the amount that employer-subsidized health insurance could exclude from taxable income. This provision would yield up front savings as well as discouraging excessive health utilization by employees.¹⁹²

On February 28, 1983 the Administration sent Congress a health proposal that included \$50 million to establish a Medicare voucher program along with limitations on tax credits for expensive employee health insurance.¹⁹³ Within the next two months the administration was forced to make a hasty retreat. Cost containment would hurt virtually every interest group, some of them friends of the Reagan administration. Linda S. Jenckes of the Health Insurance Association of America, representing over 300 insurance companies, frowned on the concept of Medicare vouchers, stating, "There is no way we can offer the same benefits as Medicare at the same price the Government is paying for them."¹⁹⁴ Business and industry did not like the notion of the federal government cutting back on tax credits for health insurance. In testimony before the Ways and Means, the

¹⁹⁰ Demkovich, Linda E. "Relying on the Market—the Reagan Approach to Containing Medical Costs." *The National Journal*. January 30, 1982, pp. 194-197, 194.

¹⁹¹ Quoted in Oliver, 1991, p. 461.

¹⁹² Demkovich, Linda E. "Taxing Health Insurance—Revenue Boost Only the Tip of the Savings Iceberg." *The National Journal*, January 22, 1983. Pp. 170-173, 170.

¹⁹³ "Vouchers: A 'Plus in a Sea of 'Minuses.'" *The National Journal*, March 12, 1983, p. 547.

¹⁹⁴ Pear, February 8, 1983, p. A18.

director of the Washington Business Group on health, representing 186 corporations, said “Let me be blunt: there is no significant support for federal legislation mandating a competition system.”¹⁹⁵ Small business was no more favorable to competition stipulations, such as limitations on health tax credits. As Durenberger’s aide, Richard Krugman notes, small businesses complained, “What the hell are you doing to us? I thought you were getting government off our backs.”¹⁹⁶ The American Medical Association, always cognizant of its members’ incomes, favored the status quo in Medicare reimbursement. In addition, the organization feared that doctors’ autonomy would be compromised by Medicare innovations. The American Association of Retired Persons (AARP) also weighed in against Medicare vouchers, fearing that it would prohibit the elderly from seeking necessary medical services.¹⁹⁷ Labor unions, likewise, agreed that Medicare vouchers and limits on health insurance tax breaks were a violation of the concept of comprehensive government insurance.¹⁹⁸

The arguments about Medicare vouchers, while reported in major newspapers, largely never became part of the public debate. The administration conceded that the public would have to be persuaded to adopt a major change in Medicare payments. While an HHS assistant secretary, Robert J. Rubin, said he thought that the public, even the elderly, could be easily persuaded, his statement might have been an exercise in

¹⁹⁵ Oliver, p. 465, 558, 562 *Ways and Means, Proposals to Stimulate Competition in the Financing and Delivery of Health Care.*”

¹⁹⁶ Iglehart, July 30, 1981, p. 294.

¹⁹⁷ Oliver, 1991, pp. 466-469.

¹⁹⁸ Oliver, 1991, pp. 464-465.

bravura.¹⁹⁹ After the Social Security debacle early in Reagan's administration, Congress was fully aware that elderly entitlement programs were a third rail. For a public wary of anything that could be construed as retrenchment, limiting care, and offering change, Medicare vouchers—an admittedly alien and obscure concept to many—did not have the ingredients of winning popular approval.

Many Democrats, despite Gephardt's enthusiasm, were not agreeable to the voucher concept. Senator Max Baucus (D-MT) said, "Medicare vouchers would add to the cost of the Medicare program and the size of the Federal bureaucracy."²⁰⁰ Even some Republicans were not eager to see Medicare vouchers introduced.²⁰¹ Krugman, Durenberger's senate health aide, said in an interview that ideas for competition in health, such as Medicare vouchers, were "an issue with no real friends."²⁰²

The real surprise is that an idea with no constituency, not to mention any demonstrated empirical support, should have moved so far so fast. The most likely answer is the inherent ideological appeal of Medicare vouchers. It is true that in this instance the voucher concept did not have the wherewithal to survive with many interests arrayed in opposition. Yet the Medicare voucher concept did not disappear. It would resurface again later in Reagan's administration. The early 1980s seems to also have shifted Medicare vouchers from a bipartisan issue to a Republican one (although not all members of the G.O.P caucus were enthusiastic).

¹⁹⁹ Demkovich, Linda E. "Reagan Takes on the Elderly Again as He Seeks to Slow Medicare's Growth." *The National Journal*. September 12, 1981, pp. 1,616-1,620, 1,620.

²⁰⁰ Pear, February 8, 1983, p. A18.

²⁰¹ Oliver, 1991, p. 471.

²⁰² Iglehart, 1981, p. 294.

With interests implacably opposed to pro-market measures, both the administration and Congress were in a quandary. Since bankruptcy loomed for Medicare, they were determined to find some way to contain costs, especially for Medicare Part A (hospital insurance) which consumed 70% of Medicare spending.²⁰³ An alternative favored by some of these interests, such as health insurers, was to use a regulatory method used by states such as New Jersey in controlling costs.²⁰⁴ The prospective, or predetermined payment method would reimburse hospitals at a standard rate by the basis of the diagnosis (technically diagnosis-related groups or DRGs). The theoretical underpinning behind DRGs was that instead of paying hospitals for their stated expenses, reimbursing them at a predetermined rate would reward efficient hospitals that succeeded in keeping costs down. If a Medicare consumer could be covered for less than the set DRG rate, hospitals could keep the excess payment as profit. If hospitals lost money, they would have every incentive to improve efficiency.²⁰⁵

It is ironic that an administration that promised competition in financing health care was now proposing more regulation. Nonetheless, the image of competition in rhetoric proved powerful enough to overshadow complicated reality. Despite increasing regulation, there were market principles behind DRGs. Theoretically, hospitals were pitted in indirect competition with one another.²⁰⁶ The introduction of prospective

²⁰³ Demkovich, September 12, 1981, p. 1,616.

²⁰⁴ Demkovich, Linda E. "Health Insurers Favor Budget Cutting—But not if it means they must pay more." *The National Journal*. November 21, 1981, pp. 2,068-2,071, 2,068.

²⁰⁵ Mayes, Rick and Robert Berenson, *Medicare Prospective Payment and the Shaping of U.S. Health Care* (Baltimore: Johns Hopkins University Press, 2006), pp. 41-42.

²⁰⁶ Morone, James A. and Andrew B. Dunham, "Slouching Towards National Health Insurance: The New Health Care Politics," *Yale Journal on Regulation*, Vol. 2, 1985, pp. 263-291.

payment and DRGs marked a major sea change in health care financing and doctor payment, yet it occurred largely out of sight of the media and even the medical establishment.

There was enough market truth in prospective payment to make language about competition palatable. Thus, a victory for regulation and government controls could also masquerade as a triumph of markets—Reagan and the Congress would focus on the latter aspect. Interests opposed to prospective payment were outmaneuvered as Congress had passed the Tax Equity and Fiscal Responsibility Act in 1982 which would enforce draconian cuts in Medicare payments not advantageous to hospitals. Thus hospitals viewed prospective payment as a superior, if not ideal, option. Dan Rostenkowski (D-IL), chairman of Ways and Means, attached the Medicare legislation to the Social Security Amendments of 1982. Reagan signed the legislation on April 20, 1983.²⁰⁷ In order to impose cost controls on Medicare inflation, Congress revamped the entire system speedily, with minimal debate, largely absent input from the public. Probably since the public would not directly notice changes in Medicare, and opposition from interests was muted, Congress could uncharacteristically pass a major overhaul quickly.

Reagan, in his second term, decided that it was time for Medicare to offer catastrophic coverage for enrollees. The architect of the catastrophic plan, the new Secretary of HHS, Otis Bowen, aimed to have Medicare cover this new benefit. This ran afoul of what principled conservatives, such as Beryl Sprinkle, the chairman of Economic Advisors, wanted. Sprinkle had worked with the Heritage Foundation to develop a proposal to have Medicare beneficiaries to be issued vouchers to purchase catastrophic

²⁰⁷ Mayes and Berenson, 2006, pp. 43-45.

insurance in the private market. Bowen, hostile to vouchers, diagrammed the Heritage plan on a board. Money would go from the government to the individual, to the private insurance company, to the hospital, and then back to the individual and government. By the time Bowen had finished drawing lines from all these various points, he had constructed a veritable Rube Goldberg. He sealed the fate of vouchers by then posing the question, “How would an Alzheimer’s lady of 90 handle a voucher.”²⁰⁸ Reagan and the meeting attendees guffawed and Medicare vouchers disappeared as a policy option during the rest of Reagan’s administration. The voucher defeat would prove only short-term.

Catastrophic

The middle of the second term proved a low-point for the Reagan presidency. The Republicans lost control of the Senate in 1986, the president suffered from personal illness, and worst of all, the Iran-Contra scandal made the administration look, for a time, inept, corrupt, and engaged in illegal clandestine activities. When Reagan was at his most vulnerable and unpopular, proved a propitious time for the Republican administration to cast off its reputation for retrenchment and promote an expansion of the welfare state. There had long been a demand for catastrophic care coverage in Medicare; Reagan was now ready to welcome the concept as part of his program.

The Reagan administration and HHS Secretary Bowen did not want to enlarge the federal government’s financial commitment to health. They envisioned that the financing of catastrophic insurance would come from Medicare recipients, without cross-subsidies

²⁰⁸ Quotation and description of Bowen’s voucher response found in Blumenthal, David and James A. Morone. *The Heart of Power: Health and Politics in the Oval Office* (Berkeley, CA: University of California Press, 2009), pp. 309-310.

from other sources. As we have seen, Bowen successfully fended off challenges from conservatives enamored with the concept that seniors ought to purchase catastrophic insurance from private firms with cash vouchers. What Bowen and Reagan could not control were congressional Democrats, who had augmented their majorities in the House and had recaptured control of the Senate in the 1986 elections. In the words of Blumenthal and Morone, the Democrats altered Reagan's parsimonious catastrophic bill by lighting the legislation up like a "Christmas Tree." The Democrats added a prescription drug benefit, skilled nursing facilities, home health services, and hospice care to the final bill.²⁰⁹ Reagan was adamant that in a time of budgetary deficits that the Congress could not include general treasury revenue to pay for the legislation. The program would have to be both deficit neutral and the burden for coverage would fall exclusively on seniors themselves.²¹⁰

Perhaps the model of having Medicare beneficiaries pay for an expansion of their own program could have worked for catastrophic insurance in isolation. However, with all the other additional components, taxes on wealthier Medicare recipients were dramatically hiked—up to \$800 for the wealthiest Medicare individual recipients and \$1,600 for couples.²¹¹ In a tactical error, the legislators included the tax hike up front, before any senior received benefits from the legislation. The next chapter will revisit the resulting senior rebellion.

²⁰⁹ Blumenthal and Morone, 2009, p. 312.

²¹⁰ Patashnik, Eric M. *Reforms at Risk: What Happens After Major Policy Changes Are Enacted* (Princeton, NJ: Princeton University Press, 2008), p. 86.

²¹¹ Himmelfarb, Richard. *Catastrophic Politics: The Rise and Fall of the Medicare Catastrophic Coverage Act of 1988* (University Park, PA: The Pennsylvania State University Press, 1995), p. 40.

Neither party foresaw the coming onslaught. The majority of both House and Senate Republicans voted for the conference report, with all Senate Democrats and most House Democrats in favor. (see Table 5.4).

Table 5.4: Medicare Catastrophic Conference Votes

Legislative Action	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
Vote #1	98	63	230	9	328	72
Vote #2	34	11	52	0	86	11

Vote #1: House Conference Report

Vote #2: Senate Conference Report

Sources: Vote 1: *CQ Almanac 1988*, June 2, 1988, 54-H; Vote 2: *CQ Almanac 1988*, June 8, 1988, 29-S

What Medicare Catastrophic does demonstrate is another discernible Republican impulse: overturning the Democratic principle of universal social insurance.²¹² An alternative Republican vision emerges that of beneficiaries self-financing their own programs. This was a half step toward individualism; that is, having programmatic beneficiaries instead of the entire population share in the expense. Republicans would revisit this concept in the 2003 Medicare Modernization Act. While not found across the welfare state as broadly as the cash voucher concept, the move away from the norms of social insurance, even at the risk of alienating upper income constituencies, appealed to Republican policy-makers as part of the market ethos. Medicare Catastrophic was a program caught between Republican and Democratic conceptualizations of the welfare state. Republicans wished to obtain an end advocated by Democrats (catastrophic

²¹² Blumenthal and Morone, 2009, p. 315.

insurance to Medicare) through Republican means. Medicare Catastrophic ultimately proved unworkable. Republicans would have greater success in amending Medicare in 2003 to reach Democratic ends by Republican means.

HMOs Reinvigorated

Health Maintenance Organizations (HMOs), a market-based approach to health care emerged as a Democratic initiative after Nixon lost control of his health agenda. The Reagan administration succeeded in recapturing HMOs as part of the Republican program. Further, they ensured that HMOs were no longer a peripheral facet of the agenda; instead, the predominant mode of insurance transformed from fee-for-service to managed care. The administration saw HMOs and managed care as a preferable method for control of health costs than traditional fee-for-service. However, no actor could have had the foresight to understand how many disparate factors would combine to create the HMO revolution in health policy.

The Reagan administration aimed to eliminate federal funding for HMOs. This was not with the goal with retrenchment in mind, but rather to dismantle the regulatory shackles that the administration, correctly, perceived stifled the growth of HMOs. The administration orchestrated a campaign to encourage private investment in HMOs. As a key structural change, the majority of HMOs metamorphosed from non-profit to profit making entities. The Reagan administration proposed these sweeping changes in 1981 and in 1982 successfully convinced Congress to follow.²¹³

²¹³ See Public Law 97-414 (U.S. Statutes), signed into law January 4, 1983. As part of the Orphan Drug Act, technical amendments were made to the HMO Amendments of 1981 to the HMO Act of 1973, which enabled federal involvement in HMOs to change. This was such a minor component to a much larger bill, that the partisan breakdown of the in Congress would be meaningless from an analytic perspective.

It would be difficult to overstate how the Reagan administration set in motion major changes in not just HMO management, but also in the entire medical delivery system. Snapshots taken at different moments illustrate the sweeping nature of the changes. At the outset of the Reagan administration there were only 10 million individuals enrolled in HMOs or some form of managed care.²¹⁴ Most health consumers still had fee-for-service plans. Of the organizations that provided HMO plans, only a fifth were for-profit.²¹⁵ HMOs were hobbled with bureaucratic restrictions that made them unable to respond to the needs of employers. Even worse from the perspective of HMOs, they were not allowed to use experience rating, which allows for providers to charge consumers insurance at different prices. Instead HMOs used community rating—charging all recipients the same price. This had the consequence of forcing healthier individuals to subsidize sicker individuals, making HMOs an unattractive option for many consumers.²¹⁶

By early 1989, at the conclusion of the Reagan administration, the onerous regulations had been removed which led to a rapid growth of private HMOs. Approximately two-thirds of HMOs were now profit making entities and 32.5 million individuals belonged to HMOs or some form of managed care.²¹⁷ While still a minority of the American population, managed care was a movement still expanding and

²¹⁴ Hale, Judith A. and Mary M. Hunter. *From HMO Movement to Managed Care Industry: The Future of HMOs in a Volatile Healthcare Market* (Interstudy: Center for Managed Care Research, June 1988), p. 7.

²¹⁵ Gray, Bradford N. "The Rise and Decline of HMOs," *History & Health Policy in the United States: Putting the Past Back In* ed. by Rosemary A. Stevens, Charles E. Rosenberg, and Lawton R. Burns (New Brunswick, NJ: Rutgers University Press, 2006), pp. 309-339, 323.

²¹⁶ Hale and Hunter, 1988, pp. 10-12.

²¹⁷ Gray, 2006, p. 312-313.

extending across America. While the decrease in regulations helped jumpstart HMOs, there were problems. For instance, evidence surfaced of massive frauds perpetrated by HMOs. One method of pecuniary legerdemain was to undervalue nonprofit HMOs and then sell them for a lark. Those engineering the conversions would profit immensely by reselling the HMO. A particularly egregious example was the California Inland Health Plan, which was sold at a “fair market value” price of \$562,000 in 1985, and the new owners resold the HMO for \$37.5 million in 1986.²¹⁸

As aforementioned, the Reagan administration intended to create a more hospitable climate for HMOs. The retooled HMO Amendments of 1981, along with promotional efforts by the administration, helped to ensure that outcome.²¹⁹ The Office of Health Maintenance Organizations within HHS shifted its mission from managing the distribution of federal funds to HMOs to advocating private sector HMO investment. In the early 1980s, HHS commissioned the accounting firm Touche Ross & Co. to produce promotional manuals in this effort.²²⁰

The business world took notice. A *Business Week* article from 1982 details how a non-profit HMO in Pennsylvania, U.S. Health Care Systems, switched from non-profit to for-profit status. An outside investor who purchased 40% of the company predicted a 25% to 30% return on the investment making it “one of the most attractive investments” for any portfolio.²²¹

²¹⁸ Ibid., pp. 327-328.

²¹⁹ Ibid., 2006, p. 327.

²²⁰ Touche Ross & Co. *The 1983 Investor's Guide to Health Maintenance Organizations* (Washington, D.C.: G.P.O, 1983).

²²¹ “Investors are eying HMOs”, *Business Week*, June 14, 1982, p. 114.

The IRS, an agency within the treasury department, followed in promoting the transformation of HMOs to for-profit entities. The IRS began making it difficult for non-profit HMOs to qualify for tax exemptions, giving them no advantage over their for-profit counterparts. These factors discouraged organizations interested in starting new nonprofit HMO plans. With the elimination of federal monies, nonprofit HMOs had lost much of their luster. The resulting vacuum in HMO formation was quickly filled by for-profits.²²²

However, other forces were at work stimulating the spread of HMOs besides the Reagan administration and congressional policymaking. Perhaps the most important was a Supreme Court interpretation of a section from the Employee Retirement Income Security Act (ERISA), a piece of legislation enacted in 1975. ERISA sought to make pension requirements uniform nationwide, so included a clause that preempted state laws in favor of federal regulation (section 501 [c] [3]).²²³ Congress intended that this only apply to pension, not health rules that were still regulated by the states, although some actors may have seen the potential for the transformation of the insurance business at the moment of enactment.²²⁴ Corporations established in multiple states chafed having to respond to multiple regulations imposed by various state legislatures concerning health benefits for employees. Corporations soon found a loophole in ERISA that seemed to imply that that by self-insuring, rather than purchasing insurance directly from insurance

²²² Gray, 2006, pp. 326-327.

²²³ Ibid., pp. 326-327.

²²⁴ For contrasting views of who realized what when, see: Fox, Daniel M. and Daniel C. Schaffer, "Health Policy and ERISA: Interest Groups and Semipreemption", Vol 14, No. 2, Summer 1989, pp. 239-260, 243; Wooten, James A. *The Employee Retirement Income Security Act of 1974: A Political History* (Berkeley, CA: University of California Press, 2004), p. 281.

companies, companies could employ the ERISA preemption and escape state regulation.²²⁵ In the decisive case *Metropolitan Life Insurance Co v. Massachusetts* (1985), the Supreme Court upheld this interpretation of ERISA.²²⁶ A particularly attractive way for companies to “self-insure” was to offer HMOs, which were demonstrably cheaper for private sector investment in both administrative and total health costs.²²⁷

While the above-mentioned explanation is complex, it is noteworthy that complicated congressional legislation often invites interpretation contrary to what the authors intended. ERISA was meant to shore up defined-benefit pensions. Instead it has become a prime example of legislation filled with unintended consequences, contributing to the decline of the defined-benefit pension system (see next section). It also indirectly gave incentives to strengthen the HMO movement. Yet the president and Congress were not passive onlookers subjected to watching from the sidelines at the corruption of the intent of the original ERISA legislation. The Carter administration was ambivalent how ERISA should be interpreted and the Reagan administration wished to promote HMOs. These presidential administrations as well as Congress could have proposed and enacted legislation clarifying this clause of ERISA, but chose otherwise. Both the private sector and insurance companies, who were able to find technical ways to comply with the preemption clause letting companies “self-insure” by selling services to corporations as “vendors”, were satisfied with the new state of affairs.²²⁸ HMOs remained at the cutting edge of health policy, promoted by federal policymakers both by direct and indirect

²²⁵ Gray, 2006, p. 325.

²²⁶ Fox and Schaffer, 1989, p. 245.

²²⁷ Gray, 2006, p. 325.

²²⁸ Gray, 2006, p. 325.

means. The Supreme Court's interpretation of ERISA shows that the third branch of government also contributed to the expansion of a market welfare state. While not as influential as the executive and legislative branches in establishing market based social policy, this interpretation of ERISA demonstrates that the Supreme Court's influence, while indirect, is not negligible. This is not too surprising, since the justices, to some extent, mirror the preferences of the presidents who nominate and the Senators who seat them.

Since Medicare was the largest federal health expenditure, it was only natural for politicians to gravitate toward policies that would make HMOs an integral part of the program. Further inducement for policymakers to take a further look at HMOs in Medicare was the desire to curb rapidly escalating costs. Thus, the Nixon administration and Congress had established a program that sought private entities to create HMOs for Medicare Parts A and B (hospital and medical provider insurance). The resultant program largely failed to fashion a large-scale HMO presence in Medicare. At its height, at the outset of 1980, the Nixonian Medicare HMO program enrolled fewer than 528,000 beneficiaries with only 64 organizations participating.²²⁹ In other words, out of approximately 27 million Medicare recipients, fewer than 2% were involved with HMOs.

Both the Carter and Reagan administrations were firmly committed to reversing the paltry presence of HMO plans in Medicare. The general consensus of policy makers was that the Nixon HMO Medicare experiment had made starting these plans financially

²²⁹ Langwell, Kathryn M. and James P. Hadley. "Capitation and the Medicare program: History, issues, and evidence." *Health Care Financing Review*. 1986 Supplement, pp. 9-20, 10.

unattractive.²³⁰ Beginning in 1980, the Health Care Financing Administration developed a small pilot project of eight demonstrations to determine the efficacy of alternative reimbursement models for Medicare HMOs. These trials yielded enough encouraging results to expand into a larger pilot program of 50 alternative HMO plans—the Medicare Competition Demonstrations—in 1982. While the fledgling larger pilot program had not yet provided empirical results, the administration and Congress did not hesitate to enact into statute the models tested in the first pilot program. The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 established a new, more regulatory flexible HMO program beginning on April 1, 1985. However, the flexibility was not absolute, and in some respects the new HMO program was exceedingly complex. For instance, the act established 120 different county payment rates.²³¹

By the end of the Reagan administration, the number of Medicare HMOs had expanded, but not anywhere near as rapidly as proponents hoped. Fewer than 5% of the Medicare population, approximately 1.5 million enrollees, participated in the Medicare HMO program.²³² Some experts largely failed to take into consideration that Medicare beneficiaries might not want to enroll in HMOs. However, seniors satisfied with traditional Medicare probably saw no reason to switch to HMOs. Another disappointment was that organizations sponsoring HMOs learned how to manipulate the system. Medicare HMOs tended only to take root in selected states that sponsored HMOs on terms economically advantageous to these organizations, particularly California, Florida, and Minnesota. Many seniors did not have any qualified HMO to

²³⁰ Ibid.

²³¹ Ibid., pp. 10-12.

²³² Oberlander, Jonathan. *The Political Life of Medicare* (Chicago, IL: University of Chicago Press, 2003), p. 169.

join.²³³ Further, there is some evidence that HMOs enrolled healthier populations and therefore failed to reduce the costs to Medicare, despite having a capitation rate set slightly lower (95%) than traditional fee-for-service.²³⁴ Finally, there was evidence of large-scale waste in the audits of some of the HMO demonstration projects.²³⁵

Despite these problems, both Congress and the president remained committed to the HMO principle, demonstrating the resilience of market-based philosophy in social policy. Tellingly, the House subcommittee on Health and Long-Term Care in 1985 ran hearings entitled, “HMO’s and Medicare: Problems in the oversight of a promising partnership.”²³⁶

Inserting market-based mechanisms in health policy was another facet of the administration’s program that transformed the welfare state. Republicans promoted market thinking in health policy, particularly by its advocacy of vouchers and HMOs. It opposed the liberal notion of social insurance, but not an alternative welfare state. This reorientation was aided by looming deficits, as Medicare Catastrophic was not allowed to increase the deficit.

Conservatives ultimately failed to launch a Medicare voucher program, but succeeded putting HMOs on firmer footing. Old HMO strategies were largely abandoned and the emphasis was placed on the private sector. The administration and Congress was only partially responsible for the growth of HMOs. A court case reviewing an apparently

²³³ Coombs, Jan Gregoire. *The Rise and Fall of HMOs: An American Health Care Revolution* (Madison, WI: University of Wisconsin Press), pp. 103-105.

²³⁴ Langwell, Kathryn and James Hadley. “Evaluation of the Medicare Competition Demonstrations *Health Care Financing Review*, 1989 (Winter), pp. 65-79.

²³⁵ “HMO’s and Medicare: Problems in the oversight of a promising partnership.” *Hearing before the subcommittee on Health and Long-Term Care of the Select committee on Aging*. House of Representatives, 99th Cong., 1st Sess., April 24, 1985, pp. 1-5.

²³⁶ *Ibid*, passim.

arcane clause of ERISA also proved important in refashioning health policy. Such subterranean methods would play an even larger role in the evolution of pension policy.

PENSIONS

After Stockman's ill-fated dalliance with cutting Social Security benefits, the Reagan administration proved exceedingly reluctant to touch 'the third rail.' Therefore, public pensions were immune to serious proposals for restructuring according to the principles of the market, unlike the other policy areas surveyed. While think tanks continued to consider strategies for the long-sought goal of converting Social Security to a private pension system, at this juncture their discussions were largely banished from Capitol Hill. Nonetheless, while public pensions were sacrosanct, institutionalized private sector pensions proved much less durable. During the Reagan years, Individual Retirement Accounts (IRAs) were converted to allowing large-scale public investment. Even more important, there was a large-scale conversion from defined-benefit to defined-contribution pensions, particularly the plans allowed by section 401K of a piece of tax legislation. Further, the goals of institutional pension investors changed driving not only the welfare state in a pro-market direction, but also altering corporate behavior. IRAs, 401Ks, and a new climate for pension investment were all the result of decisions made within the Reagan administration, and sometimes, to a lesser extent, Congress.

Fomenting a Popular Wave

Chapter 4 noted how libertarian thinkers, such as Milton Friedman had developed a private, market-friendly alternative to Social Security. Personal or private accounts, sometimes described as "super IRAs" would become the new vehicle for retirement security. There were various opinions of how these private accounts should be structured

and how much choice an individual should have in determining investment strategies. But a growing consensus among conservatives was emerging that individuals would “own” their own accounts and at some level control investment decisions. The presumption among advocates was that investments in the stock market would outstrip the returns on treasury notes. Peter Ferrara wrote numerous treatises articulating the fullest statement of how private accounts would operate.²³⁷ Conservatives associated with think tanks believed that privatizing pensions would promote an ethos of individualism among the elderly. According to Paul Craig Roberts, “the entire thrust of the Social Security package is to deny the aged any incentive for being independent of the government.”²³⁸

The Cato Institute published a special edition of the *Cato Journal* dedicated to public pension reform in 1983. The working hypothesis was that private accounts were a superior policy alternative to Social Security. The pressing question was how to persuade the public to demand the transformation of the pension system. Some of the articles suggested innovative tactics, with one article provocatively titled “Achieving a ‘Leninist Strategy.’”²³⁹ Suggestions included keeping the present Social Security system for elderly retirees and near retirees while creating private accounts for only younger cohorts. From reading these journal articles, it seems that the proponents of privatizing public pensions were savvy political operators who, nonetheless, almost willfully chose to misread public

²³⁷ Ferrara, Peter J. *Social Security: The Inherent Contradiction* (San Francisco: Cato Institute, 1980); Ferrara, Peter J. *Social Security: Averting the Crisis* (Washington, D.C.: Cato Institute, 1982); Ferrara, Peter J. *Social Security Reform: The Family [Security] Plan* (Washington, D.C.: The Heritage Foundation, 1982).

²³⁸ Roberts, Paul Craig. “Social Security: Myths and Realities,” *Cato Journal*, vol. 3, no. 2, pp. 393-401, 401.

²³⁹ Butler, Stuart and Peter Germanis. “Achieving a ‘Leninist’ Strategy,” *Cato Journal* Vol 3, No. 2 (Fall 1983), pp. 547-556.

opinion. The authors of the “Achieving a Leninist Strategy” were so sure that that the public opinion of younger Americans was on their side, that they were willing to propose an “opting-out tax” of the Social Security system to fund current retirees.²⁴⁰ Yet, these articles only cited polls conducted by conservative think tanks such as Heritage and Cato, not public opinion surveys gathered by more independent sources, such as the Gallup Poll and the National Election Survey.

The Reagan administration, burned once on Social Security, was in no mood to promote what in reality was still a somewhat outlandish idea for most of the population. The privatization of public pensions in this period remained off-limits from the political agenda, but conservative ideologues were waiting to introduce personal accounts. While Social Security had proven an insurmountable hurdle for reformers, pensions in the private sector proved much more malleable. They underwent a major transformation during the Reagan years. Disparate elements within the administration proved pivotal in this shift, which often occurred in a recondite fashion.

IRAs

The introduction of Individual Retirement Accounts (IRAs) in 1974, as described in the previous chapter, allowed those without private pensions to save for retirement. IRAs had intuitive appeal to many Republicans. They promoted personal responsibility and were a pension vehicle that did not involve the federal government issuing a

²⁴⁰ Butler and Germanis, 1983, p. 555.

paycheck. By the outset of the Reagan administration they were still rather unfamiliar and less than \$7 billion were invested in IRAs.²⁴¹

Republican members of Congress had the idea to expand IRA eligibility to employees covered by other pensions systems. Congressman Henson Moore (R-LA) and Senator John Chafee (R-RI) proved the key figures in convening hearings on the matter and getting an expansion of IRA coverage as part of ERTA, the bill that provided for major tax cuts in the beginning of the Reagan administration. IRAs would allow for employees to put up to \$2,000 per year in accounts that were tax-exempt until the funds were withdrawn for retirement.²⁴²

The downside to IRAs, of course, is that the federal government would have to forego tax revenue since IRAs were tax-exempt. In hearings, estimates were provided that the IRA provision would decrease budget receipts by approximately \$1 billion in 1982 and nearly triple that amount in 1985.²⁴³ Despite exacerbating the revenue imbalances of the federal budget and contributing to the deficit, IRAs were seen as a promising addition and alternative to standard public and private pensions. The IRA was also seen as a model for more radical restructuring of pensions.²⁴⁴

IRAs proved vastly more popular than expected. In the single year after the passage of ERTA, investments in IRAs increased nearly six-fold.²⁴⁵ This was seen by

²⁴¹ Attanasio, Orazio P. and Thomas DeLeire. "The Effect of Individual Retirement Accounts on Household Consumption and National Savings." *The Economic Journal* Vol. 112 (July, 2002): pp. 504-538, 504. **Better citation?**

²⁴² "Savings Incentives," *Hearings before the subcommittee on Savings, Pensions, and Investment Policy of the committee on Finance: United States Senate, 97th Cong. 1st Sess.*

²⁴³ *Ibid*, p. 63.

²⁴⁴ See, for instance, Butler and Germanis, 1983.

²⁴⁵ Attanasio and DeLeire, 2002, 504.

some as a triumph for both thrift and individual initiative, but cost the government \$_____ billion in lost revenue in _____. The 1986 Tax Reform Act, which sought to rationalize the tax system and eliminate too many costly tax credits made IRAs a less attractive investment vehicle.²⁴⁶ In this instance, the principles of adding markets to the welfare state seemed to go in reverse. However, a new market-based private pension device, known as 401K pension plans, had rapidly become more popular and to some extent displaced IRAs.

The rise of 401K defined-contribution pensions

A central component of mid-twentieth American retirement was employer-funded pensions. These grew, in part, during the Second World War as an alternative to pay raises (the government had tight reins on the domestic economy) to attract and compensate employees.²⁴⁷ After the war, special treatment in the federal tax code for pensions spurred the widespread expansion of pensions for vast numbers of the private sector workforce. The bulk of these pensions were defined-benefit, meaning that the company paid a guaranteed amount, usually a percentage of the worker's final or highest years of salary, for the rest of the retiree's life. Federal law maintained that these pensions, in theory, had to be funded over the course of an employee's working career and distributed during retirement. However, the private sector bore the brunt of the risk. The corporation was obligated to pay the full pension, no matter what the returns on the company retirement fund.

²⁴⁶ Patashnik, Eric M. *Reforms at Risk: What Happens After Major Policy Changes are Elected* (Princeton, NJ: Princeton University Press, 2008), p. 51. As Patashnik notes, there was little evidence that IRAs encourage new savings.

²⁴⁷ Hacker, 2002, p. 113.

Another category of retirement income is defined-contribution plans, which originally feature the corporation making a set contribution for the worker's retirement. This mitigated some of the corporation's risk. When Reagan became president, approximately 39 million people in the United States had defined-benefit plans. Total contributions made to these plans exceeded \$64 billion dollars (in 1993 dollars). Defined contribution plans were a relatively minor component of pension security, with fewer than 22 million participants (many of whom also had a defined benefit plan) with total contributions of less than \$39 billion.²⁴⁸

The structure of private pensions would change rapidly during Reagan's presidency and beyond. In the private sector, defined-benefit pensions would begin a decline in importance still in progress. Concurrently, defined-contribution pensions have rapidly become the norm for private business. At first, defined-contribution plans usually supplemented defined-benefit pensions, but within a few years the defined-contribution pension system was supplanting traditional guaranteed levels of pensions.²⁴⁹

The vehicle for this massive change in corporate behavior toward the private welfare state had roots in the Reagan administration. In an arcane piece of legislation, Congress adopted the 401K section as part of the Revenue Act of 1978. At the time, government experts thought the impact of the 401K section would have a "negligible

²⁴⁸ Statistics found in U.S. Department of Labor. "Office of Research and Economic Analysis," *Private Pension Plan Bulletin* (Washington, D.C.: U.S. Dept. of Labor, 1993); Poterba, James M. "The Growth of 401K Plans," *Public Policy Toward Pensions* (Cambridge, MA: MIT Press, 1997), p. 186.

²⁴⁹ For a review of the literature on how much 401Ks supplement or are offered in lieu of defined benefit pensions, see Gale, William G., Leslie E. Papke, and Jack VanDerhei, "The Shifting Structure of Private Pensions," in William G. Gale, John B. Shoven, and Mark J. Warshawsky, eds. *The Evolving Pensions System* (Washington, D.C.: The Brookings Institution, 2005), pp. 57-63.

effect upon budget receipts.”²⁵⁰ However, one private entrepreneur from Pennsylvania, Ted Benna, saw potential for 401Ks that the legislators did not. He pressed the IRS for a ruling that clarified the 401K section. The crux of the issue was whether workers could set aside portions of their own paychecks for retirement. The employee, not the corporation, was responsible for deciding how much to contribute and how to invest.²⁵¹ Frequently companies would match contributions to 401Ks. The new Reagan IRS agreed with Benna’s interpretation, launching a retirement revolution.²⁵²

The number of participants in 401K plans climbed from a relatively paltry 4.4 million in 1983 to 17.3 million in 1989. A total of \$46.1 billion was contributed to 401Ks in 1989. With the help of 401Ks, 36.5 million individuals participated in defined contribution plans in 1989 with \$80.1 invested. There were still 40 million participants in defined-benefit plans, but most of these were of comparably ancient vintage. Only \$24.9 billion worth of contributions were made to defined-benefit plans, less than one-third of the defined-contribution intake.²⁵³

The intent of ERISA, along with other federal regulations, was to shore up the security of private sector pensions. They also had the perverse effect of forging a climate less hospitable for corporations to fund defined-benefit pensions, thus speeding along the

²⁵⁰ Joint Committee on Taxation, *General Explanation of the Revenue Act of 1978*, H.R. 13511, 95th Cong.; Public Law 95-600, Joint Committee Print, p. 84.

²⁵¹ Hacker, Jacob S. *The Great Risk Shift: The Assault on American Jobs, Income, and Retirement and how You can Fight Back* (New York: Oxford University Press, 2006) pp. 118-119.

²⁵² Hacker, Jacob S. *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (New York: Cambridge University Press, 2002), p. 165.

²⁵³ Department of Labor, 1993.

demise of the old pension regime.²⁵⁴ Thus, the well-intended ERISA (originally passed nearly unanimously in Congress) in effect, boomeranged. Corporations were more than happy to dump defined-benefit pension plans for the significantly less expensive and risky (for the company) defined-contribution plans. At the beginning of Reagan's presidency, companies devoted nearly 3.5% of payroll to pensions. That had dropped to 1.5% at the end of Reagan's presidency.²⁵⁵ There is a spirited debate as to whether workers have welcomed 401Ks or simply accept them since they have little leverage. 401Ks are more portable in an age when lifetime tenure at a corporation has become rarer, yet the cost for increased control and portability has been a massive shrinkage of private sector investment in pensions.

While public pensions did not undergo fundamental change, the same cannot be said of the private sector. Federal government policy helped in creating this shift. Congress, somewhat belatedly lowered the amount that could be contributed to a 401K, but at levels vastly more than most employees contributed.²⁵⁶ In essence, Congress was merely closing a tax loophole and acquiescing to the new prevailing state of private sector pensions.

401K section pensions proved compatible with the vision of a welfare state driven by market forces. They were part of an individual-centered ethos. A conservative could argue they are empowering, allowing a retiree to take control of his or her retirement and not be reliant upon government or corporate pensions. Section 401Ks involved choice. Conservatives downplay the risk by noting that over the long-term, the market

²⁵⁴ Patashnik, 2008, pp. 77-78.

²⁵⁵ Jacob Hacker's calculations. See Hacker, 2002, p. 154.

²⁵⁶ Hacker, 2002, p. 165.

outperforms treasury notes and other investment vehicles. At the same time, they rid companies of excessive pension obligations, allowing them to sharpen their competitive edge. These factors have allowed defined-contribution pensions to continue on the ascent for the following decades. Problems with these funds, such as downward fluctuations in the market, bad investment decisions, or employees' not contributing enough for their own retirement, were either ignored or minimized in conservative critiques.

Monks' Pension Innovation

One further shift in the handling of private pensions, spurred by the Reagan administration, fundamentally reoriented not just pension behavior, but indeed the fabric of corporate culture. The Reagan Labor Department ruled that institutional pension investors, such as CALPERS, the California public employees retirement system, must vote shareholder ballots solely in the interest of the fund's beneficiaries.²⁵⁷ This ruling had widespread implications.

The entrepreneur behind this change, Robert A. G. Monks, was a two time failed Republican senate candidate from Maine who joined the Reagan Labor Department. His career bears an uncanny resemblance to that of Malcolm Endicott Peabody, discussed in the previous chapter. Both are thoughtful New England Republicans who failed to launch a career as an elected official and had to make do as federal bureaucrats in Republican administrations. Both had innovative ideas of how to handle societal problems. They both are relatively unknown, but set in motion forces far larger than their reputations. Monks is given credit for pushing the above-mentioned regulation into

²⁵⁷ Fox, Justin. *The Myth of the Rational Market: A History of Risk, Reward, and Delusion on Wall Street* (New York: HarperCollins, 2009), p. 272.

fruition in order to discipline institutional investors, who were known to vote for the interests of corporate executives over shareholder concerns. “That sounds very minor, but it was cataclysmic”, said Neil Minnow, an ally of Monks.²⁵⁸ While Monks was the protagonist, he could only have had success by conforming to what were the values of the administration. Primacy was given to profits, even if more regulation was required.

In a similar vein, the California state treasurer, Jesse Unruh (D-CA), thought corporate boards cared more for their own security than profits for shareholders. The triggering event that made Unruh angry was that Texaco, a major oil company, fought off a hostile takeover by purchasing back shares at a premium. Unruh viewed this expensive defensive action as a \$130 million theft from the rest of the shareholders. Unruh banded together with other institutional pension advisers to form the Council of Institutional Investors in 1985 which then expanded to include major mutual fund companies such as Fidelity and Vanguard. These investors needed advice to comply with the new rules proffered by the Labor Department and Monks eventually left the Reagan administration to advise these institutional investors in how to best serve their clients, the shareholders. The shareholder alliance soon forced major changes in corporate culture by flexing their collective muscles.²⁵⁹

Before the 1980s, large corporations, while interested in the pursuit of profits, played other roles. They were agents of social stability, giving workers lifetime employment with generous benefits, especially after the so-called Treaty of Detroit, a 1949 automaker labor bargain, which was quickly emulated throughout that industry and others. In return for generous benefits, which were not taxable like income, unions

²⁵⁸ Gunther, Marc. “Investors of the world unite!” *Fortune*, June 24, 2002, pp. 78-82.

²⁵⁹ Fox, 2002, pp. 272-273.

remained relatively quiescent compared to the violent strikes found in other countries or in an earlier age in the United States.²⁶⁰ Following from this, executives tended to view that the companies they managed were manifestations of the general American interest. Eisenhower nominated General Motors CEO Charles E. Wilson to the position of Secretary of Defense. Wilson is reputed to have stated before his confirmation, “What’s good for General Motors is good for the country.”²⁶¹ The “public” corporate model worked well for the United States in the middle of the twentieth century, although the paradigm became strained when factors such as the economic problems of the 1970s and globalization became prevalent.

Milton Friedman uttered virtual heresy when he suggested the only purpose of a corporation was to earn profits for shareholders during the middle decades of the twentieth century. However, critics of the “public corporation” became more commonplace in the 1980s emphasizing corporate managers refused to take risks or give high enough dividends to shareholders.²⁶² Monks put teeth in these calls for reform by putting pressure on corporations through the regulatory change he spearheaded. Institutional pension investors reoriented traditional modes of conduct. Shareholder concerns moved to the ascendency, with corporate entities seeking to maximize dividends or else find rebellious institutional shareholders dumping company stock or voting their proxies against management. Some observers suggest it is no coincidence that the private sector trimmed employee benefits, including severing the chord of lifetime employment,

²⁶⁰ Krugman, Paul. *The Conscience of a Liberal* (New York: Norton, 2007), p. 138.

²⁶¹ Raskins, A. H. “Mitchell Predicts Taft Act Revision.” *New York Times*, November 19, 1953, pp. 1, 24.

²⁶² Jensen, Michael C. “Eclipse of the Public Corporation,” *Harvard Business Review*, September-October, 1989, pp. 61-74, 66.

and the position of management became much less secure. Ironically, managers who could deliver high profits and returns for shareholders became a premium commodity and executive compensation skyrocketed, although their positions at the helms of corporations was tenuous at best, particularly if profits dipped.²⁶³ These inexorable pressures on the private sector, of course, may have led to increased levels of corporate malfeasance to keep share prices artificially high.

Thus, the trappings of a market society had come to pass, far beyond what Friedman could imagine in the 1950s. Globalization, improvement in technologies, and economic anxieties contributed to the decline of the public corporation, but so too did a technical change in pension regulations. Thus, not only were market forces becoming part of the welfare state during the Reagan era, administration policy to support pensions was exerting pressure on the private sector to conform more closely with the market principle.

In short, market policy for pensions, while irrelevant for Social Security, exerted a substantial influence in the private sector. New nomenclature, such as IRAs and 401Ks, became part of the lexicon and marked a major change toward individual control over private pensions. The Reagan administration also proved pivotal in not only changing pension policy, but, in part, changing the culture of the large corporation by reinforcing the powers of investors and shareholders.

Conclusion

Reagan and his administration consolidated Nixon's first forays toward market policy in the welfare state. Once again, progress was uneven across policy areas, highly

²⁶³ Fox, 2009, p. 173.

contingent because of unique political dynamics for each program. Public pensions escaped a concerted Republican plan for remodeling since there was a powerful constituency protective of the program that jumped at any threat of retrenchment. Public housing, without such a strong support network of interests or public popularity, proved much more susceptible to restructuring. Congress, although reluctant, implemented more of Reagan's market-based housing agenda over the course of his two terms. Health policy, while not immune from market proposals like Social Security, proved more able to withstand change than housing policy. Medicare vouchers proved a non-starter, although a new for-profit breed of HMOs took root. The elderly proved a more formidable constituency that politicians were not willing to offend compared to the poor. However, many conservatives were eager to insert market mechanisms in health policy and the Reagan administration proved concurred, at least to some extent. The rhetoric surrounding welfare was focused on work, a principle consistent with market behavior. However, the Reagan administration moved away from cash vouchers for all the poor, such as a guaranteed income, and giving market-based financial support, in the form of the EITC, to only the working poor.

The fashioning of a social policy infused with the dynamism of markets proved a very political process. While not a popular electoral issue, what sort of market mechanisms to insert in the welfare state, and to what extent, was the product of complex institutional politics. Many programs originated as compromises between congressional Republicans and Democrats negotiating with the administration. Sometimes the new welfare state took seed because of the executive branch acting in isolation. Even the judicial branch on occasion proved pivotal in some areas. Power waxed and waned

among these actors, sometimes due to the amount of popular protest welfare state changes engendered or the potential for stirrings in the public. Interest groups also had power to tilt the outcomes for a market state. While these factors helped make programmatic shifts uneven across arenas, the general thrust of the Reagan administration was to support a market-based environment for social policy and only retreat if the opposition proved daunting.

Reagan's successor, his Vice President, George H.W. Bush pushed a market-based social policy while attempting to blunt some of the hardcore conservative edges that are often associated with retrenchment. Bush's comparative moderation and his defeat in 1992 suggested to some observers that conservatism was in eclipse. The election of Bill Clinton (D-AR) to the presidency seemed to presage a new Democratic era. Yet liberalism's triumph proved ephemeral; Clinton's election set in motion events leading to the Republican capture of Congress in 1994. Clinton himself was no old-fashioned Democrat; he largely accepted market values, including refashioning the welfare state. Instead of ushering in a new Democratic era, the Clinton administration marks the maturation of Republican principles in social policy.

Chapter 6: A Fertile Interregnum: 1989-1994

The years between 1989 and 1994 saw an intensification of familiar trends. Republicans continued pushing for retrenchment, especially in welfare policy; and, at the same time, they continued to propose new ideas that shifted the welfare state toward markets—especially in health care, pensions, and housing policy. This is a fertile period for Republican ideas, although not legislation. Meanwhile Democrats moved away from the New Deal Welfare State and latched onto Republican innovations. Republicans then turned around and opposed their formally preferred policies when Democrats claimed power.

The George H.W. Bush and first two years of the Clinton presidency are usually viewed as chaotic, dormant years on the domestic front. Bush had little interest in domestic policy and Clinton was caught in a legislative quagmire. These years can appear as muddled compared with the Reagan administration and the Republican Congress of the mid and late 1990s. However, both parties engaged in soul-searching for a domestic vision around 1990. The most famous reinvention came on the Democratic side with the emergence of market-friendly liberals aiming to assume the helm of the party.

The New Democrats owed their vitality to the Republican Party. First, Republican presidential candidates handily defeated three Democratic presidential nominees in 1980, 1984, and 1988, forcing the Democrats to confront their national image. Second, George H.W. Bush, Reagan's successor, and his senior key advisers had no interest in innovative domestic policy. This vacuum allowed for midlevel staffers, particularly James Pinkerton and Charles Kolb, to promote a domestic policy vision they

called “the New Paradigm” which actually harkened back to themes articulated by Malcolm Endicott Peabody during the Nixon administration. While Peabody’s framework from 1970 wallowed in obscurity when proposed, these Bush staffers were members of the central White House planning apparatus and had the means to attract attention.

Instead of converting Bush, proponents of the New Paradigm proved more influential with the New Democrats with a series of ideas that would prove important in future years. The imperative to forge a new identity apart from the perceived antiquated New Deal and Great Society philosophies made the New Paradigm alluring. Clinton even imitated the New Paradigm nomenclature when promoting the New Covenant as his domestic vision. While clearly not a market fundamentalist like the Republicans who developed the New Paradigm, Clinton was probably the strongest presidential ally of market policy that served under the Democratic Party banner during the twentieth century.

After the election of 1992, the political landscape appeared radically altered. Democrats controlled all levers of the federal government and were now taking ownership of Republican ideas. Republicans, relegated to the minority, found it politically expedient to oppose the Democratic majority as the best means to restore political influence for the GOP. A precondition for opposition is to have stated policy that contrasts with the majority party. Republicans, then, found it essential to reinvent themselves vis-à-vis the Democrats. The more forcefully the Democrats embraced erstwhile Republican positions, the quicker the GOP found it necessary to either shift or deemphasize formerly preferred policy.

Strategic calculations mark the limits of how ideologically consistent political parties are willing to appear across time. While politicians would like to portray themselves as individuals with convictions, social policy since 1990 has been dominated by two truths. (1) Both political parties now tout market principles in constructing social policy; (2) yet both will abandon this fundamental approach because of tactical considerations. To clarify the second point, when a political party is relegated to the minority, it will wage all-out opposition to the initiatives of the majority if there are political gains to be harvested. Thus, a market-friendly Republican welfare state after 1990 becomes a bipartisan entity that, paradoxically, is constantly contested. To confuse matters, media accounts and popular perceptions still equate Democrats with socialism and Republicans with retrenchment. That narrative seems embedded as a constant, divorced from the nuances of actual proposals and legislation.

This set of political dynamics, set in motion around 1990, had profound effects for the welfare state. Low-income support and housing policies both moved in a conservative direction, superseding the New Deal constructions. National health insurance moved back on the agenda, but all methods of achieving this goal involved attempts to remain consistent with the market meta-narrative. Social Security remained insulated during these six years from concerted efforts to privatize the system, an echo of the Stockman debacle from the Reagan years. Yet private pensions continued to be reshaped along market lines throughout the period.

The significance of this period was unclear to contemporaries. Instead, some thought that a new era of liberal Democratic dynamism was imminent after 1992. This

chapter now turns to an explanation for why an apparent Democratic and liberal resurgence proved fleeting.

The Liberal Masquerade

The eclipse of the conservatism embodied by Reagan is often attributed to a calculated retreat by his Republican successor, George H. W. Bush. Some observers thought with the election of Democrat Bill Clinton in 1992 that the entire conservative project had collapsed and the nation was embarking on a new liberal era.¹ While the actors and election outcomes of these years seemed to initially suggest a rebirth of vitality to moderate and even liberal politics, subsequent events demonstrate how 1988-1994 was little more than an interregnum.

This is an era of legislative bottlenecks, blockages and frustration. The Bush administration was the first to suffer these consequences. Then Clinton became president, marking a rare era of unified government. The results were disastrous with Democrats losing control of both Houses of Congress in 1994.

The best way to understand why the conservative movement seemed to fade from 1988 to 1992 is to understand voting trends caused by economic anxiety. A second element that explains the political stalemate during the entire period is the dynamics of popular opinion.

A short-lived liberal rally occurred, in part, because of the economic anxiety that gripped the nation in 1991 and 1992. Partially due to a monetary policy engineered by the Federal Reserve outside the control of the White House, the economy slowed

¹ See “GOP Defeat Means Long Wait in Cold”, *St. Louis Post Dispatch*, November 5, 1992, p. 3C and Thomas, Cal. “The End of the Reagan Revolution,” *Gainesville Sun*, November 5, 1992, p. 10A.

precipitously which allowed the unemployment rate to increase to nearly 8%.² Even when the economy rebounded, unemployment remained persistent, lagging the general recovery. Scholarly literature has long pinpointed the centrality of economic indicators in vote choice. Alvarez and Nagler, for instance, argue that economic discontent proved the decisive factor allowing Clinton to emerge as victor in 1992.³

A second important facet is public opinion, as encapsulated by James Stimson's theory about public mood movement. Stimson has demonstrated public opinion related to domestic policy tends to move in the opposite direction from the ideological disposition of the political party in the executive office. Therefore during Republican administrations, public opinion moves in a liberal direction while in Democratic presidencies, public mood becomes more conservative. Once the Democratic administration of Clinton took hold, the pendulum swung back to conservatism.⁴

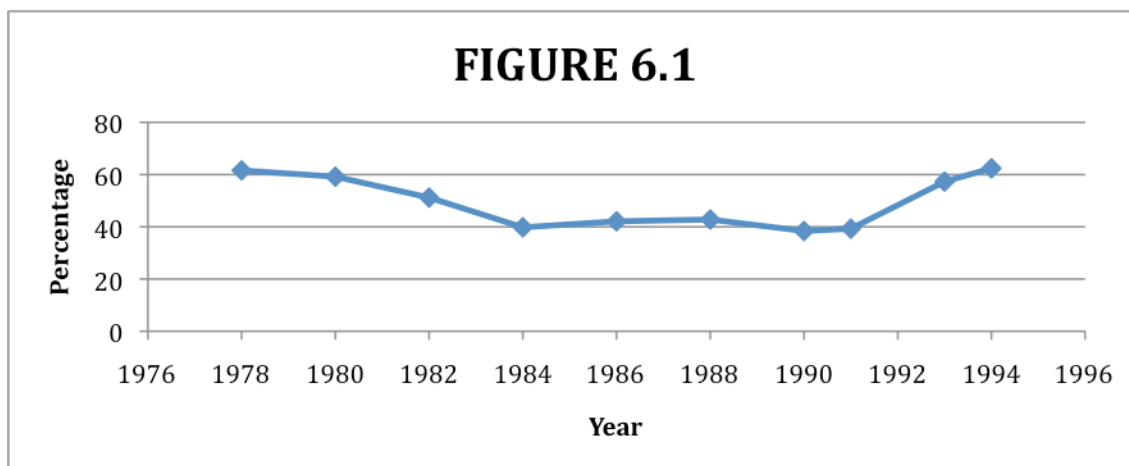
As the figure 6.1 indicates, once the Reagan administration took office in 1981, public opinion concerning welfare moved leftwards over the course of the early 1980s before roughly stabilizing during the second half of the 1980s and early 1990s. At the end of Carter's presidency, in excess of 60% of respondents thought government spent too much on welfare. By 1984 that percentage had fallen to about 40%. Once Clinton took office, the response that government spent too much on welfare shot upwards, climbing

² Darman, Richard. *Who's in Control? Polar Politics and the Sensible Center* (New York: Simon & Schuster, 1996), p. 222-223.

³ Alvarez, R. Michael and Jonathan Nagler, "Economics, Issues and the Perot Candidacy: Voter Choice in the 1992 Presidential Election." *American Journal of Political Science*, Vol. 39, No. 3 (Aug. 1995), pp. 714-744.

⁴ See Stimson, James A. *Public Opinion in America: Mood, Cycles, and Swings*. 2nd ed. (Boulder, CO: Westview Press, 1999); Erikson, Robert S., Michael B. Mackuen, James A. Stimson. *The Macro Polity* (New York: Cambridge University Press, 2002); Stimson, James A. *Tides of Consent: How Public Opinion Shapes American Politics* (New York: Cambridge University Press, 2004).

over twenty percent over the course of two years (data is not available for 1992). Both parties, after climactic general election victories, saw the mood swing in reference to welfare policy quickly after assuming office. Both Bush and Clinton had to negotiate unfavorable public attitudes toward their ideological dispositions.



Percentage of Respondents who say the Government spends too much on Welfare per Year⁵

Bush's Domestic Policy: The Contest over the "Vision Thing"

Beneath this stalemate, however, new ideas were generated to apply to the welfare state. The impetus came from mid-level staff Republicans and then followed by the New Democrats. Despite not receiving the imprimatur of the Bush administration, there seemed no way to stop demands for a market-based domestic policy.

A common refrain, spoken by Bush himself, is that he lacked seriousness about "the vision thing."⁶ Both liberals and conservatives often lamented that the president's domestic policy was adrift. Looming large was the *Time* cover story that featured Bush

⁵ Data obtained from the General Social Survey, which assimilates data across time. See <http://www.norc.umd.edu/GSS+Website/> accessed January 12, 2010.

⁶ Blumenthal, Sidney. "George Bush: A Question of Upbringing." *The Washington Post*, February 10, 1988, p. B1.

as Man of the Year in 1990. The feature portrayed Bush as actively engaged in foreign affairs while neglecting domestic policy.⁷ When the economy turned sour, it appeared that Bush had no proactive agenda that would ameliorate the electorate's insecurity. All available evidence suggests that Bush was comfortable in running the nation without a sweeping plan at home, and both appointed and trusted advisers that concurred with his inclinations.

Roger Porter, the Assistant to the President of Economic and Domestic Policy, was suppose to run programmatic development in his titular areas. However, John H. Sununu, the Chief of Staff, and Richard G. Darman, the Office of Management and Budget (OMB) director, accomplished figures with strong convictions, soon overshadowed Porter in steering domestic affairs.⁸ Despite differences in temperament, both Sununu and Darman converged in their vision for the operation of the Bush domestic policy.

The unabashed conservative former governor of New Hampshire with an autocratic demeanor, Sununu had no interest in engaging Congress, a prerequisite for any ambitious domestic initiative. During most of Bush's presidency, Sununu served as the architect of a strategy of battling the Congress with vetoes, veto threats, and broadening executive authority through targeted signing statements which allowed the president to selectively implement legislation. Sununu was famous for quipping in November 1990, "there's not a single piece of legislation that needs to be passed in the next two years for this President. In fact, if Congress wants to come together, adjourn and leave, it's all

⁷ Church, George J. "A Tale of Two Bushes." *Time*, January 7, 1991: (137:1), p. 18.

⁸ Kolb, 1994, p. xvi.

right with us. We don't need them.”⁹ After the Persian Gulf War with the reelection campaign nearing, Sununu crafted a campaign platform for Bush of “Kuwait, crime, and quotas.”¹⁰ Reorientation of domestic policy toward markets was nowhere on the agenda. Nor was any element of the welfare state contemplated in this campaign theme except for the wedge issue of racial quotas in hiring. Sununu's idea, not unreasonable from the perspective of 1991, was to highlight Bush's role as Commander and Chief with some replay of the campaign issues that helped catapult the president into office in 1988. The unsettled economy, however, would ensure this sort of approach would prove less than persuasive.

Darman was a veteran member of several Republican administrations deeply concerned about the implications of budget deficits. He brokered the budget compromise with Congress that raised taxes—a treacherous move from the perspective of many conservatives. Bush remembered the budget deal, the Omnibus Budget Reconciliation Act of 1990 (OBRA 1990) as one of the worst decisions of his presidency.¹¹ However, the Congressional Budget Office (CBO) estimates that OBRA 1990 reduced the federal deficit by \$482 billion over five years.¹² It is possible to construct a strong argument that makes the case that the narrowing and eventual elimination of the persistent deficit

⁹ Quoted in Clymer, Adam. “The Gridlock Congress; the 102nd will be Remembered as Much for its Embarrassments as its Legislation.” *The New York Times*, October 11, 1992, p. 1.1. The usage of the presidential signing statement had been for minor and technical reasons before the Bush presidency. Tiefer, Charles. *The Semi-Sovereign Presidency: The Bush Administration's Strategy for Governing without Congress* (Boulder, CO: Westview Press, 1994).

¹⁰ Tiefer, 1994, p. 141.

¹¹ Marshak, John W. “Bush Apologizes for Raising Taxes: Admits Action caused Political Grief.” *The Boston Globe*. March 4, 1992, p. 20.

¹² See Keith, Robert. “Savings in Mandatory Outlays in Selected Reconciliation Acts.” *Congressional Research Service* (September 22, 2005). Accessed December 17, 2009 at http://assets.opencrs.com/rpts/RS22277_20050922.pdf

helped set the stage for the economic growth in the 1990s.¹³ Even if Darman was vindicated over the long-term, he was vilified in conservative circles. His priority was always government finances, making him both suspicious and dismissive of an active domestic policy that could potentially prove unsound from a budgetary perspective.

The Sununu/Darman strategy of a quiescent domestic policy was unsatisfactory to other Bush administration officials, such as Kemp. After Bush's successful prosecution of the Persian Gulf War, some aides called for a "Domestic Desert Storm."¹⁴ With Bush's Gallup polling numbers soaring as high as 89% in February 1991 and remaining strong throughout the spring, there was good reason to think Congress would hesitate before opposing Republican domestic initiatives.¹⁵ However, after Bush's triumphant liberation of Kuwait, he failed to follow with a corresponding domestic *tour de force*. After massaging by Sununu and Darman, Bush's call for a domestic agenda was whittled down to demands for legislation revolving around transportation and crime.¹⁶ Bush avoided capitalizing on his popularity to pursue a robust domestic agenda.

The most developed plans for a dynamic conservative domestic policy emanated from midlevel Bush policy officials, such as Pinkerton and Kolb. Pinkerton is a former liberal born to an academic family. Before proposing a "New Paradigm" for domestic policy, he had served in the 1988 Bush presidential campaign. He received notoriety for

¹³ Economists Christina and David Romer find suggestive evidence that tax increases used to reduce an inherited budget deficit have substantially smaller output costs than other types of tax increases. See Romer, Christina and David Romer, "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." *NBER Working Paper*, July 2007.

¹⁴ Podhoretz, 1991, p. 40.

¹⁵ <http://www.gallup.com/poll/116677/Presidential-Approval-Ratings-Gallup-Historical-Statistics> Accessed October 22, 2009.

¹⁶ Podhoretz, 1991, p. 41.

discovering the furlough program used in Massachusetts during the governorship of Michael Dukakis and helped to distill that nugget into the Willie Horton advertisements that proved so effective. Pinkerton had read as an adolescent *The Structure of Scientific Revolutions* by Thomas Kuhn. The book's thesis is that newer paradigms that more precisely describe how the world functions replace antiquated assumptions.¹⁷ Pinkerton believed that such a theory was relevant to government. The fall of the Berlin Wall in 1989 thoroughly discredited socialism. Pinkerton expected the next logical stage of progression would be the supplanting of all vestiges of government planning in American society. He devised five tenets to describe his conceptualization. The principles of a domestic policy ought to revolve around (1) free-markets, (2) individual choice, (3) empowerment, (4) decentralization, and (5) whatever works in government.¹⁸ Pinkerton thought of himself as a "synthesizer, not an innovator."¹⁹

Portions of the New Paradigm agenda read much like Peabody's thesis laid out in the 1970 edition of *the Washington Monthly* (although Pinkerton was unaware of Peabody's contribution).²⁰ Both, using different language, advocated similar policies. Peabody discussed "funding" the people with vouchers. Pinkerton used the language of empowerment and individual choice to promote similar policies in areas such as housing, school choice, and the Earned Income Tax Credit.

Unlike Peabody's article, which did not cause much of a contemporary stir, Pinkerton was able, at least briefly, to get public attention for his ideas. This was in part

¹⁷ Colp, Judith. "James Pinkerton: Paradigm's Prophet; On mission to organize a market for the free trade of ideas in a future new world order." *The Washington Times*, July 19, 1991, p. E1.

¹⁸ Ibid.

¹⁹ Email communication with James Pinkerton, March 30, 2010.

²⁰ Ibid.

because Pinkerton worked from within the White House and also because his ideas were consistent with the goals of the relatively new conservative intellectual establishment. Pinkerton would share his New Paradigm framework with an interested Kolb. The first introduction of the conceptualization occurred in 1990 in several rather obscure forums such as the World Future Society.²¹ Pinkerton also developed allies such as columnist Paul Gigot of the *Wall Street Journal* and the new minority whip in the House, Newt Gingrich.

Pivotal senior administration officials were not sympathetic to the views espoused by Pinkerton. To men like Darman and Sununu, an empowerment agenda harkened back to the “Black Power” movement of the 1960s, a decidedly un-Republican notion.²² As aforementioned, significant legislation would have to move through Congress to implement the New Paradigm, not a cherished prospect. Budget rules adopted in 1990 required that any new spending would have to be offset by a tax increase or a budget cut. Congress could not employ deficit spending to finance programs. Finally, the New Paradigm was not in line with the president’s preference for an incremental approach to governance.

Darman, probably sensitive to criticism over the 1990 budget deal and tired of what he viewed as both uppity and quirky midlevel advisers who thought in terms of utopian ideals rather than pragmatic politics, delivered a verbal tongue-lashing to Pinkerton. In a speech to the Council for Excellence in Government on November 16, 1990 entitled “Neo-neoism: Reflections on Hubbleism, Rationalism, and the Pursuit of Excellence (after the fiscal follies),” Darman mocked the conservatives who trafficked in

²¹ Kolb, 1994, p. 186.

²² Telephone interview with Charles Kolb, October 9, 2009.

the language of a new brand of social empowerment. He lambasted “neo-neo-ism”, sarcastically queried, “brother, can you paradigm?”, and even took a swipe at Gingrich, criticizing “New Newtism.”²³

Darman’s speech did not go unnoticed and generated a controversy, in essence elevating Pinkerton’s stature and fostering media attention. Gingrich was not amused. He publicly demanded that Darman resign if he did not “recant.” Gingrich reinterpreted the Darman speech as a broadside against the entire conservative movement. The minority whip charged, “I don’t see how we can work with a Republican Dukakis . . . Darman has crossed the Rubicon.”²⁴ Jack Kemp also expressed contempt with Darman’s speech. “It’s a mockery of everything Republicans have believed for a decade . . . he has called for a debate and I’m going to give him one.” Kemp also alleged that Darman was launching “an attack on the president.”²⁵

Both Gingrich and Kemp were leveling charges at Darman that the OMB director did not articulate. Darman specified in his speech he was attacking what he deemed was a conservative pseudo-intellectual infrastructure, which Gingrich equated with the whole movement. Darman was hardly attacking the president, as Kemp insinuated. The New Paradigm was merely the vehicle that enabled controversies over policy to explode into

²³ Kolb, 1994, p. 51. Another version of Darman’s pithy rendition is “brother, can you spare a paradigm?” see Colp, 1991, p. E1.

²⁴ Dionne, E.J., Jr. “Gingrich calls for Darman to Resign: Party Whip angered by speech seen as critical of conservatives.” *The Washington Post*. November 29, 1990, p. A20.

²⁵ Gigot, Paul, A. “Mr. Darman Reveals Himself Once and for All.” *The Wall Street Journal*, November 23, 1990, p. A8.

battles replete with charges concerning fidelity to party dogma and personnel. Darman retreated from his position and the issue soon disappeared from the national agenda.²⁶

Darman articulated the criticism that the “New Paradigm” was intellectually fuzzy. He complained that the first four tenets collapsed into a single critique and the fifth—do whatever works in government—could contradict the first four tenets in difficult situations. Therefore, Darman concluded, “the effete might debate whether the New Paradigm is, perhaps, enigmatically paradigmatic.”²⁷ Pinkerton, obviously, did not see the fifth tenet as contradictory, but rather a summation of the first four points. He had a more entrenched belief in the power of markets than the more ideologically flexible Darman. An unsympathetic *New York Times* reporter also thought the New Paradigm inherently riddled with contradictions. He concluded that Pinkerton invited “suspicion” that the New Paradigm was perhaps “simply those policies that Mr. Pinkerton happens to like.” The reporter pointed out that requiring businesses to give employees health insurance should perhaps be part of the New Paradigm since it is “empowering” individuals to work. Pinkerton, on the contrary, insisted that mandatory health insurance would violate market autonomy. The skeptical reporter clearly thought that Pinkerton performed philosophical and mental acrobatics to give the New Paradigm coherence. Richard Gephardt (D-MO) went even further, suggesting that the New Paradigm was merely a euphemism for Republican indifference.²⁸

²⁶ DeParle, Jason. “How Jack Kemp Lost the War on Poverty.” *New York Times*, February 28, 1993, section 6, p. 26.

²⁷ Kolb 1994, p. 202.

²⁸ DeParle, Jason. “Washington at Work: Point Man in Battle for G.O.P.’s Soul Doesn’t Worry about Drawing Fire,” *The New York Times*, December 18, 1990, p. B12.

Darman, the *Times* reporter, and certainly Gephardt were likely expressing too much cynicism.²⁹ The New Paradigm was, in large part, an attempt to forge a Republican philosophy for governance by reorienting the welfare state. There were certainly inherent contradictions, probably the greatest one being that many conservatives were wary of empowering poor Americans. Pinkerton also failed to conceive that perhaps market-oriented remedies would not always solve problems. A further contradiction, probably not contemplated by Pinkerton is how the GOP would respond if Democrats latched on to the New Paradigm agenda.

This debate among Republicans represents two impulses. One is the urge to retrench and, in a related vein, ignore issues of social policy. Bush's senior officials, such as Darman, largely believed this. The second idea is to remake the welfare state and attempt to tackle issues such as poverty from a Republican perspective. This dynamic becomes more important because of cycle of public opinion demonstrated by Stimson. With the public pushing back on welfare policy, there is pressure for Republicans to offer a response. This helped cause the near schism within the Republican Party. There is also another audience, the Democratic Party which has elements committed to the ideas of social justice. A branch of the Republican Party—the Pinkerton and Kolb forces--provided a template of how to generate ideas that seemed feasible for liberals to implement.

Perhaps validating that the New Paradigm was more than semantic legerdemain is that the conceptualization excited a number of liberals. Elaine Kamarck, a senior fellow

²⁹ Gephardt's cynicism demonstrates how much his thinking on policy had evolved over the course of his career. Chapter 5 discusses how Gephardt expressed interest in working with Republicans to introduce vouchers to Medicare around 1980. Such a policy position certainly would have been consistent with the New Paradigm.

residing at the Progressive Policy Institute, committed herself to the promotion of the New Paradigm. She thought its principles were more at home with the Democratic Party than the GOP. She said that the New Paradigm could be taken to encourage an activist government and that “Republicans are frankly not interested enough in showing how you can take free-market principles and apply them to government . . . [Pinkerton] is working against powerful forces.” A Clinton adviser, Daniel Osborne, also became associated with the New Paradigm. The Democratic Leadership Council (DLC) even mimicked the New Paradigm language by recommending a “New Choice” in governance.³⁰

Kamarck was correct that there were internal tensions within the Republican Party that would challenge the viability of the GOP adoption of the New Paradigm. However, there were similar, if not greater tensions, within the Democratic coalition. The Democratic Party had constructed social programs that always harbored ambivalence about market forces. Democratic members of Congress advocated the application of market principles, but actual programs involved regulation and planning. In order to embrace the New Paradigm, Democrats were fighting against much of their heritage. In the context of 1992, after many failures in presidential elections, an influential cadre of Democrats thought this was a necessity. They were willing to cede the point that market mechanisms should be given a prominent place in governance.

Institutional Battlegrounds

Within the Bush administration, the Low-Income Opportunity Board became the battleground on which the New Paradigm faced its detractors. Chapter 5 discussed how

³⁰ Colp, 1991, p. E1. In an interview from March 2010, William Galston said that Democrats had independent concerns apart from Republicans and that the New Paradigm was not a direct response to the New Covenant.

the Reagan administration had established this agency to grant states waivers in order to promote conservative versions of welfare reform outside the influence of congressional Democrats. The board entered a state of dormancy in the early Bush administration. Eventually Charles Kolb was placed in charge of the board without any paid staff. He hoped to re-energize the board as a linchpin to promote the New Paradigm agenda. Jack Kemp approved of the idea and lobbied hard to become its head in order to give more visibility to the board. Most senior administration officials had no wish to have a cabinet secretary head the agency and Sununu wanted to keep its activities separate from the White House. After substantial lobbying, the board reemerged as the Economic Empowerment Task Force with Kemp at its head.³¹

Yet the New Paradigm never gained traction. The board did grant waivers, most notably to Governor Tommy Thompson (R-WI), for various significant welfare reform initiatives as described in the welfare section of this chapter. However, the board never exerted influence over the broader reach of federal domestic policy. The White House viewed Kemp as a “blowhard,” not suited to serving as a cabinet official. While he came into the limelight in the wake of the Los Angeles riots in 1992, domestic policy under Darman and Sununu never shifted course. When Bush, in a speech given early in 1991, mentioned domestic policy involving the New Paradigm he received a flat reception from a friendly audience. The president quickly lost interest in the promotion of the concept.³² The New Paradigm is an ungainly verbal construction unable to pithily convey its’ constitute set of concepts.

³¹ Kolb, 1994, p. 195.

³² Kolb, 1994, p. 207.

Two large questions are whether Bush could have secured reelection by pursuing a vigorous domestic policy and the wisdom, in terms of the public interest, of pursuing a policy vision such as “the New Paradigm.” Advisers such as Kolb and Pinkerton firmly believe that if Bush had pushed the principles associated with a New Paradigm, the resulting domestic dynamism would have led to his reelection. The New Paradigm was “the only Republican game in town” for a domestic policy structured with conservative trappings on a national dimension according to John Podhoretz, a Bush domestic policy aide.³³ The only other mainstay conservative alternatives to the status quo were retrenchment and devolution, neither of which directly bolsters a president’s standing as decisive leader. These factors suggest that the president should have embraced the New Paradigm instead of ignoring the conceptualization.

On the other hand, the academic literature offers measured support to the president’s style of governance arguing that the political times did not call for radical reformation, there were too many political and budgetary obstacles, and any attempt to model a presidency along the lines of Franklin Roosevelt or Lyndon Johnson would have proven unworkable. Scholars commend Bush for his “prudence” and administering what may be labeled as a “guardianship” presidency.³⁴ The questions of whether Bush could have won against Clinton by paying more attention to domestic policy and whether the New Paradigm was in the public interest in the early 1990s are ultimately unanswerable.

³³ Podhoretz, John. *Hell of a Ride: Backstage at the White House Follies, 1989-1993* (New York: Simon & Schuster, 1993), p. 42.

³⁴ See Barilleaux, Ryan J. and Mark J. Rozell. *The Presidency of George H. W. Bush* (College Station, TX: Texas A & M University Press, 2004), p. 4; Greene, John Robert. *The Presidency of George Bush* (Lawrence, KS: University Press of Kansas, 2000), p. 183.

The year leading up to the 1992 election pushed domestic concerns to the fore. However, it was too late to rectify the administration's perceived dithering on issues relating to social policy. Bush resurrected Reagan's policy of state waivers for AFDC innovation, but did not have the credibility to emerge as a domestic reformer. Skeptical reporters queried the president that if AFDC reform was so urgent to the president's program, why had he ignored AFDC policy during the first three years of his administration?³⁵

The Sununu/Darman axis controlling domestic policy collapsed with the resignation of scandal-plagued Sununu on December 16, 1991. Bush appointed Clayton Yeutter as domestic policy czar on February 2, 1992. Yeutter thought more domestic activism was necessary from the administration, but he had only a few months to leave his mark. He developed a rather vague slogan of "jobs, family, peace" which ultimately failed to arouse much excitement. By the summer of 1992 with the White House entering campaign mode, it proved too late to reorient domestic policy. According to Kolb, neither Darman nor Porter, who remained in their positions, had any real interest in reshaping domestic policy.³⁶ Even the new Chief of Staff, Samuel Skinner, was constrained from making any radical shifts in personnel or direction by the president.³⁷

Domestic policy thus was a remarkable conundrum for the Bush administration. There were two distinct views: 1) Eschew large ideas and 2) push for a domestic policy "desert storm" using markets. Pinkerton believed "the American people always want hope. The message of the budget deal, and the associated pox on new ideas that came

³⁵ Teles, Steven M. *Whose Welfare? AFDC and Elite Politics* (Lawrence, KS: University Press of Kansas, 1996), p. 132.

³⁶ Kolb, 1994, p. 281.

³⁷ Telephone interview with Charles Kolb, October 9, 2009.

from Darman at OMB, was that this was good as it would get.”³⁸ So while Bush clearly preferred the former course, others, including Gingrich, Kemp, Pinkerton, and Kolb, thought the latter perspective more appealing. Ironically, reflecting and affecting these internal Republican battles was the Democratic Party.

Bill Clinton: From New Paradigm to New Covenant

Bill Clinton, Bush’s successor as president, contrasted with the older man in both substance and image. Clinton was young, a governor, did not have a notable familial pedigree, and was extraordinarily engaged in debates over domestic policy while having no substantial credentials to lead in foreign affairs. However, whereas Bush punted on domestic policy, Clinton was ready to engage. The irony is that his policies resembled Republican innovations.

Clinton served as chair of the DLC from 1990 to 1991. The organization’s genesis dated from 1985. The original hope was that that the DLC would have the clout to facilitate the nomination of a centrist candidate for president in 1988. The group’s mission was not fully clarified until after the 1988 election. After Dukakis’ defeat, a common Democratic critique was that the party had not built a viable alternative to conventional liberalism.³⁹ Some intellectuals posited that a Republican realignment would come to fruition since liberals had lost the ability to compete in national elections.⁴⁰ Throughout 1991 and 1992 the Progressive Policy Institute, the intellectual publication wing of the DLC, published papers setting forth a “new” agenda. A central component of the plan was the advocacy of a market friendly approach to social policy as

³⁸ Email communication with James Pinkerton, March 30, 2010.

³⁹ Hale 1995.

⁴⁰ Galston, William and Elaine C. Kamarck, “The Politics of Evasion: Democrats and the Presidency” *Progressive Policy Institute* (Washington, D.C.: 1989).

the best way to differentiate the New Democrats from traditional liberalism and conservatism without mere posturing in the middle.

Clinton described the principles of the New Democrats in a keynote speech delivered in Cleveland on May 6, 1991. He declared that low-income support policy should aim to, “invest more money in people on welfare to give them the skills they need to succeed . . . but we should demand that everybody who can go to work do it, for work is the best social program this country has ever devised.” Clinton went further than just articulating a new vision for welfare.

The Democrats should be for responsibility for all. And I believe we should be for more choices. Choice is not a code word for elitism or racism. We believe in the obligation of Democrats who believe in government to reinvent government, to make it work. We believe that we should follow the successes of our greatest corporations in eliminating middle levels of bureaucracy, pushing decisions down to the lowest possible level, empowering people, increasing accountability, and treating our citizens like they were our customers and our bosses -- because they are.⁴¹

Clinton used vocabulary that had originally been promoted by Peabody as a Republican philosophy—personal empowerment and choice. These are values associated with the markets. Clinton was adopting an innovative line originally conveyed by the Republican Party.

Clinton clearly meant that this choice model should be applied to many areas of social policy. For instance, in this speech he explains the move toward empowerment is “why we favor tenant management of housing projects.” Clinton also promoted the Earned Income Tax Credit in this speech and advocated school choice and vouchers for

⁴¹ “Keynote Address of Gov. Bill Clinton to the DLC Cleveland Convention”, May 6, 1991. Accessed http://www.dlc.org/ndol_ci.cfm?contentid=3166&kaid=86&subid=194 January 12, 2009.

child-care.⁴²

Clinton's vision for the welfare state co-opted Republican principles. He promised to "end welfare as we know it" during the campaign, adopting the Republican critique of low-income policy. Further, Clinton championed the Earned Income Tax Credit. He promoted vouchers as an integral element of his housing policy. He promised national health insurance, but instead of a single payer or pay to play system, he advocated a system that took advantage of the private market place. Clinton showed interest in domestic policy by promoting a policy vision that a Republican president might be expected to adopt.

Bush had no overarching analytic theme or enduring title for his domestic policy. Clinton, on the other hand, delivered a speech at the Democratic National Convention where he set out governing principles.

We need a new approach to government. A government that offers more empowerment and less entitlement . . . A government that is leaner, not meaner, a government that expands opportunity, not bureaucracy, a government that understands that jobs must come from growth in a vibrant and vital system of free enterprise. I call this approach the New Covenant . . . the choice we offer is not conservative or liberal . . . it is different. It is new. And it will work.⁴³

Through the articulation of a New Covenant, Clinton was self-consciously adopting a Republican formulation of principles for a domestic policy. The New Covenant mimicked Pinkerton's vision for a New Paradigm. Clinton embraced the grand conceptualization where Bush shied away. However, like the New Paradigm, the New Covenant proved a rather fleeting phenomenon, not central to Clinton's presidency since it proved clunky terminology, much like the New Paradigm. Clinton dropped the line. In

⁴² Ibid.

⁴³ "Democratic Convention: Nominee Clinton Describes Vision of New Covenant," Text in *CQ Weekly Report*, July 18, 1992, pp. 2128-2129.

May 1993, *Time* noted that “New Covenant” appearances in five major newspapers dropped from a high of 45 in July 1992 to only four by April 1993.⁴⁴ As the Clinton team shifted from campaign to governing mode, the president, either by necessity or choice, focused on the minutiae of each policy area rather than employing rhetoric envisioning a grand domestic scheme. Clinton’s failure to make the New Covenant synonymous with his domestic vision is emblematic of his failure to control discourse during his early presidency.

The eclipse of the New Covenant terminology helps demonstrates the limits of building a new welfare state. Social policy innovation fosters a contentious partisan atmosphere where the minority party has political incentives to block the majority. This circumstance led to the Republican Party finding it advantageous to defeat the Clinton health care initiative, even though the plan made substantial use of market mechanisms. Polemical positioning serves as a foil giving the minority party a program and purpose. If the majority stumbles, the minority is well positioned for an electoral rebound. Thus, the Republicans would fight against health care reform, inveighing against socialism and excessive complexity, although the administration demonstrated willingness to compromise on numerous occasions and move toward a Republican position.

It hurt Clinton’s early presidency to have the Republican Party arrayed in phalanx opposition and the Democratic Party divided. However, just as damaging was the lack of managerial competence within the administration. Clinton’s White House did not operate as disciplined or smoothly as his predecessor’s. The transition set the tone for the first two years with the president mired in policy fiascos and scandals. Clinton proved unable

⁴⁴ Urquhart, Sidney and Richard Lacayo. “New What?” *Time*, May 24, 1993, p. 24.

to control events, the media, or Congress. He hurt himself by promoting a childhood friend without significant experience in Washington, Mack McLarty, as Chief of Staff. There were several high profile nomination debacles. Two candidates for Attorney General, Zoe Baird and Kimba Wood, withdrew after the immigration status of their domestic help came to light, and the nomination of Lani Guinier for Assistant Attorney General for Civil Rights set off a public firestorm since her writings appeared radical. Scandals involving the travel office, gays in the military, Whitewater, and the suicide of a friend and aide, Vince Foster, created a White House enveloped with never ceasing crises. American troop deaths in Mogadishu, Somalia distracted the President, as did the Waco, Texas compound siege. Clinton's hope to focus on a vibrant domestic policy become entangled with these extraneous events and weakened the president to a considerable degree.⁴⁵

From a strategic perspective, Clinton arguably over-interpreted his electoral mandate for action. His visionary rhetoric had the perverse effect of raising expectations too high on the domestic front. Congress refused to countenance a bold stimulus proposal. Clinton was forced to expend substantial political capital in order to pass the North American Free Trade Agreement (NAFTA) and even more in order to get his budget passed without a single Republican vote.

The budget raised taxes to trim the deficit. Combined with the Bush 1990 budget agreement the first Clinton budget would eventually prove critical in eliminating the

⁴⁵ For the early Clinton presidency, see popular accounts such as Woodward, Bob. *The Agenda: Inside the Clinton White House* (New York: Simon & Schuster, 1994); Drew, Elizabeth. *On the Edge: the Clinton Presidency* (New York: Simon & Schuster, 1994) and from the scholarly literature see especially Jones, Charles O. *Clinton and Congress, 1993-1996: Risk, Restoration, and Reelection* (Norman, OK: University of Oklahoma Press, 1999).

deficit by the end of the 1990s. The CBO reports that the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) reduced the deficit by \$433 billion over five years, nearly as much as the 1990 budget accord.⁴⁶ The 1990 and 1993 budget accords were the most successful budgets in reducing the deficit, as estimated by the CBO, in history. Despite this enormous achievement, paradoxically, they were the most politically toxic for the presidents who signed the budgets. The 1993 budget proved all political pain for Clinton at this point as Republicans delighted in portraying the budget the “largest tax increase in American history.”⁴⁷ Ideas such as a British Thermal Unit (BTU) tax had to be scrapped after hostile public outcry. Ensnared with problems, Clinton did not have enough time, energy, or capital to publicize the New Covenant.

The midterm elections of 1994 marked a repudiation of Clinton’s governance. However, the voters’ verdict was in no way considered a mandate against involving markets in social policy. Instead, the standard interpretation was for political elites to continue reshaping the welfare state. Most parties, including the popular media, were still trapped in the binary terminology and mode of thought that Democrats increase spending (or promote socialism) and Republicans downsize (or advocate retrenchment). Therefore, what actually occurred in social policy was not clarified by rhetoric or stated intentions. The closest that contemporary observers came to realizing that a new “Republican” welfare state was emerging separate from the conventional binary was discussion of Clinton’s strategy of “triangulation” between a liberal and conservative

⁴⁶ Keith 2005.

⁴⁷ For instance, see Domenici, Pete, V. “The GOP’s Offer,” *The Washington Post*, February 21, 1993, p. C7.

perspective. Yet the term triangulation is used to explain Clinton's short-term tactical maneuvering, not a larger philosophy emanating from the Republican Party.

The Clinton presidency was permanently changed with election of 1994, as domestic policy innovations shifted to the Congress. The legislative branch did not emerge as a player out of a vacuum. The Republican Revolution was set in motion, particularly in the House of Representatives, over the course of a decade by frustrated conservatives chafing how the Democratic majority marginalized the GOP caucus.

The Congressional Vanguard

Democrats had controlled the House of Representatives since the 1954 elections. At times their power had attenuated, particularly during Reagan's first year, but those moments tended to be of short duration. During much of that period the Republican House leadership had cooperated with the Democratic majority in order to influence legislation at the margins. The House minority leader, Bob Michel, was considered a leader practitioner of that strategy. Some staunch conservatives thought that this temporizing strategy was at fault for the longtime minority status of the Republican caucus. They argued that the GOP caucus should take sharper aim at the Democrats.

The practitioner at the forefront of advocating this mode of thinking was a former history professor and Georgian congressman, Newt Gingrich. In 1983, he spearheaded the founding of a new organization, the Conservative Opportunity Society, that promised to vigorously contest the Democratic majority and pull the Republican caucus rightward. Gingrich had little interest in behaving as the typical member of Congress concerned about constituent service and winning reelection for himself. Indeed, he jeopardized his

prospects for reelection in order to pursue his larger goal: building a Republican House majority that would refashion government.⁴⁸

Gingrich and his allies employed caustic means in order to discredit the Democrats. These conservatives would make long speeches to the empty House floor, but in front of the CSPAN cameras, attacking the “culture of corruption” that Democrats fostered. Republicans found a vehicle, the practice of overdrawing funds from the house bank, that they used as a cudgel to attack the majority Democrats. Many Republicans, including Gingrich, also had overdrafts, but the conservatives proved adroit at making the scandal stick to the Democrats rather than having voters lash out in a bipartisan manner. Gingrich proved relentless in his attacks against what he viewed at the imperious Democratic Speaker, Jim Wright (D-TX). He succeeded in making charges about a book deal that Wright negotiated an ethical dilemma for the Speaker. Eventually Wright resigned.⁴⁹

Not only did Gingrich lash out at the Democrats, he had to make his confrontational brand of politics triumph within the Republican caucus. Gingrich went from eccentric gadfly in the early 1980s to the unchallenged Republican leader devising tactics for the 1994 elections. In 1989, the Republicans held a leadership contest for the number two Republican rank in the House, the Minority Whip position. Gingrich declared his candidacy against Michel’s favorite, the more conciliatory Ed Madigan (R-IL). Gingrich defeated Madigan in the caucus by a two-vote margin, 87-85, cementing

⁴⁸ Connelly, William F., Jr. and John J. Pitney. *Congress’ Permanent Minority?: Republicans in the U.S. House* (Lanham, MD: Rowman & Littlefield, 1994), p. 9.

⁴⁹ Toner, Robin. “Turmoil in Congress: Wright Resigns as Speaker, Defends his Ethics and urges end of ‘Mindless Cannibalism,’” *The New York Times*, June 1, 1989, p. A1.

the Georgian's status as a major congressional figure.⁵⁰ Gingrich's victory was followed in the Republican caucus's organization meeting in 1992 by additional conservative victories. In three contests, the more conservative candidate emerged as victor. For Conference Secretary, Tom DeLay (R-TX) bested Bill Gradison (R-OH), and for Conference Vice-Chair, Bill McCollum (R-FL) beat Nancy Johnson (R-CT). The marquee contest was Dick Armey (R-TX) challenging the incumbent Chair of the Republican Conference, Jerry Lewis (R-CA). Armey narrowly edged Lewis by four votes, 88-84. Michel was not challenged in 1992, but perhaps seeing the general trend he decided to retire after the 1994 elections, clearing the path for Gingrich to emerge as the Republican House leader.⁵¹

Gingrich had discussed the welfare state extensively in speeches prior to becoming Speaker. He held it in contempt. Typifying what Gingrich thought, he told the Young Republicans, "It is our goal to replace the welfare state . . . to go straight at the core structure and the core values of the welfare state and replace them with a much more powerful, much more effective system."⁵² While Gingrich did not precisely define the term "welfare state", he clearly meant anti-poverty programs. The "system" that Gingrich would replace the welfare state with he eventually labeled "the opportunity society."⁵³ At this juncture, Gingrich diagnosed what he viewed as problems rather than

⁵⁰ Koopman, Douglas L. *Hostile Takeover: The House Republican Party, 1980-1995* (Lanham, MD.: Rowman & Littlefield, 1996) p. 11-14.

⁵¹ *Ibid.*, p. 23.

⁵² "Remarks at the Young Republicans Leadership Conference, Washington, D.C., March 19, 1992. Quoted in Bernstein, Amy D. and Peter W. Bernstein, editors. *Quotations from Speaker Newt: the Little Red and Blue Book of the Republican Revolution* (New York: Workman Publishing Company, 1995), p. 28.

⁵³ See, for instance, McConagha, Alan, "Nation: Inside Politics," *The Washington Times*, p. A7.

focus on the details of his proposed remedy. Further, the future Speaker spoke much less about universal entitlements, but he, no less, had ideas about how to transform Medicare and Medicaid in order to meet his budget goals, which would become the largest policy debate after 1994.

The four-year elder Bush administration and early Clinton presidencies are usually remembered as missed opportunities where not much happened on the domestic front. Such a conceptualization fails to recognize that the era served as a bridge between two distinct eras. Before 1988, the Republican Party took the primary ownership of the promotion of market alternatives to build the welfare state. After 1994, both parties involved markets when assaying social policy. Aiming for unalloyed political advantage is the key explanation for why both Republicans and Democrats, when stuck in the minority, abandon market principles and resort to obstruction in reshaping the welfare state. The new dynamic played out in this time period in several policy areas, with low-income assistance being one of the most notable.

WELFARE

Republican thinking about low-income assistance underwent a major transformation from the period 1988 to 1994. Chapters 4 and 5 have traced how a voucher remedy (the Family Assistance Plan) was superseded by workfare (the Reagan plan) as the GOP response to social policy. In the early 1990s, mainstream Republican thought further evolved. A throwback proposal challenged the primacy of workfare in exchange for cash payments: abolition of all welfare benefits. This view posited that the federal government should not shoulder responsibility for low-income social provision, a vantage point harkening to an era before the modern welfare state.

Republican politicians were receptive to this erstwhile radical policy prescription because Democrats embraced the Republican position on workfare. Committed conservatives who were unhappy with the continuing persistence of an “underclass” thought the time was ripe for another approach. They influenced federal Republican elected officials to break from a welfare strategy focused on workfare. The change occurred rapidly.

Another potential reason for Republicans to abandon workfare programs is because of a renewed commitment to fiscal conservatism. What negates this interpretation is that AFDC constituted only one percent of the total federal budget in 1992.⁵⁴ Much larger spending on entitlements, such as Social Security, Medicare, Medicaid, and defense all dwarfed welfare expenditures. Both Republican and Democratic administrations passed difficult budgets in 1990 and 1993 to combat persistent budget deficits and Gingrich had a similar aim culminating in the budget showdown with Clinton in the mid 1990s. However, it would be a mistake to view trimming AFDC expenditures through the prism as a means to reduce bloated budgets. It was just too small a program.

George H.W. Bush tried to ignore welfare during his first three years in office before joining a debate that would not be silenced. His welfare legacy was to reinvigorate state waiver demonstration projects, allowing for the implementation of programs that would serve as a template for national welfare reform in 1996. Clinton moved toward a Republican welfare policy during his campaign. He committed himself

⁵⁴ Total federal AFDC expenditures were approximately 22 billion dollars in 1992 out of a total budget of 1.38 trillion dollars. See the *United States Statistical Abstract 1994* (Washington, D.C: U.S. Department of Commerce, 1994) Table 504, p. 330 and Table 600, page 384.

to further use of state waivers, although he hoped to federalize lessons drawn from the states into a new national program. The welfare legislation his administration introduced in 1994 resembled Republican thinking concerning workfare. It appeared that the potential for a bipartisan welfare bill was feasible. However, just as Democrats and Republicans seemed to converge with workfare as a policy remedy, Republicans withdrew previous support for workfare in 1994. This section will trace how Republican elites shifted their welfare agenda in a very short time, setting up a new partisan contestation over welfare policy after 1994.

The debate over AFDC demonstrates the limits of partisan consistency in policy advocacy. Two conditions existed that restructured the political landscape. (1) The Republicans were in the minority and (2) the Democrats were moving toward GOP policy positions. Republicans found it expedient to change course. Thus, qualifying Republican support for market ideology were political imperatives.

The Bush Welfare Policy

George H.W. Bush and his senior domestic advisers saw no reason to reintroduce welfare on the political agenda. There are only two mentions about welfare in the George H.W. Bush presidential papers before his 1992 State of the Union address.⁵⁵ If welfare crossed the administration's attention, it probably considered the recent Family Support Act of 1988 as the last word. Indeed, as aforementioned, the Bush administration had no interest in making efforts to continue the activities of the Low-Income Advisory Board, which essentially lay fallow during the first three years of the Bush's presidency.

⁵⁵ Teles, Steven M. *Whose Welfare? AFDC and Elite Politics* (Lawrence, KS: University Press of Kansas, 1998), p. 131.

It became apparent that Bush needed to demonstrate awareness about domestic issues. Kemp was allowed to rebuild the Low Income Opportunity Board and Bush squarely addressed welfare in his 1992 State of the Union speech. In the address the president complimented the approach taken by many states. “States throughout this country are beginning to operate with new assumptions that when able-bodied people receive government assistance they have responsibilities to the taxpayer. A responsibility to seek work . . .”⁵⁶ The president was not ready to make these state projects national policy, rather he promised to make the waiver process “easier and quicker.”⁵⁷

Bush’s vision of state waivers was similar to Reagan’s in that welfare reform would have to proceed in a conservative manner, since low-income assistance spending had to remain revenue neutral. However, Bush changed one fundamental element of the revenue neutrality. No longer would welfare spending have to be cost-neutral on an annual basis. States were allowed to spend more up front in order to achieve eventual cost neutrality over the course of the entire demonstration. Essentially Bush was allowing states to attempt bolder welfare reforms.⁵⁸ Seventeen states submitted waiver proposals during Bush’s final year in office for AFDC demonstration projects. Most of these pilot demonstrations allowed the state a more intrusive presence in welfare recipients lives in exchange for some form of welfare payment.⁵⁹

⁵⁶ “Address Before a Joint Session of the Congress on the State of the Union, January 28, 1992,” *Public Papers of George H. W. Bush: 1992-1993* (Washington, D.C.: U.S. Government Printing Office, 1993), pp. 156-163, 162.

⁵⁷ Ibid.

⁵⁸ Teles, 1998, pp. 133-134.

⁵⁹ Wiseman, Michael. “Welfare Reform in the States: The Bush Legacy,” *Focus*. Vol. 15, No. 1 (1993), pp. 18-35, 23-25.

The Bush administration achieved a significant step in promoting welfare reform by changing the cost neutrality requirements. It gave conservatives more flexibility in reformulating welfare, while preventing AFDC reforms that liberals would embrace. Indeed, while under Reagan a bipartisan array of governors and legislatures submitted requests for state waivers, after Bush reintroduced the waiver process in 1992 most requests (outside of the south) came from Republican governors and legislatures.⁶⁰

While Bush settled on waivers for states as his administration's chief welfare plan, his reasons for the policy were somewhat unclear. He cited several semi-contradictory rationales. Bush suggested that state experimentation could be used to learn what worked best, but he also thought that every state was unique, thus limiting the applicability of findings, and finally he chose to emphasize the merits of federalism. This all came from a single news conference held on April 10, 1992.⁶¹ Clinton, a president much more comfortable with welfare policy than Bush, would continue the state waiver policy, but under a different rationale for an alternative.

The Clinton Plan

Clinton raised high expectations with his rhetoric to "end welfare as we know it" during the presidential campaign.⁶² His message that a firm two-year time limit on welfare benefits was an imperative proved a popular campaign pledge. The Arkansas governor did not emphasize that his plan also envisioned more expenditures on job training, the minimum wage, the Earned Income Tax Credit, and other measures to ease

⁶⁰ Zylan, Yvonne and Sarah A. Soule. "Ending Welfare as we Know It (Again): Welfare State Retrenchment, 1989-1995", *Social Forces* Vol. 79, No. 2 (December 2000), pp. 623-652, 625; Wiseman 1993.

⁶¹ Teles, 1998, pp. 132-133.

⁶² Kosterlitz, Julie. "Reworking Welfare," *The National Journal*, September 26, 1992;

the transition from AFDC to the work force. The plan endorsed by Clinton had its intellectual origins in David Ellwood's *Poor Support*.⁶³ Once elected president Clinton named Ellwood one of three co-chairs of a 32-member commission to craft new national welfare legislation.

Bringing welfare reform to fruition was more difficult than making campaign pledges. The paradox that a new policy would cost more than retaining the old AFDC status quo was a hard sell. Christopher Jencks pointed out that two-year time limits for AFDC beneficiaries would save approximately \$18 billion while new expenditures could total perhaps \$33 billion.⁶⁴ Advocating such a position could easily be caricatured by opponents as simply increasing welfare spending rather than legislating fundamental reform.

Beyond the ease of demonization by conservatives, conventional Democrats were circumspect about the desirability of revamping welfare. The Democratic congressional caucus was split between liberals not keen on reform and centrists more sympathetic toward Clinton's position. The caucus split into two distinct camps with little overlap in policy preference. With liberals balking at time limits for beneficiaries, Clinton would have to build some coalition support with the Republican Party in order to pass welfare reform.⁶⁵

Changing AFDC proved an intransigent hurdle for Clinton to surmount in his early presidency. He continued the state demonstration projects, with the rationale to

⁶³ Weaver, Kent. *Ending Welfare as we Know It* (Washington, D.C.: Brookings, 2000), p. 356.

⁶⁴ Jencks, Christopher. "Can We Put a Time Limit on Welfare?" *The American Prospect*, September 1, 1992, pp. 32-40, 38-39.

⁶⁵ Weaver, 2000, pp. 225-226.

find the best policy for implementation at the national level, clarifying the previous administration's policy. Besides that measure, welfare reform stalled. As aforementioned, the 1993 budget was political dynamite and the Clinton administration was not willing to sacrifice any projected budgetary savings on welfare reform.⁶⁶ The following year, 1994, also proved difficult. Senior health care adviser Ira Magaziner commented that, "we really need the health reform in place in order to do welfare reform properly."⁶⁷ In the hopes of moving health care, the welfare bill did not appear until near the onset of summer.

The Clinton administration unveiled its welfare reform package on June 14, 1994, entitled the Work and Responsibility Act of 1994. The legislation was then introduced in the House on June 21, 1994 as H.R. 4605. Title 1, Section 104 mandated two-year time limited benefits for AFDC recipients with Title II established job and work programs for the AFDC clientele. A small child care program, supervision for younger parents, and child support enforcement were the main features of the bill.⁶⁸ HR 4605 proved a frugal offering, since the administration did not want to spend much on reform. Clinton's bill even cost less than the main Republican alternative.

The Work and Responsibility Act of 1994 was an historical artifact upon its introduction. There was neither time nor political will during that session of Congress to debate and vote on the legislation. Clinton was ready to deal with the Republican Party in order to gain a legislative victory. However, the Republican caucus, at this juncture, had no reason to give Clinton credit for welfare reform with prospects for the upcoming

⁶⁶ Teles, 1998, p. 156.

⁶⁷ Quoted in Stanfield, Rochelle L. "Bridging the Gap," *The National Journal*, January 15, 1994, pp 111-114, 111.

⁶⁸ "Work and Responsibility Act of 1994" HR 4605, June 21, 1994.

midterm elections favoring the GOP. Indeed, the Republican Party was shifting its policy position on welfare while the Clinton administration was lumbering toward a compromise position that had vanished.⁶⁹

The Republican Shift: From Workfare to Abolition

The congressional Republican Party underwent a major shift in positioning on welfare during the first two years of the Clinton presidency. Republican leadership was unwilling to cede welfare reform to Clinton, so as the president hesitated, the GOP wrote its own bill which was introduced on the House floor on November 10, 1993 as HR 3500. The bill was sponsored by minority leader Bob Michel with most of the Republican caucus cosponsoring. While the bill echoed some of the themes that Republicans would unveil in future legislation, on the whole, it resembled what Clinton proposed on many counts. It seemed to have potential to serve as a nucleus for a compromise with Clinton.

HR 3500, the “Responsibility and Empowerment Support Program Providing Employment, Child Care, and Training Act” focused on education, training, and job search facilitation for AFDC recipients. It time-limited AFDC benefits to two years, just as in the Clinton bill, and increased the targeted number of AFDC recipients who would leave welfare over the next eight years. Titles included providing for paternity identification for children, enforcing child support, and controlling costs for means-tested programs. Expansion in the state waiver program for welfare innovation would continue. HR 3500 was intended as a preemptive device for the Republican Party to have an

⁶⁹ Haskins, Ron. *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, D.C.: Brookings Institution, 2006, p. 81.

identifiable alternative to rally around while chastising the administration for delaying.⁷⁰ Clinton's bill resembled and spoke to the Republican bill. A number of other bills introduced were also moderate and seem to provide room for compromise. Senator Hank Brown (R-CO) introduced S 1795, which provided, that in exchange for working a public job, AFDC and food stamp compensation would double for the beneficiary.⁷¹ E. Clay Shaw (R-FL), the ranking Republican on the Ways and Means Committee observed, "if there's one issue where moderate Republicans and Democrats can work together in a bipartisan manner, [welfare reform] is it."⁷²

However, just as it seemed that Clinton and the Republicans could work together on a bill emphasizing workfare, all compromise positions collapsed. The primary reason for the Republican shift was political considerations. A January 27, 1994 memo from William Bennett and Peter Wehner, from the Empower America think tank, stated that a proposal abolishing AFDC altogether "would be politically smart for Republicans because anything less than calling for an end to welfare will probably ensure that the debate will be conducted on Clinton's terms. That's a sure political loser. On the other hand [Republicans can make] a principled break with an old, failed system [and] seize the mantle of true reform."⁷³ On the heels of this document, the Heritage Foundation arranged for Charles Murray to meet with approximately thirty Republican representatives to convince them to alter strategy. Also radio personality Rush Limbaugh

⁷⁰ "Responsibility and Empowerment Support Program Providing Employment, Child Care, and Training Act." HR 3500, November 10, 1993.

⁷¹ "Welfare Reform Act of 1994" S 1795, January 25, 1994.

⁷² Jeffrey Katz, "A Welcome but Unwieldy Idea? Putting an End to Welfare," *Congressional Quarterly Weekly*, February 27, 1993, pp. 458-461, 460

⁷³ Quoted in Teles, 1998, p. 152.

pressed for a more radical approach to welfare reform. The Republican emphasis rapidly shifted from workfare to abolishment of AFDC and with a focus on illegitimacy.⁷⁴

The co-chair of the Clinton welfare commission, David Ellwood, ruefully noted that Clay Shaw and other Republican members of Congress at first had some complimentary comments about the administration's welfare proposal "before they were told to shut up."⁷⁵ Many Republicans were rallying around the new strategy. James Talent (R-MO) and Lauch Faircloth (R-NC) introduced legislation, in the House and Senate respectfully, in the late spring of 1994. Their bills called for the abolition of AFDC and reflected the new Republican view that abolition was preferable to workfare. The House version, HR 4566, "the Real Welfare Reform Act of 1994", did not mention work in its synopsis, instead stating that the bill's goals were "to restore the American family, reduce illegitimacy, and reduce welfare dependence."⁷⁶ This legislation presaged the Republican positioning on welfare reform after the 1994 elections. A little noted aspect of the Republican welfare initiatives is the acrobatics that Republican members had to display in order to shift positions.

There was an intellectual transformation on the Right as well. Certain conservative intellectuals, most notably Murray, were always keen to abolish AFDC, although that part of his program was never taken seriously by Republican elites in earlier years. Many conservative scholars in the late 1980s and early 1990s still saw promise with the workfare strategy. In 1987, the American Enterprise Institute had published a study entitled *The New Consensus on Family and Welfare: A Community of Self-*

⁷⁴ Ibid., p. 152.

⁷⁵ Ibid., p. 158.

⁷⁶ "The Real Welfare Reform Act of 1994," HR 4566, June 10, 1994; "Welfare Reform Act of 1994," S. 2134, May 19, 1994.

Reliance suggesting agreement was building around workfare.⁷⁷ As late as 1991, Fred Barnes, a conservative journalist, supported the concept of providing minimum wage jobs in lieu of welfare, something akin to a workfare strategy.⁷⁸

Republicans saw political advantage emanating from a stark contrast with Democrats, so the workfare concept fell out of favor in conservative circles. Many conservative intellectuals proved obliging to follow the lead of Charles Murray, Empower America, and Rush Limbaugh by adjusting calls for compromise with Democrats. Murray himself published an article in the *Wall Street Journal* in 1993 provocatively advocating abolishment of all AFDC benefits and that the federal government should spend lavishly on orphanages.⁷⁹ Having Murray in the conservative mainstream on welfare policy in 1994 demonstrates how far the Republican caucus in Congress had moved on low-income assistance policy.

Clinton had maneuvered the Democrats rightward, which essentially pushed the Republicans even further that direction to distinguish themselves from the administration. The only room for a *modus vivendi* on welfare policy would have been early in Clinton's first term, before it became apparent that electoral incentives called for Republicans not to compromise on welfare policy. Thus welfare reform, while a goal many policy analysts thought in the public interest, in the end could not be separated from politics. Reasoned debates between the pros and cons of workfare and the termination of the AFDC program are not at the heart of welfare reform, rather political calculations among

⁷⁷ Novak, Michael. *The New Consensus on Family and Welfare: A Community of Self-Reliance* (Washington, D.C: American Enterprise Institute, 1987).

⁷⁸ Barnes, Fred and Grover Norquist, "The Politics of Less: A Debate on Big-Government Conservatism," *Policy Review* (Winter 1991), pp. 66-71.

⁷⁹ Murray, Charles, "The Coming White Underclass," *Wall Street Journal*, October 29, 1993, p. A14.

the Republican and Democratic Parties for strategic purposes are the prime movers. In the 103rd session of Congress (1993-1994) the battle lines on welfare policy were redrawn. In the end, Clinton essentially had to punt the issue—which the Republican Party willingly tackled after the 1994 elections from a radically changed perspective. Both political parties were now embracing a market variety of welfare. Democrats did so to save AFDC, Republicans in order to end the program.

The EITC

The Earned Income Tax Credit (EITC), while still receiving bipartisan approbation during these years, faced its first challenges, the first indications of the dynamic that Republicans will retreat from their own vision. Republican support for the EITC waned over time. The EITC expanded as part of the Omnibus Reconciliation Act of 1990 (OBRA 1990), but not as dramatically as some advocates hoped. Clinton would again increase the size of the EITC as a little noticed part of the Omnibus Reconciliation Act of 1993 (OBRA 1993). OBRA 1993 marked the apex of the EITC in terms of cash value for recipients (adjusted for inflation). After 1994 Republicans moved away from supporting the EITC, much as they had moved rightward in AFDC policy.

A member of Congress, Thomas Petri (R-MN), showed great enthusiasm for the EITC. He thought it a better device to target poverty than the minimum wage, which remained steady at \$3.35 for an entire decade, despite having its value eroded through inflation. Joined by the newspaper editorialists at *The New York Times* and *Wall Street Journal*, Petri advocated for an expansion of the EITC.⁸⁰ He proved influential in getting the Republican National platform for 1988 to read, “as an alternative to inflationary—and

⁸⁰ See, for example, the editorial “Better than \$3.35, \$4.25, or Even \$5.05.” *The New York Times*, July 11, 1988, p. A16.

job-destroying--increases in the minimum wage, we will work to boost the incomes of the working poor through the earned-income tax credit.”⁸¹ New Democrats, such as William Galston and Elaine Kamarck made expanding the EITC a cornerstone of their thinking about policy.⁸²

The George H.W. Bush administration did not show the enthusiasm that Reagan exuded for the EITC. In part, this was because the administration was crafting a budget that narrowed the deficit. According to *The New York Times*, the Bush White House, “acknowledged that an increase in the earned income tax credit would raise ‘the standard of living for poor families.’ But it cautioned that such a change ‘exacerbates Federal budgetary problems.’”⁸³ With the White House ambivalent, EITC enthusiasts were disappointed when Senate Finance Chair Lloyd Bentsen (D-TX), sacrificed an EITC expansion. Instead he promoted a health insurance tax credit for children of the working poor. Sununu also demanded a tax credit for families with children younger than one year of age. Although the growth in the EITC was half what proponents hoped for, the maximum possible credit increased from \$953 in 1990 to \$1,702 in 1994 with eligibility expanded and family size taken into account for the first time.⁸⁴ The EITC expansion

⁸¹ Howard, 1997, p. 150-151; the 1988 Republican Party Platform of 1988, August 16, 1988, John T. Woolley and Gerhard Peters, The American Presidency Project [online] <http://www.presidency.ucsba.edu/ws/index.php?pid=25846> accessed January 14, 2009.

⁸² Kamarck, Elaine Ciulla and William A. Galston. *Putting Children First: A Progressive Family Policy for the 1990s* (Washington, D.C: Progressive Policy Institute, 1990).

⁸³ Pear, Robert. “White House Spurns Expansion of Nation’s Anti-Poverty Efforts.” *The New York Times*, July 6, 1990, p. A1.

⁸⁴ Howard, Christopher. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*: (Princeton, NJ: Princeton University Press, 1997), pp. 155-156; Kosterlitz, Julie. “Patching the Safety Net,” *The National Journal*, November 3, 1990, p. 2,683.

was part of the much larger OBRA 1990 and did not figure as a key motivator of the final vote of legislators.

While Clinton failed to reform welfare during his first two years, he successfully pushed for an expansion in the EITC as part of his pledge “to make work pay.” The EITC expansion was part of the OBRA 1993 vote, which no Republican supported. The president called for a \$28 billion increase, however the final version cost \$20.8 billion. Working families earning below \$20,000 were eligible for the tax credit. The Republican opposition focused on tax increases, not the EITC expansion.⁸⁵

The 1993 OBRA was the last triumph for the EITC. It would then become an issue of political contestation as many Republicans found it advantageous to target the EITC after 1994. The conservative critique on the EITC would focus on fraudulent claims and will be explored in chapter 7.

Welfare policy around 1990 underwent a fundamental shift due to partisan repositioning. The effects on welfare policy indicate a definitive shift to the right for programmatic benefits. The EITC, as a policy tool, reached its zenith during the early 1990s, a victory for market policy, but the seeds were sown for future contestation. Many Republicans would become hostile toward that policy in the coming years. Another area of anti-poverty assistance, housing policy, would also undergo transformation, much like welfare.

HOUSING

Low-income housing policy activity accelerated between 1988 and 1994 compared to the Reagan years. Democrats hoped to pour new money in traditional

⁸⁵ Howard, 1997, pp. 157-158.

construction programs as well as adding new programs with a liberal hue. Republicans had by now developed an alternative housing program. With a prominent new HUD secretary, Jack Kemp, some conservative intellectuals thought the time was ripe to promote radical innovations in housing policy, although frustration became evident when the administration proved disinclined toward an active domestic agenda. Republicans and Democrats clashed in how to appropriate funds. Kemp was unable to enact his legislative agenda, but in some ways, he won a greater prize. Although Kemp disdained the Clinton housing agenda, Clinton accepted Kemp's policies more readily than those offered by traditional liberals in Congress. The Clinton administration adopted a partial version of what Kemp advocated as preferred policy, augmenting vouchers and even enacting a version of enterprise zones—something that both Reagan and Bush could not accomplish.

At the time of the 1988 presidential campaign, the Republican Party had a fully articulated alternative vision for housing policy that contrasted with the traditional supply orientation advocated by the Democratic Party. Vouchers, enterprise zones, tenant-management, and selling the public housing stock were the essence of the market-friendly approach. Kemp, the congressional conservative most forcefully advocating these measures, participated in the 1988 presidential primaries. His presence kept the Republican alternative for low-income policy from disappearing from news accounts.

National party platforms tend not to document in detail complex policy positions. They are campaign tools that are meant to unite the party. The 1988 Republican Party Platform is in some ways an exception. A proactive low-income housing policy is described in some detail. The platform pledged that Republicans would “continue our

efforts, already marked with success to revitalize our cities. We support, on the federal, State and local levels, enterprise zones to promote investment and job creation in beleaguered neighborhoods.” Later in the document the platform claimed, “in public housing, we have turned away from the disasters of the past, when whole neighborhoods became instant slums through federal meddling. We have promoted a long-range program of tenant management with encouraging results already. We pledge to continue that drive and to move toward resident ownership of public housing units, which was initiated under Ronald Reagan and George Bush.” Finally, the platform advanced vouchers. “We are determined to replaced hand-out housing with vouchers that will make low-income families neighbors in communities, not strangers in projects.”⁸⁶

When Bush appointed Kemp HUD secretary, it appeared that low-income housing would play a larger role in American politics than at any point since Nixon’s first term. HUD, considered an unimportant backwater during the Republican era, suddenly attracted considerable conservative talent. “It’s become the glamour agency of the conservatives,” according to Stephen Moore, an economic analyst for the Heritage Foundation.⁸⁷

Despite Kemp’s ambitions for HUD, it was never a priority for the Bush administration. The president was not interested in domestic policy, or in Kemp’s views. The revelations of scandals that plagued HUD during the tenure of Kemp’s predecessor, Samuel Pierce, further damaged the agency. Nonetheless, housing policy needed reauthorization and both Democrats and Republicans wanted to push their agendas. The

⁸⁶ “Republican Party Platform of 1988”, August 16, 1988.

⁸⁷ Rauch, Jonathan. “Eating and Breathing HUD’s Enterprise Zones,” *National Journal*, May 27, 1989, p. 1,313.

stalemates of the Reagan era ended with the 1990 Cranston-Gonzalez National Affordable Housing Act. However, the legislation was a somewhat odd amalgamation of both Democratic and Republican ideas.

Clashing Visions

The final vote tallies for Cranston-Gonzalez belie the partisan polarization of housing policy. Contrasting visions nearly scuttled passage at several points during the bill's legislative journey. The House and Senate passed the act by wide margins. Only 43 representatives voted against the original House version and one senator voted against the original Senate bill (Table 6.1, Votes #1, #2). The conference report passed by a voice vote in the House and a recorded roll call in the Senate where six Republican dissented (Table 6.1, Vote #3). These overwhelming margins for passage disguised all the hard compromises involved in order to develop a viable bill. Probing beyond the congressional votes for passage, the debate surrounding the housing legislation demonstrates two competing visions for housing policy: the old New Deal and Great Society perspective vs. the newer Republican market ideal.

Table 6.1: Congressional Votes for National Affordable Housing Act (1990)⁸⁸

	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
Vote #1	132	42	246	1	378	43
Vote #2	43	1	53	0	96	1
Vote #3	38	6	55	0	93	6
Vote #4	42	2	0	52	54	42

⁸⁸ Sources: Vote #1: *1990 Congressional Quarterly Almanac*, p. 96-H, vote #294; Vote #2: Ibid. p. 30-S, vote #131; Vote #3: Ibid. p. 31-S, vote #132, Vote #4: Ibid., p. 63-S, Vote 325.

Vote #1: House Passage of HR 1180, August 1, 1990

Vote #2: Senate Passage of S 566, June 27 1990

Vote #3: Senate Passage of Conference Report, October 27, 1990

Vote #4: Boschwitz (R-MN) Amendment to S 566, Housing Opportunity Zones, June 27, 1990

Liberal Democrats had chafed for years that Ronald Reagan had blocked housing construction programs. Some thought building projects had improved life for impoverished people and that Pruitt-Igoe in St. Louis and Cabrini Green in Chicago were anomalies. Henry Gonzalez (D-TX), who had lived and worked in public housing in the 1950s, described how a public housing project was erected in a part of the city known as “the Death Triangle” because of its high infant mortality rate, helping the lives of the poor. During negotiations over the legislation, Gonzalez said “I have seen what public housing can do, I hope we’d not [kill] this [bill]—not just out of respect for me—but out of responsiveness for the poor.”⁸⁹ Other liberals, including Kwesi Mfume (D-MD) and Chuck Schumer (D-NY), were just as determined as Gonzalez to reinvigorate the liberal vision of housing planning to increase supply. Gonzalez’s bill, HR 1180, reflected pent up liberal aspirations.

The administration and many House Republicans took the opposite position. Thoroughly disgusted with low-income housing construction, they wanted to eliminate, not expand, such measures. Kemp and the administration continued Reagan’s approach that vouchers should be the central component of any low-income housing policy. The Heritage Foundation’s John Scanlon provided intellectual heft to the arguments. He recommended devoting HUD’s entire assistance budget to vouchers.⁹⁰ HUD

⁸⁹ “U.S Housing Programs Overhauled: Bill Aimed to Increase Stock of Affordable Homes,” *1990 Congressional Quarterly Almanac*, p. 643.

⁹⁰ *Ibid.*, p. 633.

undersecretary, Alfred A. DelliBovi characterized the debate by explaining, “The Reagan and Bush administrations want to give people the voucher to choose where to live and to reject the building where there’s no heat in the winter and where the elevator is not consistently repaired. The slumlord lobby wants these people to be prisoners in their buildings. That is the essential difference between the conservative Republican approach and the liberal Democrat slumlord.”⁹¹

The administration’s bill (HR 4245, S 2304) contained another idea for low-income housing, resurrecting the concept of selling off the public housing stock. Tenants would then have a stake in the upkeep of housing since they owned the property. All previous efforts had met with minimal success—only 320 units had ever been sold.⁹² The name of the new program was HOPE, an acronym for Home Ownership and opportunity for People Everywhere. The administration requested \$165 million for the program.⁹³ The first title of the legislation would authorize HUD to distribute grants to help the poor to purchase public housing. Title IV would create 50 Housing Opportunity Zones that would terminate restrictive zoning laws and regulations that hindered the construction of affordable housing.⁹⁴ These “Housing Opportunity Zones” were clearly inspired by Enterprise Zones.

⁹¹ Ibid., p. 634.

⁹² Guskind, Robert and Carol F. Steinbach. “Sales Resistance.” *National Journal*, April 6, 1991, pp. 798-803, 803.

⁹³ Ibid., p. 631. Kemp originally envisioned that HOPE would be funded at more generous levels—\$4.2 billion in direct spending and \$2.6 billion worth of tax credits over three years. See Steinback, Carol F. “Kemp’s Crusade,” *National Journal*, December 9, 1989, pp. 2,994-2,998, 2,994.

⁹⁴ “Homeownership and Opportunity for People Everywhere Act of 1990,” HR 4245, March 13, 1990.

Other Republicans promoted another of the standard principles behind the Republican welfare state: wealth creation. In subcommittee, Steve Bartlett (R-TX), proposed an amendment that low-income individuals who purchased residences through the assistance of HUD could reap a profit by selling the home after five years. Republicans on the subcommittee voted 15-1 in favor of Bartlett's amendment, with Democrats voting against it 22-1. Bartlett also attempted to limit the erection of new construction by proposing to build only one unit for every two units demolished. On a straight party line vote in subcommittee (23-18), Democrats rejected the Republican proposal.⁹⁵

The Senate attempted to construct a housing bill for a bipartisan coalition. Co-sponsoring the Senate bill, S 566, Alan Cranston (D-CA) and Alfonse D'Amato (R-NY) determined to forge an alternative bill with more flexibility in rules—a devolution approach. However, Republicans and Democrats in the Senate assembled in familiar partisan battle lines regarding Kemp's vision for creating 50 housing opportunity zones. All but two Republicans voted for an amendment sponsored by Rudy Boschwitz (R-MN) to include the opportunity zones in the final legislation. Every Democrat voted against the Boschwitz amendment, defeating the measure (Table 6.1, vote #4).

There was little underlying similarity between the House Democratic and Republican proposals. Determined not to end in stalemate, the Democratic House used the Gonzalez proposal as a starting point and compromised with House Republicans and the administration on numerous occasions to craft a final bill. New housing construction programs appeared, but also the funding of HOPE on a diminished scale as well as

⁹⁵ Ibid., p. 638.

further section 8 vouchers. The Senate passed a markedly different piece of legislation that made the Conference Committee an important vehicle. Chris Dodd (D-CT), in Conference almost scuttled the bill because for unclear reasons he abandoned the Senate Democratic position and allied himself with the Republicans on some issues.⁹⁶

In the end, most of the competing divisions acquiesced. The resulting compromise included new construction programs, the HOPE program, and vouchers. The Hope authorization was for \$68 million in FY 1991 and \$380 million in FY 1992. However, appropriators did not see fit to fund the program in FY 1991.⁹⁷ The bill almost died again when Phil Gramm introduced a poison pill when he tried to change the formula giving states money. The final compromises made to ensure bipartisan support for the legislation fail to reflect the very fragile state of national housing policy. In his signing statement, Bush highlighted how the HOPE program “would empower low-income families to achieve self-sufficiency” while castigating Congress for setting aside funds for new rental construction programs.⁹⁸ Bush chose to ignore that Congress refused to appropriate any funds for HOPE in FY 1991.

The details concerning Cranston-Gonzalez reflect where conventional Democrats battled the new Republican welfare state. There would be some replay in 1992 when the housing bill was up for reauthorization. Circumstances had changed. The Los Angeles riots pushed housing policy, at least temporarily, to a higher perch on the agenda.

Response to Riots: Partisan Bickering

⁹⁶ Ibid., p. 643.

⁹⁷ Ibid., pp. 649, 651, 652.

⁹⁸ Bush, George. “Statement on Signing the Cranston-Gonzalez National Affordable Housing Act, November 28, 1990.” John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Accessed <http://www.presidency.ucsb.edu/ws/?pid=19102> January 17, 2010.

In the immediate aftermath of the Los Angeles riots in late April 1992, which commenced after a jury acquitted police officers in the videotape beating of Rodney King Congress and the president promised to reevaluate and overhaul urban policy. This proved too ambitious. An urban bill died with a presidential veto and enacted legislation offered little revolutionary change.

Kemp's priority for housing policy was HOPE and he wanted lawmakers to appropriate \$865 million in FY1992. The appropriators cut that request to \$136 million, expressing skepticism at the wisdom of the proposal to sell public housing. Democrats funded other proposals at more generous levels than the administration desired. An angry Kemp sent a letter dated September 25, 1991 accusing the Congress of participating in a "betrayal of low-income families" and revisiting "the failed scandal-prone housing programs of the past." Eventually the full House restored \$361 million for HOPE by a vote of 216-183 in an Amendment sponsored by Jim Kolbe (R-AZ) (Table 6.2, vote #1). All other action on the bill passed through voice votes. Bush signed the bill, happy that a space station he requested was funded, despite some further Kemp misgivings.⁹⁹

Table #6.2: Housing Legislation Votes, 1991-1992¹⁰⁰

Votes	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
Vote #1	151	5	65	177	216	183
Vote #2	11	149	202	41	213	191

⁹⁹ "No Agreement Reached on Housing Funds." *1991 Congressional Quarterly Almanac*, p. 334.

¹⁰⁰ Sources: Vote #1: *1991 Congressional Quarterly Almanac*, p. 34-H, vote #142; Vote #2: *1992 Congressional Quarterly Almanac*, p. 118-H, vote #481; Vote #3: *Ibid.*, p. 118-H, vote # 482; Vote #4, *Ibid.*, p. 35-S, vote 270; Vote #5: *Ibid.*, p. 90-H, vote 365; Vote #6: *Ibid.*, p. 106-H, vote 432; Vote #7: *Ibid.*, p. 116 H, vote 476; Vote #8: *Ibid.*, p. 106-H, vote 432.

Vote #3	39	122	169	79	208	202
Vote #4	23	14	44	8	67	22
Vote #5	142	22	5	254	147	277
Vote #6	111	52	257	2	369	54
Vote #7	125	35	251	2	377	37
Vote #8	97	54	188	43	286	97

Vote #1: Kolbe (R-AZ) (1991) Amendment HR 2519, June 6, 1991.

Vote #2: Rule adopted for HR 11 Conference Report, October 5, 1992

Vote #3: Final Passage of HR 11 Conference Report in House, October 5, 1992

Vote #4: Final Passage of HR 11 Conference Report in Senate, October 8, 1992

Vote #5: Recommit motion to increase HOPE funding for HR 5334, August 5, 1992

Vote #6: Final passage of HR 5334 in House, August 5, 1992

Vote #7: Final passage of HR 5334 conference report in House, October 5, 1992

Vote #8: Final passage of HR 5679 conference report in House, September 25, 1992

The Los Angeles riots pushed housing policy onto the national agenda once more.

Bush considered it necessary to address urban issues proactively and centered on the theme of enterprise zones. Democrats in Congress were unenthusiastic.¹⁰¹ After tortured negotiations, a tax bill, HR 11, passed both chambers of Congress which provided funding for 50 enterprise zones. One major issue causing much of the contention revolved around capital gains tax cuts. The administration insisted that businesses that invested in Enterprise Zones for five years must receive a 50% capital gains tax cut. Essentially this bill was undoing part of the 1986 Tax Reform Act whose goal was to treat different varieties of taxable income as equal. Democrats were especially upset because they thought the administration was maneuvering for an across the board capital

¹⁰¹ Stanfield, Rochelle. "Battle Zones." *National Journal*, June 6, 1992, pp. 1,348-1,352, p. 1,348.

gains tax cut, a move that would primarily benefit upper income constituencies.

Democrats finally allowed for the capital gains tax cut but loaded the bill with other revenue enhancing provisions that Bush called tax increases. The conference report barely survived votes in the House with somewhat wider support in the Senate before Bush vetoed the bill on November 4, 1992 (Table 6.2, votes #2-#4).¹⁰²

The administration promoted enterprise zones actively as did most Republican members of Congress. The enamored Newt Gingrich laid the blame for the federal government failing to act on Enterprise Zones squarely on the Democrats.¹⁰³ However, even within the Republican caucus there were a few voices beginning to question the utility of Enterprise Zones. Bill Gradison (R-OH), the ranking member on the House Budget Committee who represented Cincinnati complained, “I think enterprise zones simply move investment around and that they don’t create new jobs . . . it’s not part of the road to re-election in southwestern Ohio . . . and I’m not some suburban congressman talking about them.”¹⁰⁴ Gradison also bemoaned why Congress should reward the looters of Los Angeles. Yet at this juncture, most of the complaints about Enterprise Zones still came from Democrats. One liberal from the Ways and Means committee, Thomas Downey (D-NY), suggested, “it would be more cost-effective to dump the money out of an airplane over the ghettos” rather than creating enterprise zones.¹⁰⁵

¹⁰² “Interest Renewed in Enterprise Zones,” *1992 Congressional Quarterly Almanac*, p. 345.

¹⁰³ Gingrich, Newt. “Enterprise Zones Now,” *USA Today*, May 15, 1992, p. 8A.

¹⁰⁴ “Cities Seek Help from Congress: Washington’s Response to Urban Crisis was Stymied by Fiscal and Political Anxiety,” *1992 Congressional Quarterly Almanac*, p. 344.

¹⁰⁵ *Ibid.*, p. 345

At the very end of the 1992 congressional session, Kemp again waged a campaign to fully fund HOPE. He attempted to get additional HOPE funding via two pending bills. One was an Omnibus Housing Bill, the Housing and Community Development Act, (HR 5334) which Congress passed to reauthorize programs for two years. Republicans attempted to recommit the bill to committee with instructions to increase funding for HOPE. The motion failed 277-142 (Table 6.2, vote #5). At that juncture, the House overwhelmingly passed the bill (Table 6.2, vote #6) and the eventual conference report (Table 6.2, vote #7) and the Senate followed by voice vote. Kemp had more success in pushing the HOPE program in the VA/HUD spending bill for FY 1993 (HR 5679). The final legislation appropriated \$661 million for HOPE.¹⁰⁶ A number of Republicans and Democrats were dissatisfied with the final product, although mainly on matters unrelated to HOPE. The House passed HR 5679 overwhelming, as did the Senate by voice vote and Bush duly signed the legislation (Table 6.2, vote #8).

Clinton Reshapes the Democratic Agenda

Clinton is largely responsible for co-opting the Republican Party's housing policy. The three main foci of the Republican program under Bush were enterprise zones, vouchers, and the privatization of the housing stock. Clinton adopted the first two positions as his own, while rejecting the third option. The first two endured as viable policy options across the span of more than one administration. The third option had become was identified almost exclusively with Kemp's HOPE program.

Enterprise Zones

¹⁰⁶ Ibid., p. 640.

Clinton, as a New Democrat, articulated his interest in enterprise zones during the 1992 presidential campaign. They were attractive since social goals could potentially be meant without legislating a new program or an increase in taxation. In an interview shortly before the Democratic Convention, Clinton explained, “I agree with Kemp about Enterprise Zones” with the caveat that it was not a panacea and should be legislated into existence in conjunction with economic, education, and health reform.¹⁰⁷ Unlike his pledge about a middle class tax cut, Clinton intended to enact enterprise zones. As part of his first budget, Clinton proposed creating 50 of them. To develop economic vitality, a 25 percent tax credit would be given to businesses from the zone that employed zone residents. The first \$15,000 in wages would be covered. Employers who hired zone residents outside of the enterprise area would qualify for a smaller tax credit. In addition, employers could write off \$75,000 in the first years for assets purchased within a zone.¹⁰⁸ Businesses did not qualify for capital gains tax cuts, making the concept more acceptable to liberals.

The House approved and expanded Clinton’s Enterprise Zone proposal in the budget. However, Senator Daniel Patrick Moynihan, the chair of the Senate Finance Committee, thought Enterprise Zones were a “Fabian” idea, presumably meaning a cautious or incremental socialistic concept. The Senate stripped enterprise zones from

¹⁰⁷ Lemann, Nicholas. “The Myth of Community Development.” *The New York Times*, January 9, 1994, section 6, p. 27. See also Solomon, Burt. “Bush’s and Clinton’s Urban Fervor . . . May Prove Merely an Infatuation.” *National Journal*, May 16, 1992, pp. 1,196-1,197 which notes the parallels between Bush’s and Clinton’s articulated low-income housing policies on the campaign trail.

¹⁰⁸ “A Look at the Highlights. . . Of Clinton’s Tax Proposals” 1993 CQ Almanac, p. 87. Clinton then switched to a proposal with two tiers of enterprise zones, with the greatest benefits going to designated areas called “empowerment zones.” See Peirce, Neal R. “Enterprise Zones—No Great Shakes.” *National Journal*, July 17, 1993, p. 1,828.

the budget, leaving the conference committee to determine their fate. Saving enterprise zones were two unlikely candidates: Senator Bill Bradley (D-NJ) and Congressman Charles Rangel (D-NY). Neither were advocates of enterprise zones. Yet, in order to deliver some aid to urban areas they resuscitated the idea. According to Rangel: “I rejected the whole concept under Reagan. But people came to me and said ‘How can it hurt?’ So I just said ‘what the hell.’”¹⁰⁹

The term “enterprise zone” was changed to “empowerment zone”. Six urban and three rural areas would be designated for demonstrations, igniting a political battle among impoverished areas to win one of the coveted spots.¹¹⁰ A business situated in an enterprise zone that hired an enterprise zone resident would receive \$3,000 a year in the form of a tax credit. Kemp, the enterprise zone purist, opposed empowerment zones. However, Clinton’s proposal resembled his predecessor’s plan closely. The enacted legislation clearly had its genesis in Republican thinking. Clinton and the Democrats had come to terms with this Republican proposal and adopted it as their own. Some New Democrats were enthusiastic, while old liberals acquiesced. Empowerment zones played no role in the debate about Clinton’s budget. Not a single Republican voted for the budget, however GOP criticism focused on taxes, not a relatively obscure social program whose architects (Rangel and Bradley) seemed unenthusiastic about their own creation.¹¹¹

Vouchers

Democrats shifted positions on vouchers during Clinton’s first two years. After concerted Republican efforts under Reagan, Democrats finally conceded in letting

¹⁰⁹ Lemann, 1994, section 6, p. 27.

¹¹⁰ Stanfield, Rochelle L. “Zoning Dispute,” *National Journal*, May 22, 1993, p. 1,260.

¹¹¹ Ibid.

vouchers move from a demonstration to full-fledged program. Henry Cisneros, Clinton's secretary of HUD, announced the new administration supported vouchers. He emphasized that Clinton wanted cost-efficient methods to support low-income housing. The administration decided to merge the rental certificate and voucher programs, and called both forms of provision rental assistance.

In the administration's first year, appropriators addressed vouchers and rental certificates in HR 2491. They provided \$4.6 billion to renew existing Section 8 vouchers and rental certificates. \$1.3 billion was added for 39,703 individuals and families to receive rental assistance. A further \$800 million served an advance appropriation for FY 1995.¹¹² Vouchers, long anathema to the Democratic caucus, had become preferred policy.

Privatization of the Housing Stock

The one portion of Kemp's housing agenda with which Clinton differed significantly was the HOPE program. It provided grants for public housing tenants to purchase the units where they lived. Clinton and the Democrats in Congress decided to phase out the program. The original \$553 million appropriated for HOPE in 1993 decreased to \$109 million. The Democratic goal was to eliminate the program.¹¹³

Conclusion

The Democrats had co-opted much of the Republican housing agenda. With health care and welfare dominating the headlines, the Republican Party had not yet formed a coherent alternative to the new Democratic policies. However, just as with

¹¹² "VA, HUD, Independent Agencies Provisions," *1993 Congressional Quarterly Almanac*, pp. 697-705, 699

¹¹³ "VA-HUD: A Study in Diversity, 691-697, p. 693.

AFDC and EITC policy, the Republicans would reposition themselves on housing once they returned to the majority in Congress. Housing policy essentially stalled in 1994 as the Senate did not schedule floor time to debate housing reauthorization. Low-income housing, not a priority for the public, the media, and members of Congress, differed substantially from the highly visible negotiations over health policy.

HEALTH

Introduction

Health care went from a policy backwater to cutting edge issue during this period. Health care has many of the trappings of low-income policy, with Clinton embracing market proposals for his plan. The Republican Party, in turn, shifted their policy stance. During the 103rd Congress (1993-1994), several distinct camps emerged within the Republican caucus in the Senate advocating very different views of how to manage health care policy. In the end, these views became a symbolic battleground between the old Republican conciliatory approach and a fiercer obstructionist positioning. By the summer of 1994 Republicans found that combating Democrats best served their political interests.

Bush's Policy: Drift

The First Three Years

Following his inclinations concerning the wider sweep of domestic policy, Bush chose to minimize attention to health policy during his first three years in office. While vague platitudes emanated from the administration about the necessity of “cost containment,” very little was done to set concrete policy to achieve such an outcome. Supporting the market agenda of Reagan in any meaningful way was not a priority. Bush

was willing to let health care policy run its course without intervention from the federal government.

The Bush administration was largely absent from the debate surrounding the repeal of the Medicare Catastrophic legislation in 1990. Medicare Catastrophic, which expected upper income seniors to subsidize the elderly poor, had produced a geriatric revolt. Most famously, numerous seniors surrounded the car of House Ways and Means Committee chair Dan Rostenkowski (D-IL), demanding repeal. With the video cameras rolling, the image became seared into the public conscious. On November 21, 1989 the House voted 352-63 to repeal Medicare Catastrophic (HR 3607).¹¹⁴ The Senate followed the next day by voice vote. While some health policy experts were hoping to salvage parts of the legislation, the lack of interest from the administration precluded such an outcome.¹¹⁵

Bush's passivity in health, letting the Congress control policy, was the norm for most of his presidency. While free-market conservatives long thought that Medicare vouchers and Medicare HMOs should constitute the future of the Medicare program, Bush chose not to follow such a course. Instead, he signed the Omnibus Budget Reconciliation Act of 1989 which restructured Medicare through additional regulation. The adoption of the Medicare fee schedule for physicians occurred with minimal visibility and contained no market-oriented devices. The reform introduced what was tantamount to an administrative pricing system in an attempt to control costs. In another

¹¹⁴ *1989 Congressional Quarterly Almanac*, p. 126-H, vote 376. The partisan breakdown was 169 Republicans voting for repeal and 9 against with 188 Democrats voting to eliminate the program with 54 against.

¹¹⁵ Himmelfarb, Richard. *Catastrophic Politics: The Rise and Fall of the Medicare Catastrophic Coverage Act of 1988* (University Park, PA: Pennsylvania State University Press, 1995), pp. 91-93 (check again).

Republican administration, it might be expected that Republican elites would have made an issue about increasing regulation and have made a stand for a market remedy. Instead, the Bush administration meekly let Democrats tinker with Medicare and chose to ignore the issue.¹¹⁶

The Bush administration, while at times clever in following and molding public opinion, particularly during the 1988 presidential campaign, failed to understand the salience of health care to a wide swath of the public. A number of Republican members of Congress, presumably responding to what the voters were telling them, urged the president to become proactive and adopt a plan. For instance, Bill Gradison (R-OH) and Nancy Johnson (R-CT) sent a memo to the president suggesting that he forge a health care proposal built around “market principles.” Sununu sent a curt reply, choosing to brush off the Members’ advice. The titular domestic policy chief, Roger Porter, dismissed health policy as a “maturing issue” best to ignore for the moment.¹¹⁷

The Wofford Effect

All this changed when a little known 65 year-old former college president and civil rights lawyer, Democrat Harris Wofford, toppled a popular former governor and Bush Attorney General, Republican Richard Thornburgh, in a special Senate election in Pennsylvania in November, 1991. Over the course of the campaign, Thornburgh, the prohibitive favorite with an early polling lead of over 40 points managed to see it all evaporate and then some. Wofford won by over ten percentage points. Some of the

¹¹⁶ Oberlander, Jonathan. *The Political Life of Medicare* (Chicago: University of Chicago Press, 2003), p. 128.

¹¹⁷ Quoted in Blumenthal, David and James A. Morone. *The Heart of Power: Health and Politics in the Oval Office* (Berkeley, CA: University of California Press, 2009), p. 332.

election outcome centered on voter anxiety about the economy, but the issue which galvanized the campaign was health care.¹¹⁸ In a debate against Thornburgh, as well as on television commercials, Wofford presented what he viewed as the moral imperative of health care by suggesting, “If the Constitution guarantees criminals the right to a lawyer, shouldn’t it guarantee working Americans their right to a doctor as well?” Thornburgh’s advisers, particularly conservative Senator Phil Gramm (R-TX), erroneously told him to avoid the issue and cede the point to the Democrats while arguing that Wofford had not yet offered a detailed plan.¹¹⁹ While national Republicans dismissed Thornburgh as soon as he lost, blaming him for running a lackluster campaign, the administration privately realized it had a serious problem, how to respond to health care.

As a response to the Wofford victory, the Bush administration developed a four-point plan in February 1992 to address health care. Bush’s team concentrated on reforming the private marketplace. Individual tax deductions, up to a maximum of \$3,750 would aid lower earners to purchase private health insurance, local networks would help small groups and individuals buy private plans (something akin to Clinton’s proposal), malpractice reform, and augmenting state flexibility in administering Medicaid constituted the facets of Bush’s health program.¹²⁰ The plan proved an ungainly amalgamation of disconnected points, unable to inspire public passion. It was also a cumbersome synthesis between the tax-credit proposals championed by the Heritage

¹¹⁸ Hinds, Michael Decourcy, “Race for Senate Shows Big Split on Health Care,” *New York Times*, October 31, 1991, p. B9; Seeyle, Katharine, Wofford Picks up Speed in U.S. Senate Race,” *Philadelphia Inquirer*, October 29, 1991, p. VG04.

¹¹⁹ Thornburgh, Dick. *Where the Evidence Leads: An Autobiography* (Pittsburgh, PA: University of Pittsburgh Press, 2003), pp 305-307.

¹²⁰ Blumenthal and Morone, 2009, pp. 338-339.

Foundation and a managed care plan.¹²¹ The president himself showed little interest. For greater public visibility, Bush caretakers arranged to have the president appear at Logan Heights Family Health Center in San Diego. Low-income mothers and children scurried about, in a scene that to the president probably approximated bedlam. Bush undercut the staged photo-op by audibly muttering, “why am I doing this?”¹²²

What sabotaged the heart of Bush’s efforts to emerge as a health reformer is that his administration could not find a satisfactory financing mechanism to pay for his proposals. Finally, the administration abandoned all attempts to pay for the plan, thereby discrediting the proposal in the eyes of the media and congressional Democrats. They dismissed the president’s call for health reform as nothing more than an election gambit. With all attempts to form a proactive agenda in tatters, Bush turned toward attacking the health care views of the Democratic nominee, Clinton.

Clinton’s Evolution

Clinton, the New Democrat, did not propose a single-payer national health insurance plan, such as Truman and Ted Kennedy had advocated. He originally proposed a pay to play scheme where business which required business to provide health insurance or pay a fee to allow the federal government to provide health care. Bush began to gain traction in declaring Clinton’s plan was typical “tax and spend” Democratic politics. Clinton was never comfortable with pay or play and when the notion of managed care was introduced to him, the enthusiastic Clinton responded as if smitten by a revelation.

¹²¹ Hacker, Jacob S. *The Road to Nowhere: The Genesis of President Clinton’s Plan for Health Security* (Princeton, NJ: Princeton University Press, 1997), p. 72.

¹²² Blumenthal and Morone, 2009, p. 319.

“Managed competition” was the brainchild of Alain Enthoven in the late 1970s and had existed on the outskirts of health care policy debates. Enthoven and a group of supporters known as the “Jackson Hole group” updated the proposal in the early 1990s. The plan envisioned an organized system of competing private networks as the vehicle for achieving universal coverage, which would theoretically improve the twin health care dilemmas of quality and cost. The Jackson Hole group advocated favorable tax treatment only for the equivalent of the least expensive plan, with a standard benefit, offered in a given geographic region. Employees who wanted greater coverage would be required to use their after-tax wages in order to purchase a more expensive plan. Insurance companies would presumably prosper because the Jackson Hole Plan reserved a prominent role for them—that of network providers. Government controls were explicitly rejected, as the coordinating mechanism for the system was through an independent national health board advised by the private sector. This board would register and approve purchasing cooperatives.¹²³

The tale of the Clinton health care initiative is well known and need not be retold in detail here.¹²⁴ It had its origins in Republican market proposals. While the aim, national health insurance, was a liberal end, the means to achieve this goal were conservative. Clinton in essence co-opted parts of Republican market remedies in creating a national health insurance system involving regional networks of private insurance using the employment-based model. Clinton’s “health security” proposal had

¹²³ Hacker, 1997, pp. 61-63.

¹²⁴ See especially Johnson, Haynes and David S. Broder. *The System: The American Way of Politics at the Breaking Point* (Boston: Little, Brown, 1997) and Skocpol, Theda. *Boomerang: Health Care Reform and the Turn Against Government* (New York: Norton, 1997).

many of the provisions of a compromise plan with market mechanisms, and was broadly consistent with his campaign rhetoric. It included private health insurance and regional cooperatives. The package would provide a choice of plans. Employers and employees would both contribute to the cost of insurance.¹²⁵ Representative James Cooper (D-TN) proposed a nearly carbon copy proposal of Enthoven's managed competition plan which served as an alternative model for achieving national health insurance, which both diluted and complicated Clinton's attempt to build Democratic consensus.

Despite Clinton's penchant for market mechanisms, Republicans eventually lambasted the plan as socialism. Complicated flow-charts putatively diagramming the health care system were created to foster anxiety. Bill Kristol sent a memo to Dole suggesting Republicans fight health care through any means possible (citation). While this was the end point of the Republican response, it took the GOP quite some time to decide how to approach Clinton's health care initiative. That story is less well known.

Republican Options: Conciliation or Opposition?

The retrenchment narrative is so powerful that many expected the Republican Party to thwart any version of national health insurance. Indeed, in the end, this is exactly the tact that the Republican Party took. What is less understood is that the Republican response developed over the course of a number of months. While certain members of the party always thought it best to stop national health insurance at all costs, this was a minority view until 1994. The Republican evolution over the course of the health care debate marked how conservatives shifted from conciliatory behavior with the Democratic majority to outright opposition. This battle largely occurred in the Senate

¹²⁵ Hacker, 1997, p. 150.

and echoed dynamics at work in the House. The end of the political strategy of conciliation also marked the point where the Republican Party no longer functioned as the primary advocate of market mechanisms in social policy. When the Democrats embraced markets, Republicans found it essential to offer a contrast.

The battleground over health care reform would be fought mainly in the Senate since Clinton knew that he had to attract Republican support in that body. The Republicans, still reeling from the 1992 presidential defeat, were uncertain how to proceed. There was no agreed upon position. The Republican minority divided into camps. Minority leader Bob Dole (R-KS) tasked John Chafee (R-RI) with drawing up a Republican alternative to the Clinton plan. At this juncture, Dole thought it a necessity that Republicans not be viewed as obstructions, but a political party with a proactive agenda. Chafee's plan would eventually attract 23 Republican co-signers, yet support within the caucus was soft. Some conservatives derided the Chafee plan as "Clinton Lite" and rallied around a plan promoted by Don Nickles (R-OK), who proposed that other market mechanisms, particularly a new concept, Medical Savings Accounts (MSAs) serve as the crux of a new health policy. The Heritage authored much of his proposal. A third Republican position was the "do nothing" approach so often associated with traditional conservatives. Phil Gramm became the champion for stopping any form of national health insurance. From the perspective of 1993, it seemed that the third option was the least viable. Gramm himself at first promoted a free market health care plan, most likely as a preemptive measure against any sort of health agenda. Only after the politics of the situation evolved, could Gramm resort to fighting any sort of national health insurance.

The Chafee-Dole Plan

At the heart of the original Chafee-Dole health proposal was an individual mandate to purchase health insurance, thus achieving universal coverage. The federal government would provide vouchers, a very Republican idea, for low-income workers to purchase insurance (those whose income was up to 240 percent of the poverty level). Employers would be required to offer plans, but would not have to help employees pay for it. The plan envisioned creating insurance pools to help small-businesses while expanding the deductibility of insurance costs. The proposal would cut \$210 billion from Medicaid and Medicare to finance the vouchers, mainly money spent on the current uninsured.

Many Republicans in the Senate were unenthusiastic about the Chafee plan. In October the proposal was redrafted to make the mandatory purchasing alliances to voluntary ones, much against Chafee's instincts. Conservatives also howled in protest at the creation of a National Benefits Commission under the plan. Some thought such a commission would increase government control and make it indistinguishable from Clinton's initiative.¹²⁶

Through the autumn, winter, and spring of 1993-1994, Chafee worked to build a Republican consensus on health care. Such a goal proved elusive. Chafee also crossed the partisan divide, working with moderate Democrats who had signed on to the Cooper plan in the House. Clinton perhaps made a strategic miscalculation by not working closely with Cooper and Chafee from the beginning. Yet there were dual forces that made it unlikely that a Chafee or Cooper plan could pass. First were the political

¹²⁶ Lowry, Rich. "Chafee's Political Prescriptions—Republican Senator John Chafee has his own proposals for health care reform," *National Review*, January 24, 1994, pp 42-44.

calculations of the Republicans. If Clinton had embraced a Chafee position, it is not clear that many of the 23 co-signers would have continued to support Chafee. There was political gain to be made to oppose the president. Second was the inherent weakness of all the centrist proposals. They all had inadequate financing mechanisms. The CBO was not willing to credit the Clinton plan large savings because of market reforms. The Chafee and Cooper plans relied on market mechanisms even more. Chafee was never able to adequately address the financing issue. Paul Starr argues that if Chafee's plan had been seriously considered, it would have become evident that it would increase costs for middle-class households and create work disincentives.¹²⁷

The Nickles Plan

Senator Don Nickles (R-OK) thought the Chafee-Dole plan the wrong path to take toward universal insurance. He introduced a bill in the Senate on November 23, 1993, called the Consumer Choice Health Security Act (S 1793), which heavily drew from a circulating Heritage Foundation plan and eventually claimed support from 24 Republican Senators. The plan is modeled on, ironically, the Federal Employees Health Benefits Program, although most of the rest of the program incorporated market mechanisms at an unprecedented level. The federal health system has approximately 300 plans and employees can choose from a menu of 10 to 20 insurance options. The Nickles plan would end having employers choose health plans for their workers. Instead, an employer's contribution would be part of base pay. The worker would be required to purchase a plan with at least benefits for catastrophic illness. Employees would also have the option of putting dollars earmarked for health care in MSAs. In order to push

¹²⁷ Starr, Paul. "What Happened to Health Care Reform?" *The American Prospect*, Winter 1995, pp. 20-31, 26.

Americans to obtain health insurance, there would be new tax breaks, and a personal exemption would be eliminated for those who chose not to purchase insurance.¹²⁸

MSAs first arose in discussions as a policy tool during the 1980s. The inspiration behind MSAs came from Singapore which had versions of them. Conservative policy experts envisioned them to be tax-free accounts where individuals would save money for routine medical expenses. Citizens would supplement MSAs with private insurance for catastrophic coverage. The theory behind MSAs is that consumers would be empowered to make their own health care choices without a gatekeeper. In addition, efficiency in the system would increase, since consumers would have incentives not to overuse medical services. They would suffer the sting of paying directly for medical services. Traditional insurance shields the health care consumer from most of the cost of the system. Hence, presumably, consumers would become more responsible.¹²⁹

MSAs first major entrée onto the national agenda came courtesy of a U.S. Congressman, Rick Santorum (R-PA), who was preparing for a U.S. Senate run against Wofford. In Santorum's "Medisave" proposal, he linked MSAs with IRAs.¹³⁰ After Santorum's initial efforts to bring MSAs to the fore, they became a mainstay of all the free-market health care alternatives. They were a major component of the Nickles alternative, although Chafee did not embrace the concept. Phil Gramm also professed to have interest in MSAs.

¹²⁸ "Consumer Choice Health Security Act of 1993", S. 1743; Moss, J. Jennings, "GOP Health Plan Touted for Choice; Nickles Proposal has 24 Backers," *Washington Times*, December 16, 1993, p. A4.

¹²⁹ Murdock, Deroy. "Health Care Reform and the Case for Medical Savings Accounts," *Washington Times*, May 17, 1994, p. A17.

¹³⁰ Office of Rep. Rick Santorum, "Santorum Offers Health Care Legislation; Urges President to Include in State of the Union," *PR Newswire*, January 22, 1992.

Gramm authored another of the Republican free-market plans. However, judging from his eventual behavior which was to take aim to kill all national health insurance, the bill was nothing but a preemptive ruse. The House also introduced a measure, overall more conservative than the Chafee plan with some similarities, but did not seem to become a major vehicle for discussions about compromise.

Annapolis

Clinton gave his special national address calling for universal health insurance in September 1993. After that highpoint with 60% of the public approving Clinton's plan, support slowly melted during the fall and winter.¹³¹ Chafee, still intent on organizing a Republican alternative, scheduled a private retreat for Senate Republicans in Annapolis, MD on March 4 and 5 to hammer out a Republican proposal. The meeting did not go as planned. Instead of creating a Republican alternative, a number of conservatives expressed strong voices of dissent. Chafee was hoping to cover seven main thematic "building blocks" for a plan during the retreat. By the time the session ended only two had been addressed and no consensus reached on either point.¹³²

Chafee, and to a lesser extent, Dole, were flabbergasted. According to Johnson and Broder, both withdrew to silence at the meeting. On the other hand, Phil Gramm was verbose. He exclaimed that he wanted no health bill of any variety. He said that a health care bill would pass "only over my cold dead political body." He did not mince words

¹³¹ Jacobs, Lawrence R. and Robert Y. Shapiro. *Politicians Don't Pander: Political Manipulation and the Loss of Democratic Responsiveness* (Chicago: University of Chicago Press, 2000), p. 141.

¹³² Johnson, Haynes and David S. Broder. *The System: The American Way of Politics at the Breaking Point* (Boston: Little, Brown and Co., 1997), pp. 363-365.

for the Chafee alternative. It's "socialism with a smile" Gramm had no compunction declaring in front of Chafee.¹³³

This was not the only vantage point rendered at the meeting. While Chafee and Dole may have become sullen, Nickles, the conservative from Oklahoma argued forcefully that his Heritage proposal was better than no bill at all. According to an aide, Dole spent time during the meeting "counting votes" and after Annapolis realized that the Chafee-Dole compromise package, in any form, was no longer viable.¹³⁴

Gingrich was at the Annapolis meeting, at the behest of Dole. He largely agreed with Gramm. According to Gingrich (in 1995) he had anticipated that vanquishing the Democrats in health care would pave the way for the Republicans to return to power. According to a Gingrich strategist the health care battle for the Democrats would be "their Stalingrad, their Gettysburg, their Waterloo."¹³⁵ William Kristol wrote a well-known memo suggesting that health care was a serious threat to the Republican Party and needed to be defeated at all costs. He worried that health care would "revive the reputation of . . . the Democrats . . . as the generous protector of middle-class interests."¹³⁶

After March 1994, the Kristol strategy dominated Republican thinking. Dole abandoned all pretenses of support for Chafee-Dole and worked in opposition of his own plan. He had essentially converted to the "scorched earth" position of the conservatives to bury reform. As late as March Gingrich was still disingenuously suggesting there was room for "a bipartisan bill." This was part of the "crafted talk" strategy discussed by

¹³³ Ibid., p. 364.

¹³⁴ Ibid., p. 365.

¹³⁵ Ibid., p. xiii.

¹³⁶ William Kristol, "Memorandum to Republican Leaders: Defeating President Clinton's Health Care Proposal (Washington, D.C.: Project for the Republican Future, December 2, 1993, typescript), p. 2; also quoted in Skocpol, 1997, p. 145.

Jacobs and Shapiro of how Republicans were angling to kill reform without accruing blame.¹³⁷

Conclusion

Health care is the most visible policy arena where new dynamics were emerging. Democrats began to co-opt Republican proposals in health care and the GOP shifted. The high drama of political battle has obscured just how disunited Republicans were during this episode. Obstruction was the best political strategy and triumphed. In some ways this confirmed past trends of social policy always serving as a hotbed for partisanship. Yet once programs were established, there tended to be consensus in how to run them, sometimes for decades at a time. After 1994 such moments of consensus would diminish.

Compared to welfare, housing, and health, contests over pension policy were relatively minor during this period. However, during Bush's first term, elites staked out positions that presaged larger debates over public pension policy that emerged over the next twenty years.

PENSIONS

The First Contest over Privatization

The domestic policy battle that Bush had no intention of joining was over the future of Social Security. He had been scarred after the Stockman Social Security debacle early in Reagan's first term. Bush did not want to touch the popular entitlement program and implicitly acknowledged Social Security's formidable status by going out of his way to praise the retirement system in high profile speeches. In his State of the Union

¹³⁷ Jacobs and Shapiro, 2000, p. 143.

Speech in 1990, Bush said:

And there's one thing I hope we will be able to agree on. It's about our commitments. I'm talking about Social Security. To every American out there on Social Security, to every American supporting that system today, and to everyone counting on it when they retire, we made a promise to you, and we are going to keep it. We rescued the system in 1983, and it's sound again bipartisan arrangement. Our budget fully funds today's benefits, and it assures that future benefits will be funded as well. The last thing we need to do is mess around with Social Security.¹³⁸

All members of Congress did not share Bush's instinct to let the status quo prevail. The federal government's accounting system irritated Senator Moynihan (D-NY). After the 1983 rescue package of Social Security which increased payroll taxes, the program's reserves had increased to \$65 billion by 1990 and with projections that it would climb indefinitely. Due to budget rules, the Social Security surplus covered deficits from the rest of the budget. Moynihan thought this was inherently wrong, and decided to stir a debate by proposing to slash the payroll tax to halt the practice of Social Security covering general budget deficits. Darman opposed such a move, pointing out that cutting the payroll tax would lead to increases in other types of taxes. Whether a cynical ploy or attempt at greater transparency, Moynihan's controversial proposal elicited the most commentary over a tax controversy since debate over Reagan's first budget.¹³⁹

One member of Congress, John Edward Porter (R-IL), shared Moynihan's dislike of the structure of the federal budget and Social Security's place within it. Yet he parted

¹³⁸ Bush, George H. W., "Address Before a Joint Session of Congress on the State of the Union," January 31, 1990. <http://www.socialsecurity.gov/history/bushstmts.html#013190> Accessed January 30, 2010.

¹³⁹ Roberts, Paul Craig. "Stakes in the Social Security Confrontation." *Washington Times*, March 2, 1990, p. F1.

ways with the New York Senator on how to handle the fund's surplus. He desired having Social Security transformed over the course of fifty years from its current form to a fully privatized entity. He had sponsored a proposal in 1989 to mandate the board of Social Security trustees study the feasibility of privatizing the system.¹⁴⁰ By 1990, he was ready to move further. He proposed letting workers set aside the tax increases for Social Security during the following year and create their own accounts, akin to IRAs.¹⁴¹ According to Porter, instead of having the federal government invest money in low-paying government treasury notes, a conservative investment would yield an average 3.6% increase in asset accumulation per year. Porter envisioned that current workers would still get their current Social Security benefits as promised, therefore necessitating a slow transition, with a hybrid system, over the course of a working generation before Social Security became fully privatized.¹⁴²

A number of conservative elites were enthusiastic. Economist Paul Craig Roberts was a supporter who thought Porter's plan was superior to allowing Social Security reserves, or what some call a "trust fund," aggregate. Roberts and Porter feared that the Social Security surpluses were a threat to free enterprise and would socialize the economic system, through federal government investment.¹⁴³ The vast majority of the public was probably skeptical. There was no public furor for a Social Security conversion and politicians were not running on that platform. In this respect, the

¹⁴⁰HR 3083, "A bill to amend the Congressional Budget Control and Impoundment Act of 1974", August 2, 1989.

¹⁴¹ Porter, John. "Let Workers Own their Retirement Funds." *Wall Street Journal*, February 1, 1990, p. A8.

¹⁴² Kenworthy, Tom and Helen Dewar. "House Republicans Push Anew for Privatization of Social Security." *Washington Post*, January 20, 1990, p. A4.

¹⁴³ Roberts, Paul Craig. "... That's How It's Done in Other Countries," *Wall Street Journal*, February 1, 1990, p. A8.

American public was operationally liberal, skeptical of a market approach to public pension policy, and willing to keep the current system. However, there was a budding middle ground. Bruce Schobel wrote an op-ed in the *Wall Street Journal* advocating that a Porter-type system be included as a supplement, not as a substitute, to the current Social Security program.¹⁴⁴ In essence, as early as 1990, the intellectual positioning behind Social Security reform had already emerged. The much discussed privatization schemes of the 1990s and the second term of George W. Bush's presidency were essentially refinements on the Porter plan. Ideological committed free-market types were dedicated to scrapping the current Social Security system, those positioned a bit to the left thought that private accounts could supplement current Social Security, while those further to the left—probably representing the majority of public opinion—were happy with Social Security in its current form.

Porter's proposal had the support of some important political actors. Dennis Hastert (R-IL), a future House Speaker, co-sponsored Porter's 1989 legislation. According to the *Washington Post*, Gingrich gave his blessing to the Porter plan.¹⁴⁵ However, George Bush, when confronted with his opinion about the Porter proposal, essentially singled his administration would not support the bill. According to Bush, "the Porter proposal has some interesting ingredients to it. I am not prepared to endorse it. We don't have provision for that in our budget proposals. It's worthy, though, of consideration, of some study. But I'm not prepared to endorse that; no, I'm not." The reporter followed up with the question, "is that not the first step to privatizing Social

¹⁴⁴ Schobel, Bruce D. "What's Wrong—and Right—with the Porter Plan." *Wall Street Journal*. February 8, 1990, p. A8.

¹⁴⁵ Kenworthy and Dewar, *Washington Post*, January 20, 1990.

Security?” Bush answered, “Well, I don't think he would say that that's the inevitable goal, but it has certain aspects there. But the people are concerned about Social Security. So, when you have innovative thinking of that nature, I don't want to just gun it down. I am not going to support it.”¹⁴⁶ Bush made it clear he would not support Porter, while expressing a considerable degree of tepid sympathy to the whole idea of Social Security privatization.

Essentially the time was not ripe for a full-fledged effort to privatize the most popular aspect of the welfare state. The Democratic Congress had no interest in introducing privatization, nor did the administration have any intention in its promotion. Soon health care seems to have drowned out the elite discussion of pension reform in the newspapers. Clinton, who already had an aggressive agenda during his first two years, did not seem to consider Social Security reform an issue that needed contemplation. Although Social Security reform was largely off the table during these six years, private pensions underwent a simultaneous rapid transformation.

Private Pensions

What is unique about private pensions is that policy outcomes, while often precipitated through federal government action, were clearly never intended. The biggest shift in private pension policy was the movement from defined-benefit to defined-contribution plans, particularly those of the 401K variety. The total number of assets invested in 401 K plans increased from \$276 billion in 1988 to \$616 billion in 1993. In addition the number of plans increased from 68,000 to 155,000 and the number of active participants also rapidly increased from 10 million to 23 million over the same five-year

¹⁴⁶ “The President’s News Conference, January 24, 1990,” Accessed <http://www.socialsecurity.gov/history/bushstmts.html#newsconf> January 30, 2010.

time span.¹⁴⁷ The 401K plans had their genesis as a policy tool from a Reagan IRS ruling. Between 1988 and 1994 they would become increasingly popular in the private sector. The federal government's response to the change in the private pension landscape was mainly reactive. When the federal became involved in setting policy, the end result was to dismantle defined-benefit pensions more rapidly.

ERISA, signed by Gerald Ford, probably paved the way for the surging popularity of defined-contribution pensions. A major purpose of ERISA was to secure funding for traditional defined-benefit pensions. Many companies found the funding provisions and associated paperwork tedious. The lure of 401Ks is that employees, at least in theory, controlled their pension savings. These were not well regulated and by embracing 401Ks, companies could be rid of the nuisance of defined-benefit pensions. There is some evidence that at least some employees preferred more control, particularly in an era when the corporate lifetime contract with the employee had been broken. Defined-benefit pensions only operated well for employees who stayed with a corporation for many years. Some thought the new era called for defined-contribution pensions.

The movement from defined-benefit pensions accelerated during the Bush years as an unintended consequence of an IRS initiative. In 1989, the IRS began investigating and fining companies that abused defined-benefit pension funds by over-funding them as a method not to report taxable income. There is difficulty in parsing which companies were culpable in attempting to consciously avoid taxes and those that simply became

¹⁴⁷ *Statistical Abstract of the United States 1997* (U.S. Department of Commerce, 1997), p. 382, Table 594. The source for this table is the EBRI Databook on Employee Benefits, Fifth Edition. Access Research, Inc. had a more conservative estimate of the total assets of 401K plans. That source suggests that in 1988 there was \$230 billion worth of 401K assets and in 1993 that had increased to \$475 billion. See *Ibid.*, p. 530, Table 824.

confused by defined-benefit regulations. According to the *Wall Street Journal*, however, a number of companies became tired and fearful of what they viewed as an over-zealous IRS and decided it best just to avoid offering defined-benefit pension plans altogether. According to Paula Calimafde, the president of the Small Business Council of America, "there's no question that small business is leaving the defined-benefit area. The IRS and Congress have put in lots of strange rules that have caused small businesses too many problems when designing their benefit plans."¹⁴⁸

Further, an ERISA creation, the Pension Benefit Guarantee Corporation (PBGC), a fund to cover partial defined-benefit pensions of retirees from companies that declared bankruptcy, was now operating deep in the red. Several large corporate bankruptcies, particularly in the airline industry, had left the fund in precarious state. A complaint about ERISA's mandate centered on a "stealth tax" siphoning cash from healthy companies to fund failed corporations pension promises in order to keep the PBGC solvent. Once again, a move toward eliminating corporate defined-benefit pensions was seen as a way to circumvent aspects of funding the PBGC.¹⁴⁹

At times the federal government enacted policy that favored further development of defined-contribution pensions. Employers who had tax-deferred status were allowed to create 401K plans through enacted legislation from 1994. Apparently, neither the administration nor members from the House or the Senate objected to this provision.¹⁵⁰

¹⁴⁸ O'Brien, Timothy L. "Many Firms Abandon Defined-Benefit Plans," *Wall Street Journal*, February 12, 1993, p. B1.

¹⁴⁹ Ferguson, Tim W. "When Washington Took Charge of the Pension System," *Wall Street Journal*, August 6, 1991, p. A17.

¹⁵⁰ Calmers, Jackie. "Tax-Simplification Bill Clears House; Social Security Measure also Passes," *Wall Street Journal*, May 18, 1994, p. A16.

Overall, however, the federal government was slow to react to the changing pension landscape. It was not until 1992 that the Labor Department issued detailed regulations about the management of defined-contribution pension plans.¹⁵¹ Certain members of Congress were aware of inherent dangers of 401K pensions, particularly from companies that funded such retirements mainly by offering the company's own stock as a major vehicle for employees to invest for retirement. Yet there was no consensus about what Congress should enact to safeguard employees from dangerous 401K pensions. Therefore, the federal government was largely passive.

401K pension plans do not owe their creation to the conservative intellectual infrastructure, however was seen in a positive light from that quarter. The conventional wisdom from think tanks was that as individuals became more comfortable with 401Ks, they would be more inclined to accept a change in government provided pensions. The private sector's involvement in pensions was still strong around 1990. Rhetorically, employees were given more "empowerment" to fund their retirements. On the other hand, some realized that most employees would not have the ability in order to save to the degree that more lucrative defined-benefit pensions paid out to retirees.¹⁵²

Another vehicle for retirement saving, Individual Retirement Accounts (IRAs), continued to surge in popularity. These accounts totally removed the employer from the

¹⁵¹ Saddler, Jeanne. "Pension Plans Face Fine-Tuning Due to New Rules," *Wall Street Journal*, October 9, 1992, p. 7A.

¹⁵² Ferguson, Timothy W. "If Empowerment has Left the Boomers Short . . .," *Wall Street Journal*, February 22, 1994, p. A21.

retirement contract. The already robust estimated \$455 billion worth of IRAs that existed in 1989 doubled to an estimated \$941 billion invested in IRAs in 1994.¹⁵³

In public pension policy, the Bush years marked the first spirited privatization proposals placed on the table by members of Congress. Yet Social Security reform through privatization was still far too radical an idea even around 1990 to be seriously considered by mainstream legislators. However, the elements were in place for Social Security reform to be seriously broached in succeeding years. The real movement in pensions occurred in the private sector with the growth of 401K plans as well as IRAs. Government policies and legislation probably made the private sector more eager to swiftly embrace defined-contribution pensions.

Conclusion

The period between 1988 and 1994 was of dynamism relating to the political life of the welfare state. An ambivalent President Bush allowed Democrats to usurp the Republican market agenda. A weakened Democratic Party was taken over by New Democrats whose domestic priorities looked quite similar to innovative Republican market-oriented policy. The Republican Party, once relegated to the minority, responded by shifting in an effort to contrast with the short-lived Democratic majority. The changed political dynamic reshaped social policy outcomes. Welfare and housing moved in a conservative direction with few liberals left defending traditional programs. National health insurance failed, essentially confirming the medical status quo. However, it must be stressed maintaining the status quo in health policy resulted in a changed political composition. Republican no longer cornered market policy, had become more

¹⁵³ *Statistical Abstract of the United States 1997* (Washington, D.C.: U.S. Department of Commerce, 1997), p. 381, Table 592.

antagonistic toward the Democrats, and through obstruction catapulted the party to a congressional majority.

Republicans had many new ideas for reorienting policy during these years. Pinkerton had assembled these ideas under the market rubric. The new Republican ideas included ending AFDC to encourage work, additional state waivers from AFDC, enterprise zones, housing vouchers, HOPE, medical savings accounts, an individual mandate for national health insurance, and private Social Security accounts resembling IRAs. Many centrist Democrats had now joined Republicans in enthusiasm for market-based policy. Even liberal Democrats, such as Charlie Rangel and Bill Bradley, agreed to go along with market policy in order to make some headway in building social policy.

Chapter 7: The New Welfare State Blossoms, 1995-2000

The 104th Congress which assembled in January 1995 featured New Gingrich (R-GA) wielding the Speaker's gavel. That sight, unimaginable two years previously, heralded a Republican ascendancy not seen in more than a generation. The GOP controlled both branches of Congress, a dynamic which had not existed in forty years.

The new majorities propelled change in the welfare state with a rapidity not seen in a generation. No longer were Republicans altering social policy at a tentative or plodding rate. The entire political establishment now confronted a robust GOP ready to reengineer the welfare state.

There were three overlapping elements of the Republican project to reconstruct the boundaries of social policy. The first was the familiar conservative ideal of retrenchment. Republicans commenced the 104th Congress hunting for New Deal scalps; they wished to obliterate or reduce funding for programs conceived in the 1930s and 1960s, during the heyday of Democratic dominance. Republicans faced daunting hurdles in the retrenchment request. Second they sought to recast existing programs with a market vision after failure to retrench. Boldness, perhaps even brazenness, characterized this Republican response. Republican succeeded in pulling the welfare state in an unambiguous market direction. The third component of how Republicans attempted to reshape the welfare state was expanding the scope of effort by injecting market mechanisms into new policy areas. Frontiers once deemed too perilous to cross were no longer considered forbidden terrain. The time had arrived where Republican ideas could no longer be shunted to the periphery. They were now at the locus of policy-making. The Contract with America both explicitly and implicitly suggested that Republicans,

once elected to the majority, were going to tackle social policy. Having campaigned on welfare reform in 1994, conservatives legitimately could claim they had a mandate to eliminate AFDC and overhaul low-income assistance policy. They accomplished this using the language of reform while maintaining in welfare a stealth federal presence that predetermined the direction change took. Low-income housing proved better able to deflect calls to dismantle programs. This was possible because housing assistance often conformed to principles associated with markets, thus serving as a protective shield. Conservatives continued to foster ideas for reforming housing policy, demonstrating the fertility of this policy arena for Republican domestic innovation.

In the aftermath of the 1994 elections, even entitlement reform seemed both advisable and feasible. Instead of expanding health insurance access for the uninsured, Republicans concentrated their efforts on rebuilding Medicare and Medicaid into market-friendly enterprises while attempting to rein in costs. Public pensions, long a domain that mainstream Republicans tolerated, no longer appeared as an unassailable “third rail.” Under the cover of reports delivered from commissions and the undeniable transformation of the private pension marketplace under the auspices of federal oversight, Republicans poised themselves to overhaul Social Security.

The Republican success in guiding the politics of the welfare state away from New Deal and Great Society moorings happened with Democratic assistance. The market meta-narrative had triumphed across a vast ideological spectrum. At the same time, paradoxically, a heated partisan environment forged social policy outcomes where short-term electoral incentives and jockeying for political advantage controlled the contours of the new welfare state. Thus, the Democratic Party, articulating the

conventional narrative, attempted to portray their adversaries in simplistic terms. Democrats charged that Republicans aimed to shred social protection. However, while the volley of partisan fusillades dominated newspaper headlines, Democrats and Republicans, when legislating reforms, reached a *modus vivendi* at several points. The consistent outcome of the partisan truces was to shift elements of social policy in a market direction.

The Contract

Gingrich nationalized the 1994 elections by uniting most House Republican candidates around the ten point Contract with America. This document, unveiled on the Capitol steps on September 27, 1994 was a poll-tested collection of popular conservative campaign themes that avoided both divisive wedge issues and details of the means to achieve difficult pledges. The most far-ranging tenets of the Contract relating to the welfare state were a proposal for radical welfare reconstruction and a promise to balance the federal budget within seven years (by FY 2002) with an attempt to enact a balanced budget Constitutional Amendment.¹

The Contract was a campaign device, not an ecumenical philosophical guide or policy primer. Gingrich came closer to articulating a comprehensive governing manual grounded on the Contract in his book *Renewing America*. While assessing all four of the policy areas surveyed in this dissertation, most of Gingrich's thoughts revolve on welfare itself. He writes in detail about its endemic legacy of failures. To combat policy laden with such perverse incentives, Gingrich proposes antidotes of work requirements, devolution, and measures aiming to reduce illegitimacy in order to create a "caring"

¹ "Republican Contract with America," September 27, 1994, accessed at <http://www.house.gov/house/Contract?CONTRACT.html> February 26, 2010.

rather than a “caretaker” society. Notably absent from his prescriptions is direct discussion of welfare retrenchment.²

Other policy areas receive comparably opaque treatment from Gingrich. Housing receives little attention, with Gingrich mentioning the merits of enterprise zones, tenant management, and tenant ownership opportunities.³ Rental assistance vouchers are not mentioned, an indication that perhaps some Republicans were ready to deemphasize formally preferred policy. Gingrich spends a chapter discussing market-oriented approaches to health care.⁴ He is at his most elliptical discussing Social Security and Medicare. He promises to preserve both programs while balancing the budget, with his discussion on Medicare especially perfunctory.⁵ *The Contract with America*, written with an emphasis on reform, gave only hinted that retrenchment would be necessary in order to balance the budget in seven years. Gingrich was equally reluctant to trumpet the virtues of markets in pension policy.

Battles over retrenchment were the key element animating the partisan battles of the 104th Congress. After Clinton’s reelection in 1996, encompassing the 105th and 106th Congresses, the focus shifted to primarily promoting and expanding market mechanisms in social policy. The rate and success of Republican efforts were uneven; yet movement toward a market paradigm appeared in all these policy areas.

WELFARE

Low-income assistance policy underwent a profound transformation during the mid 1990s. Republicans voted in near lockstep to eliminate the entitlement AFDC.

² Gingrich, Newt. *To Renew America* (New York: HarperCollins, 1995), pp. 71-85.

³ *Ibid.*, pp. 80-82.

⁴ *Ibid.*, pp. 167-176.

⁵ *Ibid.*, pp. 87-99.

Leading up to the final votes for the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA, HR 3734) were a series of contentious debates. Most Republicans supported the legislation and the House and Senate Democratic caucuses divided on whether to vote for PRWORA (Table 7.1).

Table 7.1: PRWORA VOTES (HR 3734)⁶

Votes	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
#1	226	4	30	165	256	170
#2	230	2	98	98	328	101
#3	51	1	23	23	74	24
#4	53	0	25	21	78	21

Vote #1: Final House Passage of PRWORA, July 18, 1996

Vote #2: Final House Adoption of PRWORA Conference Report, July 31, 1996

Vote #3: Final Senate Passage of PRWORA, July 23, 1996

Vote #4: Final Senate Adoption of PRWORA Conference Report, August 1, 1996

Clinton, who vetoed welfare reform as part of larger bills twice, chose to sign the legislation despite misgivings. By signing PRWORA, Clinton complied with the biggest change in welfare policy since the 1935 Social Security Act. On one level, the abolishment of AFDC and the creation of Temporary Assistance to Needy Families (TANF) is the most dramatic symbol of retrenchment in the politics of the modern American welfare state. This section aims not to overturn that interpretation, but rather to provide additional context from two perspectives that fit the broad arc of this narrative.

First, Republicans promoted welfare reform as an initiative that would improve social policy. Clearly many observers, and not just Republicans, thought the current

⁶ Sources: Vote #1: Vote #331, p. H-108; Vote #2: Vote # 383, p. H-124; Vote #3: Vote #232, p. S-42; Vote #4: Vote #262, p. S-46.

system broken and that conservatives could improve on the status quo through legislating a major overhaul. Second, the GOP used the language of devolution throughout this period. However, there were significant limitations to the triumph of federalism. Despite the rhetoric, Republican politicians in Washington D.C. decided to manage the direction of reform and circumscribe state innovation. Therefore, the principles of building a Republican welfare state, under federal supervision, appear through the prism of the PRWORA legislation. Conservative legislators would not welcome state deviation.

Chapter 6 reviewed the Democratic embrace of the EITC. Republicans reacted by re-evaluating their support for the program. While the EITC was consistent with the principles undergirding the Republican welfare state, the new partisan dynamic changed the Republican political calculus. It had, admittedly, grown beyond the parameters originally conceived of by Republicans. Yet some conservatives went further, blasting the EITC as a hidden welfare program, rife with fraud. The first calls for retrenchment surfaced in the program's history. However, the EITC proved more difficult to castigate than AFDC. The EITC escaped radical retrenchment, suffering only minor cutbacks. This is evidence that programs attuned to Republican core principles had a better chance to survive than those whose origins are associated solely with Democrats.

PRWORA is one of the most analyzed events in American social policy.⁷ Nonetheless, too often scholars analyze welfare reform in terms of the traditional argument that Republicans aim to dismantle the welfare state. In order to affirm the retrenchment motif, scholars have often dismissed Republican rhetoric about welfare

⁷ See the indispensable books by Weaver, R. Kent. *Ending Welfare as We Know It* (Washington, D.C.: Brookings, 2000) and Haskins, Ron. *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, D.C.: Brookings, 2006).

reformation as nothing but bluster. On the other hand, these same scholars accept the stated Republican interpretation that responsibility for welfare programs would devolve to the states. I argue that the first Republican claim needs to be given more credence and that observers should be wary in accepting the second point.

Republican Rhetoric

Many Republicans believed, as had wide swaths of the public (not to mention New Democrats), that AFDC had failed. They hoped to offer the poor a better bargain that would enhance opportunity. To reshape the status quo, Republicans supported using of the proverbial “stick,” since the benign “carrot” approach had failed. During the entire welfare debate, Republicans consistently cloaked their proposals in the language of reform, with expenses a secondary consideration. Some scholars have dismissed these consistent Republican arguments as nothing but a euphemism for retrenchment. Certainly some provisions of PRWORA, such as the inflexibility of the maximum level of the block grant delivered to states and time limits on individual benefits, certainly support the traditional view of retrenchment.

Nonetheless, many observers argued that PRWORA was a major success in reshaping welfare. According to these sources, TANF is a tale about successful reform, not retrenchment. One Republican Ways and Means staffer, Ron Haskins, has written an entire book celebrating the success of TANF.⁸ He believed his unwavering support for the legislation vindicated over the long-term. Of course, it becomes very difficult to parse what members of the Republican caucus thought when considering the PRWORA legislation as a measure of retrenchment or reform. There were obviously varying

⁸ Haskins 2006.

perspectives within the party. However, in public, all Republicans focused on the remodeling rather than the retrenchment angle.

Congressional Republicans exhibited discipline by staying on message during the totality of the welfare hearings. For instance, the Chair of the Subcommittee on Human Resources of the Ways and Means Committee, Clay Shaw (R-FL), opened the hearings on January 13, 1995 with the following statement.

Republicans intend to revolutionize the system from top to bottom. In doing so, we will pursue two broad goals: We will protect the needy. We will also protect the taxpayer. Make no mistake about it—nothing could be crueller than the welfare status quo . . . Welfare in America today does not give people a sense of personal responsibility. Welfare in America today does not create moral values that unite families as they move up the ladder of opportunity.”⁹

The rest of the hearing of this subcommittee and other House committees focused on the message that the New Deal/Great Society version of welfare hurt rather than helped the impoverished and Republicans had a viable alternative which would not increase the deficit. These hearings intended to prove how high-spending Democrats failed to halt the “culture of dependency”—indeed helped create that monstrosity—and how Republicans would solve this problem. The remedy included not letting chronic welfare dependency develop, reduce illegitimacy, devolution, and the promotion of work values. While it is an open question whether the Republicans were correct in their assertions that their policies would help the poor, these claims are not a policy ruse. A belief in their reform package seems to have kept Republicans on track throughout the hearings.

⁹ Shaw, Clay. “Contract with America—Welfare Reform,” *Hearing before the Subcommittee on Human Resources of the Committee on Ways and Means: Part 1*. January 13, 1995, p. 7.

Senator Robert Packwood (R-OR) offered rebuttals to Democratic charges that mean-spirited Republicans wished to retrench. He claimed that the welfare reform package “is drawn more by the desire to experiment, to innovate, and the frustration that what we’re doing isn’t working. I find that a much greater drive here than the budget.”¹⁰ Senator Rick Santorum (R-PA) explained at Senate Finance Hearings that “we did not sit down and look at welfare as how we can cut money from the welfare program or how we can save money to reduce or balance the budget.” He said Republicans were committed to developing an “action plan to eliminate or alleviate poverty in this country.”¹¹

There was little deviation in Republican rhetoric from these themes with the exception of the promise of devolution. While congressional Republicans abstractly favored a greater role for the states, in practice they were hesitant to empower the governors. Republican members of Congress wanted the states to take responsibility for welfare provision, but not stray from policy prescriptions derived in Washington. The governors hoped to have free rein. The Republican Congress structured incentives in TANF so that states had to follow certain work requirements and illegitimacy provisions. Experimentation in ways not approved of by Republicans in Washington would prove nearly impossible for states. Further, Republicans expressed skepticism at allowing the AFDC waiver projects approved before PRWORA to continue since they had provisions conservatives were reluctant to endorse.

The Federal Locus

¹⁰ Carney, Eliza Newlin. “Taking Over.” *The National Journal*, June 10, 1995, pp. 1,382-1,387, 1,383.

¹¹ Santorum, Rick. *Welfare Reform Wrap-Up: Hearing before the Committee on Finance, United States Senate, 104th Congress, 1st Session*. April 27, 1995, p. 15.

Despite rhetoric, the devolution advanced in PRWORA is heavily qualified. TANF only allowed reform to proceed in a single direction; it is not a free pass for states to innovate how they wish. In order to qualify for federal money (a portion of a \$16.5 billion annual block grant) states had to conform to TANF regulations.¹² Thus, Republicans proscribed the direction of reform in a narrow conservative direction. Federal policymakers wanted to make sure that all states would uphold welfare policy that did not subvert efforts approved by the framers of PRWORA. So while Republicans spoke in the language of autonomy for states and the virtues of devolution, in some respects this rhetoric was misleading.

Under the AFDC waiver process during the Reagan and Bush years, states had become the laboratories for reform efforts, particularly those with Republican governors. The question was how the dynamic would play out with Republicans now in charge in Congress. The Republican governors interested in welfare reform hoped that the coming of a Republican Congress would allow the states to run programs as they saw fit. The governors did not mince words. Tommy G. Thompson (R-WI), a governor noted for welfare innovation blasted the “arrogance of the monolithic power structure in Washington, D.C. . . . these people in Washington who have screwed up the system so badly now think that they are the ones that can fix it.”¹³ Another governor, John Engler (R-MI), offered even more pointed testimony in front of the House Subcommittee on Human Resources. He opined, “First get Washington out of the way. Conservative

¹² “Temporary Assistance For Needy Families Program (TANF): 8th Annual Report to Congress,” U.S. Department of Health and Human Services, p. v. Accessed <http://www.acf.hhs.gov/programs/ofa/data-reports/annualreport8/ar8index.htm>, April 2, 2010.

¹³ Quoted in Carney, June 10, 1995, p. 1,382.

micromanagement is just as bad as liberal management. States must have the freedom with no strings attached to implement change.”¹⁴

Congressional Republicans often praised the merits of devolution, seeming to align themselves with the governors. Liberal observers, even those very close to the issue, followed in accepting the supposition that states would be given *carte blanche* power to operate welfare as they saw fit. Peter Edelman, a HHS appointee who resigned in protest when Clinton signed PRWORA, lamented that states “can now do anything they want.”¹⁵

Gingrich delivered a message for an audience of governors that was pleasing to those ears. At a retreat for state executives in Williamsburg, Virginia on November 22, 1994, Gingrich commented, “We can’t be here suggesting the social engineering of the right will be more clear than the social engineering of the left. After the meeting he told a reporter, “this is the meeting which crystallized getting power out of Washington.”¹⁶

Despite the oratory, while PRWORA delegated more responsibility for welfare at the state level, it failed to give states much discretion in how to operate TANF. The Republican congressional rank and file took control of the drafting of the welfare reform bill away from the governors. At a meeting on December 2, 1994 Shaw told the Republican governors that the congressional Republicans would control welfare reform. Shaw’s position was more than staking out territory. Social conservatives feared that governors would deliver a tepid version of welfare reform. As Ron Haskins, a

¹⁴ Engler, John. “Contract with America—Welfare Reform”, *Hearing*. January 13, 1995, p. 11.

¹⁵ Edelman, Peter. “The Worst Thing Bill Clinton has Done,” *The Atlantic Monthly*, March 1997, pp. 43-58, 49.

¹⁶ Balz, Dan. “GOP Governors Tell Hard Choices Follow Power,” *The Washington Post*, November 23, 1994, p. A14.

Republican staffer, acknowledges, social conservatives *were* fully intent to engage in social engineering despite Gingrich's assertion. The Speaker had momentarily angered social conservatives with his comment to the governors. The GOP caucus then had to pay special attention not to alienate social conservatives which meant keeping the locus of decision-making at the federal level. Shaw succeeded in correcting Gingrich's statement and assuaged the governors by promises of open communication with them.¹⁷

Remarks from senators in Senate Finance hearings demonstrated the congressional reluctance to trust the states. Senator Hank Brown (R-CO) stated, "We in Congress should not abdicate our responsibility. [We must ensure] a welfare system that truly requires work from all recipients, reduce illegitimate births, and operates efficiently . . . I strongly disagree with those who advocate a block grant that resembles little more than a blank check to the states from the U.S. Treasury, no questions asked." Brown complained that the federal role would decrease "to little more than a tax agency for the states . . . without accountability." Brown likened the state governors who advocated total state flexibility as participating in the "big government culture" by aiming to "throw money at the problem and hope it goes away."¹⁸ The irascible Lauch Faircloth (R-NC) joined in the critique suggesting that if the states wanted welfare reform turned over to them to operate, they should "raise all the money."¹⁹ Devolution seems the only area of the welfare proceedings where the Republican message lacked consistency. In all probability the lack of coherence about federalism was because the Republicans wanted to articulate one message while enforcing a contrasting policy.

¹⁷ Haskins, 2006, pp. 94-98.

¹⁸ Brown, Hank. *Welfare Reform Wrap-Up*, April 27, 1995, p. 14.

¹⁹ Faircloth, Lauch, *ibid.*, p. 17.

The comments from Brown and Faircloth showed qualified support of devolution. States could have more responsibility to operate day-to-day activities of welfare clients, but not have the discretion to formulate the aims or main contours of TANF. Federal policy would proceed in a conservative manner, with little space for additional innovation from states.

State flexibility under TANF, therefore, is “uni-directional.”²⁰ Experimentation with parsimonious, or punitive, welfare reform received approval in the legislation. On the other hand, states that wish to provide for more leniency or “compassion,” faced stiff federal sanctions. Figure 7.1 summarizes some of the federal mandates that states had to abide by in order to be eligible for federal assistance.

Figure 7.1: Federal Mandates on State Welfare Programs under TANF

- Maximum recipient eligibility of five years.
- Any support funded through TANF, including educational benefits, skills assistance, and heating for homes, must count toward the five years.
- TANF requirements allowed exemptions for a maximum of twenty percent of caseloads.
- Illegal aliens are barred from receiving assistance.
- Legal aliens cannot qualify for food stamps or SSI. Thus, unless the states choose to use their own funds, legal aliens are disqualified from receiving Medicaid.

²⁰ Titles III and IV of PRWORA detail most of the restrictions that states face. The following chart (as well as the term “uni-directional flexibility” is derived from Hoke, Candice. “State Discretion Under New Federal Welfare Legislation,” *Stanford Law & Policy Review* (Vol. 115, Winter 1998), pp. 123-130. Hoke is the first, and so far only, academic that I can identify whose central argument is that federal mandates in TANF limited the powers of the states.

- A parent receiving TANF must work within 24 months.
- States must design programs to decrease the number of out-of-wedlock births.
- Only certain types of educational activities are considered valid for “working” purposes.
- Programs to reduce statutory rape must be included.
- Minors must go to high school or live in adult supervised settings.
- States must comply with other states and the federal government to collect child support.
- States must reduce or terminate assistance for individuals who do not fully comply with child support provisions.
- States must describe how previous AFDC waivers are “incompatible” with the provisions of TANF.

The above points are a partial listing of federal restrictions. States received a large amount of federal guidance in structuring welfare reform. States that did not acquiesce risked unaffordable financial penalties.

One issue that PRWORA brought to the fore and not considered until late in the legislative process was how earlier state waivers should be treated. The governors, despite congressional Republican misgivings, lobbied for waivers to take precedence over TANF, and in this instance were successful.²¹ The issue became contentious when the Clinton administration approved a waiver for Washington D.C. three days before the

²¹ Haskins, 2006, p. 317.

president signed PRWORA. Conservatives seethed that Clinton was complicit in a run around from TANF provisions since the waiver had terms more lenient than those found in TANF. Senator Don Nickles (R-OK) introduced legislation that would prevent Washington D.C. from circumventing the five-year maximum length of benefits. He accused the president of “doublespeak.”²² In the midst of an outburst of furor among conservatives, the Clinton administration backtracked and made the unprecedented move of withdrawing the district’s proposed waiver, resolving that issue.²³

Republicans had continued misgivings about waivers that granted in previous years which had provisions that differed from TANF. Shaw was adamant that states abide by the wishes of federal policymakers of the 104th Congress, even if their waivers granted welfare reform that seemed radical by previous standards. Shaw especially wanted to force compliance with the work regulations of TANF. “We need to review [the waivers] and see how far out of sync the states are,” he said. “If they’re out of step, we may want to pass legislation to tighten up so they come into conformity.” Shaw said the work requirement was “paramount.” States such as Arizona and Texas had waivers that were more generous than TANF regarding educational attainment and labor force participation. Even Connecticut, which intended to pass restrictive legislation fell afoul the work requirements. Shaw’s intention was probably to give warning that states should not deviate from the principles of TANF to any great degree or find themselves under investigation.²⁴

²² Nickles, Don. “Who’s the Fraud?” *The Washington Post*, October 4, 1996, p. A23.

²³ Havemann, Judith and Cindy Loose. “U.S. Withdraws Waiver for D.C. Welfare Plan.” *The Washington Post*. September 20, 1996, p. A1.

²⁴ Serafini, Marilyn Werber. “Waivering,” *The National Journal*, January 11, 1997, pp. 66-68.

One liberal, Jan VanTassel, the executive director of the Legal Assistance Resource Center recognized the inherent contradiction with the rhetoric of devolution. She said, “I find it a little hypocritical that Congress claims it’s giving flexibility to the states but ties their hands as to how they can carry out the reforms.”²⁵ The passage of time eventually resolved the issue of AFDC waivers. All the demonstration projects ended after ten years and the states then had to comply with the strictures legislated under PRWORA.

Welfare policy changed dramatically in 1996. This episode, while fitting into the retrenchment narrative, is also consistent with the thesis that Republicans were imagining and attempting to implement a welfare state. Further, this is distinct from a belated rendition of Nixon’s and Reagan’s promise for New Federalism. Republicans at the national level kept watch over welfare reform, discouraging unapproved state innovations.

AFDC proved vulnerable when compared to the more durable EITC. Although the EITC no longer received bipartisan approbation and received its share of calls for retrenchment from some Republican legislators, it survived. One important reason is that the values undergirding the EITC were harder to characterize as perverse, a contradiction to the principles sustaining the Republican vision of the welfare state.

The EITC

The Republican Party turned on the EITC with a vengeance in 1995. In part, this is probably because Clinton had become such a strong proponent of the program. Also,

²⁵ Ibid., p. 67.

conservatives, desperate to balance the budget, saw the EITC as an inviting target. The tax credit once championed by Reagan had lost its luster for conservatives.

Nickles charged the EITC was “basically an income redistribution scheme that this Administration has greatly expanded, in my opinion, without really looking at its costs.”²⁶ He argued that it was “the most out of control entitlement we have.”²⁷ He thought the credit created work disincentives. Nickles suggested the poor “might start working their incomes to maximize their benefits.”²⁸ Senator Bill Roth (R-DE) argued that the EITC is a “boon for tax cheats and rip-off artists.”²⁹ The suggestion that many taxpayers claimed the credit fraudulently became a central component of Republican calls for retrenchment. Phil Gramm (R-TX) summed up the new attitude by dismissing the EITC as “just welfare, it’s a subsidy.”³⁰ This sort of rhetoric (although substantiated with only limited data) helped prepare the way for Senator Judd Gregg (R-NH) to propose a plan to reduce total expenditures for the EITC by \$27 billion over five years, mainly through freezing benefits to not compensate for inflation.³¹

In February 1995 Dick Armey (R-TX) had voiced measured support for the EITC and Thomas Petri (R-WI) thought that Republicans were becoming too aggressive in targeting the EITC. However, their voices were in the minority among the party. It was

²⁶ Purdum, Todd S. “Clinton Defends Income Tax Credit Against G.O.P Cut,” *The New York Times*, September 19, 1995, p. A18.

²⁷ Hunt, Albert R. “The GOP on the Working Poor: Let them Eat Cake.” *The Wall Street Journal*, September 28, 1995, p. A.

²⁸ Brasher, Keith. “Panel Sees Merit in Earned-Income Tax Credit,” *The New York Times*, June 7, 1995, p. A22.

²⁹ Hunt, “The GOP”, p. A.

³⁰ Ventry, Dennis J. Jr. “The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969-1999.” More.

³¹ Harper, Lucinda. “Tax Credit for the Working Poor that was Hailed by Reagan is now on GOP Budget-Cut Hit List,” *The Wall Street Journal*, May 9, 1995, p. A22.

left to the Democrats to make the case that Republicans were destroying a work incentive for the poor and acting the role of Robin Hood in reverse, robbing the poor to give tax breaks to the wealthy. Leon Panetta, the chief of staff, said the GOP was collectively behaving as “Marie Antoinette.”³²

The counter-offensive proved successful. Clinton vetoed the BBA 95 citing the EITC as a rationale. As part of PRWORA, Republicans succeeded in making minor adjustments in reducing the EITC. They tried to reduce funding for the EITC again in 1997, but abandoned that position at the request of Clinton.³³ Hearings in both the House and Senate became vehicles for Democrats to dramatize the suffering of low wage earners that would result if the EITC fell to budget-cutters. They also made the point that the program had until recently enjoyed widespread Republican support.³⁴

With the improvement of the budget outlook and the decline of the most strident elements of the Republican Revolution, calls to reduce the EITC weakened. Candidate George W. Bush in 2000 said, “I don’t think they ought to balance their budgets on the backs of the poor.”³⁵ The EITC, despite heavy criticism, remained in place in the 21st century, having survived retrenchment threats. The fortunes of the EITC mirrored the dynamics involved in low-income housing policy.

Conclusion

³² Ibid.

³³ Howard, Christopher. *The Welfare State Nobody Knows* (Princeton, NJ: Princeton University Press, 2007), p. 100.

³⁴ See the “Earned Income Tax Credit,” *Hearing before the Subcommittee on Oversight and the Subcommittee on Human Resources of the Committee on Ways and Means* 104th Congress, 1st Session, June 15, 1995 and “Earned Income Tax Credit,” *Hearing before the Committee on Finance* 104th Congress, 1st Session, June 8, 1995.

³⁵ Quoted in Zuckerman, Mort. “A Nation Divided.” *Jewish World Review*, October 14, 1995, accessed at <http://www.jewishworldreview.com/mort/zuckerman101499.asp> April 1, 2010.

Welfare reform, while superficially the best example of retrenchment available, also demonstrates patterns supporting the Republican welfare state thesis. This section has provided caveats to avoid conceiving welfare reform as an unambiguous example of simple retrenchment. Therefore, while retrenchment and devolution are part of PRWORA, both factors are overstated by scholars and policymakers who view welfare reform in terms of the binary offered by the conventional narrative of the welfare state. Republicans consistently defended their welfare reforms as helping to lift the poor out of dependence. Further, Republican promises about returning power to the states fail to withstand scrutiny.

Low-income housing policy involved dynamics similar to those of the EITC rather than AFDC. This was remarkable because low-income housing helped not the “worthy” working poor, but rather a similar clientele served by AFDC.

HOUSING

Low-income housing policy presents a puzzle. Its recipients overlapped with those who qualified for AFDC benefits. They were a constituency with little political clout and often viewed with suspicion by mainstream America.³⁶ Yet outcomes in low-income housing policy had not changed significantly at the end of the Clinton administration when compared to the outset. It proved resilient, diverging from welfare policy. The rhetorical saber rattling emanating from conservatives failed to eliminate any major housing program or the Department of Housing and Urban Development (HUD).

³⁶ Bartels provides evidence that in recent decades, individuals whose income are in the bottom third of the income distribution have no clout with voting patterns of federal legislators in either party. Almost all public housing residents fit in this income category. See Bartels, Larry M. *Unequal Democracy: The Political Economy of the New Gilded Age* (New York: Russell Sage, New York, 2008).

One explanation why housing policy emerged relatively unscathed credits the political savvy of Clinton's HUD secretaries Henry Cisneros and Andrew Cuomo.³⁷ They exhibited nimbleness, however, in part because they had advantageous assets. There are an array of market-friendly policy options developed by free-market Republicans that had proven viable in this area. At the forefront were housing vouchers and enterprise zones. Cisneros wisely tapped into the market meta-narrative in his efforts to defend HUD and low-income housing policy from both the Republican Congress and an ambivalent Clinton administration.³⁸ Thus, the appeal of the Republican welfare state helped preserve funding for a policy area with an impotent constituency, no powerful supportive interest groups, and held in low esteem by the public.³⁹

The obliteration of a federal commitment to housing policy seemed possible after the Republican takeover of Congress in 1994. A number of Republicans called for the outright termination of HUD in 1995 and 1996. The besieged HUD secretary, Cisneros, fought back by abandoning all commitments to traditional housing programs and fully embraced Republican-inspired vouchers. Cisneros echoed what Richard Nixon had proposed twenty years earlier should serve as the framework for housing policy. Between 1995 and 1998 rifts emerged within both the Democratic and Republican caucuses as demonstrated by the futile attempts to legislate a major housing overhaul.

The stalemate ended in 1998 when a hybrid bill, the Quality Housing and Work Responsibility Act of 1998, passed which Republicans could tentatively trumpet as the

³⁷ See, for instance, Peirce, Neal R. "Cisneros Finishes A Class Act at HUD," *National Journal*, January 18, 1997, p. 130.

³⁸ Weisman, Jonathan. "True Impact of GOP Congress Reaches Well Beyond Bill," *Congressional Quarterly Weekly*, September 7, 1996, pp. 2,515-2,520, 2,515.

³⁹ For the collapse of public interest in housing policy, see DeParle, Jason, "Slamming the Door," *The New York Times*, October 20, 1996, Section 6, p. 52.

second half of welfare reform. Additional legislation in 2000, the Community Renewal and New Markets Act of 2000, cemented the Clinton and Republican Congress' housing legacy. Politicians portrayed these pieces of legislation as revolutionary. In actuality they carried forward prior commitments intensifying the use of market mechanisms in housing policy.

At the turn of the millennium, low-income housing remained a policy area generating conservative proposals. Bush burnished his credentials as a compassionate conservative by reemphasizing low-income housing policy with ownership and savings initiatives for the poor in the lead up to the 2000 election. Housing policy demonstrated that Republicans had a viable domestic policy perhaps equal to the task of supplanting the New Deal and Great Society.

Limited Retrenchment

Low-income housing had few friends when Republicans captured Congress. In 1994, a panel of the National Academy of Public Administration found HUD so rife with corruption and inefficiencies that it proposed shuttering the department within five years absent reforms.⁴⁰ Within months it seemed possible that HUD might not even have five years of grace. A group of Republican House freshman in February 1995 demanded the elimination of the agency. Senate Majority Leader Robert Dole (R-KS) concurred; leveling the charge that HUD, along with the departments of Energy, Education, and Commerce were “overfunded, overstaffed, and resoundingly unnecessary.”⁴¹

⁴⁰ Peirce, Neal, R. “Cisneros Finishes a Class Act at HUD,” *National Journal*, January 18, 1997, p. 130.

⁴¹ Wines, Michael. “GOP Senators Would Kill 4 Agencies and Slash Benefits,” *New York Times*, March 11, 1995, p. B1.

Residents of public housing were among the poorest of the poor. The average annual income of families participating in public housing programs was \$6,228 in 1994, a mere 16 percent of the national median family income of \$39,900.⁴² Those Democrats keen to represent the poor's interests were now in the minority. No Republican member of Congress had a significant public housing constituency to appease. The public was apathetic about housing issues. Republicans had run on the balancing the budget. Low-income housing offered some of the easiest targets to slash without political repercussions.

It is unsurprising that prominent on the Republican list for eliminating deficits was to reduce funding for public housing and abolish HUD. One of the chief Republican antagonists, Senator Faircloth, lambasted HUD and low-income housing policy on numerous occasions. For instance, when Cuomo attempted to generate enthusiasm about long-term reforms at HUD by launching a project envisioning the agency in 2020, Faircloth retorted, "I believe [this] should be HUD's last management hearing. I hope HUD doesn't think it is going to exist until the year 2020."⁴³ Republican calls for dismantling HUD continued during the 1996 campaign. The party's platform called for eliminating the department with the proviso that "core [HUD] functions will be turned over to the States."⁴⁴

Not only did the Republican Congress call for the termination of HUD, for FY 1996 they rescinded a third of HUD's operating budget in order to help meet deficit

⁴² Stanfield, Rochelle L. "Vouching for the Poor," *National Journal*, May 6, 1995, pp. 1,094-1,098, p. 1,095.

⁴³ Stanfield, "Cleaning," p. 1,361.

⁴⁴ Republican Party Platform of 1996, August 12, 1996. *The American Presidency Project* [online] accessed at <http://www.presidency.ucsb.edu/ws/print.php?pid=25848> accessed March 21, 2010.

targets. Despite persistent calls for replacing Democratic programs with vouchers, Congress did not authorize new vouchers for four years after the Republican takeover. This was the longest fallow period since the inception of the permanent voucher program in 1986.

The worst of the budget cuts for HUD occurred in 1995. After that year, budgets generally rose and after the 1996 elections the persistent call for abolishing this agency ceased (see Table 7.2). Even John Kasich (R-OH), a budget hawk, soon reneged on calls to eliminate HUD, focusing his targets on the Commerce and Energy Departments.⁴⁵ HUD weathered the storm of the Republican Revolution and remained ensconced within the federal government. It proved more durable than its critics.

Table 7.2: ANNUAL HUD OUTLAYS 1995-2000 (in billions of dollars)⁴⁶

Year	Outlays (in billions of dollars)
1995	\$ 29.0
1996	\$ 25.5
1997	\$ 27.5
1998	\$ 30.2
1999	\$ 32.7
2000	\$ 30.8

⁴⁵ Stanfield, Rochelle L. "Cleaning House," *The National Journal*, June 13, 1998, pp. 1,360-1,363, 1,361.

⁴⁶ Sources: *Statistical Abstract of the United States 1997*, p. 336, Table 520; *Statistical Abstract of the United States 1999*, p. 350, Table 547; *Statistical Abstract of the United States 2002*, p. 306, Table 462.

When institutions persist, political scientists often describe them as “sticky.” Yet HUD did not have the advantage of creating a powerful constituency or public support making it difficult to downsize. In the face of calls for retrenchment, the explanation for how housing policy remained resilient is that it proved an elusive target. When Cisneros resorted to promoting Republican innovations, particularly vouchers, he managed to split the Republican opposition. Congress became factionalized in regards to housing policy. Finally, only in 1998 did a rhetorical formula emerge that allowed for the enactment of two significant pieces of housing legislation by the end of the twentieth century.

Policy Flux: 1995-1998

Clinton reviewed with interest Republican ideas for housing policy, especially enterprise zones and vouchers, from the outset of his administration. In what was most likely a strategic calculation, after the 104th Congress assembled in 1995, Cisneros and Clinton abandoned any pretense of incorporating conventional Democratic policies in proposed legislation. They suggested a radical overhaul of housing policy through conversion of the program into a voucher system to take full effect within six years. The gist of the plan, entitled “the blueprint,” would enable HUD to distribute funds to local authorities for tenant vouchers. The tenants could stay in current housing or move to rent dwellings in private residences.⁴⁷

Cisneros was attempting to preserve HUD by compromising the agency’s Democratic heritage. Housing vouchers, a concept first promoted by a Republican Senator, Edward Brooke, adopted by Nixon, and championed by Reagan were the quintessential GOP domestic program. Cisneros’ promise to refurbish HUD by

⁴⁷ Stanfield, “Vouching,” p. 1,095.

capitulating conventional housing policy and delivering a Republican product in large part seemed a successful strategy. He disarmed the Republicans who were demanding the abolishment of the agency. Instead, a cacophony of competing voices among Republicans gave diverging assessments about voucher policy, and ultimately, the future of HUD.

Pleasing some traditional Republicans, such as Jim Leach (R-IA), was the renewed emphasis on vouchers. He praised them as both “cost-effective as well as compassionate” in debate on the House floor on May 8, 1996.⁴⁸ Rep. Rick Lazio (R-NY), Senator Christopher “Kit” Bond (R-MO) had to balance competing demands of members who wish to terminate HUD and those attracted to federal Republican housing innovations.⁴⁹ This led to some guarded comments concerning vouchers. Lazio proclaimed, “I’m not less committed to vouchers” than the Democrats, however, “I think [vouchers] are a good idea for situations in certain areas . . . I am more cautious than the Administration is.” Bond repeated the theme: “It’s not to say that vouchers wouldn’t work. But I’d like to test them in [different kinds of] of communities first.”⁵⁰

The Clinton administration and the Republican Congress had reversed the tradition of housing voucher politics. In 1973, Nixon and the Republican administration had called for a housing moratorium and declared vouchers the solution to low-income housing. The Democratic Congress was wary, worried that vouchers would not operate well in a tight housing market and relegated the concept to demonstration projects. Fast-

⁴⁸ Stanfield, Rochelle L. “Communities Reborn,” *The National Journal*, June 22, 1996, pp. 1,370-1,374, 1,372.

⁴⁹ Lazio chaired the House and Community Opportunity Subcommittee of the Committee on Banking and Financial Services. Bond chaired the Subcommittee on Transportation, Housing and Urban Development of the Senate Appropriations Committee.

⁵⁰ Stanfield, “Communities Reborn,” June 22, 1996, p. 1,373.

forwarding 22 years to 1995, it was now a Democratic administration calling for a wholesale voucher program. The Republican Congress offered the caveats. Lazio mentioned the issue of tight rental markets and Bond echoed the Democrats of over twenty years earlier in calling for a demonstration trial project. Of course, Bond's suggestion bordered on the farcical since there had been numerous pilot demonstration projects completed during the previous two decades. Copious analyses on the efficacy of housing vouchers in numerous metropolitan markets littered the shelves of academic libraries.⁵¹ In all probability, Bond made the suggestion because he wanted to offer rhetorical support for vouchers without committing funds for widespread implementation.

Some thought Cisneros' recommendation a deception. The lack of specificity in the blueprint was one signal. Robert L. Armstrong, the president of the Omaha Housing Authority claimed, "HUD's blueprint is designed to save HUD, not to make the programs better."⁵² At hearings before the House Subcommittee on Housing and Community Development, Joseph Kennedy (D-MA) also accused the Clinton Administration of sabotaging HUD's original purpose as a calculated strategy.⁵³ While it is difficult to gauge whether Cisneros and Clinton were ready to stand by an unencumbered voucher proposal, a better outcome, from their perspective, transpired. They had divided Congress. Republicans were split between voucher proponents and advocates of retrenchment with Lazio and Bond attempting to referee differences. Through the

⁵¹ See especially Struyk, Raymond J. and Marc Bendick, Jr. editors. *Housing Vouchers for the Poor: Lessons from a National Experiment* (Washington, D.C.: Urban Institute Press, 1981) and Bradbury, Katharine L. and Anthony Downs, editors. *Do Housing Allowances Work?* (Washington, D.C.: Brookings Institution, 1981).

⁵² Stanfield, "Vouching," p. 1,096.

⁵³ Kennedy, Joseph, "HUD Reinvention: From Blueprint to Action," *Hearing before the Subcommittee on Housing and Community Opportunity of the Committee on Banking and Financial Services*. 104th Congress, First Session, April 6, 1995, p. 19.

promotion of the Republican market ideal, the Clinton administration bought time as Republican Revolution proved to be no juggernaut after 1995.

The administration also alienated some liberal Democrats in the process. At the hearing on HUD reinvention on April 6, 1995 Kennedy called the concept of vouchers “half-baked” and “half-cooked.”⁵⁴ Barney Frank (D-MA), suggested that Republicans and the Administration were intent on “blaming the victim.” He argued that the hearing’s title was a misnomer. Instead of “HUD reinvention,” Frank suggested “HUD detonation.” He thought it ill advised for HUD to “move out totally of the business of maintaining subsidized units.”⁵⁵

With Congress fractured on how to proceed with housing policy, stalemate ensued for nearly four years. The Republicans in Congress hoped to craft a bill that would overhaul housing, but obstacles thwarted the efforts on an annual basis. They enacted stopgap measures to fund HUD.

In 1995, two conservatives, Sam Brownback (R-KS) in the House and Faircloth in the Senate introduced bills to abolish HUD.⁵⁶ However, comparatively moderate Republicans managed to bury such efforts. The Republicans curtailed HUD’s budget, reducing it by 25%, some \$6.3 billion, but Clinton’s veto of the budget halted the appropriations process.⁵⁷ Eventually HUD sustained milder cuts before the budget began to rise in succeeding years (see Table 7.2). In contrast to welfare, Republicans did not adhere to a predetermined script without rough edges. For instance, in a subcommittee

⁵⁴ Ibid.

⁵⁵ Ibid., p. 8.

⁵⁶ Nyhan, Paul. “GOP Factions Aim to Abolish or Shrink Beleaguered HUD.” *Congressional Quarterly Weekly*, May 20, 1995, pp. 1,426-1,428.

⁵⁷ Masci, David. “Housing: Chicago Relocation Takes Top Priority in Markup,” November 4, 1995, p. 3,382.

markup, Rep. Jerry Weller (R-IL) offered an Amendment that would prohibit residents of Chicago to use their vouchers in the suburban portions of Cook County. Frank snapped at Weller, accusing the Republican of promoting “apartheid.” The Democrats had a rare win by defeating the Amendment and replacing it with a “study.”⁵⁸ Lazio and Bond agreed that the Administration’s plan too radical and did not prepare a bill that would convert all of HUD assistance to a voucher formula.

In 1996 and 1997 efforts to craft a housing bill collapsed. While many Republicans and Democrats supported market reforms, they emphasized different versions of these mechanisms. There were other obstacles. Some Democrats committed to low-income housing thought policy should benefit the poorest of the poor, while Republicans wished to help the working poor. Lazio also hoped to repeal the Brooke Amendment, which fixed rents for voucher recipients at 30% of income, serving as a work disincentive. Other issues were symbolic. Lazio fancied that it was time to repeal the 1937 Federal Housing Act, a piece of legislation that many Democrats respected as a venerable element of their heritage. Lazio, and other Republicans, desperately wanted this New Deal “scalp.”⁵⁹ Substantively, it meant little whether the 1937 law remained on the books, since policy was moving in market directions.⁶⁰ In both of these years, the House and Senate failed to reach agreement on their respective bills.

Without new housing legislation, stopgap measures did not provide for additional vouchers. It was not until 1998, for FY 1999, that the Republican Congress would enact

⁵⁸ Ibid.

⁵⁹ Nitscke, Lori. “Housing Overhaul Still Looking for a Home in GOP Congress,” *Congressional Quarterly Weekly*, February 21, 1998, p. 425. The author does not identify which actor used the colorful terminology of “political scalp.”

⁶⁰ 1997 *Congressional Quarterly Almanac*, pp. 7-12-7-18.

legislation finally permitting new vouchers. Cisneros expressed frustration when reflecting on his tenure that he could not move Congress forward to provide additional vouchers.⁶¹

New Housing Legislation: 1998-2000

The Quality Housing and Work Responsibility Act of 1998 (Title V of the HUD/VA Appropriations Bill, HR 4914) and the Community Renewal and New Markets Act of 2000 (HR 4923) were grand compromises that combined Republican and Democratic initiatives in hybrid legislation. In many respects, both parties were close in terms of policy. They had reached a rough consensus that market mechanisms and less rigid federal controls were the direction for the housing policy of the future.

The Republican rhetoric surrounding the passage of the Quality Housing and Work Responsibility Act of 1998 associated housing policy as “almost” the second stage of the broader effort to reform welfare. According to Gingrich, “this bill completely overhauls America’s indefensible current public housing system. This bill could almost be considered the second stage of the Republican welfare reform plan.”⁶² Part of the legislation enacted block grants that would give local authorities discretion in managing low-income housing. Yet other aspects of housing policy maintained a strong federal presence. Democrats and Republicans compromised which constituencies should benefit from public housing, the 1937 Federal Housing Act remained in effect, and changes

⁶¹ Peirce, Neal R. “Cisneros Finishes a Class Act at HUD,” *National Journal*, January 18, 1997.

⁶² Nitschke, Lori. “The Housing Bill that Compromise Built.” *Congressional Quarterly Weekly*. October 10, 1998, pp. 2,729-2,732.

made in the Brooke Amendment made it friendlier toward work.⁶³ Democrats exhibited similar ebullience. According to Joseph Kennedy, “this is the first major overhaul of housing in 60 years and hopefully it creates a blueprint . . .[eradicating] from the landscape of America those monstrosities that have come to represent the idea of government sponsored housing.”⁶⁴ What is remarkable is not Kennedy’s hyperbole, but how he was willing to discard the legacy of traditional liberal housing initiatives.

The Community Renewal and New Markets Act of 2000 melded Republican ideas for community development that focused on deregulation and Clinton’s ‘New Markets’ initiative to attract capital to poor urban areas. The President, accused of ignoring urban problems in the first years of his administration, worked closely with Speaker Dennis Hastert (R-IL) to craft the compromise. Rep. James Talent (R-MO) gushed “this is the most significant anti-poverty program to come out of Washington in decades.”⁶⁵ The 1998 and 2000 legislation invigorated all three facets of Jack Kemp’s old federal housing policy: vouchers, enterprise zones, and in a circuitous fashion, eliminating public ownership of the high-rise housing stock.

Vouchers

The Quality Housing and Work Responsibility Act of 1998 attached to the HUD and VA appropriations bill provided for 50,000 new vouchers for FY 1999 with an additional 100,000 vouchers for FY 2000 and FY 2001. Republicans agreed with Democrats about the necessity of some new vouchers. However, the two parties had

⁶³ Conlon, Chuck. “Public Housing Overhaul.” *Congressional Quarterly Weekly*, October 17, 1998 p. 2,838.

⁶⁴ Nitschke, Lori. “The Housing Bill,” pp. 2,729-2,732.

⁶⁵ “House Passes Bill to Help Revive Inner Cities, Rural Economies,” 2000 *Congressional Quarterly Almanac*, p. 17-12.

effectively switched positions in terms of voucher advocacy. Louis Stokes (D-OH) offered an Amendment to the legislation that would increase funding for new Section 8 housing vouchers for families transitioning from welfare to work by \$97 million. In a close vote of 215-201 the House rejected Stokes Amendment. Most Republicans voted against additional funds while nearly all Democrats voted in favor of providing the extra cash (Table 7.3).

Table 7.3: Voucher Amendment to HR 4194, July 17, 1998⁶⁶

Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
14	209	186	6	201	215

The Clinton Administration and Republican Congress had made sure that vouchers took priority over the older rental certificates program. Congress folded the rental certificate program into Section 8 vouchers with a new program name of the Housing Choice Voucher Program.⁶⁷ The rental certificate program, first legislated in existence by William Widnall (R-NJ) in the 1960s and served as the mainstay of housing policy in the 1970s and 1980s no longer would continue operating under an independent existence. Rental certificates had been a halfway proposition between New Deal and market policy. With the supplanting of New Deal housing policy, rental certificates had become superfluous.

Enterprise Zones

⁶⁶ Source: *1998 Congressional Quarterly Almanac*, p. H-86, Vote # 295.

⁶⁷ Schwartz, Alex F. *Housing Policy in the United States: An Introduction* (New York: Routledge, 2006), p. 151.

Clinton agreed with Kemp on the merits of enterprise zones and had included “empowerment zones” in 1993 budget. Later in his administration Clinton described his housing vision as his “New Markets” initiative. The administration’s intent was to attract investors to poor urban and rural areas. At the heart of the program was the ability of investors to claim up to \$15 billion worth of tax credits over seven years. In addition, Clinton proposed extending the life of the 31 Empowerment zones, created in 1993, and add nine additional zones for a total of 40. These Empowerment Zones offered various tax incentives and wage credits for employers in the zones.⁶⁸

Republicans still promoted enterprise zones, although they used alternative nomenclature and alternative elements within the enterprise zone concept. Hastert’s proposal called for 40 “renewal communities.” These had similarities to empowerment zones, but also added regulatory relief, exemption from capital gains on taxes for businesses on assets held in renewal communities, and helped low-income individuals set up subsidized savings accounts. Republicans introduced legislation for renewal zones (HR 815) as the American Community Renewal Act.

Portions of the renewal zones proposal struck Democrats as hypocritical. Rangel observed, “It is ironic that the same Republicans who push ‘devolution’ and local control when it comes to federal regulation they don’t like, turn around and deprive communities of the capacity to protect their own citizens as they see fit.”⁶⁹ Frank was pointing out that at times Republicans wished to empower states and local authorities, but at the same time

⁶⁸ Nather, David. “What’s in the Antipoverty Package.” *Congressional Quarterly Weekly*. May 27, 2000, p. 1,264.

⁶⁹ Quoted in Nather, David. “Community Development Deal Still Stymied by Differences over Philosophy of Poverty Relief,” *2000 Congressional Quarterly Weekly*, April 15, 2000, pp. 896-897.

were willing to create zones that local communities were deprived of the right to regulate.

The final 1998 legislation included 40 empowerment zones and 40 renewal zones. Clinton succeeded in obtaining most of what he wanted in the Empowerment Zones, including a credit for more than 30% of business investment. Clinton then acquiesced to support capital gains tax exemptions for the renewal zones' investors and allow faith-based organization to participate to assist substance abusers.⁷⁰

HOPE VI

Privatizing the housing stock (the HOPE program) was the weakest conceptual link of Kemp's plans in terms of practicality.⁷¹ Clinton phased out HOPE in his first budget. On the other hand, Democrats, while castigating the program, had tacitly conceded that the New Deal brand of housing policy had largely failed. Congressional Democrats launched a new program, HOPE VI, in 1993, an ambitious program to convert the large remaining housing projects to low-rise dwellings.⁷² This strategy replaced Kemp's efforts to privatize the housing stock. HOPE VI was the logical extension of Kemp's critique that the federal government could no longer administer the large-scale housing supply. Kemp's insight had become accepted wisdom, while Democrats discarded his specific policy proposal.

The Next Stage

Low-income housing policy remained fertile ground for conservative policy prescriptions at the turn of the millennium. Bush, running as a "compassionate

⁷⁰ "Clinton, Hastert Clinch Deal on Community Development," *2000 Congressional Quarterly Almanac*, pp. 17-11, 17-12.

⁷¹ Pierson, Paul. *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (New York: Cambridge University Press, 1994), pp. 91-92.

⁷² Schwartz, Alex F. *Housing Policy in the United States: An Introduction* (New York: Routledge, 2006), p. 117.

conservative,” once again promoted innovative discourse. Discussion of abolishing HUD vanished from the Republican Platform. In its stead, the twin conservative pillars of encouraging home ownership and personal investment punctuated Republican promises.

The 2000 Republican Platform contained three policy prescriptions affecting low-income housing policy. The first facet, called the ‘American Dream Down Payment’ would allow families that drew vouchers for monthly rental payments to apply for a year’s worth of assistance money in order to help purchase a first home. Presumably, the family would then become independent of receiving further federal government rental assistance.⁷³

A second element of the Republican program was a tax credit where investors would create or renovate “more than 100,000 single-family housing units in distressed communities.” The intent of the ‘Renewing the Dream’ tax credit would be to expand the supply of affordable new and rehabilitated housing.⁷⁴

The third part of the Republican platform called for “Individual Development Accounts.” In the original Senate version of the Community Renewal and New Markets Act of 2000, Senator Rick Santorum (R-PA) sponsored Individual Development Accounts. They would provide a vehicle for low-income earners to accumulate financial assets and increase savings. Banks would be given tax credits to compensate matching the savings of poor individuals. The ultimate goal was to have the poor individuals accumulate wealth so that they could purchase their own home, start a business, or pay educational expenses. Individual Development Accounts blended well with Bush’s 2000

⁷³ “Republican Party Platform of 2000,” July 31, 2000.
<http://www.presidency.ucsb.edu/ws/index.php?pid=25849> retrieved March 21, 2010.

⁷⁴ Ibid.

campaign them of an “ownership society.”⁷⁵ The Conference Committee negotiating the House and Senate versions of the Community Renewal and New Markets Act dropped Individual Development Accounts because House Ways and Means chair Bill Archer (R-TX) objected to using the tax code for what he termed “social engineering.”⁷⁶

Conclusion

Outcomes in housing policy contrasted with welfare policy in significant ways, despite Republican attempts to link the two. An answer for why low-income housing policy could survive like the EITC and not AFDC was the undergirding of the first two programs with Republican values. Housing policy had always served as fodder for conservative thinking and the EITC rewarded values associated with work. The proximity of both housing and EITC with institutions and values associated with Republicans helped preserve them. AFDC was a New Deal program having little in common with Republican values. Earlier efforts, such as Reagan’s California Plan, aimed at reforming the program in ways consistent with the Republican Party’s philosophy had largely failed. Thus, New Deal welfare (AFDC) collapsed while low-income housing policy survived, despite serving similar clientele. The EITC also was a compatible with the Republican Party’s social vision (and admittedly served a more appealing constituency) and withstood attacks.

Low-income assistance had long served as fodder for Republican innovation. The pace was slower to inject market mechanisms in universal entitlements. After 1994,

⁷⁵ Ibid.

⁷⁶ “GOP Leaders Tie Development Bill to Tax Relief Package,” *Congressional Quarterly Almanac 2000*, p. 17-15.

however, concerted efforts were made to revamp health programs and pensions.

Medicare and Medicaid became active policy areas at the end of the twentieth century.

HEALTH

Republican health care policy involved retrenchment, strengthening existing market mechanisms, and pushing the frontiers of the Republican welfare state. This was evident as early as 1995 and would continue throughout the decade. Bill Clinton, in his 1996 State of the Union Address, intoned, “the era of big government is over” and exhorted preparations for a time where leaner government would have to use resources wisely.⁷⁷ However, health care policy qualified, if not contradicted, that blanket statement. Medical concerns festered: voters were anxious about health care portability, prescription drug coverage for seniors, quality of coverage, and access to health insurance. These worries, rooted in escalating health care costs, exerted expansionary pressures on the federal government to extend its reach in the health care sector.

1995: Republicans Relearn the Lessons of Retrenchment

Although Gingrich treated Medicare superficially in *To Renew America*, he realized that reforming this entitlement was the key to achieving a balanced-budget legacy. In a June 28, 1995 interview with the *Atlanta Journal-Constitution*, Gingrich commented, “if we save Medicare, I think we will govern for a generation.”⁷⁸ He envisioned reshaping Medicare by reducing expenditures and reorienting the program into a market friendly entity supplanting the fee-for-service model. The Democratic

⁷⁷ Clinton, William, J. “Address before a Joint Session of Congress on the State of the Union,” January 23, 1996 *The American Presidency Project* [online], <http://www.presidency.ucsb.edu/ws/?pid=53091> accessed March 14, 2010.

⁷⁸ Quoted in “Medicare Cuts Vetoed as Part of Budget Reconciliation,” 1995 *Congressional Quarterly Almanac*, p. 7-3.

Party and the press focused on the first element, retrenchment, almost exclusively in their critiques.

Vouchers

The concept of a Medicare voucher, which had elicited guffaws from Ronald Reagan in the late 1980s, no longer provoked laughter in conservative circles. By 1995, many Republican politicians thought them the key to modernizing Medicare. The theory was to alter Medicare from a defined-benefit to a defined-contribution system. The federal government would provide seniors with cash to purchase insurance of their choice. Seniors could enroll in a HMO, another version of managed care, or even create what was then considered exotic, a medical savings account. The elderly could also remain participants in traditional fee-for-service Medicare.

Leaked documents show that the new Republican majority considered options how to transform Medicare into a voucher system. This would enable the federal government to better control spiraling costs. According to Representative Jim McCrery (R-LA), “Senior citizens deserve the same choices available to other Americans. Medicare beneficiaries are given only one option when they enroll in the program, a bureaucratic, outdated, one-size-fits-all program that has not really changed since Congress passed it 30 years ago.”⁷⁹

Conservatives argued that vouchers would enable Medicare beneficiaries to purchase, on an annual basis, a plan most suited to their needs. Presumably, for instance, they could choose a plan with higher deductibles or co-pays and get prescription drug coverage, or choose any one plan from a whole menu of options. The fixed payment

⁷⁹ Toner, Robin and Robert Pear. “Medicare, Turning 30, Won’t Be What it Was,” *The New York Times*, July 23, 1995, p. A1.

from the federal government would, according to this reasoning, make consumers wary shoppers. Therefore, pressure from consumers would serve to keep costs from rapid escalation. Liberals retorted that insurance companies would skim the healthier recipients, the proposal inherently complex, were dubious that the savings would materialize, and thought the whole concept violated the norms of social insurance since risk would fall on the beneficiary instead of the government.⁸⁰

When Republicans unveiled their Medicare plan in September 1995, The Medicare Preservation Act (HR 2425), they retreated from the promotion of vouchers. They were not willing to use their majority status to push the frontiers market policy that far in Medicare. Instead the twin focus of the plan was on promoting managed care options within Medicare and reducing expenditures for deficit reduction. A Gingrich pollster, Frank Luntz, perhaps to prepare conservatives dedicated to vouchers, explained that “managed care is part of the free-market system; the fact that people who are on it pay less shows that there’s something that works there.”⁸¹

Republicans considered a hybrid between a voucher and managed care system. The caucus considered giving rebates to Medicare beneficiaries who chose low-cost plans. If the plan’s premium cost less than a predetermined federal payment, the consumer would get a rebate check. However, Republicans abandoned that idea and instead offered a proposal with greater choice in Medicare plans without emphasizing competition according to price. Republicans feared of being accused of “crass

⁸⁰ For an analysis of pros and cons to vouchers, see Moon, Marilyn and Karen Davis. “Preserving and Strengthening Medicare,” *Health Affairs* (Vol 14, No. 4) pp. 31-46, 34-39.

⁸¹ Quoted in Ponnuru, Ramesh. “Mediacare,” *The National Review*, September 25, 1995, pp. 24-25, 24.

commercialism” if they gave strong financial incentives for beneficiaries to abandon traditional Medicare.⁸²

Medicare Managed Care: MedicarePlus

Medicare managed care, dubbed MedicarePlus, would emphasize choice and still move Medicare from primarily a New Deal/Great Society liberal orientation into a program that relied on market competition. MedicarePlus encouraged the formation of Medicare HMOs, medical savings accounts, private fee-for-service plans, and other forms of managed care. Technical adjustments in how to finance managed care, by severing the cord with the reimbursement based on the fee-for-service model, made the formation of private plans more attractive to providers.⁸³ The medical savings account, “Medisave,” incorporated features of a high-deductible policy and an IRA. The difference between the cost of the premium for the policy and the government contribution would be set aside in a medical savings account, to help pay for qualified medical expenses. The recipient could then accumulate money in the account to pay for health costs when the beneficiary chose to tap the resource.⁸⁴

An irony is that Republicans hoped that infusing market mechanisms into Medicare would save money. However, the umpire determining future savings, the Congressional Budget Office (CBO) refused to attribute significant savings to market

⁸²Pear, Robert. “G.O.P. Announces Plan to Overhaul Medicare System,” September 15, 1995, p. A1.

⁸³ Smith, David G. *Entitlement Politics: Medicare and Medicaid, 1995-2001* (Chicago, Aldine de Gruyter, 2002), pp. 97-98.

⁸⁴ Ibid., p. 101.

mechanisms, placing Republicans hoping to trim the budget in the uncomfortable position of proposing sharper reductions in conventional Medicare.⁸⁵

To garner public support, the leadership framed all their efforts as rescuing Medicare from insolvency. Buoying that line of argument was that the latest trust fund report stating the Medicare program would go into deficit in the year 2002.⁸⁶ Gingrich did not make a concerted effort to defend the market mechanisms encouraged in the bill except as part of the “rescue” package. The struggle over the budget would focus on Medicare retrenchment.

Budget Battles

Gingrich, despite his outsized persona, never proved capable in securing his tenuous position. A large problem was that the majority of the House Republican party was neither deferential nor timid. The GOP caucus, particularly the freshmen, expected Gingrich to fulfill the promise of the “Republican Revolution” by transforming the core of the federal government. A Republican political consultant delivered Gingrich a prescient warning shot as early as election night on November 8, 1994. When Gingrich queried how the election results were looking, the adviser said, “the good news is that we are going to pick up a lot of seats.” On the other hand, he opined, “wait until you meet them, you won’t believe what a bunch of ideologues you are going to have to deal with. They are going to kill you.”⁸⁷

⁸⁵ Hill, Patrice and Nancy E. Roman. “CBO Study Forcing GOP to Rethink Medicare Plan.” *The Washington Times*, September 10, 1995, p. A1.

⁸⁶ Oberlander, Jonathan. *The Political Life of Medicare* (Chicago, University of Chicago Press, 2003), p. 74.

⁸⁷ Quoted in Gillon, Steven M. *The Pact: Bill Clinton, Newt Gingrich, and the Rivalry that Defined a Generation* (New York: Oxford University Press, pp. 128-129).

Gingrich participated in the events that eventually circumscribed his ability to maneuver once seated as Speaker. While most of the Contract contained low-hanging fruit, easy to pass through Congress, balancing the budget within seven years was decidedly more difficult. It became an all-encompassing battle between the Republican Congress and the Democratic president. The promise to eliminate the deficit in seven years, while concurrently cutting taxes, increasing defense spending, and preserving popular entitlements led Clinton to surmise that Republicans were “trying to abolish arithmetic.”⁸⁸

On one level, the whole controversy appears overblown. Despite the magnification of differences both sides were not far apart in terms of policy. This suggested the potential for building a bridge to achieve compromise an obtainable goal. Clinton declared he would balance the budget in nine years—only two years longer than the Republican position.⁸⁹ Both political parties were moving in the same direction, with Clinton and the Democrats more willing to preserve various social benefits from downsizing, thus staking a position to the left of Gingrich and the Republicans. Yet compromise was difficult, if not impossible, to arrive at in such a fiery partisan environment. Lines drawn in the sand became the bargaining chips in a high-stakes poker game played between the Administration and the Republican Congress with the United States FY 1996 budget on the line.

The Congressional Budget Office (CBO) scored the savings for the Republican bill at \$270 billion over seven years, much of it by trimming the rate of future growth for

⁸⁸ Clinton, Bill. *My Life* (New York: Alfred A. Knopf, 2004), p. 622.

⁸⁹ Purdum, Todd S. “President Warns Congress to Drop Some Budget Cuts,” *The New York Times*, October 29, 1995, p. 11.

Medicare providers and beneficiaries. The CBO's reluctance to attribute substantial savings to the Republican plan incorporating market mechanisms had proven a conundrum to Democratic health care reformers and their plans for managed competition in 1993 and 1994. Without the luxury of having market-oriented mechanisms deliver estimated budget savings, House Republicans resorted to proposing deeper reductions to Medicare than anticipated in order to balance the budget in seven years.⁹⁰

Republicans handed Democrats an issue: the opportunity to deride the GOP as zealots bent on retrenchment. The standard Democratic rallying cry was that Republicans were "balancing the budget on the backs of the elderly."⁹¹ Clinton flung down the gauntlet in a radio address. "Hear this: Before or after a veto, I am not prepared to discuss the destruction of Medicare and Medicaid, the gutting of our commitment to education, the ravaging of our environment, or raising taxes on working people." Gingrich retorted that the president, "promises to be a roadblock" who was "jeopardizing long overdue revolutionary change."⁹² Lost in these exchanges was policy precision. Clinton and Gingrich glossed over whether programmatic changes would constitute reformation or retrenchment, merging both elements. Most of the media, as well as the Democratic Party, hardly mentioned the MedicarePlus proposal. These developments benefitted Clinton. Republicans hoped both to retrench and reshape the welfare state. However, press accounts emphasized the retrenchment aspect alone.⁹³

⁹⁰ Bedard, Paul and Patrice Hill. "Clinton Vetoes Budget, Promises Own; GOP Says he Missed Historic Opportunity," *The Washington Times*, December 7, 1995, p. A1.

⁹¹ "Medicare cuts", 1995 *CQ Almanac*, p. 7-3.

⁹² Ibid.

⁹³ Even articles from media outlets less sensationalistic than television focused on retrenchment. See, for instance, Wines, Michael. "Gingrich Promises Big Medicare Cut with Little Pain." *The New York Times*, May 8, 1995, p. A15 and Pear, Robert. "White

Republicans strong-armed the Medicare bill through the House, providing Democrats little opportunity for debate.⁹⁴ In a stunning display of partisan discipline concerning a contentious issue, only six Republicans defected from the conservative line and the House passed the Medicare Preservation Act, 231-201 (Table 7.4, vote #1). The Senate incorporated the Medicare Preservation Act in the Balanced Budget Act of 1995 (BBA 95). The issue proved no less divisive in the Senate. Only one Republican deserted the party line on the BBA 95 while no Democrats strayed from voting in opposition (Table 7.4, vote #2). The Conference Report was no more amenable to Democrats of both chambers and the Republicans supplied almost all the votes to adopt the final legislation, setting up a confrontation with Clinton (Table 7.4, votes #3, #4).

Table 7.3: Medicare/Balanced Budget Votes 1995⁹⁵

Votes	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
#1	227	6	4	194	231	201
#2	52	1	0	46	52	47
#3	232	1	5	187	237	189
#4	52	1	0	46	52	47

Vote #1: House vote on Medicare Preservation Act (HR 2425), October 19, 1995

Vote #2: Senate Vote on BBA 1995 (HR 2491), October 27, 1995

Vote #3: House Vote on BBA 1995 (HR 2491) Conference Report, November 17, 1995

Vote #4: Senate Vote on BBA 1995 (HR 2491) Conference Report, November 17, 1995

House Spurns Request by Gingrich About Medicare.” *The New York Times*, May 2, 1995, p. A1.

⁹⁴ *Ibid.*

⁹⁵ Sources: Vote #1, CQ Almanac 1995, Vote #731, p. H-210; Vote #2, *Ibid.*, Vote # 556, p. S-88; Vote #3, *Ibid.*, Vote # 812, p. H-234; Vote #4, *Ibid.*, Vote #584, S-94.

Clinton vetoed the BBA 95 on December 6, 1995 and since no satisfactory compromise position could be reached, the government partially shutdown twice during the winter of 1995 and 1996.⁹⁶ Neither Gingrich nor Clinton had the political fortitude or wherewithal to abandon their ardent supporters; popular opinion would become the jury to assess culpability for triggering the shutdown. The public largely blamed the Republicans in this case.⁹⁷ On a superficial level, Republicans lost the theatrics when Gingrich complained about Clinton not negotiating with him on the plane ride home from Israel from the funeral of Yitzhak Rabin. *The New York Daily News* portrayed the Speaker in a diaper with the headline “Cry Baby.”⁹⁸

More substantively, Republicans maneuvered themselves into appearing heartless with proposed benefit cuts to a popular entitlement. Both sides of the Republican leadership had collectively sunk themselves on October 24, 1995. Gingrich and Dole delivered commentary that made the party look bent on retrenchment. Gingrich suggested that “Medicare would wither on the vine.” It is not clear whether he meant Medicare or the agency that administers Medicare. The first comment was played up in the media since it is consistent with the retrenchment narrative of Republicans demolishing the welfare state. However, possibly Gingrich was suggesting altering Medicare from a predominantly fee-for-service model into one with private competition and HMOs. Gingrich’s inability to clearly distinguish between the rhetoric of reform vs. retrenchment and blurring these two impulses clearly hurt the Republican cause. Bob Dole, the presumptive Republican frontrunner for the presidential nomination in 1996,

⁹⁶ “Medicare Cuts,” *1995 Congressional Quarterly Almanac*, p. 7-15.

⁹⁷ “Budget Talks Limp into 1996, Then Collapse,” *1996 Congressional Quarterly Almanac*, p. 2-5.

⁹⁸ Gillon, 2008, p. 160.

went further, stating that, “I was there, fighting the fight, voting against Medicare . . . because we knew it wouldn’t work in 1965.” His words could even more easily be interpreted as an attack on a popular program. One Republican operative, upon hearing those comments, said, “there goes the election.”⁹⁹

The Republican leadership was unable to keep the storyline on Medicare reform as encompassing change toward a market orientation for the purpose of preservation. Instead, Republicans appeared ready to celebrate retrenchment. David Stockman had precipitated a similar event fourteen years earlier when he suggested cutting Social Security benefits for early retirees. Republicans relearned the lessons of 1981 in 1995 and 1996. The promotion of retrenchment risked imperiling GOP majorities.

Medicaid

When crafting the BBA 95, Republicans started by identifying potential reductions in Medicaid. This was precisely because Medicaid seemed an innocuous target analogous to AFDC—fundamentally a welfare program. While Medicaid had originated in 1965 as a health program for the poor, it had evolved into a “mainstream” social program. It provided services for the working poor, children, pregnant women, the disabled, those afflicted with mental illness, and a subset of the elderly. By 1995 Medicaid dwarfed the relatively miniscule AFDC program. Medicaid was over six times larger than conventional welfare, with stronger stakeholders.¹⁰⁰

All this was not readily apparent to political actors in the spring of 1995. Even many Democrats thought Medicaid would eventually be turned into a block grant, such as

⁹⁹ Smith, 2002, p. 132.

¹⁰⁰ Clymer, Adam. “Governors Try to Find Unity on Medicaid.” *The New York Times*, July 31, 1995, p. A10; Smith, 2002, p. 48.

AFDC, and significantly retrenched. One Democratic official recalled that March, “we were dying on Medicaid—with no clue we could win.”¹⁰¹ However, by the summer, Democrats found a winning strategy in connecting Medicaid with Medicare. They were both health programs serving needy—and worthy—constituencies. Buoying the Democrats was the American Hospital Association (AHA) which lobbied on behalf of Medicaid. Hospitals relied on Medicaid payments and were fearful of Republican cuts.¹⁰²

Medicaid relied on a formula to allot funds to the states. Speaker Gingrich proposed capping Medicaid increases to 5% a year, thus making the program a defined-contribution plan for the states. This provoked a scramble among the states arguing about how funds should be apportioned. With very few satisfied, the final House and Senate conference agreement called for \$182 billion in reduction from Medicaid. Clinton relished the opportunity to portray Republicans as “Scrooges” and he vetoed the Medicaid cuts that were part of the BBA 95.

In 1996, the governors took the lead in trying to adjust the Medicaid formula. However the bipartisan nature of the enterprise broke down after Congress made a number of changes to what the governors agreed upon. Governor Howard Dean (D-VT) complained a “right-wing majority in Congress” had hijacked Medicaid reform and Democrats withdrew support. The governors had wanted to combine Medicaid and welfare reform and hoped to save \$43 billion. Republicans in Congress increased the savings to \$53 billion and wanted to retrench the program by cutting Medicaid aid to

¹⁰¹ Quoted in Smith, 2002, p. 56.

¹⁰² See Thomas, Jennifer S. “Hospital Fighting Medicare Cutbacks,” *St. Petersburg Times*, June 7, 1995, City Times, p. 1; Uhlman, Mansan. “For Some Area Hospitals, A Bitter Pill to Swallow,” *The Philadelphia Inquirer*, October 2, 1995, p. G1.

teenagers and tampered with the formula provisions the governors agreed to support.¹⁰³

Clinton was able to veto the combined Medicaid and welfare reform legislation (HR 3507) by focusing his critiques mainly on Medicaid. Republicans decided to split welfare from Medicaid reform and seemed to have acknowledged they had lost the Medicaid battle. Medicaid was now so large and served such a major constituency, it was not an inviting target. Through redefinition, it had the trappings of a health, not welfare, program.¹⁰⁴

1996-1997: Compromise

Republicans and Democrats forged compromises on health policy in 1996 and 1997. Partisan and ideological contention did not disappear; all parties simply had incentives to negotiate. Democratic victories included greater portability for health insurance and a state children's health insurance plan (S-CHIP). Republicans successfully continued to build the infrastructure necessary to inject market mechanisms in social policy.

Two pieces of legislation promoted the somewhat disjointed conjunction of expansion and market inducements. The 1996 Health Insurance Portability and Accountability Act (Kassebaum-Kennedy) enabled 25 million workers to keep health insurance when switching or displaced from jobs. Some conservatives were hostile to the additional regulatory features and hoped that Kassebaum-Kennedy would become the vehicle allowing medical savings accounts in the health care system. Democrats appeared

¹⁰³ Pear, Robert. "Governors' Plan to Refit Medicaid Starts to Erode," *The New York Times*, May 22, 1996, p. A1.

¹⁰⁴ Grogan, Collen, M. "Medicaid: Health Care for You and Me?" *Health Politics and Policy: 4th edition*; edited by James A. Morone, Theodor J. Litman, and Leonard S. Robins (Clifton Park, New York: Cengage Learning, 2007).

amenable to managed care options as a facet of Medicare, yet were opposed to medical savings accounts. The 1997 Balanced Budget Act (BBA 97) added substantial managed care options to Medicare vetoed in the BBA 95. Mollifying Democrats was the addition of S-CHIP to Medicaid, completing a transformation of that program in the minds of political actors over three years.

Medical Savings Accounts Find a Perch

Senate Labor and Human Resources chair Nancy Kassebaum (R-KS), and ranking member Ted Kennedy (D-MA), hoped to enact some health care legislation in a bipartisan fashion. Both Kassebaum and Kennedy thought needed reforms, particularly the portability of health care when employment status changed, could pass as a minor bill. Their committee held a single day of hearings and reported a bill out to the Senate floor.¹⁰⁵

Conservatives found additional regulation, even relatively uncontroversial, displeasing. They focused on incorporating medical savings accounts as part of the final legislation. The House passed a bill with a full-fledged medical savings accounts program (Table 7.5, Vote #1). Democrats treated medical savings accounts as a poison pill. Clinton joined the fray, promising to veto any legislation that involved medical savings accounts. Dole allied himself with conservatives pushing to include medical savings accounts in the Senate version of the legislation. In a dramatic vote that Vice-President Gore attended in case of a tie, the Senate kept medical savings accounts out of Kassebaum-Kennedy by a vote of 52-46 (Table 7.5, vote #2). It is possible that the

¹⁰⁵ “Bill Makes Health Insurance Portable,” *1996 Congressional Quarterly Almanac*, pp. 6-28-6-48, 6-29-6-30.

whole episode convinced Dole to resign from the Senate as he tried to manage unwieldy floor coalitions and saw his presidential campaign poll numbers suffer.¹⁰⁶

Table 7.5: Votes on Kassebaum-Kennedy (HR 3103)¹⁰⁷

Votes	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
#1	229	1	38	150	267	151
#2	46	5	0	47	52	46

Vote #1: House passage, March 28, 1996

Vote #2: Senate removes medical savings provision, April 18, 1996

After a series of tortured negotiations, the final legislation included medical savings accounts, this time as a pilot demonstration project. The creation of a maximum of 750,000 medical savings accounts became the compromise to placate members on both sides of the ideological divide.¹⁰⁸ The legislation passed in nearly unanimous votes in both chambers, masking the strife that beset the Kassebaum-Kennedy negotiations.

Medicare + Choice

In 1997 Republicans and Democrats crafted a technical piece of legislation that delivered the largest overhaul of Medicare and Medicaid since the creation of the two programs in 1965. Congress included many of the portions of the vetoed 1995 Medicare Preservation Act, often almost verbatim, in this legislation. MedicarePlus became Medicare + Choice, providing a wide range of options for Medicare recipients to enter managed care arrangements. The Medicare Preservation Act Sacrificed competition among plans. Thus, cost savings from the BBA 97 did not come from managed care

¹⁰⁶ Smith, 2002, pp. 162-165.

¹⁰⁷ Sources: vote #1: p. H-36, Vote 106; Vote #2, p. S-15, vote 72.

¹⁰⁸ Pear, Robert. "Deal in Congress Gives Health Care Bill A New Momentum," *The New York Times*, July 26, 1996, p. A1.

arrangements, but by holding down increases in traditional payments to hospitals and doctors.

Democrats largely accepted the notion of managed care as part of Medicare. It resembled what was happening in the private sector. Republicans had the satisfaction that they were moving the program in a market direction from a fee-for-service orientation, although they had opposed such managed care provisions as part of Clinton's health care plan in order to win political advantage. Liberals, such as Pete Stark (D-CA), while not a friend of managed care in Medicare, thought it worthwhile to placate Republicans and dismissed the innovations as not "amount[ing] to a hill of beans."¹⁰⁹

Medicare + Choice successfully pushed the Medicare program in the direction of incorporating aspects of a competitive market. Republicans abandoned any attempt to convert the entire program into a defined-contribution, or voucher, system, thus delaying that goal for the future. The one ideological component that provoked a partisan confrontation was medical savings accounts for Medicare recipients. Representative Bill Thomas (R-CA) chair of the Ways and Means health subcommittee, argued for a "trial" demonstration of 500,000 medical savings accounts. Democrats complained that half a million Medicare medical savings accounts were too many for a pilot demonstration. They suggested limiting the number to 100,000 with a four-year time window. The Republican majority on the subcommittee voted down the Democratic proposal 7-5.¹¹⁰ The medical savings accounts issue then became caught up in the politics of S-CHIP.

Medicaid Expansion: S-CHIP

¹⁰⁹ Oberlander, Jonathan. *The Political Life of Medicare* (Chicago: University Press of Chicago, 2003), p. 179.

¹¹⁰ *Health Care Policy Report*, June 9, 1997, p. 883.

The liberal ideological victory of this period was the unexpected success in rearticulating Medicaid from a program serving the poor to a mainstream constituency. Republicans attempted to retrench the program twice, first as part of the vetoed BBA 95 and then as a part of the vetoed legislation that combined reforms and reductions in Medicaid and welfare. An improving budget outlook helped make significant cuts less an imperative, but also Republicans had tired of losing on the Medicaid issue.

Medicaid had undergone an identity transformation. There is no greater measure of this than that it would become a vehicle for an expansion of the welfare state: increasing health care coverage for children. This goal, even in an age of supposed austerity, was not particularly controversial. According to the General Accounting Office, as of 1996, 18 million workers were without health care and five million more did not have health benefits that extended to family members.¹¹¹ What provoked partisan contention was the means in which to achieve health coverage for children.

Ted Kennedy teamed with a conservative, Orrin Hatch (R-UT) to achieve this aim through a block grant that included tax increases on tobacco.¹¹² Many conservatives refused to support such legislation. Phil Gramm (R-TX) became the architect behind a minimalist Republican plan that would add \$3.5 billion to the Maternal and Child Health Block Grant. In addition, Gramm proposed unlimited numbers of medical savings accounts, purportedly, although perhaps not credibly, to help the poor. The funding would come from repealing the part of the Earned Income Tax Credit that could be claimed for children's health. One other alternative, promoted by Arlen Specter (R-PA)

¹¹¹ U.S. General Accounting Office. *Health Insurance for Children—Private Insurance Continues to Deteriorate* (Washington, D.C.: GPO, 1996).

¹¹² Smith, 2002, p. 114.

hoped to achieve children's health insurance through a voucher system funded through the sale of federal broadcast spectrum assets. Specter described his plan as "a distinctive Republican approach." Despite the lure of vouchers, the Republican caucus did not find Specter's plan attractive, particularly the financing mechanism, and most rallied around Gramm.¹¹³

The final S-CHIP program represented a compromise position among the various parties as part of HR 2015 (BBA 97). The bill gave states a wide degree of latitude in designing their programs, unlike TANF. It was understood that the structure of the state programs would allow for mainly managed care options. The final product created 390,000 medical savings accounts for Medicare participants.¹¹⁴

Debates concerning health care policy had moved rapidly in just a few years. Partisans had reached a temporary truce. Medicare now included market mechanisms at an unprecedented level. However, legislators relegated hard choices for future consideration—such as turning the program in a voucher system. The most ideological divisive issue that Republicans promoted, medical savings accounts, now had new life as a trial demonstration. Meanwhile the growing problems of uninsured Americans and health care inflation led to more demands for government intervention. Kassebaum-Kennedy as well as S-CHIP attempted to fulfill lacunae in the health care system. However, unmet were demands for prescription coverage in Medicare and patient rights under HMOs. This led to a fracturing of the tenuous compromises reached in 1996 and 1997.

¹¹³ Ibid., p. 215.

¹¹⁴ "Big Medicare, Medicaid Changes Enacted in Budget Bills," *1997 Congressional Quarterly Almanac*, p. 6-11.

1998-2000: Renewed Skirmishes

Negotiating the Managed Care Revolt

In 1997 and 1998 an unanticipated event swamped the Republican leadership. A populist revolt against private sector managed care, particularly HMOs, threatened to upset the balance of national health care policy. Public furor focused on high-handed tactics of managed care plans to curb expenses. A chorus of calls came for a patient bill of rights. Clinton caught the wave of resentment and spoke to the public's concern; however, the Republican congressional leadership seemed befuddled.

Unable to quell dissent, even among the rank and file within the caucus, the leadership responded to promoting a minimalist bill that promised wider access to medical savings accounts as part of a "Health Mart" of options.¹¹⁵ The leadership was bereft of feasible ideas and could only resort to offer HMOs and managed care as a balm. They were the only palatable alternative from a philosophical perspective.

This sort of minimal non-answer failed to impress both Democrats and many Republicans. Members of both parties placed in the hopper a number of legislative proposals containing patient bills of rights. The opposition finally coalesced around Norwood-Dingle, a piece of legislation favorable toward patients. The bills sponsors were Charlie Norwood (R-GA), a dentist by training, and John Dingle (D-MI), the longtime pro-labor congressman. In a showdown on the House floor, Norwood-Dingle prevailed over the Republican leadership's alternative; the most dramatic breakdown in

¹¹⁵ Carey, Mary Agnes. "Health: GOP Tries to Claim Middle Ground With Managed Care Overhaul Plan," *Congressional Quarterly Weekly*, June 27, 1998, pp. 1,753-1,755; Schmitt, Eric. "Critics Say G.O.P Move Undercuts H.M.O Bill." *The New York Times*. October 1, 1999, p. A20; Smith, 2002, p. 336.

party discipline since the Republican capture of Congress. 68 backbench Republicans voted with the Democrats to pass the legislation 275-151.¹¹⁶

The Senate came to the House leadership's rescue. More insulated from public pressure and beholden to the contributions of the managed care industry, the Senate voted for a very different bill. Norwood-Dingle gave patients many rights, including suing HMOs in state courts. Critics pointed out that the legislation could significantly drive up costs for health insurance. The Senate bill resembled the one provided by the House leadership. Hastert and the Republicans leaders in the House reasserted their authority when appointing conferees for what turned into a bizarre Conference Committee. All the Republican conferees, but one, had voted against Norwood-Dingle. Norwood was left off the Republican roster and Democrats offered to appoint him as one of their conferees, an offer Norwood chose to refuse. The Conference, which began on February 10, 2000, never reported out a bill, leaving the issue of a patient bill of rights as a debating point for the Bush and Gore campaigns.¹¹⁷

Revisiting Medicare Vouchers

The HMO revolt was a warning for those advocating market mechanisms in health policy. However, Republicans and Democrats were so caught up in this form of a remedy they had no viable alternative. In the midst of the managed care revolt, a commission mandated by the BBA 97 looked at options for the future of Medicare.

The administration feared the recommendations derived from the report. Therefore it insisted on 11 votes out of 17 to deliver a formal recommendation from the

¹¹⁶ Carey, Mary Agnes. "Norwood to Make HMO Pitch," *Congressional Quarterly Weekly*, July 22, 2000, p. 1,777; Smith, 2002, pp. 338-340.

¹¹⁷ Smith, 2002, p. 341.

commission. Eventually 10 of the members agreed on a proposal, but they could never arrive at a super-majority. The politics of prescription drugs for the elderly, another demand to increase the contours of the welfare state, scuttled any compromise. The conservative Gramm viewed prescription drugs as a deal-breaker while two Democratic appointees made the inclusion of a benefit as the price of their support.¹¹⁸

Even without a definitive recommendation, ten members agreed for Medicare to change from a primarily fee-for-service model to a “premium support” system. “Premium support” was a euphemism for a defined-contribution or voucher plan. The report essentially supported Republican long-range efforts for Medicare and sparked controversy. Clinton preempted the report’s announcement with his own proposals and distanced himself from the commission’s ideas. The plan found new life as the Breaux-Frist Medicare Preservation and Improvement Act of 1999. No floor time was given for debate, but the proposal became the central component for the Bush presidential campaign.¹¹⁹

Conclusion

Republican impulses for retrenchment and both deepening and expanding market mechanisms are illustrated in health policy. Several pieces of legislation added managed care options to established programs while the federal government assumed a larger role in health care. The holy grail of Republican Medicare reform, establishing a voucher system for recipients, proved elusive. A commission’s report proved the impetus for Medicare vouchers to remain on the agenda for the new millennium. In pension policy,

¹¹⁸ Oberlander, Jonathan. *The Political Life of Medicare* (Chicago: University Press of Chicago, 2003), pp. 183-189

¹¹⁹ Ibid; Smith, 2002, p. 354.

three commission reports played the same role of moving the debate toward markets and resemblance to the private sector.

PENSIONS

Public pension policy was quiescent during the quarter century stretching from 1970 to 1995. After Stockman created a stir by recommending Social Security reductions in 1981, public pensions remained largely exempt from efforts to rebrand the welfare state in a market direction. At the same time, there were seismic changes occurring in the private pension landscape. Large corporations were shifting away from defined-benefit to defined-contribution pensions. A whole new collection of plans, particularly 401Ks and IRAs, forced individuals to actively participate in preparations for their own retirement. Federal policy, intentionally and unintentionally, quickened the departure from defined-benefit pensions.

By 1995 a convergence of several factors precipitated the structure of the private pension field to bleed into the public domain. First was the changing political landscape. Republicans now controlled Congress and occupying the White House was a market-friendly New Democrat, Bill Clinton. Second, this receptive audience understood that the Social Security trust fund would run deficits in the 21st century. Third, workers in the private sector had experience with IRAs and 401Ks and would presumably favor a similar paradigm for Social Security. Fourth, the stock market had unprecedented returns during the 1990s, with the Dow Jones average nearly quadrupling in value during Clinton's presidency, reaping immense profits for investors. Finally, three reports favored elements of privatization in Social Security. This constellation of forces placed pension privatization on the public agenda.

Councils and Commissions

In short order, three different councils and commissions presented reports in which at least a plurality of members proposed versions of partial privatization of Social Security. Collectively, these three grand committees proved a boon to conservatives eager to see elements of pension privatization.

That the first commission existed is steeped in ironic historical detail. In order to secure the decisive vote for his 1993 budget, Clinton had promised Senator Robert Kerrey (D-NE) to form a commission on entitlement spending.¹²⁰ Not a single Republican in either house of Congress voted for the budget. Nonetheless, the key findings of the co-chairs of the Commission's eventual report played a role in placing privatization on the immediate agenda. A Democratic budget furthered an aspect of the Republican agenda.

The Bi-Partisan Commission on Entitlement and Tax Reform, established by Executive Order on November 5, 1993 began working early in 1994. It was too cumbersome, diverse, and unwieldy to ever arrive at a consensus. It included ten Senators, ten Representatives, and a dozen members of the public. The 32 member commission failed to recommend any policy options. The two co-chairs, Senator Kerrey and Senator John Danforth (R-MO), issued their own recommendations with the rest of

¹²⁰ Teles, Steven M. and Martha Dethick. "Social Security from 1980 to the Present: From Third Rail to Presidential Commitment—and Back?" In *Conservatism and American Political Development* edited by Brian Glenn and Steven Teles (New York: Oxford University Press, 2009), p. 272.

the commission fracturing and promoting four different plans. Eight members wrote additional critical commentary.¹²¹

Kerrey and Danforth had hoped to build a consensus from their proposal; however, there was ultimately insufficient support. Nonetheless, their recommendations created a stir when released. A central element of their plan was to cut the Social Security payroll tax and redirect the money into required private accounts. Apparently the chairmen inserted this feature into the final proposal with little discussion among members.¹²² The tactic of placing private accounts as a *fait accompli* in the final product did not help rally skeptical members to the co-chairs final recommendation, leading to the commission's stalemate. Nonetheless, this co-chairs suggestion became the first mainstream group to expressly advocate for personal accounts.¹²³

The same year that the Entitlement Commission worked on its report, an Advisory Council on Social Security was analyzing options for the long-term solvency of public pensions. By law required to meet every four years, the Advisory Council had a predetermined agenda. The Secretary of Health and Human Services, Donna Shalala, requested the Council to focus on long-term fiscal imbalances in Social Security and comment on policies affecting retirement income. Structuring the question in this way would seem to be a signal that the council would consider partial privatization. Another signal that the Administration may have wanted to upset the status quo was that membership included individuals not vested with a stake in the current program. Most notably, Carolyn Weaver, a longtime advocate of privatization and staffer for Bob Dole,

¹²¹ *Report of the Bipartisan Commission on Entitlement and Tax Reform*. Accessed <http://www.ssa.gov/history/reports/KerreyDanforth/KerreyDanforth.htm> March 30, 2010.

¹²² "Entitlement Bungling," *The New York Times*, December 13, 1994, p. A28.

¹²³ *Report of the Bipartisan Commission*.

held a place on the council.¹²⁴ Once again, Clinton was brandishing his “New Democratic” credentials. This time, he seemed to be ahead of the Republicans on the curve of setting the elements in motion to transform Social Security.

The Council met from 1994-1996. The 13 members represented a wide array of ideological interests, so they splintered in promoting a final recommendation. They suggested three competing proposals. Perhaps the most striking facet was that even the most liberal alternative, steeped in the Social Security tradition, was markedly to the right of Social Security policy up to that date. All three proposed options included a role for the stock market. There was an assumption that stocks will always out-perform treasury securities, certainly in the long-term. Two of the proposals went further, with the unstated assumption that short-term fluctuations in the market were not serious enough to prevent proposals for privatization with individual accounts.

The liberal option, associated with the champion of Social Security, Robert Ball, garnered six votes of the Council’s membership.¹²⁵ This group proposed an increase in income taxes on Social Security benefits, a payroll tax increase in 2045, and mandating the government to invest a portion of the fund’s assets in common stocks representing the broad market.¹²⁶

The alternative located in the ideological middle and supported by the council’s chairman, Edward Gramlich, and one other member, called for creating “individual accounts” to supplement the current Social Security system. The proposal would reduce

¹²⁴ Dethrick and Teles, 2008, pp. 271-272 .

¹²⁵ Pear, Robert. “Panel on Social Security Urges Investing in Stocks, but is Split over Methods,” *The New York Times*, January 7, 1997, p. A1.

¹²⁶ “1994-1996 Advisory Council Report,” Accessed <http://www.ssa.gov/history/reports/adconcil/report/preface.htm> March 30, 2010.

benefits for middle and higher-level income workers. These individuals would have a required increase in payroll taxes of 1.6 percent, to be invested in defined contribution accounts. This group envisioned that the individual accounts would function similar to 401Ks, giving employees constrained investment choices.¹²⁷ Gramlich believed that investment in stocks represented only “a slight increase” in risk and would reap generous benefits. He argued that giving individuals “ownership” of their retirement a major improvement over the older system.¹²⁸

The most conservative plan, which secured a plurality of 5 votes, proposed introducing Personal Security Accounts which would replace, not supplement, a portion of Social Security. This alternative called for 5.0 percent of the current payroll tax in a private account. According to the report, all these options went beyond resolving Social Security obligations and had the potential of creating wealth and generating higher future national income (working on the assumption that investment in stocks was a panacea).¹²⁹

Seven of the thirteen members of the Council were ready to introduce private accounts. This was a radical departure from reports issued by previous councils, that sought to shore up support for the public pension system through payroll taxes and benefit reductions. The council also demonstrated the difficulty of assembling a middle ground for Social Security. The “moderate” proposal only secured two votes, with liberals and conservatives branching away from each other in different directions.

Finally, a National Commission on Retirement Policy, an initiative of the Center for Strategic and International Studies, a public policy research institute, launched a

¹²⁷ “1994-1996” Advisory Council Report.”

¹²⁸ Pear, Robert. “Plan Would Have Social Security Put Some Money in Stock Market,” *The New York Times*, February 17, 1996, p. 1.1.

¹²⁹ “1994-1996” Advisory Council Report.”

study.¹³⁰ The congressional co-chairs, Senator Judd Gregg (R-NH), Senator John Breaux (D-LA), Representative Jim Kolbe (R-AZ), and Representative Charles Stenholm (D-TX) all had interest in partial privatization. The 24-member commission released a report in May 1998. They advocated diverting approximately 16% of the Social Security payroll tax to a private account. (The payroll tax constituted 12.4% of a worker's salary—half paid by the employee and the rest coming from the employer. Thus, nearly 16% of the payroll tax represented a total of 2% of the entire salary). Notably, this plan called for keeping current retirees in the traditional Social Security system with the privatization proposal affecting only younger workers. This plan also did not call for raising the payroll tax.¹³¹

Co-chair Gregg gushed, “this report brought together people who really understand the issue.” What he left unsaid was that opponents of privatization, such as members of organized labor and some academics, were purposely left off the committee. *The New York Times* article describing this report also argued that the contemporary surging stock market allowed for the privatization recommendation to gain traction. Even though this commission was making policy for the long-term, relatively short-term dynamics helped provide support for the preferred outcome.¹³²

These commissions and councils helped to provide mainstream legitimacy for formerly fringe ideas. Serious policy thinkers were converging to accept a role for the

¹³⁰ “Can America Afford to Retire: The Retirement Security Challenge Facing You and the Nation.” Accessed at <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1005&context=institute> March 30, 2010.

¹³¹ Stevenson, Richard W. “Bipartisan Plan for Rescue of Social Security Involves Markets and Retirement at 70.” *The New York Times*, May 17, 1998, p. A17.

¹³² Ibid.

stock market in Social Security investments, with many open keen for private accounts that resembled the shifts taking place in the private sector. It had become inevitable that political actors would now take Social Security privatization seriously.

The Political Actors

Discussion concerning Social Security's future exhibited remarkable change over the course of just two Congresses. Senator Alan Simpson (R-WY) held a hearing in the summer of 1995 on Social Security Privatization.¹³³ Two companion pieces of legislation S824 (title), an optional arrangement and S825 (the Strengthening Social Security Act of 1995), a mandatory plan, were on the agenda. The crux of each of these bills was a proposal for workers to set aside approximately 16% of the payroll tax for private accounts in exchange for fewer guaranteed benefits.¹³⁴ Senator Simpson portrayed his efforts to reform Social Security at that juncture as a "lonely crusade." He referred to himself and Senator Kerrey as a "hardy pair of ragamuffins" tilting against the establishment.¹³⁵

The whole buccaneer mentality regarding Social Security policy had changed by the next Congress. First, the Senate Finance Committee—not the subcommittee—held extensive hearings with many more witnesses. Numerous politicians, including Treasury Secretary Lawrence Summers, testified. The committee chair, William Roth (R-DE) began his remarks suggesting that "the most discussed challenge to retirement security is

¹³³ "Privatization of the Social Security Old Age and Survivors Insurance Program," *Hearing before the Subcommittee on Social Security and Family Policy of the Committee on Finance: 104th Congress, 1st Session on S. 824*. August 2, 1995.

¹³⁴ Koitz, David S.. "Privatization of the Social Security," p. 5. See also Kerrey, Robert, "Proposals to Create Personal Savings Accounts Under Social Security," *Hearing before the Subcommittee on Social Security and Family Policy of the Committee on Finance: United States Senate, 104th Congress, 2nd Session*, May 20, 1996, p. 3.

¹³⁵ Simpson, Alan K., "Privatization of the Social Security," p.1.

Social Security's long-term solvency.”¹³⁶ This was a different opening than what Simpson, three years previously, characterized as an issue that no one wanted to discuss.

The ranking member, Daniel Patrick Moynihan (D-NY), seemed intrigued by the notion of personal retirement accounts. He viewed the concept as a “new dimension appropriate to the end of the century” and a way of changing the way to conceive of “the hierarchal relations of an industrial society. This is a wholly new idea. It is shared across the dais. I hope it will be listened to as a new idea, with enormous import for the years to come.”¹³⁷ Despite Moynihan's assertion, privatization schemes had been around for decades and had become a staple of newly emerged think tanks in the early 1980s. What was new was that they engendered serious mainstream discussion. As the contrasting tenor of the hearings between the 104th and 105th Congress indicate, while the recycled policy proposals changed little over the years, the reception on Capitol Hill to privatization was entirely new.

Both political parties had internal divisions regarding Social Security. While most Republicans were keen to see the introduction of private accounts, they were split on the financing mechanism for the transition costs from a full pay-as-you go system to one which included individual savings for the future. One idea was to finance the transition costs from the surplus. However, while many Republicans would like to see Social Security privatization, they wanted immediate tax cuts even more. Without a president of their own party, they were largely willing to punt on the issue and let the Democrats lead.

¹³⁶ “New Directions in Retirement Security Policy: Social Security, Pensions, Personal Savings and Work,” *Hearing before the Committee on Finance: United States Senate*, 105th Congress, 2nd session. July 22, 1998, p. 1.

¹³⁷ *Ibid.*, pp. 2-3.

There were deep divisions within the Democratic caucus. Some congressional Democrats also relished introducing personal accounts. Senator Kerrey commented, “there is no more Democratic idea than building a generation of wealthy Americans who participate in our economy rather than feeling isolated from it.”¹³⁸ However, many liberals had no appetite to discard a reverently held part of their heritage, the fundamental structure of Social Security as originally conceived by Franklin Roosevelt. This would be one New Deal scalp too many. Earl Pomeroy (D-ND) in the House and Ted Kennedy (D-MA) in the Senate decided to coordinate a response to conservatives. They, in effect, adopted the Advisory Council’s liberal alternative position of shifting cash from treasury-backed securities to the stock market with the federal government assuming both profits and risk.¹³⁹

Left-leaning interests pushed these liberals in Congress to shield Social Security. According to Roger Hickey, the co-director of the Institute for America’s Future, “there has been a major push by well-funded organizations who are getting money from Wall Street and elsewhere to promote Social Security privatization and are doing so by promoting an exaggerated sense of crisis.” Hickey admitted that conservatives had “jumped” in front on the debate. He vowed a vigorous liberal response.¹⁴⁰

On the other hand, the market-friendly Clinton, looking for a larger legacy than impeachment hinted willingness to consider partial privatization. Also longing for a place in posterity was Speaker Gingrich. Both were men of insatiable ambition. They

¹³⁸ Stevenson, Richard W. “Social Security Nudges Onstage,” *The New York Times*, December 8, 1998, p. A24.

¹³⁹ Stevenson, Richard W. “Democratic Allies Mount Counteroffensive on Social Security,” *The New York Times*, June 17, 1998, p. A20.

¹⁴⁰ Ibid.

deemed themselves transformational figures, stymied by each other. At considerable risk with their own bases they entered secret negotiations to work on details to transform Social Security. Erskine Bowles, Clinton's Chief of Staff, even agreed to remain in his position to help conduct the sensitive negotiations. The introduction of individual accounts was an essential component of the two reaching a compromise. They apparently reached a deal that in the 1998 State of the Union Address Clinton would broach the issue of changing Social Security. Newt Gingrich, delivering the Republican response, would offer encouraging words that the GOP hoped to work with the president on Social Security.¹⁴¹

Then the Monica Lewinsky scandal broke. Gingrich knew this salacious affair had destroyed any opportunity for bipartisanship. Clinton would have to rely on his left flank to save his presidency.¹⁴² For the rest of his speakership, Gingrich's primary efforts were shepherding the Republican response to the scandal and subsequent impeachment. Clinton chose to discuss Social Security in the State of the Union. He promised to use the future surplus to preserve the program. He then promised in a year to "convene the leaders of Congress to craft historic, bipartisan legislation to achieve a landmark for our generation, a Social Security system that is strong in the 21st Century."¹⁴³ However, Majority Senate leader Trent Lott (R-MS), not Gingrich, delivered the Republican response. The speech, entitled "Family, Faith, and Freedom," sounded conventional

¹⁴¹ Gillon, 2008, pp. 220-221.

¹⁴² Gillon, 2008, pp. 224-225.

¹⁴³ Clinton, William J. "Address Before a Joint Session of the Congress on the State of the Union," January 27, 1998, *The American Presidency Project* [online], accessed <http://www.presidency.ucsb.edu/ws/rint/php?pid=56280> accessed April 1, 2010.

conservative themes while avoiding focusing on bipartisan deals concerning Social Security.¹⁴⁴

Republicans and Clinton engaged in strategic posturing about Social Security over the next two years. Both were concerned about pressure from the left. There was a conference on Social Security in December 1998.¹⁴⁵ After the eclipse of Newt Gingrich, Republicans insisted that Clinton offer the legislation under the precondition that private accounts be part of the measure. “He’s going to have to show some courage,” opined Senator Lott. Ways and Means Chair Bill Archer (R-TX) also wanted to see Clinton lead on the issue, hoping to cement an entitlement legacy. Yet the president was so weakened politically that besides skillful oratory provided in State of the Union addresses Clinton could do little.¹⁴⁶

Clinton’s inclinations eventually led for him to consider a version of the Social Security Advisory Committee’s “moderate plan” in the 1999 State of the Union Address. The president would carve out individual “universal savings accounts [USA]” to supplement Social Security. The speech also called for the federal government to invest portions of the Social Security funds in the private sector.¹⁴⁷

Partisan positions hardened in the last years of the Clinton presidency. The GOP leadership suggested that it was willing to set aside 62% of the projected budget surplus for the transition costs enabling a partial privatization of Social Security. Clinton made it clear that he wanted to allocate 62% of the projected surplus to secure Social Security’s

¹⁴⁴ Gillon, 2008, p. 228.

¹⁴⁵ Gillon, 2008, p. 234.

¹⁴⁶ Stevenson, “Social Security Nudges,” p. A24; Gillon, 2008, 267-268.

¹⁴⁷ Clinton, William, J. “Address Before a Joint Session of the Congress on the State of the Union,” January 19, 1999, *The American Presidency Project* [online], <http://www.presidency.ucsb.edu/ws/?pid=58708> accessed April 3, 2010.

future with private accounts only serving as a supplement to the standard benefit. Many congressional Democrats also wanted to set aside the projected surplus to shore up the finances of conventional Social Security, a precursor to the notion of a “lockbox” that Gore would make central to his campaign.¹⁴⁸

Social Security became a defining theme of the 2000 election. Al Gore proposed reserving the projected budget surplus for Social Security in exchange for smaller tax-cuts. He hoped to infuse the Social Security system with enough funding to overcome long-term deficit projections. The Democratic platform proposed “Retirement Savings Plus” as “voluntary, privately-managed savings accounts with a government match that would help couples build a nest egg of up to \$400,000.” This proposal would be kept separate from Social Security and serve as an additional retirement fund. This was the Democratic response to Republican individual accounts and larger tax cuts.¹⁴⁹

Both Bush and the Republican Platform dismissed the Democratic proposals as “slogans” and not “attending to the stability of our most important domestic program.” The Republican platform then, in an apparent contradiction, lambasted the Democratic plan. The platform criticized the Democratic proposal to “let the government buy stocks on behalf of the Social Security trust fund.” That was an unmitigated “power grab over the entire American economy.” The platform then details, “personal savings accounts must be the cornerstone of restructuring . . . choice is the key. Any new options for retirement security should be voluntary, so workers can choose to remain in the current

¹⁴⁸ Stevenson, Richard W. “Lawmaker Presents Republican Plan for Social Security,” *The New York Times*, February 18, 1999, p. A18.

¹⁴⁹ “Democratic Party Platform of 2000,” August 14, 2000. *The American Presidency Project* [online]. <http://www.presidency.ucsb.edu/ws//pid=29612> Accessed April 3, 2010.

system or opt for something different.” The proposal excluded all current retirees from future changes.¹⁵⁰

A remarkable transformation in the politics of Social Security had ensued over a few short years. As late as 1996 in the presidential primaries Bob Dole (R-KS) blasted his opponent Steve Forbes, who favored Social Security privatization, as promoting “a radical untested plan that would end Social Security as we know it.”¹⁵¹ Dole soon converted to accepting privatization, as did most Republicans. Partial privatization had become an uncontroversial element of the 2000 platform. There is no evidence that public pressure precipitated these changes. The source for this concept came from elites.

The dynamics of private sector pensions influenced this shift. During these years, the federal government continued to encourage the development of 401Ks and IRAs. They were seen as vehicles to encourage personal savings. Not articulated, and certainly not realized by many participants, was that easing the creation of defined contribution pensions and IRAs helped lead to the demise of defined benefit pensions in the private sector.

Promoting the New Pension Paradigm

After the Republican takeover of Congress, conservatives set in motion a series of measures to augment individual-centered retirement. The Senate Finance Committee held hearings to analyze how to extend individual retirement accounts (IRAs) and 401K plans in 1995 and 1997, helping to propel forward the market agenda. In order to legislate a boost in the minimum wage, Clinton acquiesced to a whole series of

¹⁵⁰ “Republican Party Platform of 2000,” July 31, 2000, *The American Presidency Project* [online], accessed <http://www.presidency.ucsb.edu/ws/?pid=25849> April 3, 2010.

¹⁵¹ Pear, “Plan Would Have Social Security,” February 17, 1996, section 1, p. 1.

compromises with the Republican Congress as part of the Small Business Job Protection Act of 1996. Nine million new workers became eligible to invest in 401K plans instead of less flexible investment mechanisms for nonprofit workers. IRAs increased for spouses who worked as homemakers from a cap of \$250 to \$2,000 a year. Small businesses received the option of offering “savings incentive match plans,” much like IRAs, to workers who could invest a maximum of \$6,000 a year. Employers would contribute between two and three percent of an employee’s salary as a match.¹⁵²

As part of the Taxpayer Relief Act of 1997, Congress enacted the largest tax cut since 1981 to promote targeted investment behavior. A key element was to make the conventional IRA more appealing, through raising the income limits restricting eligibility for tax-deductible contributions. The maximum amount allowed for a contribution would increase for a younger worker from \$2,000 to \$5,000 over the course of a decade.¹⁵³ An even more significant change was the creation of the Roth IRA. This IRA would allow high-income earners to save money in a version of a traditional IRA possessing somewhat different taxation rules.¹⁵⁴ Democrats complained that the legislation favored the wealthy over the poor, but hesitated opposing a bill they thought would prove popular with upper middle class swing voters. In the original House version of the Taxpayer Relief Act (HR 2014), most House Democrats voted against the legislation, however ended up supporting a somewhat more palatable Conference Report. The majority of Democratic Senators voted with Republicans in both the original and conference votes

¹⁵² Hershey, Robert D. “Some Features of Wage Bill Help Ease Pain for Business,” *The New York Times*, August 22, 1996, p. B12.

¹⁵³ Stevenson, Richard W. “Expanded Options for Salting Money Away to Retire,” *The New York Times*, August 10, 1997, section 3, p. 5.

¹⁵⁴ Damato, Karen. “Washington Gives IRA Gift to Investors Who Now Must Wonder How to Open It,” *The Wall Street Journal*, August 1, 1997, p. C1.

(see Table 7.6).

Table 7.6: Votes on the Taxpayer Relief Act of 1997 (HR 2014) ¹⁵⁵

Votes	Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
#1	226	1	27	177	253	179
#2	225	1	64	41	389	43
#3	51	4	29	14	80	18
#4	55	0	37	8	92	8

Vote #1: House passes the legislation, June 26, 1997.

Vote #2: House passes the Conference Report, July 31, 1997.

Vote #3: Senate passes the legislation, June 27, 1997.

Vote #4: Senate passes the Conference Report, July 31, 1997.

Congress again attempted to pass pension legislation in 1999. The Portman-Cardin pension bill (named after Representatives Robert Portman [R-OH] and Ben Cardin [D-MD]) would accelerate the allowable contribution to an IRA to \$5,000 by 2003 and at least \$500 more per year after that. The tax-deferred cap on 401K pension plans would increase from \$10,500 to \$15,000 a year. These tax breaks would cost the treasury an estimated \$52.2 billion over a decade.¹⁵⁶ Democrats complained that the bulk of benefits would go to upper level earners, but most feared to vote against legislation in

¹⁵⁵ Sources: *1997 Congressional Quarterly Almanac*: Vote #1: p. H-78, vote #245; Vote #2: p. H-106, vote #350; Vote #3: p. S-28, vote #160; Vote #4: S-36, vote #211.

¹⁵⁶ *2000 Congressional Quarterly Almanac*, pp. 18-33-18-34.

an election year (Table 7.7).¹⁵⁷ It became knotted in a legislative tangle in the Senate, pushing the bill to the next administration.

Table 7.7 : Portman-Cardin Act (HR 1102), July 19, 2000¹⁵⁸

Rep. Yes	Rep. No	Dem. Yes	Dem. No	Total Yes	Total No
218	1	182	23	401	25

In general, it was left unsaid that the consequence of expanding access for 401K pensions and IRAs was that the federal government helped to quicken the decline of defined-benefit pensions. It was much easier for corporations to institute a low-cost defined-contribution pension rather than complying with complex regulations to fund defined-benefit pensions.¹⁵⁹ Table 7.8 shows the continued hemorrhaging of defined-benefit pensions and the concurrent increase in defined contribution pensions.

Table 7.8: Attributes of Pension Plans in the Private Sector by Type per Year¹⁶⁰

Year	Number of Defined Benefit Plans	Number of Defined Contribution	Number of Participants in Defined Benefit	Number of Participants in Defined
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¹⁵⁷ Alvarez, Lizette. "House Votes to Raise Limits on Retirement Plan Savings," *The New York Times*, July 20, 2000, p. A20.

¹⁵⁸ *2000 Congressional Quarterly Almanac*, p. H-128, vote #412.

¹⁵⁹ Ghilarducci, Teresa. *When I'm Sixty-Four: The Plot against Pensions and the Plan to Save Them* (Princeton, NJ: Princeton University Press, 2008), p. 108; Hacker, Jacob S. *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement and How You Can Fight Back* (New York: Oxford University Press, 2006), pp. 118-129.

¹⁶⁰ Source: "Private Pension Plan Bulletin Historical Tables," U.S. Department of Labor Employee Benefits Security Administration, February 2008. Accessed www.dol.gov/ebsa/pdf/privatepensionplanbulletinhistoricaltables.pdf April 2, 2010.

		Plans	Plans	Contribution Plans
1995	69,492	623,912	39,736,000	47,716,000
1996	63,657	632,566	41,111,000	50,605,000
1997	59,499	660,542	40,392,000	54,593,000
1998	56,405	673,626	41,552,000	57,903,000
1999	49,895	683,100	41,427,000	60,368,000
2000	48,773	686,878	41,613,000	61,716,000

The result of public policy as well as broader economic forces had turned the United States from a defined-benefit to defined-contribution pension haven. According to the Federal Reserve Board's Consumer Survey, pension coverage for most households had shifted predominantly to defined contribution pensions at the beginning of the 21st century. 58% of households relied on defined contribution pensions alone, 19% of households had stand-alone defined benefit plans, and 23% of households possessed both types of pensions.¹⁶¹

It is unlikely a grand Republican strategy existed outside think tanks to abet this transformation. However conservative intellectuals relished the development of a nation of shareholders. They thought it would ease the transition to privatize Social Security with the potential of creating a lasting Republican majority.¹⁶²

¹⁶¹ Munnell, Alicia H. and Annika Sunden. *Coming Up Short: The Challenge of 401K Plans* (Washington, D.C: Brookings Institution Press, 2004), pp. 1-2.

¹⁶² Hacker, Jacob, S. *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (New York: Cambridge University Press, 2002), pp. 170-171.

Pension policy expanded the frontier of the market-based welfare state. By the turn of the millennium, social policy forged by Republicans had reached into most areas of the welfare state. Democrats had retreated from their own vision of social policy and had adopted many market incentives for structuring the welfare state. There was still partisan contention concerning policy, however Republicans and Democrats were moving along the same direction.

Conclusion

What animated the congressional Republican majority during their years as a congressional majority while jousting over policy with Clinton? Deficit control, a commitment to cutting taxes, and devolution are usually emphasized. This chapter also suggests that remaking social policy along a market model was an equal facet of the agenda. After the 1994 election, retrenchment was an impulse that resonated with the Republican majority. Yet, as in the past, dismantling the welfare state proved difficult. The Republicans pursued a strategy of revamping social policy according to markets that proved more long lasting. This theme infused all four policy areas surveyed in this dissertation and with Democrats combating Republican maneuvers by embracing market mechanisms in social policy. In essence, with the Democratic Party fairly committed to market policy, the Republican vision had triumphed more than any Republican politician before the 1990s could have dreamed.

Republicans reformed welfare in this period, always stressing that they envisioned a new version of poverty assistance that worked. They praised devolution while keeping a watchful eye on the states to implement reforms that congressional Republicans supported. Democrats abandoned all pretenses of supporting New Deal and Great

Society housing policy during this period, even making the radical suggestion of transforming housing assistance into a pure voucher program. The two political parties jostled over the nature of enterprise zones and other market based housing policy. Yet they had reached fundamental agreement that a housing policy resembling what earlier Republicans had called for was the correct direction for the future. After difficulties in retrenching large health programs, Republicans did their best to infuse them with market mechanisms, such as managed care and medical savings accounts. During this era, the new variety of individual-centered private pensions spread to become fully considered in the public domain. A version of Social Security privatization came close to fruition during the Clinton presidency.

The conclusion to the dissertation will summarize details of Republican welfare state policy across time. It will then consider underlying political dynamics that sparked this political and policy phenomenon. Finally, the dissertation will look at market based welfare state policy as a central tenant of the ideological core of the party. The Republican commitment to markets in the welfare state is as strongly established as Republican tendencies toward deficit control, federalism, and tax-cutting. The conclusion will suggest which directions the Republican welfare state will take in the future.

Chapter 8: Conclusion: The Excavation of an Idea

The development of the American welfare state is amenable to splitting into two time periods. The first era, the one with which most observers are already familiar, is one of Democratic dominance. Before the liberal heyday the welfare state had its origins as part of state-level progressive reforms, particularly widows' pensions in the early decades of the twentieth century. Then, beginning in the 1930s, as a result of the Great Depression, normal voting patterns became disrupted and Democrats won national elections, often by wide margins. The Democratic majority was large and powerful enough to expand the welfare state at the federal level in two massive pieces of legislation in 1935 and 1965. The Social Security Act of 1935 created a public pension system and AFDC while the Social Security Amendments of 1965 introduced Medicare and Medicaid. Along with the Federal Housing Act of 1937, these legislative enactments are the origins of the four cases surveyed.

The second era of the welfare state encompasses the years following this "golden age." The evolution of the modern American welfare state coincides with a resurgence of the Republican Party. The GOP introduced a changed ideological discourse while moving toward electoral parity and sometimes superiority over Democrats. I characterize these years as the age of a market welfare state. The formation of this recent version of social policy is subtler than what occurred in the first period. Instead of grand pieces of legislation, new programs often find life as demonstration projects. Rather than having the federal government provide direct benefits, other market mechanisms such as tax credits, vouchers, savings accounts are the constituent elements of this new welfare state. Attempts to evaluate recent developments often get garbled due to the construction

of a powerful narrative that best describes the earlier period. Put simply, Democrats are given credit for building the welfare state and Republicans are seen as the agents attempting to thwart liberal expansion. My argument is that in the seeds of opposition, Republicans developed a strategy to accommodate and reorient the welfare state on terms palatable to conservatives. The new welfare state taps into markets by celebrating mechanisms that lead to mainstream employment, entrepreneurship, and wealth creation.

The formation of this new social policy has been haphazard. Nixon fathered many of these initiatives as a means to leave his party's own imprint on social policy. Once Republicans began winning elections with more consistency around 1980 the party sometimes reflexively attempted to retrench. However, such efforts met with public outcry. In order to prove themselves capable of governance, Republicans had to serve as both stewards and agents who could revitalize popular programs. This imperative proved less daunting for anti-poverty programs. Some of these policies, dating from the 1930s, were "New Deal scalps" targeted by Republicans. Nonetheless, the GOP still offered substitutions, often with a punitive quality, to replace vestiges of the New Deal.

Self-discipline and personal responsibility are key factors uniting all four of the cases surveyed. TANF operates by giving beneficiaries work requirements in order to qualify for payments. In the other cases, vouchers, tax credits, and savings accounts promote individuals choice but also the responsibility for foresight and planning. While all these case studies emphasize personal discipline, the programs for the poor relate more closely to retrenchment while the popular entitlements contain variants of market mechanisms.

The preceding chapters have traced the origins of the infusion of market dynamics in the American welfare state. This narrative has held resonance over the course of the history of the United States. During the last four decades, a concept that is usually applied to the fields of business and economics became central to the realm of social policy. This has become as strong an impulse as the tradition of government directly delivering standard benefits packages.

A whole series of new programs, initiatives, and proposals have transformed the whole architecture of the welfare state. Many of these programs are policy concepts whose origins and evolution are explained through short-term political calculations and compromises. However, the thread behind these proposals and new programs is ideological. Republicans have offered a new version of social policy and most new programs in recent decades are market-based, no matter their partisan genealogy. Therefore Democrats mimic the Republicans in promoting market-based social policy. Even old-bull liberals have adopted this attitude. Rep. Charles Rangel (D-NY), who rejected the notion of market-based policy for years switched positions. He finally responded, “what the hell” and accepted Republican ideas for market-based social policy.¹ If Democrats could not get old-style social programs, half a loaf was a more attractive proposition than nothing.

A new analytic frame for the welfare state is helpful, because it pulls away from the old binary construction of welfare state expansion versus retrenchment. The contours of the American welfare state have moved rightward (smaller), leftward (larger), and in

¹ Lemann, Nicholas. “The Myth of Community Development.” *The New York Times*, January 9, 1994, section 6, p. 27.

directions difficult to categorize when employing the old binary.² The Republican welfare state thesis can explain both reductions in traditional welfare spending and growth in health care provision.

Reshaping the Welfare State

Republicans organized in opposition to Democrats in the 1930s and 1940s before acquiescing to the established welfare state in the 1950s. A proactive Republican response evolved around 1970, during the Nixon administration. He knew he needed an animated domestic policy in order to succeed. After reading a biography on Disraeli, Nixon thought the British Prime Minister's model—a conservative leader achieving liberal ends—worthwhile to emulate. Nixon had no use for the Great Society, but in a series of serendipitous events, he created the first stirrings of a domestic policy that would serve as a template for future Republican presidents.

Nixon's specific proposals largely failed to get enacted. He called for an overhaul to terminate the least popular aspect of the New Deal, the AFDC program, and replace it with a welfare system that appropriated libertarian economists' conceptions of a negative income tax. The Family Assistance Plan (FAP) would have given poor families a voucher to spend as they saw fit. This proposal, an unadulterated market concept, was not viable since it did not appeal to conservative southerners as well as northern liberals. After casting about for a housing policy, in his second term Nixon seized on vouchers as a better alternative to the supply of public housing. Congress refused to enact vouchers as a mainstay of policy, but decided that rental certificates were a feasible idea to

² Smith, Mark A. *The Right Talk: How Conservatives Transformed the Great Society into the Economic Society* (Princeton, NJ: Princeton University Press, 2007), p. 7.

supplement the erection of tenements. Nixon also proposed a national insurance scheme using private insurance as the means to achieve universalism.

More quietly, portions of Nixon's legislative agenda, after massaging by Congress, did become law. The Earned Income Tax Credit (EITC) was the portion of FAP that became enacted. A new health policy concept gained traction with the passage of the Health Maintenance Organization (HMOs) Act of 1973. The Nixon administration also introduced the first Individual Retirement Accounts (IRAs), presaging an era of individually controlled and designed pensions. Therefore, the Nixon administration laid the groundwork for further reworking of the welfare state.

Ford, in his truncated presidency, generally followed the initiatives begun by Nixon. Carter, a Democratic president, attempted to chart a course that bridged liberal conventions with newer market-based ideals. He largely recycled, sometimes under a new guise, aspects of Nixonian policy. After Carter, welfare vouchers fell off the agenda, but other applications of the voucher concept became increasingly popular in the succeeding administration.

Reagan moved social policy in a market direction during his eight-year presidency. He refocused the debate on welfare from providing vouchers to promoting work, certainly a value consistent with a new Republican welfare state. As part of his 1981 budget Reagan began a program for state innovation that eventually was reborn in an Executive Order in 1987 as a state waiver demonstration project. Reagan is noted as a champion of the Earned Income Tax Credit, a program that aided the working poor.

While Nixon experimented for years before arriving at housing vouchers as preferred policy, the Reagan administration fought from the beginning for the concept.

The Democratic Congress finally relented and created a voucher program in 1987. Other Republican ideas including enterprise zones, tenant management and the low income housing tax credit enriched the discourse in housing policy.

In the realm of entitlements, after an early brush with cutting Social Security benefits that became a disaster for public relations, the Reagan administration ceased retrenchment efforts. It worked to inject managed care competition into the health system. Reagan attempted to revitalize the Medicare HMO program begun by Nixon. In the early 1980s HMOs for the general public underwent a major transformation from private to public sector entities. A pension revolution, fueled by Reagan's administration in low-profile rulings, transformed retirement in the private sector.

George H.W. Bush was a president who cared little for a domestic policy based on ambition and large ideas. He did allow his HUD secretary, Kemp, to introduce the HOPE program to privatize low-income public housing. Ideas for a new welfare state largely devolved to his second level aides, and battles surfaced between them and senior officials. The New Paradigm, promoted by some of these aides, actually saw fulfillment as part of the New Covenant under Clinton.

Clinton was a Democrat who redirected the party to engage market-based policy. His health care plan, attempting to use managed care, collapsed and Republicans rode that as a vehicle to reclaiming the majority in Congress in 1994. Clinton, attracted to the idea of enterprise zones, crafted a similar "empowerment zone" proposal enacted by Congress in 1993. He promised to "end welfare as we know it" in his 1992 campaign. His pledge never came to fruition before the Republicans captured control of Congress.

The Republican majority in Congress continued to promote for the intensification of market themes. Aims to retrench failed for entitlements leaving market policy as the most viable alternative. Republicans now had the strength to terminate AFDC and promised a better welfare system with TANF. New housing policy included a mixture of vouchers and new forms of enterprise zones. In health care, Medicare vouchers, once a joke, now fostered serious consideration. Eventually conservatives promoted managed care within Medicare as their contribution to the program. Even public pensions, once largely sacrosanct, became the subject for serious privatization. Numerous programs and proposals have animated the Republican attempts to refashion the welfare state. Many started small and grew larger. Table 8.1 contains a list of many of these proposals and programs that used market mechanisms to redirect social policy.

Table 8.1: Programs Incorporating Market Mechanisms

<i>The Family Assistance Plan</i>
Temporary Assistance to Needy Families (TANF)
The Earned Income Tax Credit
Section 8 Housing Vouchers/ Rental Certificates
Enterprise Zones: Empowerment/Renewal Zones
Housing Privatization: Home Opportunities for People Everywhere (HOPE)
Health Maintenance Organizations (HMOs)
Medical/Health Savings Accounts (e.g. Medisave)
Medicare Managed Care (Medicare Risk, Medicare + Choice, Medicare Advantage)
<i>Medicare Vouchers</i>
Individual Retirement Accounts (IRAs, Roth IRAs)

Defined Contribution Pensions (e.g. 401 Ks)
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<i>Social Security Private Accounts</i>
--

Note: Proposals not enacted are in *italics*.

From Bush to Obama

This dissertation has surveyed the formation of the market meta-narrative in the last three decades of the twentieth century. The zenith of Republican policy-making may have happened during the presidency of George W. Bush when Republicans controlled both the White House and Congress for the first time since 1955. During those years, Congress reauthorized TANF with more punitive mechanisms than in 1996 and housing policy went through an eclipse, despite attention paid during the 2000 election.

Bush spent political capital in both successful and failed efforts to reshape entitlements. He followed Gore in pledging to create a prescription drug benefit for Medicare. However, Bush also wanted to give seniors vouchers to choose private Medicare plans that would provide the prescription benefit. Republicans in Congress relegated Bush's privatization scheme for Medicare to a demonstration project that would not begin for at least six years. The final legislation added a prescription drug benefit for all Medicare recipients, not just those who opted for private plans as the administration advocated in 2002. Medicare + Choice, the optional managed care plan, found new life as Medicare Advantage.

Bush then turned to Social Security in his second term. He aimed to reinvent the program by transforming it from a pay-as-you go entity. The new public pension system would feature private accounts into which individuals would invest part of their Social

Security. Despite a high profile campaign, this initiative failed, marking the beginning of a second term slide for Bush.

The mismanaged Iraq War allowed Democrats to take control of Congress in 2006 and the financial crisis helped Obama to win the presidential election in 2008. The Democrats of this era had changed from their predecessors. In 2006, Democrats overhauled and expanded housing vouchers revitalizing a dormant policy domain during much of the Bush years. The largest policy change, however, was the enactment of national health insurance. The Obama plan, in all its various versions, resembled the Chafee-Dole alternative, by including an individual mandate. Thus, the Democrats of the 1970s wanted single-payer insurance, then moved right in the 1990s by agreeing to the contours of the Nixon plan, and in the 21st Century moved rightwards again, by adopting the Chafee-Dole Republican model of the mid 1990s. Market language was pervasive throughout the debate for enactment, yet Republicans were largely absent. They retreated to medical savings accounts and relaxing regulations of insurance companies as their new policy conception in an aim to thwart the Obama agenda.

In the welter of programmatic history, certain recurring patterns have developed which allowed for the new Republican version of social policy to become established. Four themes especially deserve closer scrutiny. These motifs include (1) policy entrepreneurship, (2) the politics of demonstration projects, (3) partisan polarization, and (4) party position change.

Entrepreneurship

A group of policy entrepreneurs were critical in charting the course to reshape the modern American welfare state. A number of mid and upper level bureaucrats, as well as

politicians, shifted the trajectory of government-sponsored social policy in new market directions. This innovative tendency among actors runs counter to an entrenched tradition for social science to deemphasize or dismiss the contributions of individuals in shaping policy.

In American politics, the role of the institutional process is often seen as hegemonic. When changes occur circumstances outside individual agency are assigned responsibility. Even the most talented leader who applies himself or herself to developing policy, can have at best little impact.³

A response to such a structural perspective has taken shape. Many scholars have always seen American presidents as decisive instigators of change.⁴ Non-presidential scholars have also given greater latitude to lower level actors in formulating new policies. One study aiming to reclaim individual leadership as an important variable assesses policy contributions made by thirteen federal officials over the course of a century. These individuals had a discernible influence on the shaping of policy by serving as heads of bureaus such as the Social Security Agency, Chief Forester of the United States, and Chairman of the Atomic Energy Commission.⁵ Other scholarship has evaluated the origin of how bureaucrats behave autonomously, allowing for policy entrepreneurship.⁶

³ For a study in this vein, see Kaufman, Herbert. *The Administrative Behavior of Federal Bureau Chiefs* (Washington, D.C.: Brookings Institution, 1981).

⁴ See Neustadt, Richard E. *Presidential Power and the Modern Presidents: The Politics of Leadership from Roosevelt to Reagan* (New York: Free Press, 1991).

⁵ Doig, Jameson W. and Erwin C. Hargrove, "Leadership and Political Analysis," in *Leadership and Innovation: A Biographical Perspective on Entrepreneurs in Government*, ed. by Jameson and Hargrove (Baltimore, MD: The Johns Hopkins University Press, 1987), pp. 1-26.

⁶ Carpenter, Daniel, P. *The Forging of Bureaucratic Autonomy: Reputations, Networks, and Policy Innovation in Executive Agencies, 1862-1928* (Princeton, NJ: Princeton University Press, 2001).

It is evident from this study that innovation stemming from individuals is, indeed, an important element in policy formulation. Figure 8.2 lists a number of bureaucratic and political figures that were at the cutting edge of developing policy for various Republican administrations. By the mid 1990s, think tanks had assumed a primary role in devising policy options for conservatives, largely obviating the need for bureaucrats to serve as policy entrepreneurs. Politicians still made a difference by choosing what policies to promote. For instance, Rick Santorum advocated medical savings accounts, John Chafee shepherded a health plan with an individual mandate, Carolyn Weaver, a staff member of Bob Dole, became a forceful advocate for pension privatization, and Newt Gingrich served as an architect for reshaping Republican domestic policy.

Figure 8.2: Policy Entrepreneurs Forging Elements of the Republican Welfare State

Malcolm Endicott Peabody: Housing Vouchers (Nixon)

Daniel Patrick Moynihan: Family Assistance Plan (Nixon)

Robert Finch: Health Maintenance Organizations (Nixon)

Robert Carleson: Workfare component to AFDC (Reagan)

Robert Monks: Pension regulation (Reagan)

Jack Kemp: Tenant Management, Enterprise Zones (Reagan, Bush)

Charles Kolb: State welfare waivers (Bush)

James Pinkerton: Domestic Policy (Bush)

There are limitations concerning the independence these policy entrepreneurs could exhibit. Their policy conceptualizations were unidirectional; they had to promote

ideas consistent with the market meta-narrative. Potential policy entrepreneurs whose contributions lay outside the market mechanism paradigm would not find a receptive audience for their ideas. Concepts that involved additional regulation or direct federal government activism have a much more difficult time rising to the political agenda. For instance, the Nixon administration assembled a long list of health policy options before Finch, the Secretary of Health, Education and Welfare, intervened and made HMOs official policy. Entrepreneurship has to be situated in the larger context of the powerful market meta-narrative.

Finding a Foothold: The Politics of Demonstration Projects

A recurring theme is that demonstration projects have served as the vehicle for market mechanisms to enter social policy. These pilots are a compromise position between full-fledged adoption or rejection of new ideas. The numerous demonstration projects created seem largely to have been a function of divided government, where neither side had the strength to govern without compromise. It seems unlikely that Congress would have developed so many demonstration projects with unified government. Demonstrable results are more important to members of Congress who are elected for short durations than long-awaited future projects.

Demonstration projects seem to have functioned more as a political tool of compromise than a mechanism to evaluate options for future policy-making. For instance, housing vouchers were temporary for seventeen years before finally being settled upon as a permanent component of housing policy. To summarize the empirical evidence, housing vouchers did not drive up local rents, but were not an effective tool in tight rental markets. However, these somewhat nuanced findings after years of trials

tended to get lost in ideology and politics. Nixon and Reagan advocated for vouchers wholeheartedly, while the Democratic Congress of those years did not want to support vouchers. During the Clinton presidency, the politics of vouchers switched parties. It was now a Republican Senator calling for more trials, despite the existence of an abundance of evidence concerning the efficacy of vouchers.

Other programs that found birth as demonstration projects include the EITC, HMOs, state welfare waivers, medical savings accounts, and managed care within Medicare. In all these cases, despite the implementation of demonstration trials, it does not appear that policy assessment played a large role in congressional decision-making. The EITC was made permanent in 1978 with little discussion about the program by legislators.⁷ Health Maintenance Organizations were scandal-ridden entities throughout the 1970s and 1980s, yet the presidents of the time, such as Nixon, Carter, and Reagan, seemed to have unwavering belief in their long-term viability, no matter what actual outcomes indicated in terms of cost savings. There is strong evidence that the welfare reforms of 1981, modeled after Reagan's California Plan, had no empirical basis that demonstrated they operated well in terms of finding work for welfare recipients. Despite the CBOs skepticism about medical savings accounts in saving money (they are consistently scored as increasing the deficit), Republicans have promoted them as an article of faith. Likewise, none of the pilot managed care plans for Medicare have proven successful in constraining costs. Insurers fled Medicare + Choice in droves soon after the creation of the program. While promoting managed care as a cost-saver, the only way the federal government has had the ability to create a successful program in Medicare is

⁷ See Howard, Christopher. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton, NJ: Princeton University Press, 1997), p. 144.

through over-subsidization. In the 21st century, Medicare Advantage (the successor to Medicare + Choice) costs taxpayers 14% more than traditional Medicare.⁸

The politics surrounding demonstration projects are illustrated in a case where politicians refused to develop a pilot. In the 1995 welfare reform hearings leading up to the enactment of TANF, a panel of social scientists, including Glenn Loury and James Q. Wilson, testified to discuss illegitimacy. They agreed tough measures could be necessary to reduce the pervasive problem. However, they were hesitant about cutting benefits since there was little empirical evidence that such reductions would decrease illegitimacy and “reweave the garment.” They called for a demonstration project to study whether the Republican welfare remedy would prove beneficial.⁹ The Republican Congress had no interest in adopting such half-measures. It was not politically advantageous, since Republicans had the advantage on the welfare issue. They either wanted to get credit for ending AFDC or force Clinton to veto the measure in order to have an issue for the 1996 election year. Careful evaluation was not part of that agenda.

In order for Republicans to insert market mechanisms in social policy and break with the past during divided government, demonstration pilots proved the ideal tool. This compromise should not be seen as a device to analyze policy, but rather as a political expedient.

Polarization

There is a need to qualify a narrative found in both the media and academic literature. In the words of one political scientist, “bipartisanship is a good thing in major

⁸ Pear, Robert. “Medicare Officials to Let Insurers Warn Recipients about Pending Health Bills,” *The New York Times*, October 16, 2009, p. A10.

⁹ Haskins, Ron. *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, D.C: Brookings, 2006), pp. 129-130.

welfare-state enterprises if they are to stick.”¹⁰ In the same article, a newspaper reporter stated, writing during the tumult of the 2009 debate over national health insurance, that “the bipartisanship exhibited in the passage of two other ambitious domestic programs that offer one historical backdrop for the debate, Social Security in 1935 and Medicare and Medicaid thirty years later” was absent from the debate over Obama’s health care plan. The article noted that 81 of 102 Republicans in the House and 16 out of 25 in the Senate voted for Social Security in 1935.¹¹ If one reviews only the final votes for passage, of the 267 major pieces of legislation enacted between 1946 and 1990, 186 of them were enacted with bipartisan majorities.¹²

This evidence, which focuses only on final roll call votes, overstates the bipartisan nature of legislative output in regards to social policy. What the previous newspaper writer neglects to mention is that immediately prior to the final Social Security vote, all but one of the Republicans voted to recommit the legislation in order to kill the bill. All but ten House Republicans also voted to recommit Medicare. This belies the story that Republicans participated and gave bipartisan acquiescence to the formation of Social Security and Medicare. They were not relevant to the final legislation and switched their votes for blame-avoidance.

In more recent years, the use of the recommit motion in the House to express opposition before switching in the final vote for passage seems to have faded. However, there are other recurring elements that make the final votes for passage still not a good

¹⁰ David Mayhew in Nagourney, Adam. “Partisan or Not, a Tough Course on Health Care,” *The New York Times*, July 26, 2009, p. A1

¹¹ Ibid.

¹² Mayhew, David R. *Divided We Govern: Party Control, Lawmaking, and Investigations 1946-1990* (New Haven: Yale University Press, 1991), pp. 119-124.

barometer of bipartisan support. Even in some final votes that garnered near unanimous consent, there was little agreement. The Quality Housing and Work Responsibility Act of 1998 is a case in point. It took years to develop the legislation with Republicans and Democrats fundamentally opposed to many elements. The House reported the original bill with 132 dissenting votes mainly from Democrats. A number of Democratic Amendments failed to pass, such as additional funding for vouchers. Meanwhile Republicans added provisions stripping housing protection for Aids victims and other issues along largely partisan lines. Nonetheless, after Conference, despite misgivings, almost all members voted for the bill. The vote was 409-14 in the House and 96-1 in the Senate, masking a very contentious piece of legislation seem noncontroversial. Future research needs to address the full legislative process in social policy development, not just reviewing final legislative votes, to evaluate the myth of bipartisan comity in welfare state development.

After the establishment of a program, bipartisan consensus may govern the program for a number of years. This was the case with Social Security and Medicare for a number of years. I would argue that those cases are the outliers. In general, large-scale policy shifts engender partisan polarization.

Party Repositioning

The Republican welfare state has developed through a series of party-centered tactical maneuvers. With the ascendance of the “New Democrats” in 1992, many liberals acquiesced to the notion of applying market mechanisms in social policy. With Democrats embracing formerly Republican concepts, certain conservative elements

recoiled from erstwhile preferred policy. Examples include the EITC, housing vouchers, and national health insurance.

Previous literature has spoken to the phenomenon of parties changing positions. One scholar describes examples of “strategic agreement” and “strategic disagreement.” When a minority, or disadvantaged, political party mimics its opponent in crafting policy positions, there is strategic agreement. Examples include Republican alternatives to Democratic national health insurance and perhaps Clinton’s housing voucher proposal. Strategic disagreement means potential for a policy compromise exists, however, to maintain political advantage, no agreement is reached. Republican obduracy on health care and the FY 1996 budget are examples of strategic disagreement.¹³ The author identified the trends of strategic agreement and disagreement as “not extremely common” as a dynamic in American politics.¹⁴ In recent years this sort of political game has picked up pace in frequency.

Recent scholarship has further refined understanding about party positioning. One study has attributed relative stability in welfare state policy, but notes political parties change position in many policy areas. The position changes I evaluate are most like the changes in fiscal and foreign affairs, where the Republican Party made large-scale changes in order to attract voters.¹⁵ My narrative suggests that Democrats made a shift to accommodate Republican values. The Republicans, in response, sometimes “trade places” with Democrats or move in relative positioning. A key element is the

¹³ Gilmour, John B. *Strategic Disagreement: Stalemate in American Politics* (Pittsburgh, PA: University of Pittsburgh Press, 1995), pp. 52-53.

¹⁴ *Ibid.*, p. 4.

¹⁵ Karol, David. *Party Position Change in American Politics: Coalition Management* (New York: Cambridge University Press, 2009), p. 184, etc.

desire to promote partisan contestation. Elements of shadowboxing, halfway measures, and counter-measures probably explain most of the shifts. The ultimate goal is to win elections, not stay consistent with policy proclivities.

Short-term and long-term political dictates obviate absolute policy preferences. Political parties are flexible. However, the politics of political advantage must confront the primacy of the market meta-narrative. Both parties in recent years aim to lay claim to the mantle as the true champion of markets. The only policy domain surveyed where this is not true is the field of public pensions, which still very nearly became privatized under both Republican and Democratic auspices.

Contextualizing the Republican Welfare State

Undergirding this dissertation is the resonance of the market narrative. It is virtually an article of faith that markets work best in the United States. At the end of the twentieth century, this was perhaps the most powerful idea for those who would develop policy. Other theoretical paradigms have animated how the federal government operates in American history. In the nineteenth century, the federal government was relatively quiescent, except in wartime. It is true that national sovereignty operated “out of sight,” as in the case of the collection of tariffs and in running the postal service. But the laissez-faire nature of federal authority is unmistakable.¹⁶ A complementary framework for guiding the rapidly developing American economy was the maintenance of the gold standard. It is difficult to overstate how the industrialists, bankers, and economists of the late nineteenth and early twentieth century believed that a stable monetary system

¹⁶ Balogh, Brian. *A Government Out of Sight: the Mystery of National Authority in Mid-Nineteenth Century America* (New York: Cambridge University Press, 2009).

underpinned by gold would keep society functioning smoothly.¹⁷ Western Americans argued for adding silver to the currency mix (William Jennings Bryan “Cross of Gold Speech” is the most vivid dramatization of this). They were frustrated by the innate belief that gold should be given primacy by most national and international experts.

There was little empirical evidence to support the gold standard supposition. Indeed, after the two World Wars and the Great Depression, the gold standard collapsed, replaced by the system of flexible floating currencies. When the gold standard failed to order society in the public interest, many Americans turned to government for answers. The Progressive movement in the United States in the early twentieth century celebrated scientific management with the belief that technical expertise was the best hope for a good society. The New Deal and Great Society represent the apotheosis of this thinking. However, after the 1960s, much of the public became disenchanted with the federal government.

I argue that once the gold standard and government powers had faltered, a response for how to organize society tapped into the power of markets. Markets were always a component of American politics. In the late twentieth century they assumed a new aura in banking, economics, finance, and, as we have seen, social policy. The United States became committed to spreading the neoliberal agenda across the world.

I avoid using the term neoliberal in this dissertation, because the term implies fiscal austerity, which applies only in the United States at certain periods. Internal forces have largely driven the American market agenda. Domestic actors have borrowed ideas from throughout the world, but largely for the purpose to meet ideological preferences.

¹⁷ See Ahamed, Liaquat. *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin Press, 2009).

I have focused on the early stages of policy process by identifying problems, options, the placement of ideas on the agenda, and eventually passage of legislation. The later policy stages are less important for this tale, since the market narrative holds such resonance. Implementation, assessment, and evaluation play a secondary role. In some ways, what is described is connected to the garbage can model of policy-making: having ready-made solutions and attempting to find a problem to implement the preferred policy.¹⁸ However my story does not quite work as neatly. Politicians often stumbled and groped their way to finding remedies. For instance, Nixon did not have HMOs and housing vouchers as stamped alternatives to conventional policy. Nor did Clinton have the managed care model for national health insurance waiting to get enacted. In other words, sometimes solutions precede problems, and sometimes it works the other way around. In all cases, market mechanisms are preferred.

This article of faith, the power of markets, has served for forty years as the linchpin of Republican efforts to remodel the welfare state. Democrats, too, have often gone along with the market meta-narrative. There is evidence for some Democratic acceptance in the 1970s with deregulation and health policy, and starting in the early 1990s, the New Democrats favored infusing markets in social policy with an enthusiasm before seen mostly by Republicans. William Galston, writing in the left-leaning *American Prospect* in 2008, took it as advisable for Democrats to propose social policy according to market principles, evincing that even staunch foes of the Bush

¹⁸ Kingdon, John. *Agendas, Alternatives, and Public Policies*, 2nd ed. (New York: Addison Wesley, 1995).

administration find competition the most credible path for restructuring the welfare state.¹⁹

Why are certain ideas so powerful? I have suggested that empirical evidence is not the central factor in the minds of politicians promoting policy, such as market values for the welfare state. Some of the answer is found in psychology. Two political scientists conducted an experiment that demonstrates journalists who provide evidence contrary to the assumptions of ideological adherents, only managed to solidify misperceptions. In other words, if an ideological or partisan voter believes intuitively that a certain policy is correct, factual evidence will not dissuade him or her otherwise.²⁰ In any event, certain ideas, such as markets, evoke passion.

The Future of the Republican Welfare State

The future of a market-friendly welfare state is uncertain. As long as Republicans win elections, both political parties will advocate markets. There are several paths toward an eclipse of this paradigm. A prolonged economic draught could scramble voting patterns and policy proclivities. Absent that cataclysm, there is the potential that if market policy is seen to apply only selectively, that is if the wealthy or Wall Street Republicans are not seen as having to play by the same rules, there could be a popular backlash. If market policy is seen as a subversion of the principles of social justice, by creating a perverse welfare state that benefits only the rich, and not the bulk of middle class Americans, then the reliance on markets could fade. Another possible end could

¹⁹ William A. Galston, "How Big Government Got Its Groove Back," *The American Prospect*, June 23, 2008, pp. 23-26.

²⁰ See Nyhan, Brendan. "The Fight is Over, the Myths Remain," *The New York Times*, March 25, 2010, p. A31. This article does not address whether Republican or Democratic partisans are more likely to fall into the trap of disbelieving evidence since the article only addresses Obama's health care plan and Republican misperceptions.

come with the growing forces of globalization, where international pressure could force discipline on American politicians.

The Republican Party has played a central role in establishing, and to some extent riding, the wave of global market dominance. Through many small measures, for political imperatives, they have redefined and reconstructed the welfare state. Social policy is much different than it appeared in the mid 1960s. The context and underlying logic of this fundamental transformation is because of American political competition and the Republican Party finding a response beyond fighting the welfare state. The reinvention of the welfare state is at the heart of the modern Republican Party's contribution to American society every bit as much as low taxes, cultural conservatism, and a muscular foreign policy.

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