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The United States

Strong Nation – Weak State

The United States of America is the richest and most powerful nation on earth. It is, by definition, unique. Indeed, the study of American politics is generally considered to be so special that it warrants its own sub-field in most political science departments. Those who *do* try to compare America typically write about what is called "American Exceptionalism."[1] Of course this makes eminent sense, America is the dominant military and economic power in the world and it has used this power to shape the world around it. Even in the midst of one of the worst economic crises in history, America produces approximately 25 percent of the world gross product. No other country has the influence (for good or ill) as does the United States.

I argue below that America's particular political and economic systems are themselves products of its unique political origins and geographic position. But unlike some students of American exceptionalism, I do not believe that America's pilgrim origins defined its specific path. Instead, I try to weave an evolutionary narrative that shows how the initial conditions and timing of American democracy have interacted over time with this country's resource wealth, fragmented political institutions and historical experience. In other words, while it is true that we can draw a line back through history and sketch the developmental pattern, this does not mean that there was any kind of determinacy in the particular outcomes we find today. Indeed, I believe that the conflicting pressures or forces embedded in America's beliefs and structures make it extraordinarily difficult for either the citizens, or the political elite, to have a clear eyed picture of what this nation has developed into in the twenty-first century. Thus, for example, it is commonly believed that the United States has a free market economy and a small welfare state,

[1] The most famous of these writings are (Hartz 1983; Lipset 1996; King 1974).

whereas in fact, the United States has a remarkably extensive social welfare state, extraordinarily detailed governmental regulation of the private economy and a remarkably interventionist tax system.

I submit that the disjuncture between Americans' beliefs about the nature of their political economy and political system, on the one side, and the realities, on the other, create a situation in which Americans have grown increasingly skeptical of government at the same time that they try to use government to help solve their private ills. The result is an increasingly incoherent policy system and consequentially an increasingly frustrated and alienated nation.

In the first section of this chapter I will examine the structure of the American system in some detail. The emphasis will be on the unexpected extent to which government intervenes in the economy and society and the surprising size of its welfare state. Next we will explore the evolution of this system over time. In this narrative we will begin further back in time than we did in earlier chapters for the simple reason that the American model began to emerge earlier than either the Japanese or the Swedish systems. In this case we see a kind of institutional *allopatry*:[2] The idea of limited government, which for obvious reasons confronted significant resistance in Europe, found fertile soil in the American frontier and was rather quickly institutionalized into a new kind of political system. Importantly, America's democratic political institutions were established *before* mass democracy, and were intentionally designed to limit the political power of its own political elites. This system not only survived, it thrived. Like the rabbit in Australia, or even the Kudzu in the American Southeast, this foreign system was enormously successful at exploiting its new environment. To be sure, the new Americans were hugely advantaged by the massive resource wealth found in the new continent. But, it is equally obvious that the weaknesses of America's political institutions facilitated the evolution of its dynamic and entrepreneurial economic culture. Just as in the other countries studied in this book, the political system and the economic systems have *co-evolved*. In America's case we have developed a *strong nation and a weak state*.

Of course, the system did not stand still. Though initially designed to prevent a strong central government, American institutions were forced to adapt to an increasingly complex world as well as to the demands of its

[2] Allopatry refers to a form of speciation in which a sub-population moves into a new ecological niche. Over time, the different ecological contexts allow for different evolutionary adaptations that can eventually lead to quite different evolutionary patterns. Darwin on the Galapagos Islands most famously observed this.

citizens. This adaptive process has not always been smooth or coherent. I argue that the fragmented structure of American political institutions was eventually adapted (more precisely exapted)[3] to new functions. Remarkably, American political institutions have increasingly become *more* fragmented as the system tried to deal with increased complexity. The result has become a system in which government intervenes in society and economy extensively, but the state is weak.

In the last section of this chapter we will explore how the American system is evolving in the context of increasingly anti-state attitudes and increasingly fragmented institutions that have emerged over the past 30 years. Thus, Americans see a system that allows very narrow private sector actors to wield substantial influence over public decision makers and biases the system in favor of quite specific benefits and specific interests. I will argue that the increasing frustration and disappointment Americans have with their political system has made it even more difficult for political leadership to ask for sacrifice and/or impose short-term costs. While there is widespread agreement that difficult choices are necessary as we enter the twenty-first century, both the incentives facing political leaders and a culture apparently addicted to affluence makes sacrifice something that everyone else should do.

The election of the massively popular Barack Obama in 2008 and the subsequent disappointment with his administration's inability to bring about the kinds of change that his election promised is the most recent example of the consequences of this system. Neither American political institutions, nor American ideology are well suited to a time when decisive governmental action is required. The result instead will be a further layering of incoherent and inconsistent policies on an already incoherent welfare state. While private interests attempt to influence public policy-making in their favor in all polities, the United States stands out for the degree to which the political system is specifically open to this kind of influence. There are, for example, over 26,000 registered lobbyists in Washington DC alone, whose sole job is to extract benefits for the tens of thousands of interest groups who pay their salaries. No other democratic political system in the world has anything like this number of lobbyists for the simple reason that no other political

[3] Exaptation, once again, is the process in which a function or trait can take on other functions. The classic example of this in biology is bird feathers, which were originally developed for warmth but were later adapted for flight. This process is widely understood to be a main contributor to the imperfect design of most of the biological world. It also contributes substantial complexity. Thelen and Streeck call this process *layering*. The prime example of this in their book, *Continuity and Change*, comes from the analysis of the evolution of Congress by Erik Schickler, (Streeck and Thelen 2005: 23), (see Schickler 2001).

system is as open to and so deeply penetrated by narrow specific interests (or factions) as the American pluralist system (Dahl 1967; Polsby 1964).[4]

PART I

AMERICA'S "HIDDEN" WELFARE STATE

A growing number of scholars have begun to demonstrate that the United States spends at least as much, and perhaps more, on social welfare (i.e., child care, health care, foster care, elderly care, etc.) as most other rich countries. Contrary to many people's expectations, the key difference between the US and other countries is not the level of social welfare provided in society, but rather how social welfare benefits are provided and how they are financed. Chris Howard has nicely captured this system with the phrase "The Hidden Welfare State" (Howard 1997, 2003; see also Hacker 2002). The United States government is intimately involved in subsidizing these private welfare efforts in a number of ways, but *indirect* (tax) financing and subsidies appear to be the preferred methods in the US. In fact, as Howard points out, when we take all the indirect subsidies into account, "[t]he American welfare state is not unusually small. It compares favorably with some of the largest welfare states in the world. Its size has been measured incorrectly by many people and organizations for a long time." Thus, "[t]hose analysts who spend a lot of time and energy explaining why the American welfare state is so small should reconsider their initial premises" (Howard 2007: 25).

Combining public expenditure and private expenditures by companies (which are, once again, subsidized through the tax system) reveals that the US is by no means a laggard as it is often thought. In fact, if we combine both public and private social expenditures (See Table 4.1), we find that total per capita social expenditures in the United States are *higher* than in Sweden. Of course, one needs to be careful in interpreting this data. Most importantly, per capita expenditures in the US are high in large measure because per capita incomes are high. Still, the United States clearly does spend enormously on social welfare benefits to its citizens.

America's Unique Tax System

One of the reasons public policy in the United States *appears* to be so different from other countries is that the tax system is used more extensively

[4] Lobbying in the European Union has increased dramatically in recent years. In 2000 there were 2,600 registered "interest groups" in Brussels.

TABLE 4.1. *Per Capita Net Social Expenditures in Japan, Sweden, and United States in 2001 (US Dollars and PPPs)*

	Japan	Sweden	USA
Gross Government Social Expenditure	4,951	9,549	5,544
Direct and Indirect Taxes on Expenditures	214	1,932	353
Tax Breaks for Social Purposes	294	0	742
Net Government Social Expenditure	4,978	7,618	5,968
Net Mandatory Private Social Expenditure	214	109	141
Total Publicly Mandated Social Expenditure	5,192	7,699	6,074
Net Private Social Expenditure	937	707	3,178
Total Public and Private Social Expenditure	5,914	8,325	8,652
Percent of Group Mean			
Gross Government Expenditures	70.5%	136.1%	79.0%
Net Public Expenditures	78.0%	115.7%	91.3%
Net Total Public and Private Expenditures	76.4%	107.5%	111.7%

Source: Calculated from data originally presented in Adema, Willem, and Maxime Ladaique. 2005. "Net Social Expenditure, 2005 Edition: More Comprehensive Measures of Social Support." In *OECD Social Employment and Migration Working Papers*, No. 29. Paris: OECD Publishing; World Bank. 2007. World development indicators (CD-ROM). Washington D.C.: World Bank; Jordan, Jason E. 2006. Who is in? Who is out?: Inclusion and exclusion in Western welfare states. Ph.D. Dissertation, Department of Political Science, University of Colorado at Boulder, Boulder, p. 56.

as an instrument of public policy, rather than a means of direct public "on budget" spending. Simply put, the United States is unique in the extent to which it attempts to regulate, reward, subsidize and manipulate private decision making through its tax system. Clearly, every advanced country uses its tax system to effect private decision-making (King 1984; Steinmo 1986; OECD 1984), but the United States stands out for the enormous number and extraordinary level of detail of these tax manipulations. For reasons we will explore below, American policy makers increasingly appear to prefer spending money on social and economic objectives via the tax system instead of spending money directly out of the budget. In 2002, tax expenditures in the United States accounted for over 913 billion dollars in federal government outlays. This was equivalent to 50.29 percent of direct federal government expenditures (Noto 2004: Table 1). Federal income tax expenditures alone amount to approximately 8.76 percent of GDP in 2002. It is interesting to consider that if the USA actually collected this revenue, it would be close to average within the OECD at about 36 percent of GDP.

Jacob Hacker describes the American "welfare regime" as *The Divided Welfare State*. "The dramatic rise of the American state in the twentieth century did not displace the role of the private sector in providing social welfare goods and services," he tells us. "To the contrary," he argues, "via regulatory and tax policy, with incentives and restrictions, through the omissions and commissions of public programs, and by oversight and by design, American government contributed to the construction of a sphere of private social benefits far larger than any other affluent democracy" (Hacker 2002: 276). The result is that middle-class Americans increasingly feel that government spends money on "other people" even when the majority of public spending goes directly toward benefits for the middle class.

It is important to understand that tax expenditures *are* government spending. Instead of collecting money from taxpayers and then spending the money directly, tax expenditures allow companies and individuals to avoid paying their statutory taxes *if* they fulfill very specific requirements laid out in the tax code (e.g., make certain types of investments, purchase specific types of goods, or provide specific types of benefits for their employees). The reality is that the supposedly 'free market' United States of America has a tax code that is so littered with specific rules, regulations, complications and exceptions that it would boggle the mind of even the most anti-market socialist bureaucrat (King 1984; Witte 1983; OECD 1984; Howard 2003; Cowie 1993). As we see in Table 4.2, the US government spends a great deal of money in virtually every category of public effort through these tax expenditures. In some cases, tax expenditure spending is greater than the total on budget expenditure.[5] For example, according to the Congressional Research Service, U.S. Federal government tax expenditure outlays in "Education, Training, Employment and Social Services" are 143 percent greater than traditional on budget public expenditures ($100,900 million in T.E.s vs. $70,544 in direct outlays).

The choice to subsidize social welfare through the tax system rather than through direct public expenditures has significant implications for the distribution of benefits. For example, instead of subsidizing childcare programs for all citizens, the United States offers child care tax credits to families. This credit certainly is a great help to the middle class families who largely benefit from it, but is insufficient to finance the total costs of childcare for those who are most in need of this aid. Similarly, rather than provide health insurance for all citizens through a mandated state program, in the US *some* employees *may* exempt the costs of *some* parts of their health insurance from their

[5] The Congressional Research Service estimated that the Federal government lost over 1.024 trillion dollars in tax expenditures in FY 2002. This was equivalent to 50.96 percent of total federal expenditures (Noto 2004).

TABLE 4.2. *Revenue Loss from Tax Expenditures in United States by Expenditure Category, 2002*

Category	Budget Function	TE (millions)	Outlays (millions)	TE as % Outlays (millions)	TE + Outlays (millions)	TE as % of GDP
Defense	**Category Total**	**$2,540**	**$348,555**	**0.73%**	**$351,095**	**0.02%**
Human Resources	Education, Training, Employment, and Social Services	100,900	70,544	143.0	171,444	.97
	Health	151,850	196,545	77.2	348,395	1.46
	Income Security	179,983	312,511	57.5	492,494	1.73
	Social Security	24,980	456,413	5.4	481,393	.24
	Veterans' Benefits and Services	3,370	50,984	6.71	54,354	.03
	Category Total	**461,083**	**1,086,997**	**42.2**	**1,548,080**	**4.42**
Physical Resources	Energy	4,320	483	894.4	4,803	.04
	Natural Resources and Environment	1,810	29,454	6.5	31,264	.02
	Commerce and Housing Credit	315,030	385	818.26	315,415	3.02
	Transportation	3,040	61,862	4.9	64,902	.03
	Community and Regional Development	1,050	12,991	8.3	14,041	.01
	Category Total	**325,250**	**105,175**	**309.2**	**430,425**	**3.12**
Interest	**Category Total**	**510**	**170,951**	**0.3**	**171,461**	**0.00**
Other	International Affairs	23,430	22,357	104.8	45,787	.22
	General Science, Space and Technology	12,220	20,772	58.3	32,992	.12
	Agriculture	1,840	22,188	8.3	24,028	.02
	General Assistance	86,810	17,385	499.3	104,195	.83
	Category Total	**124,300**	**82,702**	**150.3**	**207,002**	**1.19**
TOTAL	**Category Total**	**913,683**	**1,816,737**	**50.3**	**2,730,420**	**8.76**

Source: Noto, Nonna. 2004. "Tax expenditures compared with outlays by budget function: Fact sheet." In *CRS Report for Congress*. Washington, DC: Congressional Research Service.

income for tax purposes and/or *may* be able to take advantage of other tax deductions *if* their health care costs exceed *certain* limitations under *certain* circumstances *and if* they meet specific income limitations.[6] This description sounds complicated, but in fact it simplifies the reality quite substantially. Ironically, because it is so complicated, it is also expensive. First, the complications allow for many to cheat. Second, it takes a lot of bureaucrats to monitor a system that is this complicated. Consequentially, the system reduces the amount of money collected in general revenues *and* undermines public support for the expansion of universal programs precisely because it is so complicated and so patently unfair (Hacker 2002; Witte 1983).

Targeting

Contrary to the image of being a social welfare "laggard," the United States actually spends comparatively large amounts on programs targeted directly on specific groups – including the poor. The problem is, as Jason Jordan has demonstrated, that these target programs do not alleviate poverty, are hugely expensive to administer and even create "poverty traps," making it even more difficult for individuals on these programs to ascend into the middle classes (Jordan 2006b).

Even while the American welfare state is intentionally targeted, it is not the case that the majority of public benefits go to the poorest citizens. In fact, the poorest 20 percent of American citizens benefit from only 33.6 percent of non-pension transfers (this figure includes the Earned Income Tax Credit). In the United States – as in most countries – the major recipient of public transfers is the middle class. But once again, since they receive so much of that benefit through the tax system (i.e., the benefit is that they pay lower taxes than they would if they didn't get x, y, and z tax expenditures), only very rarely do they feel that they benefit from government social spending (Forster and d'Ercole 2005: Table A5).

A good example of the problems with the American system of targeting is seen in our National Health Insurance (NHI) programs. Many Americans believe the United States does not have a National Health Insurance System This is, of course, quite wrong. In fact, the U.S. has two:[7] Both Medicare and Medicaid are national health insurance systems. These programs cover nearly 30 percent of American citizens and account for over 50 percent of total health care spending in the United States. The issue is that these

[6] The tax reform of 2010 will certainly further complicate this scenario.
[7] Actually three if you count the Veteran's Health Administration.

TABLE 4.3. *Population Coverage of Public and Private Health Insurance in 2005*

	Public (%)	Private (%)
Germany	89.6	10.2
Japan	100.0*	0.0
Sweden	100.0	0.0
United States**	27.3 (Medicare 13.7) (Medicaid 13.0) (Military health care 3.8)	68.5

Note: Health care coverage refers to percent of population eligible for health care goods and services under public or private programs; * Japan: data is for 2004; ** United States: categories are not mutually exclusive, people can be covered by more than one type of health insurance during the year.
Source: OECD. 2007. "Health Data"; U.S. Census Bureau. 2007. "Income, Poverty and Health Insurance Coverage in the United States: 2006." Washington, DC: U.S. Government Printing Office, p. 58, Table C-1.

programs are not *comprehensive* systems like the NHI programs found in most other countries.

The somewhat surprising fact is that the United States government spends approximately as much as most other rich countries in ***public*** health care. In 2004, US public health care expenditures were 6.8 percent of GDP. The OECD average was 6.4 percent. The key difference is that in almost all other countries this public expense covers most of their populations, though the American public health system covers only 27 percent of the population, as illustrated in Table 4.3. When we add total public and private health care expenditures together (see Figure 4.1), we see that America spends over twice as much per person on health care than most other OECD countries. Sadly, however, this enormous expense does not result in better health for the American population, as shown in Table 4.4

Because American social welfare spending is targeted on particular groups and because the benefits are subsidized indirectly through the tax system, most beneficiaries of public welfare spending do not see themselves as beneficiaries. For example, when a family gets a tax deduction for health care expenditures, this tax break reduces their overall tax burden, but they *do not* see this as a grant from the government to help them finance their health care. In countries with directly financed public health care services, the sense of benefit is quite different.

In sum, the image of the United States as an inactive state in which the market is allowed to determine social outcomes is simply false. Much of the

TABLE 4.4. *Health Care Outcome Indicators in Germany, Japan, Sweden, and United States, 2004*

	Life Expectancy (year)	Infant Mortality ((per 1000 live births)	Maternal Mortality (per 1000 live births)	Perceived Health Status (%) *1	Potential Years of Life Lost *2
Germany	78.6	4.1	5.2	72.6 (in 2003)	3360
Japan	82.1	2.8	4.4	38.7	2757
Sweden	80.6	3.1	2.0	72.4	2825 (in 2002)
US	77.8	6.8	13.1	88.6	4934

Note: 1. Percentage of the population aged 15 years old or more who report their health to be "good" or "better"; 2. under 70 year-old (years / 100.000 pop.). Potential Years of Life Lost (PYLL) is a summary measure of premature mortality, which provides an explicit way of weighting deaths occurring at younger ages, which are, a priori, preventable. The calculation of PYLL involves summing up deaths occurring at each age and multiplying this with the number of remaining years to live up to a selected age limit.
Source: OECD. 2007. "Health Data."

social welfare system is delivered through the tax code and private social benefits. The consequences are: (1) the upper and middle classes are the major beneficiaries of the social welfare spending and (2) most people (even recipients) do not *perceive* that they benefit from public social welfare.

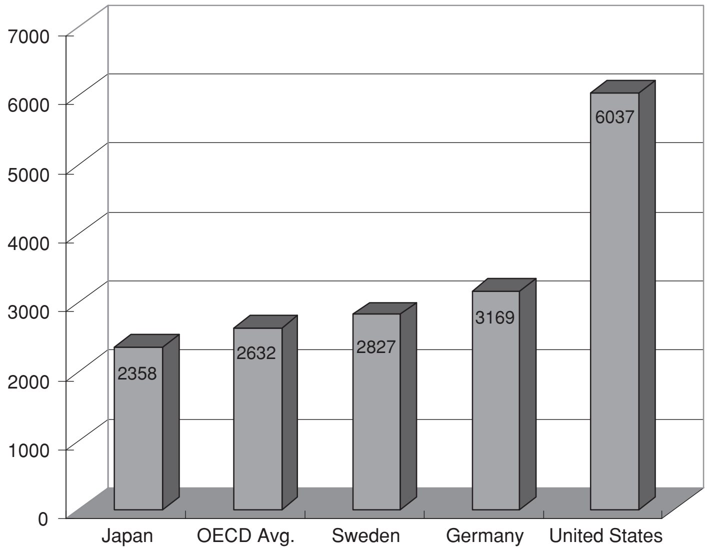

FIGURE 4.1. Per Capita Public and Private Health Expenditures in 2004 (US $, PPP). *Source:* OECD, Health Data, 2007.

We noted in Chapter 2 that even the term "social welfare" has a different meaning in countries like Sweden, precisely because the benefits for these programs are so widely distributed. In the United States, a "welfare" program or policy implies a program specifically designed and targeted on the very poor. Although, for example, Social Security (Old Age Security and Disability Insurance – OASDI) is clearly a social welfare program in that it takes income from one group of citizens and redistributes it to another, Americans do not believe that Social Security is a form of welfare. In sum, although most people don't see it this way, the United States has an extensive and expensive social welfare state. But instead of providing benefits through direct public spending, it spends huge sums through the tax code: Instead of spreading social benefits widely it targets them on specific groups – and largely through the back door. As we shall see, this system has significant consequences for how Americans view their welfare state.

The Free Market?

The USA has perhaps the most flexible and dynamic economy in the world. It generates enormous wealth and rewards the most successful "winners" lavishly while it allows "losers" to fall very low indeed. Peter Hall and David Soskice describe the United States as a "Liberal Market Economy" (LME). Thinking about the American political economy in this way is quite useful because it gets us away from the idea that this is somehow a free market. By Liberal Market Economy, they suggest a system where there is relatively little *explicit coordination* of the private sector activities either by private sector actors or by public officials (Hall and Soskice 2001: 96). In principle, neither the government (as in Japan) nor the main banks should act as coaches, or even quarterbacks, in the national economy. The government should instead act as an umpire, ensuring that the basic rules of the game are followed and contracts are adhered to. In the idealized version of this system, at least, it is illegitimate for government to intervene in ways that might advantage or disadvantage specific actors in the private economy.

In fact there is a fair distance between reality and ideal in this regard.[8] The state is in fact deeply involved in private economic decision-making, especially through government regulation, the courts, and the tax code.[9]

[8] See (Bruszt and McDermott 2008) for an interesting discussion of regulatory regimes and a specific critique of the banal notion that "free markets" will create the best development incentives in poor nations.

[9] Measuring and comparing regulatory burdens across countries is extremely complicated and difficult. Most studies that have tried to do so have had strong ideological perspectives and,

We will discuss many of the ways that the government intervenes in the American economy, but there can be no gainsaying that private firms have more flexibility and freedom of action than do similar firms in other rich democratic countries. A simple example is illustrative: If employers wish to get rid of an employee, they can simply fire that person on the spot. No warning is legally required, no severance pay, no retirement, no sick leave, not even any reasoning is legally required. Indeed, it is *legal* for an employer to terminate the employment of a worker (even one who has been with the firm for many years) on the grounds that the employer is dissatisfied with the employee, or even because the employee is ill.[10] It is even quite common to change the locks on the office when an employee is fired in this way.

In many ways one can say that most private sector employees in America are temporary workers.[11] As Pontusson notes, "the United States stands out as the country in which employers enjoy the most unrestricted regulatory environment" with the lowest levels of employment protection and the shortest employment tenure in the OECD (Pontusson 2005: 119–20).

We saw in Chapter 3 that the huge integrated conglomerate *zaibatsu* in Japan provided significant coordinating functions within the private economy. In the United States these private coordinative institutions and practices are illegal. Beginning in the early twentieth century, the Federal government *did* begin to actively intervene in the economy but largely with the intention of preventing cooperation and coordination among private sector actors.

for example, count the overall tax burden on the economy as a regulatory burden *without* attempting to evaluate the specific regulatory effects of taxes in any particular state. For a good survey of analyses of regulatory burdens (see Hopkin and Blyth 2006). Having said this, it still seems clear that business in the United States have fewer controls placed on their behavior through direct policy or legislative action, BUT the regulatory burden placed on them through the judicial system is very high by international standards (see Nivola 1997).

10 It is, however, illegal to terminate an employee due to their race, gender or sexual orientation, or because they have become pregnant. If the worker has become injured on the job, termination rules are more complicated and may vary by state. The employee has a right to collect his or her earnings on work performed up to the moment of termination. If the employee is terminated for "no fault of their own" they may be eligible for government provided unemployment benefits. (See U.S. Department of Labor, http://www.dol.gov/dol/topic/termination/index.htm)

11 Technically, this is called "at will" employment. Some employees, however, have collective agreements or individual contracts with their employers in the United States. But, less than 15 percent of employees in the United States were covered by collective bargaining agreements in 2000. While government does enforce legally binding contracts, the state (ideally) plays no role in sanctioning, encouraging, and facilitating these private contracts between private individuals. See (Davidsson 2007) for an overview of the development of temporary work contracts in the early twenty-first century.

The early Progressive Era moves to break up emerging monopolies and oligopolies were later followed by New Deal policies designed to specifically prohibit collusion between finance and industry.[12] Whereas in most other, less "liberal," political economies governments have encouraged the concentration of capital and market power, one of the most important regulatory functions of American public policy has been to prevent the concentration of capital and market power. At least in the ideal, government's role is to protect *the market* and not the actors in the market.

It would be profoundly naïve to assume that government has consistently followed the principle of building and defending a free market, however. The reality has been a complex mix of interventions that protect and/or subsidize particular private sector actors and activities.[13] Additionally, in recent years, there have been an enormous number of specific and highly detailed regulations and incentives that are designed to prohibit specific practices (e.g., racial discrimination), encourage other activities (e.g., employee health and safety or environmental protection), or subsidize yet other practices (e.g., employer provided health insurance, pensions, or child care). The problem, however, is that these rules, regulations and incentives are rarely considered or structured in any kind of coherent or comprehensive fashion. Instead, they are generally meant to address very specific issues and/or aid narrow constituencies. Frank Dobbin offers the following example: "Instead of setting a single standard of pensions for instance, Congress, under the guise of maximizing employer freedom in the design of pension programs, wrote a 300-page manual of Byzantine regulations ... The ambiguity and complexity of federal regulations causes employers to hire specialists to make sense of the law and devise local compliance solutions" (Dobbin 2002: 71). Dobbin goes on to argue that this private pension industry then becomes a powerful political force demanding the extension of subsidies for private sector solutions and against comprehensive or coordinated public programs to deal with these public problems. "What makes America exceptional here is not its refusal to pay for social protections ... What makes the American state exceptional is the fact that it makes benefits nominally private

[12] Hofstadter offers a good overview of these policies and the motives behind them (Hofstadter 1963). Kolko, however, offers a cautionary note demonstrating that many of these so-called market oriented reforms were in fact pushed by domestic producers who used the reforms to build barriers to entry (Kolko 1967).

[13] David Vogel has written extensively on the structure and character of American regulation and how the patterns differ from other countries see for example, (Vogel 1986, 1995, 1996). For an insightful comparison of difference between Swedish and American approaches to environmental protection see (Lindquist 1980).

rather than public" (ibid). Some will find these assertions surprising and even controversial.

Next, we will explore the evolution of this political economy over time. In this historical narrative we will step back further than we did in earlier chapters for the simple reason that the American model began to emerge earlier than either the Japanese or Swedish systems.

In the last section of this chapter we will explore how the American system is evolving in the context of the twin forces of globalization and demographic change. It is very important to understand that the *perception* of the United States as a free market system is also key to understanding its evolutionary path.

PART II

THE EVOLUTION OF THE AMERICAN MODEL

"The chief circumstance which has favored the establishment and maintenance of a democratic system in the United States is the nature of the territory that the Americans inhabit. Their ancestors gave them the love of equality and of freedom; but God Himself gave them the means of remaining equal and free by placing them upon a boundless continent." Alexis De Tocqueville.

No one intentionally designed America's political economy or its welfare state. Instead, they evolved through the layering of many different governmental functions and tasks onto old ones through a political system that is specifically designed to limit the use of public authority in a society where people have grown increasingly skeptical and even hostile to government itself. There is, moreover, no single causal factor that can be isolated and examined independently from which it emerged and no singular reason that will explain why the US has gone down this path. Indeed, there are virtually limitless numbers of alternative possibilities and paths that could have been taken in this particular species of democratic capitalism. But having said this, I do not mean to suggest that we cannot offer explanations for how and why this system developed. Quite to the contrary, I will do precisely this here. We must recognize, however, that we are trying to explain a singular outcome. There really are no other countries that are just like the United States of America.

Three initial conditions stand out as critical factors for America's unique evolutionary path. First, when the early colonies agreed to their founding institutions they were fundamentally divided over the question of what kind of society they wanted to build. The result was the founding of a unique political system that divided and fragmented public authority, on the one hand, and unified and expanded the nation, on the other. They built a strong nation with a weak state. Second, the enormous resources of North America facilitated the development of a uniquely individualistic and egalitarian ideology as the United States spread across the continent. Third, though the fundamental equality of all men was a key principle of the country's founding institutions and ideology, the reality was that systematic discrimination and disenfranchisement against specific racial groups was legal and common practice for most of the country's history.

These factors, it must be noted, are not *in*dependent variables. They are instead interdependent traits that have woven together and intersected with American history and experience. Once again, just as each of the countries explored in this book is unique, the key factors that help explain each of these nations' developmental path are unique. No other advancing nation had access to, or the advantages of, the enormous and rich resources found on the vast North American continent as it was developing its nationhood. No other successful democracy relies on political institutions specifically designed to fragment political power in anything like the U.S. Constitution. Finally, no other nation has been so proud of its democratic institutions while so obviously violating the fundamental principle of equality before the law. These are more akin to genetic traits conditioning how the US has coped and adapted to the challenges it has faced over the course of its evolution.

In previous chapters, I began the historical narrative in the early or mid-twentieth century. Undoubtedly, there will be those who would argue that to understand the evolution of these political economies I should have started earlier. Perhaps this is correct. But I believe that it also makes sense to begin these narratives with the period when we see the formation of the modern democratic institutions that govern these countries today. To find this period for the USA, however, we need to go back much earlier than is the case for Sweden and Japan.

A System of Checks and Balances in the Land of Milk and Honey

The early timing of "democratization"[14] in America is itself a hugely important fact for understanding the subsequent evolution of the American state. In the middle of the 1700s, ideas about limited government, and

[14] Desmond King argues that we cannot call the United States democratic until it passed the Civil Rights Act in 1965 (King 1995b). While I am quite sympathetic to this argument, I will continue to use the term "democratic" to describe American political institutions even in the earlier periods, if for no better reason than I lack a better term.

democratic authority, were spreading in Europe and America alike. But, in the American context, these ideas found very fertile soil. The result, as we shall see, was that as these ideas were transplanted and eventually institutionalized into the American context, they took on a life of their own. They subsequently changed the world.

Of course the story is well known: The young elites in America were angry that they were shut out of from authority by the English aristocracy and thus demanded equal representation. At the same time they were fearful of democratic governance and the potential rule of the mob. Consequentially, America's founding document which eventually emerged after the revolution was set up to prevent majorities from dominating the political system. While many had warmed to the idea of a republican system in which citizens should be able to check the power of their governors, most were still deeply afraid of the democratic impulses that were emerging after the Revolutionary War of the 1770s. To be sure, there was considerable disagreement over the merits of democracy as a principle in the first place, but by the late 1700s many had come to truly believe in republican institutions. The challenge was how to get the institutions to control themselves. The brilliant solution was to accept the principle that all men (or at least all propertied, white men) did have a proper and legitimate role in governance, but also to insist that the potential power of this democratic body should be severely checked. Thus, a series of institutional barriers to democratic governance were put into place, including the rule that any law passed by the democratic legislature must also be approved by a body of appointed elites selected from the various states (they called it a Senate) and must also be agreed to by an executive (called a President) who was to be selected by another group of elites (the Electoral College). Even these institutional barriers to popular democracy proved insufficient to mollify the fears of many. Before the entire document was agreed to, ten amendments were added which further, and rather fundamentally, constrained and limited the scope, power and realm of the new national "democratic" government.

Of course most readers will know this story – even if it is not the conventional high school version of the origins of American democracy. I elaborate it here to emphasize the point that the foundations of America's governing institutions were explicitly anti-popular government. To be sure, the designers of the Swedish and Japanese constitutions also concerned themselves with the problem of how to limit the abuse of power, but they were less afraid of the people than were the fathers of the American Republic.

Given the intentional inefficiencies designed into the American political system, one might wonder how this system survived in the first place.

Addressing this question brings us to the heart of our argument about the co-evolution of political and economic systems. The American constitution was designed to prevent one faction or group (including a majority) from dominating and imposing its will on other groups. It was also clear, however, that these ex-colonies had several interests in common. Joining into a common economic market could provide advantages for both commodity producers and emergent manufacturers, for example. But it was the desire to have a united front facing both east and west that ultimately proved to be the most important factor shaping the future American polity. Already before the Constitution was signed, disagreements over the control of the newly available lands west of the Appalachian Mountains emerged. Who should control and benefit from these enormously rich resources? How should boundaries be drawn? What should be done about the Native Americans that currently lived to the west? Should slaves be used to exploit this wealth or not?

The convergence of these questions evoked a remarkable and unique answer: *Build a strong nation, but a weak state*. The phenomenal wealth, both within and at the borders of the new American nation, allowed for an institutional compromise that explicitly limited the authority of government over its citizens but simultaneously facilitated the expansion of that nation across the continent. Thus, simultaneous with the Constitutional Agreement came the Northwest Ordinance[15] that specified how the newly acquired lands would be divided and developed. The implication of this profoundly democratic and egalitarian act can scarcely be over-estimated for the future development of the American polity.[16] They were to build what Jefferson called "An Empire of Liberty."[17]

[15] The Northwest Ordinance was passed in a series of steps between 1784 and 1787. Each of these steps laid out the rules for bringing in new lands into the United States and then specified the rules for land ownership, town development and ultimately colonization of the enormous resources. The July 13, 1878 measure specified that slavery would not be legal North of the Ohio River. Though no direct connection can be proved, this measure was passed in Congress the day before the Constitutional Convention passed the highly controversial "three-fifths compromise," which counted slaves as three fifths of a person (despite the "all men are created equal" rhetoric) for representation purposes in the House of Representatives (see Countryman 1985: 181–92, 191).

[16] One of the most important parts of this act was to establish a fixed percentage of the new lands must be laid aside for education. It was clearly understood that new immigrants would arrive and they and/or their children should be educated (see Hirshland and Steinmo 2003). Thomas Jefferson drew out the original map of the new territories and was influential in the development of these new democratic principles.

[17] A brief comparison with the Latin American states to the south is instructive here. At the time of their independence these countries had great resources at their disposal as well. But instead of opening these resources to the immigrant and/or the mobile, elites in these nations

It would be a fundamental misunderstanding of the argument of this book to conclude that America developed differently simply because its unique political institutions were established in the eighteenth century, not later or earlier. This is not the point. The point is, rather, that political institutions *only* operate in a context and that they co-evolve with that context. Here, this context happens to be the eighteenth century, and this had a huge impact on the co-evolution of the American political system and the economic system. Nature and nurture are thus inextricable intertwined in this evolution: The remarkable expansion of the United States across the richest land mass in the known world shaped both the ideas and beliefs of the American people, and consequentially, the institutions as they grew and adapted to the realities of modern and increasingly complex governance. By dividing and fragmenting power in Washington, the Constitution made it more difficult for those with power to control and dominate the new western lands as they became available for exploitation.

The importance of America's geographical inheritance was great: The sheer size of the western lands that progressively became available to the new Americans was overwhelming. The less than four million people who lived in the thirteen states east of the Appalachian Mountains in the 1780s could have no idea of how far the continent expanded, but by 1784, they had already claimed the land Northwest of the Ohio River, effectively expanding the new nation by over 260,000 square miles. In 1803 Jefferson secured the Louisiana Purchase and expanded the size of the country another 828,000 square miles. The entire population of the United States at that time was approximately 5.5 million people, and expansion did not stop there. By mid-century the country had managed to purchase or conquer the entire continent (over three million square miles). These lands needed people. Both domestic growth and immigration led to an historic expansion of the American population. Table 4.5 shows both the enormous land wealth in nineteenth century America AND the fact that the population nearly doubled every twenty years – from just over seven million in 1810 to over 92 million a hundred years later.

The physical expansion and population explosion of the United States had multiple consequences. First, and most obviously, it brought to a head the embedded conflicts between the fundamentally different worldviews of

divided the spoils amongst themselves rather than allowing those with no power or influence access to these lands. Consequentially, their attempt to build strong states undermined the evolution of strong nations. For a similar argument, see (Centeno 2002), although Centeno's argument is that ultimately this solution undermined the longer-term legitimacy and capacity of these states.

TABLE 4.5. *United States Population, Area Measurements, and Density: 1790–2000*

		Land Area		Density	
	Total Population	Square Kilometers	Square Miles	Per Capita Hectare	Per Capita Acre
1790	3929214	2239692	864746	57	141
1810	7239881	4355935	1681828	60	149
1830	12866020	4531107	1749462	35	87
1850	23191876	7614709	2940042	33	81
1870	38558371	9170426	3540705	24	59
1890	62979766	9170426	3540705	15	36
1910	92228496	9186847	3547045	10	25
1930	123202624	9198665	3551608	7	18
1950	151325798	9200214	3552206	6	15
1970	203302031	9160454	3536855	5	11
1990	248718302	9159116	3536278	4	9
2000	281424603	9161966	3537438	3	8

Source: U.S. Census Bureau, Statistical Abstract of the United States. Retrieved from http://www.census.gov/compendia/statab/tables/08s0001.pdf.

elites in the North and the South. Eventually the conflict over what kind of nation the United States would become resulted in the bloody Civil War of 1861 to 1865 (Moore 1966), in which the commercial economy and its more individualistic/egalitarian ideology defeated the hierarchical and profoundly inegalitarian South. Thus, as this American polity continued to expand, it was a particular vision or version that dominated in national politics. Unlike the potentially wealthy countries south of the United States, then, the enormous resources of this young nation would not be reserved for the extant political and economic elite. Instead, even the new immigrant who could neither read nor speak English had access to land and resources unimaginable in their homelands and unattainable to their brothers and cousins who had the misfortune to take the boat to South America rather than the North.

One can scarcely overemphasize the scale of America's wealth or the implications of having these resources available to individuals with little money and no political clout. Figure 4.2 below shows America's share of world production of most of the important natural resources essential for industrial take off in the early twentieth century. The USA was the number one largest producer of each one of these basic minerals, with the sole exception of Gold (Transvaal was number one, the US was number two

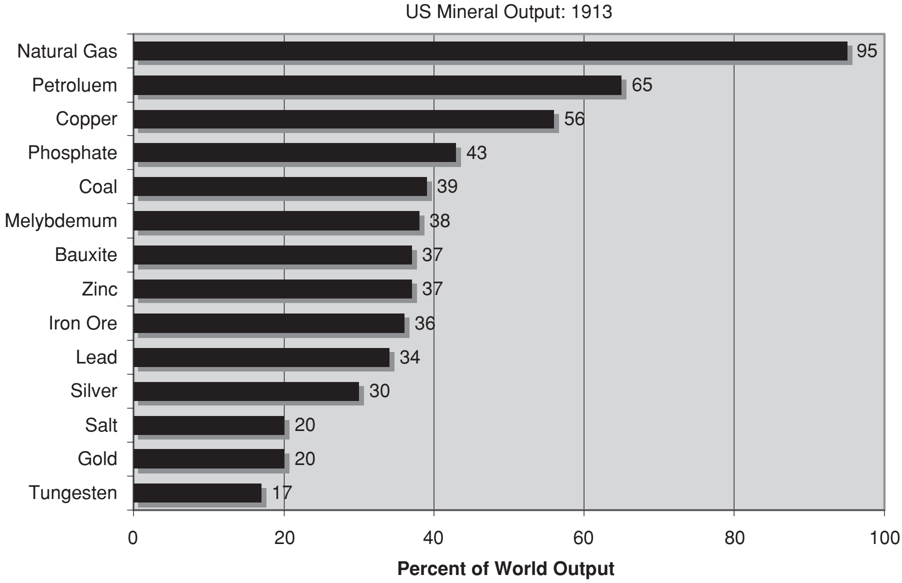

FIGURE 4.2. Geography Matters: Resource Wealth in America, 1913. *Source:* (David and Wright 1997) using data from: *Minerals Yearbook*; *The Mineral Industry–Its Statistics, Technology and Trade* (supplement to *Engineering and Mining Journal*); American Petroleum Institute, *Basic Petroleum Data Book*, Vol. X (September 1990); National Coal Association, *International Coal*; COE/EIA, *Annual Prospects for World Coal Trade* (1991).

in 1913). Though the "American Dream" was absolutely not available to everyone (Limerick 1987), the fact is that it was available to many and they could easily allow themselves to believe that it was available to anyone who worked for it. America grew rich and with it so did most of its people.

Two things are important to understand here. First, whereas the resources were available to the majority of Americans, they were not available to everyone. Second, although this was not the experience of all, this did not prevent the creation of a fundamental generalized public philosophy: "I made it from nothing, therefore anyone who works hard can make it from nothing." The corollary of course, is, "Those who are poor for one reason or another did not work hard enough and therefore deserve their fate." Truly the reality and the ideology conflicted (Huntington 1982; Smith 1993), but either because of raw racism, ignorance, or a combination of both, the cognitive dissonance that this fact might have evoked rarely emerged – at least not until the Civil Rights movement and television brought it into American homes. In short, the initial conditions of this country, with huge amounts of wealth and resources, allowed for a specific culture to evolve. Within this culture lay a particular understanding of the individual. Everybody can make his own fortune – and therefore everyone *should* make his own fortune.

The Emergence of a Modern/Active State

By the beginning of the twentieth century, demands for more authoritative government were increasing in America, as in Europe. The industrial revolution was by now in full swing on both sides of the Atlantic, and increasingly Americans, like Europeans, demanded that the state intervene in the economy on their behalf. Despite the mythology created around the American dream, the reality was that a working class was developing, and they too wanted a share of the profits generated by American capitalism. The union movement in the United States lagged behind Europe because of the vast wealth of the nation, the steady streams of immigrants anxious to take almost any job, and the fact of racial discrimination. As a result, class identity and strong union movements were retarded in America (Hattam 1993). But in America, as elsewhere, the evolution of modern capitalism brought with it the demands for a more active government.

Those who believe that American's have always held an anti-state ideology have not studied this era of American politics. This was a time of enormous activism and demand for the authoritative use of state power. However, the way in which the United States adapted to these pressures was unique. Because democratic institutions were already in place, the inequalities of early capitalism could not evoke a demand for the right to vote. Societal dissatisfaction thus had to find alternative modes of expression. In fact, middle class democratic reformers saw the party system in place in most of the country as an obstacle to fair and effective government (Bruenker 1985; Hofstadter 1963). Rather than try to centralize power in order to make government more effective and efficient in the context of the growing demands of a modernizing political economy, reformers attempted to depoliticize American political institutions. Several reforms initiated in these years proved to have profound and largely unintended consequences for the evolution of the American polity.

Early industrialization in America, along with the enormous economic opportunities offered by the shear wealth and size of the young nation, also allowed successful industrialists to amass huge wealth. Since the early days of the republic, there had been a powerful strand of ideology that resisted the development of an American aristocracy. Thus, the growth of families such as the Rockefellers evoked considerable cynicism and skepticism. In later developing countries, like Sweden and Japan, a major problem facing the country was how to concentrate enough resources and build enterprises big enough so that they could effectively compete with the Americans and the British. In the US the problem was how to prevent specific interests or individuals from concentrating too much wealth and thereby dominating the economy and polity. There was plenty of wealth in the West. The trick was to make sure that everyone would have access to it.

Thus, at virtually the same historical moment, while Japanese, Germans, Swedes, and many others were building stronger and stronger linkages between the most important actors in the economy (i.e., finance, industrial enterprises, and even sometimes labor unions) progressives in America demanded and eventually won a set of anti-trust laws which were specifically designed to break up economic concentration.

First, by the end of the nineteenth century all states had implemented the so-called "Australian Ballot" that allowed voters to vote in secret and to mark the individual candidate of their choice on their ballot. The purpose of such a ballot, from the democratic reformers point of view, was to allow voters to cast their preference away from the watching eye of local and/or party elites. It certainly had this effect. But it also made it much more difficult to organize and maintain strong political parties (Shalev and Walter 1980; Skowronek 1982).

Next, democratic reformers further decentralized power in Washington, DC, on the one hand, and attempted to break up strong political parties at the state and local levels around the nation, on the other (Gerring 1998; Dodd 1981). Political demands for a fairer distribution of income and wealth, better regulation of the private economy, and pressures for public spending and programs to benefit specific groups, interests and regions required a transformation of the old "parties and courts" system of governance that had functioned up to that point (Skowronek 1982). In order to actually govern – given the increased complexity of the task and size of the young nation – Congress created what came to be known as the *committee system* (Polsby 1968). This system evolved in the face of pressures for government to function better as it became more and more complex. But while it certainly allowed the system to handle greater complexity, its effects went well beyond this alone.

It is hard to over-estimate the effects of the creation of the committee system for the future evolution of the American polity. In the early twentieth century all developing countries were facing substantial difficulties in addressing the increasing complex problematic of governance. We saw how in Sweden this problem was eventually addressed through a set of institutions that facilitated compromise between the leading figures in the business community and labor. In Japan, the solution was more draconian and was to centralize authority and power into the hands of increasingly dictatorial leaders. The US lacked the small size, cultural homogeneity and economic concentration of Sweden, but its already long democratic traditions and constitutional separation of powers undermined those who would centralize power.[18] Absent centralized power, the problem became: How could the Congress exercise its constitutional duty to make law? The answer was to decentralize authority for specific arenas of policy to particular committees. This "committee system" thus subdivided authority for national policy between different functional units and gave power to specific congressmen over these functional domains. Reasonably, if you were from an agricultural district, you would likely serve in one of the agriculture committees. Without explicitly intending it, then, the new system of governance that was emerging turned authority for regulatory policies in America to the very interests that were about to be regulated (Kolko 1967).

In the early decades of the twentieth century, then, the United States was developing the model in which the increasing complexity of governance was addressed by dividing authority.

> The successes of the Progressive administrative reformers were scattered and incomplete, and their partial successes combined with the weakening of party competition in the early twentieth-century United States to exacerbate tendencies toward dispersion of political authority within the American state structure as a whole. Conflicts increased among presidents and congressional coalitions, and the various levels of government in the federal system became more decoupled from one another. (Weir and Skocpol 1985: 135)

The unintended consequence of this decision making model was to create a policy structure that targets benefits and has difficulty distributing costs (McConnell 1966).

Building America's Welfare State

Of course, American government *did* grow. Over the next decades, in Europe and America, public authority extended into virtually every aspect of private

[18] The most serious episode in this direction occurred under the famous leadership of the Speak of the House Joe Cannon. In his tenure as Speaker he worked to concentrate authority in the House in his hands and was finally rebuked in 1910 when the power of the Speaker was significantly cut back.

commerce and life. Crucially, however, this authority has been extended through the back door. When new responsibilities have been taken, they have rarely been embraced. As we shall see, the consequence was that as the American welfare state and tax system evolved, it became ever more ad hoc, uncoordinated, and inefficient. The result was *not* that the American welfare state remained small. Instead, it grew into one of the largest, most extensive and expensive welfare states in the world, as the previous section of this chapter has already made clear. But because it mostly targeted benefits toward specific groups and used the tax system as a primary tool for delivering public goods, it became what Christopher Howard calls a "hidden" welfare state. The effect was to build a welfare state that does not provide much actual welfare, a tax system that is highly inefficient and is widely perceived to be unfair and, ultimately, a public that increasingly distrusts its government.

If Franklin Delano Roosevelt is the father of the modern American welfare state, then the Great Depression is its mother. The collapse of the stock market, the rise of mass unemployment, and the loss of millions of Americans' life savings to an insolvent banking industry during the 1930s gave lie to the myth that government should stay out of the economy. Interestingly, Roosevelt was not elected on an activist program. As Leuchtenburg notes, at the time of the 1932 elections, "[n]ational Democratic party leaders criticized Hoover not because he had done too little, but because he had done too much. The main criticism they leveled at Hoover was that he was a profligate spender" (Leuchtenburg 1963: 3). But quickly after the election, very quickly in fact, Roosevelt and his administration embarked upon an historic number of major policy initiatives that were meant to realign the relationship between the private sector and the state. On March 4, 1933, President Roosevelt declared in his first *State of the Union* speech, "[t]his Nation asks for action and asks for action now." Describing the state of the Union, Roosevelt declared, "[t]he people of the United States have not failed. In their need they have registered a mandate that they want direct, vigorous action." And as economic historians, Atack and Passel, simply state, "[t]hey got it. Within days the scope of government was suddenly and dramatically expanded" (Atack and Passell 1994: 665). By June 16, 1933, the administration introduced twelve major programs that would change the face of American government.[19] It is important to appreciate the extent

[19] March 9, The Emergency Banking Relief Act; March 31, Civilian Conservation Corps Reforestation Act; May 12, Federal Emergency Relief Act; May 12, Agriculture Adjustment

to which the first 100 days of Roosevelt's administration changed America's political economy. The twelve programs proposed to deeply intervene into the private market in ways that exceeded the proposals made by Swedish Social Democratic elites at the time (Steinmo 1993: 85–91; Swenson 2002: 5–7).

It took the huge social and economic dislocations created by the depression – a serious shock to the American political system and a critical juncture in its evolution – to defeat the idea that government should stand back and let the market decide who wins and who loses. Whatever resistance to active government may have existed in the country before the early thirties was now overwhelmed by the persuasive powers of a popular and dynamic President and the clear demands from the people to get government working for the people (Leuchtenburg 1963).

However, the way in which the system adapted to this shock was conditioned by the factors we have detailed thus far. Despite Roosevelt's best intentions, the American system of checks and balances was specifically designed to make it difficult to translate the majority will into public policies – as would have likely occurred in the other countries in this study. Roosevelt's historic battle with the Supreme Court and his ultimately successful threat to pack the court with those who supported his policies is a useful illustration here. Eventually the president was able to pass a series of legislative initiatives that expanded government authority and developed a set of programs that are today the keystones of not only the welfare state, but more broadly of the modern capitalist political economy in the United States. But it is sometimes less well appreciated, however, how *narrow* his legislative victories were in Congress, even while his party dominated both houses of Congress and at a time of such obvious crisis.

Moreover, the president's successes also had an important unintended consequence of making further changes along these lines more difficult. The great irony of Roosevelt's sweeping electoral victories in 1932, 1936, and 1940 was that they served to ensconce racist Southern Democrats (*Dixiecrats*), with no serious interest in reform, into senior positions of power in the U.S. Congress. Recall that early in the century Congress chose to decentralized authority for specific policy arenas through a committee

Act; May 18, Tennessee Valley Authority; May 27, Federal Securities Act; June 6, National Employment Act; June 13, Home Owner Refinancing Act; June 16, Banking Act of 1933 (Glass-Steagall); June 16, Farmers Credit Act; June 16, Emergency Railroad Transportation Act; June 16, National Industrial Recovery Act (see, Atack and Passell 1994: Table 23.2 for a list and descriptions).

system. The purpose of these reforms was to make Congress a more effective decision making body and to decentralize power. One of the ancillary reforms that evolved in this context was the tradition of allowing the most senior member of the majority party to serve as chairman of the committee. Committee chairmanship became a prized and powerful position because committee chairs had the power to control the committee agenda and effectively decide which bills would be considered and which would not.

This system worked to the advantage of Southern Democrats because one of the key legacies of the Civil War was that most of the South became a one party system. For decades after the war, former confederate states voted virtually exclusively against Lincoln's Republican Party, thereby allowing local (Democrat) elites and party bosses to dominate southern politics. This system was sustained and reinforced by the economic and social hierarchies from the pre-war era long after slavery had been abolished. Thus, even while the Democratic Party of FDR in the North took aim at the economic injustices created by advancing capitalism, the Southern Democratic Party used its power to protect the economic and social inequalities that were left over from a neo-feudal world. The irony was that because of the seniority rule and the committee system used in the U.S. Congress, the very elections that swept Roosevelt into power also yielded power to a racist white elite in Washington, DC. Remember, in the United States, Congress writes law – not the President. These Southern Democrats were not necessarily opposed to economically progressive or redistributive policies, but as a rule they opposed programs and policies that might upset social hierarchies and balances of power in the districts they represented.[20]

Here again we see the way in which America's uniquely fragmented political institutions structured the evolutionary path of American social policy. Roosevelt and his team of advisors clearly wished to introduce broad and comprehensive policy solutions to deal with America's economic ills (Derthick 1979). But Congress had other ideas. Certainly, several hugely important and major policies and programs were introduced, but in almost all cases these programs became littered with special provisions, exemptions, and exceptions that targeted particular interest groups or communities who

[20] FDR's impressive electoral victory in 1936 was most considered a national mandate for continued progressive reform. The rub was that this election even further entrenched Southern Democrats in position of power in Congress. For example, Robert Doughton of North Carolina headed the House Ways and Means Committee. Senator Byron "Pat" Harrison of Mississippi chaired the Senate Finance Committee. William Bankhead of Alabama was the majority leader of the House of Representatives and Joseph Robinson of Arkansas lead the Senate (see Patterson 1967).

were either favored or specifically *dis*favored by powerful men in Congress. Roosevelt, who was by most accounts the most popular president in modern American history (and the only President to win four national elections) eventually came into significant conflict with the leadership of his own party over taxing and spending policies. Indeed, Roosevelt felt compelled to veto 372 bills sent to him by Congress. This is more than any other President in American history. Perhaps even more significantly, however, he had nine of these vetoes overridden, even though his own party controlled both the House and the Senate. Again, in any other democratic political system a conflict of this magnitude between the legislature and the chief executive would have brought a collapse of government and new elections. In the American case, due to the institutionalized checks and balances of the Madisonian system, in combination with the committee-based decision making system, the government was left intact, while Roosevelt's victories worked to further empower his enemies.

The Social Security Act of 1935 is a case in point. Though originally intended as a comprehensive social welfare measure designed to address the sources of poverty across the nation, what eventually passed was a limited and hesitant program that covered only a minority of American workers. Robert Lieberman describes it as a "race-laden institutional bargain" (Lieberman 2002: 113). The original proposal would have been a fully national social insurance system for all workers with financial support for state public assistant programs, such as mother's pensions. However, "this package – inclusive, national social policy – proved unacceptable to the Southern Congressional leaders" and was limited in such ways that excluded three fifths of the African American workforce from social protection (Lieberman 2002: 114).[21]

Tax policy in this era provides another powerful illustration of these dynamics. In the first years of his administration, Roosevelt's activism on the spending side of the budget was not matched by an activist tax policy. Roosevelt chose to avoid using the tax system in an all out assault on the inequitable distribution of wealth in his country, even while he became increasingly frustrated with what he called the "Economic Royalists." As Stein noted: "Roosevelt and the business community were suspicious of each other but still recognized that they needed each other" (Stein 1969: 75). But as the spending demands grew, so did the need for revenue. There was a broad consensus that increases in taxes were necessary – or at least that budget deficits needed to be limited. Congress eventually agreed to expand

[21] See also (King 1995a: 10, 14, 180–81).

the tax base by bringing more and more individuals into the system. But the increase in the tax burden also increased the incentives (and political rewards politicians could benefit from) for letting specific groups and individuals out of the system. The 1938 tax bill was just one example: It consisted of over 224 pages mostly devoted to special amendments offered to politicians' most favored clients.

As the revenue needs of World War II continued to mount, the administration attempted to reintroduce the idea of a national sales tax (now called a "*National Spendings Tax*"). Once again, Congress would not go along for fear of undermining local revenue authorities. What they could agree to, however, was steep increases in tax rates – to be coupled with deep reductions for their supporters. Revenues did increase, but so did the complexity of the tax code. The abuses of the system became so gross that Roosevelt vetoed the 1943 tax bill that he labeled "not a tax bill, but a tax relief bill." However, the Democrats in Congress overrode the first presidential veto of a revenue bill almost immediately (Steinmo 1993: 103).

World War II also marked a new era for American foreign politics. Although warfare had long been essential to the American state,[22] it was not until World War II that America built a standing army. During this war the United States underwent massive mobilization of available national resources to fight with the allies against Germany and Japan. It was a mobilization of resources far greater than all the ones in the entire previous history of the United States. After the war, the world was left with two superpowers. This fact had enormous implications for the future evolution of the American polity. Not only would the military spending dominate the treasury for many years while the defense industry become central parts of American politics,[23] but, more importantly, America came to embrace the notion of America as the protector of the free world.

In sum, the state evolved as a result of a crisis, which put considerable pressure for state action. However, the way in which the state responded – and thereby evolved – was heavily constrained by its political institutions, which had themselves developed in order to solve other problems.

An Activist State Settles in

Like the other countries in this study, World War II had a tremendous impact on the American political economy. As with Sweden, the United

[22] Indeed American history is one of numerous military adventures ever since King Philips war against the Indians in 1675.

[23] Military spending *rose* from 7.4 percent of GDP in 1951 to 14.2 percent of GDP in 1954. In 1959 military spending still consumed 10 percent of American GDP.

States received huge economic benefits from the conflict. The enormous fiscal and economic challenges of the war also brought the American federal government into an even more powerful position *vis-à-vis* the American economy.[24] After the attack on Pearl Harbor especially, few dared argue that the market should simply be left to its own devices. Instead, there was a national consensus that America should mobilize its resources so that it could fight and win the war. To be sure, there was considerable disagreement over exactly how interventionist the state should be, but there was little doubt, even from the business community, that government should and could help stimulate, regulate and even coordinate the private sector. As Blyth notes, "businessmen ran the new institutions of war management, and despite deep political conflicts over such institutions, the founding and staffing of these wartime agencies both helped to legitimate these new institutions and to establish a pattern of business-government cooperation that was to have far-reaching consequences in the postwar period" (Blyth 2002: 79).

The understanding that government can and should play an active role in regulating the economy and redistributing income and wealth in society was deeply embedded by the end of World War II. Although there were huge disagreements over the extent of that regulation and redistribution, there was virtually no argument over the basic principles. The lesson learned from the Great Depression was that capitalism was too volatile to be left alone. Remember, even capitalists lost enormous sums in this era. At that time, no one aside from the still truly marginal neo-liberals, like Fredrik von Hayek, believed that government should fundamentally roll back. Instead, the general consensus, even among conservative elites and economists, was that government intervention in the economy was a positive force. Even progressive taxation that imposed much heavier burdens on companies and rich individuals than on the poor was, by now, widely accepted (Slemrod 1995). Clearly, many argued that government regulation was too burdensome, and others argued that tax rates were too high, but no one took serious the idea that America would be better off with a "free market" (Blyth 2006; Skocpol and Ikenberry 1983; Stein 1969; Weir 1989).

A People of Plenty

The 1950s were also very good times for America. Now clearly the dominant system in the world, the country experienced a strong and steady expansion

[24] For a fascinating analysis of the politics of revenue raising during World War II, see (Jones 1990).

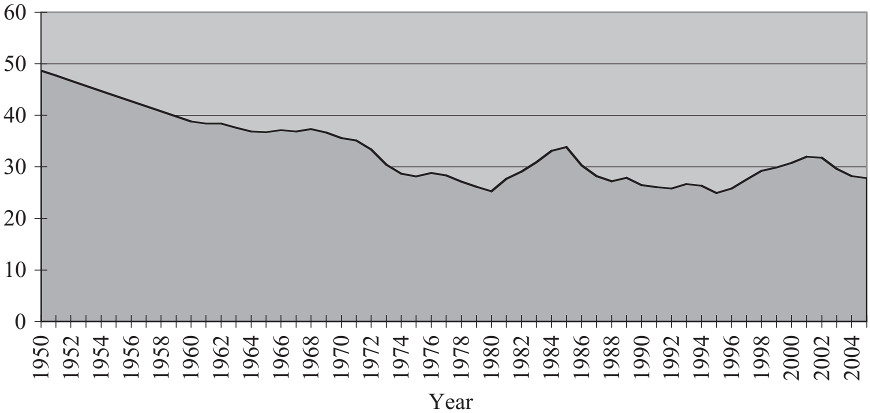

FIGURE 4.3. U.S. Gross Domestic Products as a percentage of Gross World Products, 1950–2005. *Note:* 1. The data of 1951–1954 and 1956–1959 are missing. 2. Since many countries have no data on 1950 and 1955, the data before 1960 and after 1960 are not comparable. *Source:* 1950 and 1955: Author's calculation based on World Bank. 1984. *World tables: From the data files of the World Bank, the third edition*. Baltimore: Johns Hopkins University Press; 1960–2005: World Bank. 2007. *World development indicators* (CD-ROM). Washington, DC: World Bank.

of jobs and sustained growth. Real incomes grew rapidly for the middle class while the share of national income and wealth of the richest Americans dropped dramatically and stayed relatively low throughout this period.[25] As Figure 4.3 shows, the United States accounted for nearly 50 percent of the world domestic product.

In this period of seemingly unbridled affluence, the United States continued to see itself as the most egalitarian and open society in the world. America was certainly advantaged by its powerful economic position after the war, but also by its increasingly well educated workforce and huge public investments in education and scientific research.[26] Although progressive intellectuals and reformers argued for the construction of a more comprehensive social welfare system and more coherent tax policies similar to those being developed in Europe (e.g., national health insurance plans and broad based national consumption taxes) to go hand in hand with this new prosperity, with a Republican president in the White House and the continued

[25] The share of national income taken by the top 1 percent dropped from over 19 percent in the late 1920s to approximately 8 percent in the 1950s to the early 1970s (see Piketty and Saez 2007: 146).

[26] For a broad overview of the history of American education policy (see Hirshland and Steinmo 2003).

dominance of Southern elites in Congress, there was little chance of the American welfare state being made either more comprehensive or coherent (Stein 1969: 181). There was instead, a steady, though piecemeal, expansion of individual programs and tax relief for particular constituencies who could gain the ear of powerful committee chairmen.

Social Security, for example, was extended to ever broader constituencies, even while they had often not paid into the system (Derthick 1979). At the same time, the "automatic" revenue windfall that was generated through economic growth and bracket creep allowed Congress to dole out tax benefits to a dizzying array of constituents. Interestingly, Congress appeared less willing to introduce across the board tax reductions than to use the tax system to reward particular groups and interests. Surprisingly, the top personal income tax rate in the United States remained over 80 percent throughout the 1950s. On the other hand, specific tax expenditures (e.g., loopholes) were given away literally by the hundreds. John Witte described the 1951 Tax Revenue Act as, "A veritable landslide of special interest provisions were enacted aiding a wide range of groups foreshadowing a pattern that would emerge in all subsequent revenue bills, tax increases in one form or another were compensated for by conferring benefits in another" (Witte 1985: 142).

Americans had grown understandably proud of their country and confident in their future. The National Opinion Research Center (NORC) study conducted for Gabriel Almond and Sidney Verba's seminal study, *Civic Culture*, found that an overwhelming 85 percent of Americans were aware of the government's impact on their lives and 76 percent of these viewed this impact as positive. Indeed, when asked what made them most proud of their country, 85 percent said "the government" or some other "political institution." Steven Bennett summarized the evidence about American attitudes toward government in these years in the following way: "Most Americans expected to be treated fairly by government agencies, and roughly four fifths believed that their views would be given at least some attention by a government office. Most Americans also viewed their fellow humans as altruistic, which undoubtedly buttressed rosy views of government and public officials" (Bennett 2001: 55). Similarly, Herbert McClosky's 1958 study, "Political Beliefs and Attitudes," found that roughly 90 percent of Americans "usually have confidence that government will do what is right" (McClosky, 1964: 320, cited in Bennett: 50).[27]

[27] It should be noted that these early public opinion studies have subsequently been criticized for over-representing well-educated, white and middle class citizens' views. Clearly, survey

This was also reflected in America's expansive foreign policy and military force, which became one of the means to maintain this superiority and the ideas carrying it. Although America had historically spent little on defense in peacetime, after World War II, the military was now becoming institutionalized in the American society. As President Dwight Eisenhower said in his Farewell Address in 1961[28]:

America is today the strongest, the most influential and the most productive nation in the world [. . .] A vital element in keeping the peace is our military establishment. Our arms must be mighty, ready for instant action, so that no potential aggressor may be tempted to risk his own destruction [. . .] This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence – economic, political, even spiritual – is felt in every city, every statehouse, every office of the federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society.

Defense and security was thus becoming a part of American politics in order to safe guard the *strong nation*. As Eisenhower also pointed out in his famous farewell address, there were powerful political and economic interests, which stood to gain from America's extension of American power. But equally, the national identity was increasingly wrapped into the idea that Americans now had a responsibility to protect, defend, and even promote their model around the world.

Big Government – Weak State

Thus by the 1960s the United States had developed a profound sense of its superiority. This vision embraced the idea that America was a land of freedom, justice and equal opportunity. This identity, however, eventually created enormous friction with the realities of American social inequality, in particular with respect to the position of African Americans. While

data and techniques have improved over the decades. Nonetheless, these data *are* important because they reflected the middle class view that America was a fair and just society and that the political institutions played a positive role in this system. It was precisely because these beliefs were so strongly held that the revelations of the social, economic and racial inequalities in America in the 1960s proved so emotionally devastating and politically powerful.

[28] The speech can be found in its full length at http://eisenhower.archives.gov/All_About_Ike/Speeches/Farewell_Address.pdf.

many might acknowledge that racial discrimination existed, the fact was that most middle class Americans did not themselves experience the consequences of the structural inequalities in their daily lives (Dudziak 2000).[29] But the spread of a new technology– the television – was about to change this and indeed change American politics in quite unpredictable ways. The TV brought both *The Adventures of Ozzie and Harriet* and politics directly into America's family rooms with serious consequences for the system itself.

The infamous Senator Joseph McCarthy was the first political leader to successfully use the TV to press a political agenda in the 1950s, but it did not take long for other politicians and activists to master this medium. The young and telegenic Senator John Kennedy used the television particularly effectively. It allowed him to beat Richard Nixon in the 1960 election, who most commentators agreed had the better of their radio exchanges but came off far worse in pictures. Kennedy called out to the best in his fellow Americans, imploring them to "[a]sk not what your country can do for you. Ask what you can do for your country." But he also used this new medium to bring the realities of the appalling poverty and gross racial discrimination into the living rooms of middle class Americans who, up to that point, had formed an highly idealized "Beaver Cleaver" vision of their nation's progress.[30] Many people who were coming of age at that time can still remember the images of poor Appalachian families shoeless and dressed in rags and later the images of police dogs attacking unarmed protesters in Montgomery who were simply asking for equal rights under the law.[31]

Kennedy's assassination in November 1963 clearly contributed to the sense that something was wrong in the country. But instead of defeating a hopeful America, it galvanized the country around the idea that this rich and powerful nation should not allow for the kind of poverty, discrimination,

[29] Dudziak provides a rich and fascinating account of the ways in which America's racial structure interacted with domestic and international politics during the Cold War, showing how American ideals were both repressed and instruments of political advantage for America's Civil Rights movement.

[30] Steven Teles' insightful analysis of the evolution of welfare policies in the United States, shows that in the early 1960s a clear majority of Americans supported increased spending on welfare, with over 60 percent believing that America spends "too little," and less than 10 percent believing that America spends "too much" on welfare. By 1977, these figures had been essentially reversed. (see Teles 1996: 44).

[31] For an excellent examination of the ways in which public opinion and racial attitudes were shaped in this era, see (Lee 2002).

and injustice that was becoming increasingly obvious. The result was a massive electoral landslide to the Left in the 1964 election.[32] Virtually everyone believed at that time that this election offered a mandate for comprehensive reform. Instead of piecemeal and underfinanced welfare programs that had been built up to that point, the construction of a much more equal and complete social welfare system could begin.[33] Unfortunately, these expectations were not fulfilled. Certainly, many very important pieces of legislation were passed in the months following the election in a general assault on poverty and inequality in America. The *War on Poverty* introduced Medicare, Medicaid, and a variety of programs intended to offer help for the poor in America. But once again, the fragmentation of political authority in the U.S. limited their effects. Many believed, for example, that the United States would now introduce a comprehensive national health insurance program, but as Theodore Marmor has shown, the best-intentioned and well thought out plans still had to make it through Congress (Marmor and Marmor 1973). Here the lobbyists for the medical industry who were against what they termed "socialized medicine," found support from the Southern Democrats who *still* controlled the most important committees. The result: Instead of a comprehensive plan, a limited and targeted program that focused on the most needy (the aged and the very poor) was passed. This program (*Medicare/Medicaid*) certainly helped many of the most medically needy, but it also fuelled the fires of medical inflation and undercut the political drive for a more cogent response to America's medical problems (Hacker 2002; Watts and Steinmo 1995).

Other major pieces of Johnson's *Great Society* programs met similar fates, although in many of these cases, the problems were more in the implementation of the programs. In order to get the plans through Congress, they were set up to provide incentives for state and local authorities to bring them into being. This meant, of course, that there was a huge diversity in the effects of these programs, depending on which state and/or local authority chose to take them on (King 1995b). In many cases (like the Civil Rights Act) they were not implemented at all, until the Supreme Court intervened and National Guard troops were sent in to impose the will of the Court.[34]

[32] President Johnson took 61.2 percent of the popular vote against Goldwater's 38 percent Johnson also won 486 out of 538 possible electoral votes. The Democrats also won a 2/3rd majority of the seats in both the House and the Senate.

[33] Seventy-one new liberal freshmen Democrats were brought in along with President Johnson who promised to fulfill Kennedy's vision.

[34] See also (King and Smith 2005).

Though the progressive reformers during both the Roosevelt and Johnson administrations hoped to build comprehensive social welfare systems not unlike those being developed in Europe, the realities of the American legislative process prohibited this option. Race and racial prejudice played a powerful role as well. Although much of middle class America was inspired by Martin Luther King's "I have a Dream" speech and likely felt sympathetic to the basic principles of the Civil Rights movement, these emotions were very clearly not universal. To many, integration and equal rights was perceived as a threat to what they saw as an essentially zero sum game. When the national government forced integration of the schools it did not provide new resources to expand these same schools. Similarly, when the Courts demanded bussing of white students into black schools, they did not provide resources to improve these schools either. In short, precisely because the American state distributes public benefits in both meager and narrow ways (this includes education), it was perhaps understandable for those who have benefits to want to protect them. Race played an increasingly powerful role in these debates.

Perhaps it is worth taking a brief moment here to take stock of where we are in this narrative. At this point we are in a critical juncture in American political history. We see building friction within society and between local and national institutions, as well as between social values dominant in different parts of the nation. Once again, it is often the friction between sub-systems that explains evolutionary change. In this case, the progressive idealism of American ideology has, once again, been beaten back by the narrow interests of a small and unrepresentative group of congressmen (and perhaps some of the constituents that they represent). In my view this is a very important moment in American history. America has made its second major effort toward constructing comprehensive social welfare policies and twice failed. It is essential to understand that if the United States had had parliamentary political institutions or, for that matter, another decision making system that better translated the majority's preference into public policy, there can be little doubt that this country would have had a comprehensive national health care system by the mid-1960s. But it is not just National Health Insurance that failed in the era. The ambitions of reformers in the Roosevelt, Kennedy and Johnson administrations were consistently hobbled by the reality of the old adage "In America, all politics is local." What this really means is not that local politics is more important than national politics, but rather that all national politicians represent local constituencies. The consequence is that in order to get national legislation through the Congress, local interests have to be served.

The multiple obstacles to the growth of central government did not stop the growth of government. Instead, the expansion in the size and range of competencies of the government had to be wheedled through the legislative process or legal system by invoking a language of "rights." In what Paul Pierson and Skocpol call "The Great Transformation," public authority expanded enormously in these decades. Not only did government nondefense spending nearly double between 1959 and 1975, but probably more importantly, the national government extended itself in innumerable ways into society via intricate regulations, grants, mandates, and incentives.

> Whichever instrument one examines, the broad story is the same. After 1960 there was a very sharp expansion in the domestic policy role of the national government... [by the mid-70s] one could see a new national state in the United States. This new state had far greater spending capacity, regulatory reach, responsibility for a range of social rights, and ability to structure incentives through the tax code than the state that preceded it." (Pierson and Skocpol 2007: 31)

Through these mechanisms, reformers were often able to achieve part of their goals. Thus, for example, it would have been clearly preferable to reformers to have universal programs, but the American system of checks and balances proved too great an obstacle. Even this system, however, could not block the demands for equal rights, smaller more focused spending programs, or tax cuts for powerful clients. The social welfare agenda was thus transformed from a broad progressive agenda to a "me too" clamber for particularized benefits, public subsides and tax breaks. As Theda Skocpol points out, the expansion of public authority and particularly the structure of particularized benefits quickly evoked an "advocacy explosion" (Skocpol 2007). What this effectively meant was that activists came to understand that they could achieve many of their policy goals by championing the narrow interests of specific groups. Once again, the United States system was not well suited for those who pushed for general policies directed at the public interest. But the American system, both through the increasingly fragmented political structure and through the increasingly impatient courts, proved to be very receptive to those who demanded special treatment and/or particularized benefits.

No one, including the activists who used the system to extract specific benefits for constituents or clients, felt that this was the best way to make policy. But if this was the only way to make policy, it was certainly better than nothing.

Between 1964 and 1976, trust in government declined by 46 percent points (Alford 2001: 44). Certainly, Watergate and the failure of the

Vietnam War played hugely important roles. But in my view, so did the government's apparent inability to deliver on its promises. Government authority and influence over people's lives grew substantially in the 1960s and 1970s in the United States, as in Europe, but the programs and policies that were passed in these years were not the kind of large, comprehensive, or universalist programs, which would clearly and openly benefit average citizens. Instead, in order to get through the Congressional labyrinth, policies had to be targeted on narrow constituencies and generally delivered and financed indirectly. America's *War on Poverty* provides a good example of the consequences: Instead of winning this war, the federal government created a maze of complicated regulations and rules defining who should get government help and under exactly what conditions thus creating an administrative nightmare for both those who had to administer it and for those who were supposedly the recipients. Worse yet, in attempts to constrain spending and insure that only the "deserving poor" received public help, social help programs were targeted on single mothers and ended up contributing to the break up of families. Similarly, the desire to constrain costs and focus benefits also resulted in a system where each dollar a recipient might earn in a job could cost them more than a dollar in lost social welfare benefits. The result? Incentives to cheat the system and/or not seek work grew. Also, the number of people in poverty grew from about 25 million in 1970 to 35 million by 1985. In short, poverty won the war.

To sum up, in the later half of the twentieth century the American political system was forced to adapt to a very new environmental context than that of the nineteenth century. The frontier was now closed and instead of being a distant nation somewhat outside the intense conflicts of the warring European states, America was now at the center of the world. Absent the ever-expanding western frontier, Americans were forced to confront the inconsistencies in their own ideologies. National political institutions adapted by creating a committee system by layering or exapting new functions onto old rules. The national government grew in power and importance and ultimately this led to a confrontation between national ideals and local politics as never before. America was evolving toward a more complex and more integrated society, but as we shall see, this process was neither easy nor comfortable.

A Crisis of Confidence

We saw in earlier chapters how the energy crisis of the mid-1970s led to a series of economic problems in rich countries. In Sweden, the Social

Democrats lost their control of the government for the first time since 1932 and in Japan the fiscal problems effectively halted their plans to build Western style social programs. The United States was nominally in a better position to deal with the quadrupling of the price of oil than other countries for the simple reason that it was the third largest oil producer in the world at that time and depended on imported oil for only 28 percent of its total consumption. The problem for America was not that it was so dependent on imported oil, but rather that it had become addicted to extraordinary high levels of consumption. With less than 5 percent of the world's population, the US consumed 31 percent of the world's energy in 1972 (Energy Information Administration 1998: Tables 5.1 and E1).

Jimmy Carter won the election in 1976 by running *against* Washington rather than for it. (He would not be the last President to follow this strategy.) He came to office in a period of great political and economic distress. The American economy was suffering what was then called "stagflation," with interest rates running into the double digits, high unemployment and the worst recession since World War II. He also came to office in a period of growing distrust of government. Both the Vietnam War and the scandal of Watergate had broken American's confidence in their government.

Still, during his four years in office he introduced an enormous array of legislation addressing problems as diverse as environmental protection, worker health and safety, housing reform, tax reform, and energy savings. Unfortunately, in response to the apparent abuse of power by Nixon, the US Congress reasserted itself as the prime decision maker. To accomplish this task, given the enormous complexity of governance by the 1970s, Congress further decentralized policy authority to its committees and new subcommittees in what was called the "Subcommittee Bill of Rights." The result was that policy making became even more unwieldy.

> The new policy process is characterized by a proliferation of overlapping and competing policy subsystems, with legislative proposals spewing forth from hundreds of subsystems in an often conflicting and contradictory fashion. Because so many congressional actors have some degree of significant authority, the role of the central leaders is extremely difficult. (Dodd and Richard 1979: 154)

The floor of the sausage factory, so to speak, was becoming even messier. The consequence was that no matter how well thought-out, or well designed the Carter administration's policies were, Congress wrote its own laws. And as power was ever further distributed across the 538 members of the House and the Senate, the final policy outcomes became less and less coherent. By

1978 only one in four Americans believed that government could be trusted to do the right thing most of the time (Alford 2001: 30).

On July 15, 1979, President Carter went before the American public in a special televised address to the nation and announced quite frankly:

> I want to talk to you right now about a fundamental threat to American democracy.
>
> I do not mean our political and civil liberties. They will endure. And I do not refer to the outward strength of America, a nation that is at peace tonight everywhere in the world, with unmatched economic power and military might.
>
> The threat is nearly invisible in ordinary ways.
>
> It is a crisis of confidence.
>
> It is a crisis that strikes at the very heart and soul and spirit of our national will. We can see this crisis in the growing doubt about the meaning of our own lives and in the loss of a unity of purpose for our nation.
>
> The erosion of our confidence in the future is threatening to destroy the social and the political fabric of America.

Perhaps Carter was just unlucky, or perhaps he was just too honest. In this televised talk and a series of other presentations to the American people he tried, vainly it turned out, to convince them that they needed to adjust to the reality that America consumed too much (oil in particular) and lived beyond their means.

Quite simply, Americans did not want to hear it.

"Government is the Problem, Not the Solution" Ronald Reagan[35]

The next President of the United States promised a new day in America. His campaign ran straight against the dour pessimism of the Carter administration and forecast a New Dawn. Ronald Reagan fundamentally understood America's growing cynicism. He also understood that many of the targeted programs that had squeaked their way through the legislative labyrinth in the past twenty years created a great deal of frustration and resentment among white working class Americans. In a system where benefits are meager and targeted, it is easy to perceive inequity and inequality. When one adds racial distrust and prejudice, as Reagan did, it should be no

[35] The full quote is "[In this present crisis], government is not the solution to our problem; government is the problem." Inaugural Address, January 20, 1981, at http://reagan.utexas.edu/archives/speeches/1981/12081a.htm.

surprise that the squeezed lower classes could easily be brought against the state.[36]

For the first time in American history *in*equality was growing in America, but what made it far worse was that now it was the white working class that was feeling the squeeze. Traditionally the Democratic Party represented the white working poor, but increasingly these constituents came to believe that this party represented the demands of special interests with whom they had very little in common. Increasingly, this group that came to be know as "Reagan Democrats" came to believe that even though they paid taxes, public spending increasingly went to benefit someone else.

Reagan fundamentally understood this frustration and seized on a new strategy: Instead of promising to make government better, Reagan promised to get rid of it. Government, he argued, was not the solution: It was the problem. America is a great country and a corrupt government could not make it better, he implored. He did not say it, but what he meant was "Ask not what the government can do for us. Ask what we can do for ourselves."[37]

Reagan thus launched a two-pronged attack against "welfare" on the one hand, and high taxes on the other. He rather successfully played on the fears and insecurities of white Americans, implicitly claiming that the reason that their taxes had grown so much in recent years was that a wasteful government was dolling out too much money on an undeserving (and largely black) lower class. He was especially fond of telling a fictional story of a Cadillac driving "Welfare Queen" who had up to 80 different names, 12 social security cards, and 30 addresses in South Chicago and "bilked the government out of $150,000."[38] These themes clearly hit a powerful chord, especially among working class whites (Teles 1996: 48). Reagan avoided attacking programs targeted at the middle class, such as tax subsidies for homeowners, and instead focused on programs aimed primarily at aiding the lowest income brackets. [39] Also untouched by the budget were entitlement

[36] See (Mendelberg 2001) for a sophisticated and comprehensive treatment of the use of race and racial images in recent American political history.

[37] Linda E. Demkovich, "How Reagan Would Turn the Welfare System Back to the States." *National Journal* 12 (October 25, 1980), 1809.

[38] Reagan told this story in many occasions over the years and the story (which he claimed to be true) was never verified. He changed the details over the years as well (see Washington Monthly 2003; Ford 2008).

[39] His Omnibus Budget Reconciliation Act (OBRA) consolidated 57 means-tested social spending programs into 7 block grants, and coupled this with a 12 percent, $50 billion reduction in social spending by 1984.

programs widely enjoyed by middle-class voters, such as Social Security, Medicare, and Supplemental Security Insurance?[40]

Reagan's most important legacy, however, was not on the spending side of the budget. Instead, he helped build a new economic philosophy. Taking up the logic of an economist to whom he had recently been introduced, Arthur Laffer, Reagan advanced the then counterintuitive argument – although it is now often seen as accepted wisdom – that cutting taxes would actually stimulate growth and therefore increase revenues taken in by the state. Following this logic, Reagan introduced the most sweeping tax cuts in American history. The problem, however, was that Democrats controlled the House and the Senate and they were not inclined to offer the President such a potent legislative victory, particularly after having so successfully beaten Carter's policy initiatives.

Reagan and his advisors, principally Ed Meese, James Baker, and David Stockman decided to make a strategic gamble: Knowing that Congress would find it difficult to say no to special tax cuts benefiting particular interest groups, the administration effectively declared a free for all. Since interest groups like tax gifts, why not make this tax bill a giant Christmas tree?

The logic was simple. In order to pass a huge tax rate cut, the administration offered to add literally hundreds of tax expenditures to the bill to "sweeten" the package (Stockman 1986: 44). What started out as a side deal here and a side deal there, however, ended up becoming an avalanche. Some, no doubt genuinely, believed that cutting taxes would actually be good for the economy, but only the hopelessly naive believed that this was good tax policy. "The hogs were really feeding," a congressional staffer recounted to this author. "The greed level, the level of opportunism, was just out of control," reported another Congress watcher (Grieder 1981:5). But, as Witte correctly points out, "It should be remembered that this bill was unique only because it was extreme, not because it established new trends in tax legislation" (Witte 1985: 235). By the time they were through, Congress passed and Reagan signed a 25 percent, across the board tax rate cut and hundreds upon hundreds of special tax expenditures (appropriately called

[40] Funding for Aid to Families with Dependent Children (AFDC) fell 17.4 percent; Food Stamps payments shrank by 14.3 percent; federal outlays for the Social Security Block Grant (SSBG) were rolled back 23.5 percent. Second, OBRA more indirectly reduced the size of these programs by tightening their eligibility requirements. As a result, enrollment numbers plummeted. Unemployment insurance recipients were forced off the rolls while 400,000 people were dropped from AFDC, and one million no longer qualified for Food Stamps.

"loopholes" in this context) to particular clients. The *Economic Recovery Tax Act* reduced government revenues by over $750 billion over the next five years.

The immediate consequence of the 1981 tax reform was the massive increase in the public deficit. But in my view, the longer run effects were more consequential. First, "Reaganomics" became the new philosophy for the Republican Party. Instead of trying to make government better, the philosophy essentially holds, hand cuff it and make it less dangerous. Government cannot be made to behave well, it seems, so better to "starve the beast." The second major consequence of Reagan's time in office was to reinforce cynicism among the American public. "As the fiscal crisis worsened, and the political conflict intensified," David Stockman, Reagan's budget director admitted, "we have increasingly resorted to squaring the circle with accounting gimmicks, half-truths and downright dishonesty in our budget numbers, debate and advocacy" (NYT, June 28, 1985: 30).

Perhaps that was Reagan's plan all along. Not only could deficits "starve the beast," but the gimmicks and dishonesty of this administration would make it ever more difficult to rebuild confidence in American *government*.

President Jimmy Carter warned in his famous Crisis of Confidence speech in 1979:

> We are at a turning point in our history. There are two paths to choose. One is a path I've warned about tonight, the path that leads to fragmentation and self-interest. Down that road lies a mistaken idea of freedom, the right to grasp for ourselves some advantage over others. That path would be one of constant conflict between narrow interests ending in chaos and immobility.

By the mid-1980s, the American tax system had become so littered with tax expenditures and loopholes that not even staunch progressives could defend it any longer. What Carter had once called, "a swamp of unfairness," had by now become even worse. By 1986 the federal government lost more revenue in special tax breaks than it collected with the Federal Income Tax (Witte 1983). It was in this context that the Reagan administration pressed the historic Tax Reform Act of 1986, which pushed down tax rates on top earners to 35 percent (a 50 percent reduction from where they had been when Reagan entered office in 1981) in exchange for the revenue gains made by closing many of the most egregious loopholes – many which had been introduced in 1981.

The new tax plan fit Reagan's general philosophy – cut back on government and let the market work. By now the economy was returning to health, helped in no small part by the huge stimulus created by the deficit

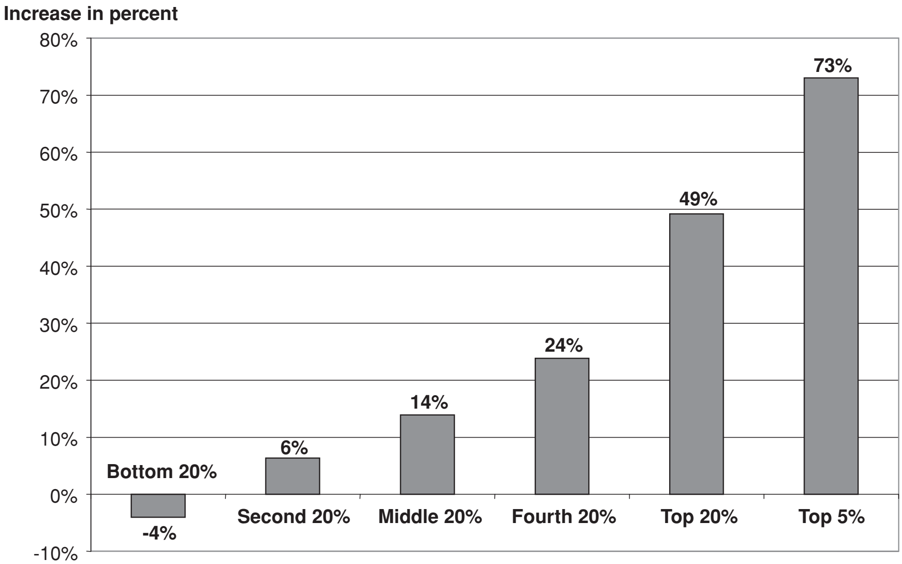

FIGURE 4.4. Drifting Apart: Change in Family Income in the United States, 1979–2008. *Source:* Calculated on the basis of data from U.S. Census Bureau, Historical Income Tables, Table F-3 [Available from http://www.census.gov/hhes/www/income/histinc/incfamdet.html].

spending incurred during the first five years of the administration's term. This economic boom, along with a series of deregulations in banking and commerce, contributed enormously to the steep rise in wealth of America's richest individuals and families.

It is impossible to know whether the young entrepreneurs who were busily creating and inventing the new information technologies base on the microchip would have been less eager or less successful had they faced higher tax rates. But it is clear that many entrepreneurs became enormously wealthy in these years. By the end of the decade several things were apparent: The American economy had improved markedly in the past ten years, inequality was rising and large swaths of American citizens had lost their faith in their public institutions. Figure 4.4 tells part of this story. The top was getting a disproportionate share of the American pie.

The Evolving World Economy

Whether they needed the incentives or not, American entrepreneurs were both eager and very well placed to take advantage of the new technologies that were increasingly coming on line as a product of the exploding world of computing technology. America, once again, was a less regulated economy than the others we study here, but it was equally important that the massive domestic market in the United States gave American inventors a broad and rich market to produce for. While Europeans were still trying to work out the details of the emerging European Union, America had a domestic market of over 250 million consumers. At the same time, successive presidents used America's enormous political and economic clout to push for free trade agreements around the globe. Many American firms saw fantastic opportunities in investing in lower cost localities: Others saw opportunities in exporting to new markets. Free trade was both embedded in American ideology, and also likely to serve the interests of many of the most powerful interest groups in Washington.

"The Era of Big Government is Over"

When Bill and Hillary Clinton moved into the White House in early January 1993, many hoped that the anti-government philosophy of Ronald Reagan had played itself out. Clinton promised change toward a kinder more forgiving nation. America, he claimed, was founded on the principles of equal opportunity and government could and should play an active role in insuring this opportunity. To this end, he proposed to overhaul America's inefficient and unjust welfare state. Specifically, his administration would introduce a National Health Insurance plan as well as a fundamental reform of the AFDC (a.k.a., welfare) program, which would convert this targeted system with a comprehensive set of social welfare services, child care programs, and active labor market policies.[41]

With over 30 million Americans without health insurance and tens of millions more who were seriously worried about losing their insurance, even the middle class felt a clear need for reform. Poll after poll indicated that between 70 percent and 82 percent of the American public favored NHI (Roper, 1994). Bill Clinton had also made National Health Insurance a keystone of his electoral campaigns. Finally, as Clinton's "The Era of Big Government is over" comment indicates, even the provider community appeared to concede that health reform was not only politically inevitable, but also morally and economically necessary.

[41] For an excellent discussion of what went wrong with Clinton's welfare proposals see (Teles 1996: 147–66). For an explanation of the failure of the health care plan see (Watts and Steinmo 1995).

Even the American Medical Association softened its longstanding hostility to a national plan.

A long-term crying need has developed into a national moral imperative and now into a pragmatic necessity as well... An aura of inevitability is upon us. It is no longer acceptable morally, ethically, or economically for so many of our people to be medically uninsured or seriously underinsured. We can solve this problem. We have the knowledge and resources, the skills, the time, and the moral prescience. (Journal of the American Medical Association, May 15, 1991)

Of course, we all know that the Clinton health care plan failed. While many have blamed the political strategy chosen by President Clinton and his wife, Hillary, for the plans failure, in my view the explanation is far more obvious. Once again, the game of politics in America is institutionally rigged against those who would use government – for good or evil. James Madison's system of checks and balances, the very size and diversity of the nation, the Progressive reforms which undermined strong and programmatic political parties and the many generations of congressional reforms have all worked to fragment political power in America to an ever greater extent. As we saw above, this fragmentation of political power, which had become more severe in the past twenty years, offered the opponents of reform huge opportunities to undermine Clinton's popular plan. It is important also to remember that Clinton's bill needed support from *more than* 50 percent of the members of the House and 60 percent of the members of the Senate. Congressional rules (i.e., institutions) in force in 1994 allowed a minority to block legislation as long as they could control just 40 out of 100 votes in the Senate. *No other modern democratic system in the world requires support of 60 percent of legislators to pass government's public policies.*

Second, despite the fact that the 1990s were marked by the highest level of public support for government intervention (Peterson, 1993: 406–7), the debt reaching over $3,000,000,000,000 facing American taxpayers (most of which has been accumulated since Reagan's tax cuts) made government *financing* of health care reform exceptionally unlikely indeed.[42]

The increasing fragmentation of power in Congress continued to the point where congressional representatives had become independent policy entrepreneurs. This meant money. Between January 1, 1993 and July 31, 1994, candidates for the House and Senate received $38 million in campaign contributions from the health and insurance industries alone. The

[42] Each comprehensive reform that was floated in Congress in 1994 crashed at the door of Robert Reischauer, director of the CBO, who was continually forced to give reformers the bad news: Comprehensive and universal coverage will cost money – at least in the short run.

TABLE 4.6. *America's Trust in Government*

Date of Poll	Q1 Government is Run for a Few Big Interests	Q1 Gov't is Run for All the People	Q2 Gov't Wastes a Lot	Q2 Gov't Wastes Some	Q2 Gov't Wastes Little
March, 1993	68%	23%	75%	22%	3%
Jan. 1994			83%	16%	1%

Note:
Q. 1) Do you think government is pretty much run by a few big interests looking out for themselves or that it is run for the benefit of all the people?
Q. 2) Do you think the people in government waste a lot of money we pay in taxes, waste some of it, or don't waste very much of it?
Source: Roper, Organization. 1994. "A polling review of the great debate: The public decides on health care." *The public Perspective* 5 (6):28.

AMA[43] had the single most generous Political Action Committee in the country.[44]

In the end, Clinton's failure to bring about health care reform worked to further reaffirm American's skepticism about politics. Once again, the failure of American political institutions to address the polity's problems – even when there had been clear public will for action – worked to undermine the public's faith in its governmental institutions. Given the disjuncture between political promises and policies delivered, it perhaps makes sense that citizens feel that government is hostage to special interests. As Hibbing and Theis-Morse argue in the conclusion of their volume, *What is it about Government that American's Dislike?*, distrust of government is also a problem of procedural justice. "The preference for people-power is merely a manifestation of the public's aversion to being taken advantage of by special interests and self-interested politicians" (Hibbing and Theiss-Morse 2001: 250).

Clearly, the relationship between attitudes and policies is both interdependent and iterative. By the 1990s, citizens had increasingly come to believe

[43] The AMA has contributed over $16.8 million to Congressional campaign coffers. The American Dental Association contributed over $7 million and the National Association of Life Underwriters contributed over $8.3 million in the same period. All together the fifteen largest health and insurance PAC contributed over $60 million between 1980 and 1994.

[44] Unsurprisingly, powerful interests particularly favored members who were in particularly pivotal positions. Interestingly, Jim Cooper, one of the key players whose "bi-partisan" plan did much to take the wind out of the Clinton plan's sails in August 1994, was the single largest recipient of health and insurance company money. He received over $668,000 in contributions from the medical and insurance industry in less than two years.

that the system did not work.[45] The problem was yet again exacerbated by the election of a President who promised a broad social agenda. As political analyst Stuart Rothenberg said the day after the November election, "Voters expected change. They believed they had voted for change. A year and a half later, they think they got more of the same" (Thomma 1994:8a). Public opinion polls confirm what many observers have noted: "In general, do you approve or disapprove of the job Congress is doing in handling the issue of health care reform?" 26 percent approve, 65 percent disapprove, and 9 percent don't know (Roper 1994: 27).

In sum, the massive campaign run against the Clinton health reform plan was a campaign against government generally. And, given the repeated inability of this government to act on the will of the people, this theme fell on receptive ears. The opponents, we should remember, were very careful not to argue against any health care reform. They instead argued that they supported reform, it was just that *this* reform was not the right one. The following dialogue was broadcast in yearlong advertising campaign financed by the American Hospital Association:[46]

LOUISE: This plan forces us to buy our insurance through these new mandatory Government health alliances.
HARRY: Run by tens of thousands of new bureaucrats.
LOUISE: Another billion dollar bureaucracy.

The failure of the Clinton's health care plan proved to be yet another example of government promising what it could not deliver. If America could not pass a national health care plan when it had this level of support from the public and with both House and Senate in the hands of the Democrats, when would it be able to pass any kind of comprehensive reform of a system that was clearly dysfunctional? The failure of health care reform had direct implications for Clinton's plans to reform "welfare as we know it."

What was bad for the American welfare state, however, was good for the Republican Party. It has been quite common in American electoral history for the President's party to lose seats in the interim elections between national electoral bouts. But 1994 was a rout of the Democratic Party. Building on the "Southern Strategy" initiated by Ronald Reagan, the Republican

[45] In early September 81 percent said they believed that Congress would be unable to agree on a health care plan.

[46] The association spent over $14 million on adds like these to defeat the bill. (Goldsteen et al. 2001: 1326). It was estimated that a total of $60 was spent in advertising to defeat the bill (ibid).

Party finally moved the South into their side of the isle.[47] For the first time since 1954 Republicans controlled both the House and the Senate. They seized the agenda, introducing what they called the "*Contract With America*." This contract featured prominently, "The Personal Responsibility Act," which laid out a new round of spending cuts for welfare programs, set tougher program eligibility requirements, restricted welfare enrollment to two years, and gave further responsibility to states (Republican National Party 1994). When Republicans seized both Congressional chambers in the 1994 elections, it seemed that their contract and its welfare provisions had been given the full force of a public mandate by a more conservative America.

In the end, Clinton was forced to concede ideological ground and sign the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), terminating AFDC and replacing it with the Temporary Assistance for Needy Families (TANF) block grant. After 61 years and under two democratic administrations, the New Deal fell victim to the New Way.

Tax Cut . . . Not Spend

It is in the context of growing citizen frustration with public authority that the Republican Party build on Reagan's basic insight: Cutting taxes is the best way to deal with public problems.[48] Even poverty, they came to believe, was best addressed through the tax code. Recall that President Clinton's second major promise for his administration was to reform the welfare system. Many people had to agree that this system made poverty worse rather than better because the targeted and under funded system created poverty traps, broke up families and built incentives for recipients to cheat and/or not work. But rather than increase spending, or building a more comprehensive system which would expand government, *The Earned Income Tax Credit* (EITC) tried to give tax incentives for people to go to work. The EITC grew out of the idea for a *Negative Income Tax* that became an unsuccessful element of both the Nixon and Johnson Administrations. The notion of an EITC was initially designed to prevent taxing of working

[47] The historically "Yellow Dog Democrat" Southerner switched parties in droves. In the 1994 election 65 percent of Southern voters voted for Republican members of Congress. Also, a new force was emerging in electoral politics – the organized Christian Conservative. Seventy six percent of white "born again" Christians voted Republican in 1994.

[48] For a full discussion of the history of the EITC see (Meyer and Holtz-Eakin 2001).

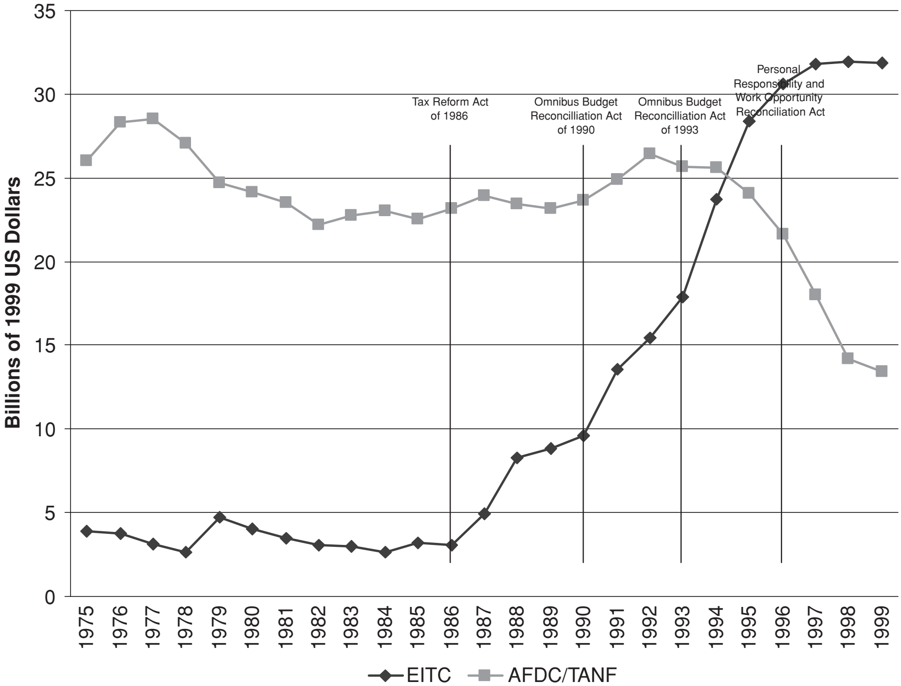

FIGURE 4.5. Changing Strategies: The History of TANF and the EITC (Spending in 1999 U.S. dollars). *Source:* Author's calculations based on data made available from Scholz, John Karl, and Kara Levine. 2000. "The Evolution of Income Support Policy in Recent Decades."

individuals into poverty by offsetting the burdens of social security taxes for working families.

During the 1990s, the EITC grew to become the most significant anti-poverty program in the United States. Clinton expanded the EITC as a means of increasing income support for the poor and offsetting the substantial cuts in more traditional welfare requirements demanded by the Republican majority in Congress. Not only did this system hide social spending from the direct budget, but it was also defended as a system that improved work incentives. The expansion of the EITC corresponded with a dramatic drop in other funding for other anti-poverty efforts. Funding of the government's major anti-poverty program, TANF, formerly known as AFDC, fell dramatically from levels approaching $30 billion in 1977 to less than $15 billion in 1999. Reductions in AFDC/TANF spending has also been followed by stricter eligibility requirements and work requirements.

The narrative above has emphasized the ways institutions, ideas and historical context co-evolve with one another over time. There are no "independent variables" here. American national institutions were indeed designed to limit public authority and there is no denying that they have had this effect (Steinmo 1995). But we have also seen how these institutions adapted to new demands. Ironically, precisely because the U.S. already had democratic institutions, reformers took a quite different path than those followed by their counter-parts in Europe. Instead of further centralizing power with the idea of harnessing power in pursuit of the public interest, they chose to divide and fragment it even more. Thus new demands on national government gave rise to a new policy-making environment that yielded enormous power to committee chairs, and thereby special interests and lobbies. A twist of history exacerbated this problem by lending Southern political elites extraordinary influence as America constructed its welfare state.

The result has been the evolution of a hyper-pluralistic decision making system in which public power has increasingly catered to the powerful but often failed to address the general interest. America's egalitarian idealism has been the primary victim. Unsurprisingly, the public's mistrust of government has grown. This system was neither designed nor intended – not even by the architects of the young republic. Instead it evolved along an understandable (in retrospect) but unpredictable path. The new century will bring with it new challenges and the United States will continue to evolve in unpredictable ways. Perhaps the new President Obama will indeed change the course of America's future.

PART III

CHALLENGES AT CENTURY'S END

"Democracy made this promise, but the riches of North America fulfilled it; and our democratic system, which, like other systems, can survive only when its ideals are realized, survived because an economic surplus was available to pay democracy's promissory notes." (Potter 1954: 93)

But what happens when the surplus is no longer shared?

Looking back from the perspective of the end of the first decade of the twenty-first century, one could be forgiven for romanticizing the last decade of the twentieth. To be sure, America faced problems, but at least this was a decade of growing prosperity, balanced budgets and increased wealth. Once we take off our rose-colored glasses, however, a slightly different picture emerges. In this picture we see an enormous expansion of wealth *for some* and stagnating incomes for many. Looking even more closely, we find a remarkable expansion in private consumption subsidized by cheap goods from Asia and cheap labor from Latin America. The rich got super rich, but the changing distribution of wealth did not stop there. Between the mid-1980s and mid-2000s, even middle class Americans drove ever-larger SUVs, ate out in better and better restaurants, and sent their kids to more and more expensive schools.

Bill Clinton did not cause this change of fortunes in the American story. It seems very fair to say that he fought desperately against it. He and his advisors focused on creating a universal health insurance system precisely because they understood that inequalities in access to and use of healthcare is one of greatest producers of inequality in America. But, as we previously saw, his proposal failed. The next President, George W. Bush, promised to be a "uniter, not a divider." Also promising a new kind of "compassionate conservatism," Bush Jr. suggested that he would bring America back to an older era when politics was not so intense. "He would overhaul Medicare, Social Security and public education; cut taxes; reinvigorate the military; restore civility to the political system; and help the poor with tax credits for health insurance, assistance buying homes and charitable-giving incentives" (Milbank 2004).

One can never know what might have happened. Politics and history is laden with contingency. Evolution is not predictable. Certainly, American politics would have taken a different route had Vice President Al Gore been selected by the Supreme Court to be America's forty-third president. At any rate, there can be no doubt that the catastrophic events of September 11, 2001 altered Bush's presidency. His domestic agenda was overtaken by an even more ambitious international agenda. But the reader should not be surprised that one of Bush's domestic policy goals was executed: Tax cuts. Perhaps one should also not be surprised that these tax cuts followed a pattern becoming ever more common in America: They increased inequality.

In 2001 Bush, Jr. realized his major campaign goal with the Economic Growth and Tax Relief Reconciliation Act (*EGTRRA*). The Bush tax cut follows the pattern of the earlier Reagan tax cuts by making extremely large tax cuts for the wealthiest Americans. As Larry Bartels notes in his fascinating analysis, "*Homer Gets a Tax Cut*":

> the most significant domestic policy initiative of the past decade has been a massive government-engineered transfer of additional wealth from the lower and middle

> classes to the rich in the form of substantial reductions in federal income taxes. Congress passed, and President Bush signed, two of the largest tax cuts in history in 2001 and 2003. One accounting put the total cost to the federal Treasury of those cuts from 2001 through 2013 at $4.6 *trillion* – more than twice the federal government's total annual budget at the time the measures were adopted.[49] (Bartels 2007: 162–63)

Many have criticized Bush Jr.'s administration for following a policy of tax cuts during an era of increased expenditures and war. But perhaps what is most surprising about these tax cuts is, as Bartels points out, that Americans overwhelmingly supported these tax cuts *even when they would not benefit from them*.

This fact reveals a new and troubling feature of the American political economy in modern times. Although America stood out in the world's imagination and in its own self-conception as the land of freedom and equal opportunity, increasingly it appears that Americans are settling on a belief of free markets and special opportunities. Not only has America moved from being the most egalitarian country in the advanced world to the most unequal country in the advanced world. But it also increasingly appears to be a country that accepts inequality as natural, or even good. Instead of striving to achieve a world in which everyone is well off, America seems willing to abandon this goal in favor of a world of *have and have-nots*. Immigration is key to this strategy, but its foundations are also embedded in the structure of the system itself.

America's peculiar social welfare has distributive consequences. Table 4.7 shows what many analysts have long noted: America is the richest country in the world, and also one of the most unequal.

Average per capita income is almost 30 percent higher in the United States (almost $10,000 *per person*) than in the other very rich countries in this study – yet many of its people do not seem to benefit from this wealth. The US ranks seventeenth in the UN's Human Poverty Index, largely because the poor are so very poor in this country. America has the "highest level of inequality by far," because, as Brandolini and Smeeding observe, "the United States differs, above all, in the relative disadvantage of its poorest residents" (Brandolini and Smeeding 2006: 23). Curiously, what many would see as an irony (poverty amidst wealth) others argue is precisely that which makes America so strong and competitive. America is evolving into

[49] The $4.6 trillion figure is for both tax cuts combined, and includes additional interest payments stemming from the resulting increase in the federal budget deficit; in addition, it assumes that a variety of nominally temporary rate reductions and credits will subsequently be made permanent (Friedman et al. 2003).

TABLE 4.7. *Human Development Index, 2003*

Country	GDP Per Capita	Population Below 50% of Median Income (%)	Human Poverty Index Rank	Income/ Consumption of the Poorest 10%	Ratio of Richest 10% and Poorest 10%	Gini Index
USA	$ 37,562	17	17	1.9	15.9	40,8
Sweden	$ 26,750	6,5	1	3.6	6.2	25
Japan	$ 27,967	11,8	12	4.8	4.5	24.9
Germany	$ 27,756	8,3	6	3.2	6.9	28.3

Source: (World Bank 2005a, 2005b) Various tables.

a country in which a guiding principle seems to be that inequality is *good* for the economy. Recently, many American leaders seem to have taken this logic one step further to argue that the greater the inequality, the better off the American economy.

As David Leonhardt observed, "[r]eal median family income more than doubled from the late 1940s to the late 1970s. It has risen less than 25 percent in the three decades since. Statistics like these are now so familiar as to be almost mind-numbing. But the larger point is still crucial: The modern U.S. economy distributes the fruits of its growth to a relatively narrow slice of the population" (Leonhardt 2008).[50]

Another major (and growing) source of inequality in the U.S. is *education.* As the United States enters the twenty-first century, where international competition for jobs is increasing, the education of significant shares of America's young is grossly inadequate. According to a recent report, "*Leaving Boys Behind: Public High School Graduation Rates*," 72 percent of all American high school age girls and 65 percent of high school age boys graduate. The numbers are worse for minorities: 59 percent of African American girls and only 48 percent of African American boys earn high school diplomas today (Lewin 2006). Variations by state tell yet another story. While 90.3 percent of ninth grade students attending public high schools in New Jersey graduate four years later, only 48.3 percent graduate in South Carolina (NCHEMS 2000). In New York City, only 33 percent of African American

[50] Piketty and Saez report that the income share of the top 10 percent of income earners has increased in the last decade to the highest level for which we have records. Whereas the top decile had approximately 30 percent of income in the mid-1930s (it dropped to 20 percent after World War II), by 2000, it had increased to more than 35 percent of national income (see Piketty and Saez 2007: 159).

TABLE 4.8. *Measures of Inequality*

	Year	Poorest 10%	Poorest 20%	Richest 20%	Richest 10%	Richest 10% to Poorest 10%	Richest 20% to Poorest 20%	Gini Index
Norway	2000	3.9	9.6	37.2	23.4	6.1	3.9	25.8
Australia	1994	2.0	5.9	41.3	25.4	12.5	7.0	35.2
Canada	1998	2.5	7.0	40.4	25.0	10.1	5.8	33.1
Sweden	2000	**3.6**	**9.1**	**36.6**	**22.2**	**6.2**	**4.0**	**25.0**
USA	2000	**1.9**	**5.4**	**45.8**	**29.9**	**15.9**	**8.4**	**40.8**
Japan	1993	**4.8**	**10.6**	**35.7**	**21.7**	**4.5**	**3.4**	**24.9**
Denmark	1997	2.6	8.3	35.8	21.3	8.1	4.3	24.7
UK	1999	2.1	6.1	44.0	28.5	13.8	7.2	36.0
France	1995	2.8	7.2	40.2	25.1	9.1	5.6	32.7
Germany	2000	3.2	8.5	36.9	22.1	6.9	4.3	28.3

Note: Countries listed by their Human Development Index Rank.

a. Data show the ratio of the income or consumption share of the richest group to that of the poorest.

b. Results may differ from ratios calculated using the income or consumption shares in columns 2–5.

Source: World Bank. April, 2005. "Correspondence on income distribution data." Washington, DC: World Bank.

boys and 30 percent of Hispanic boys graduate from high school (Lewin 2006).

Americans and Attitudes Toward Government From "Ask Not . . . " to "What Do I Get Out of This?"

The commonplace explanation for America's low levels of public spending and taxation is that Americans simply dislike or fear government. This '*American Exceptionalism*" argument has a long and venerable pedigree (Hartz 1983; King 1974; Lipset 1996). There are various versions of this argument, but the basic outlines can be easily summarized: America is a land of immigrants, most or many of which came here to escape oppressive regimes. Thus they came here with a basic antipathy for government and have passed this antipathy down from generation to generation. In other words, as Anthony King succinctly put it, "The state plays a more limited role in America than anywhere else because Americans more than any other people, want it to play a limited role" (King 1973: 418).

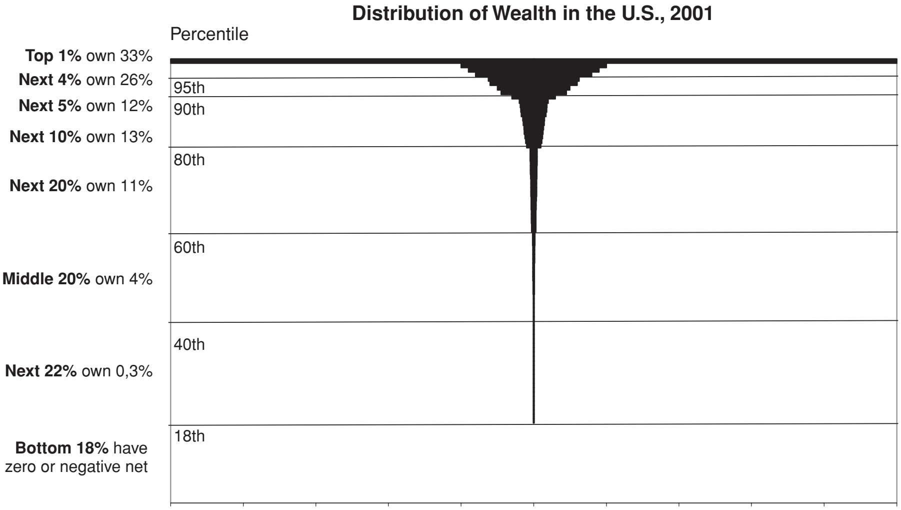

FIGURE 4.6. The Distribution of Wealth in the United States, 2001. *Source:* Adapted from Wolff, Edward D. 2004. "Changes in Household Wealth in the 1980s and 1990s in the U.S." In *Economics Working Paper*. Annandale-on-Hudson, NY: The Levy Economics Institute.

There are, however, at least two major problems with this argument. First, the American government, was *not* appreciably smaller than European governments in terms of taxation or spending until the 1960s. Second, people distrust their governments *more* today than they have in the past and yet neither taxes nor spending have declined appreciably. What has happened over the past several decades has been that public expectations have been inflated by a series of politicians who promised to help America live up to its dreams, only to have these promises dashed against the shoals of Congress. Instead of passing policies that help bring about more equality and opportunity, the political system increasingly doles out benefits to ever more particularized constituencies.[51]

Americans were often told that raising inequality was inevitable in the era of global competition. Perhaps they had come to accept and even believe this argument. Perhaps they simply had lost faith in their government's ability to do much about their declining fortunes. Perhaps, however, we are at a new critical juncture and America's path is about to change?

[51] See (McCarty et al. 2006) for an excellent analysis of the interaction between policy outcomes (mostly economic) and increasingly polarized and frustrated public attitudes. It is interesting to note that Americans tend to *believe* that they live in a comparatively equal society – despite the strong evidence that this is no longer the case (Förster and d'Ercole 2005).

Conclusion

We began this chapter examining the structure of the American social welfare state and tax system. I have tried to show that America was once a country that had strongly egalitarian values and a political economy that offered enormous opportunities to virtually all (white) individuals and families. It was thought of as a land of freedom and equal opportunity, not only by the outside world, but also by the residents themselves. There was always a dark lie that this myth covered up, but nonetheless it was a powerful symbol and organizing principle for the country as a whole. This system worked quite well and was able to sustain itself in large measure because of the enormous physical wealth of this country. Literally millions of acres of land were given away to anyone who had the fortitude to take it. The fragmentation of political power worked well in preventing elites from appropriating America's wealth and using it for their own private gain, as was the norm across the rest of the Western hemisphere.

But as the frontier closed down and the demands on government increased throughout the twentieth century, the fragmentation of political power proved less efficacious. As demands increased, frictions between conflicting political institutions, on the one side, and quite different social/political systems, on the other, became even more intractable. Governance itself became more complex and consequently power was further fragmented and divided. The result has been to create a political system that divides public decisions so that elected officials can take maximum credit for the minimum amount of spending. The metaphors of "bringing home the bacon" and Congress as a "sausage factory" are apt indeed. It should be no wonder, then, that Americans increasingly distrust their political leaders and distrust their ability to do the right things.

However, the inefficiencies of the U.S. system are not the product of the personalities it picks to hold public office, but are a result of the particular evolution of the system itself. The liberal ideals and democratic institutions that were brought over to the North American continent by the European immigrants were planted in fabulously fertile soil. And so, this nation and its people expanded enormously as its people became richer and richer. In some sense the system itself became addicted to growth (and consumption). American political institutions adapted to the changing society and new layers of responsibility placed upon them, but there continues to be great friction, for these institutions were not designed to be effective or easy to manipulate.

There is no doubt that the American system of fragmented authority and limited public power worked quite well in the context of an expanding nation with seemingly unbounded resources. Just as there can be no gainsaying that the American economy thrived – even while it failed to meet some of its philosophical goals. In the process of expansion and growth, the country developed a remarkably dynamic economic system and individualistic public philosophy. These ideas and institutions were reinforced by the sad legacy of slavery: Instead of building public policies that might work to further the American dream of equality for all, public policies remained targeted and rewarded special interests while eschewing collective responsibility, at least in domestic affairs.

The result is that the American welfare state has become increasingly large, inefficient and unpopular.

The new President has promised change and has convinced Congress to borrow over a trillion dollars to subsidize failing banks and industries, invest in infrastructure projects and give the middle class yet another tax break. These policies may all be necessary given the current economic crisis, but it seems highly unlikely that there will be any significant changes in the direction of building a more comprehensive and/or coherent system. Candidate Obama was careful not to promise a universal health care system and has been clear that the public benefits targeting the middle classes will remain. At this exact moment in history, it appears likely that the Democrats in Congress may be able to bring some kind of health reform bill to the President for his signature.... But if they do, it is even more likely that what he eventually signs will be a far cry from a simplified, public system (or option) that helps control costs and rationalize the system. Whatever his intentions, moreover, we can be certain that Congress will insure that programs and tax breaks benefiting the largest and most well organized constituencies will continue, even while the beneficiaries rail against the welfare state.

It may well be that the new President is able to galvanize the obvious discontent Americans have developed for their system into a new kind of political will. I must say: I certainly hope so. But the narrative we have followed so far, unfortunately breeds skepticism. Perhaps the good news from this perspective is that evolution is truly unpredictable. In short, we will see.