

The Anti-Tax Movement and the Recession

Anders RavikJupskås

Researcher at Center for Research on Extremism (C-REX)

E Ivarsflaten

Researcher at Center for Research on Extremism (C-REX)

BenteKalsnes

Associate Professor, Kristiania University College

You've come up with the pledge. Here's where you seem to have stepped in it. You came up with this pledge that you don't want people to raise taxes ever and you got a bunch of Republicans to sign it, mostly Republicans to sign. It strikes me as people can come up with any pledge they want. The people seem like at fault for this if you don't feel like this is a good thing are the people who sign it. I can come up with any pledge. - There have been over time quite a number of questionnaires and pledges and things that somebody says you should make all these commitments. The reason why the pledge has been successful is that it's simple. They're not 12 moving parts. Remember some group in Iowa had like a 14 part pledge including how you spent your evenings and they wanted candidates to sign it. - That's my group. The how you spend your evenings pledge. - They couldn't get a lot of signers. The pledge is look, as long as I'm a congressman, or a senator, or president, I'm not gonna raise taxes. When I see a problem, I'm gonna reform government, I'm gonna spend less, I'm not gonna raise taxes in the pledge ever. - Now, what about the idea though that because it's so simple and so absolutist, that's it's almost impossible? Like if I had a pledge that said America can never go to war. - Mm-hmm. - And I got a bunch of people to sign it. People would think, well, that's unrealistic. It's too simplistic for this complex world. Do you worry that your pledge? I mean, Reagan raised taxes, I don't know, seven times, eight times? - Yeah, and George Washington lost the Battle of New York. That was not on purpose. I mean, Reagan didn't want to raise taxes. - Wait, Reagan didn't want to raise taxes? - No. - But he did it eight times? - No. - He had a congress. He had a congress with whom he raised taxes a number of times. When I talked to him about it, he thought the big tax increase was the '82 tax increase.

I talked to him about it too, Grover. You're not the only one who talked to him. He told me that he did it eight times. - The '82 tax increase which was the large one, he said was the biggest mistake of his presidency because, of course, remember he was promised, oh, if you raise taxes, we'll give you \$3 of spending cuts. - But then he kept raising them. '82, '83, '85. I have a whole list here. - Yeah. - So would you have run somebody against him? - No. The good news is here. - Why not? - Well one, he hadn't signed the pledge, and we didn't have a

base of support. - So that's Grover Norquist who turns out to be a pivotal player in the class today. We're gonna look at the anti-tax movement and our agenda is gonna be first to go back and look at the history of it. I think it is one of the two most successful social movements of the 20th century, the other being the civil rights movement in that it completely transformed the political economy and the landscape of politics perhaps irreversibly we'll see as we go along. So our agenda is we're gonna go back and look at the origins of the anti-tax movement. Then I'm gonna take a step back to bringing a little, again, some of the machinery of political science into our conversation and talk a little bit about referendum politics because the origins of the anti-tax movement have a great deal to do with that as we will see. We'll then look at 1994 as a pivot point in the anti-tax movement and in the transformation of American politics. We'll then zero in on a case study of the estate tax. The estate tax is the most progressive tax in the US tax code. It was put there in 1916 to fund World War I and it was repealed as part of the Bush tax cut of 2001 which we'll talk about in some detail. And it was repealed quite remarkably with significant support from Democrats in the House and the Senate despite the fact that all of it is paid by the top 2% of income earners and more than half of it is paid, at that time, was paid by the top half of 1%, people with estates in excess of 20 million dollars.

And so we'll do something of a whodunit about how the estate tax was actually repealed in 2001. We'll then talk more about tax cuts and the republican coalition as it has evolved. This intersects somewhat with the lecture I gave a week ago on the resurgence of conservative parties across the West, but it has a distinctive American flavor. And then we'll end by considering how far the goal posts have actually shifted as a result of this social movement. But let's go back to the beginning and the origins of the anti-tax movement I think really go back to the early 1970s and particularly after the Nixon Administration had collapsed as a result of Watergate, there was a lot of soul searching among conservatives. The democrats had been in charge of Congress for decades and there were a number of so-called activist think tanks that either emerged or grew very dramatically, places like The Heritage Foundation, the Cato Institute, the American Enterprise Institute, people, wealthy individuals and organizations put huge amounts of money into these think tanks and the idea was not to come up with a strategy for winning the next election. The idea was rather to rethink the republican agenda for the medium run. And they put their money into think tanks quite self-consciously, people like Feulner and others, the Coke family. Their reasoning was that they really needed to change the ideological terrain. So this was three categories of interests, institutions, and ideas, and they really felt that the new deal great society consensus had to be tackled at the realm of the ideological justifications for it out there in the American polity. And they thought that trying to do this in the universities was hopeless because the universities were massively dominated by people to the left of center, by liberals, and so the thought was a much more efficient way to do this would be to do it through think tanks.

And so they invested a lot of money into these activist think tanks that would help design what we're talking about today and their general revival of pro-market politics that we were talking about last week at home, and then also the aggressive agenda abroad that we're gonna be talking about later when we see what happened after 9/11. But they were really

concerned with taking head on the consensus that had informed the new deal, the great society for decades. And there was a lot of research done in these think tanks and a lot of activism that came out of these think tanks. They were frankly, if you go to The Heritage Foundation in Washington, DC, and you look at the signs on the elevator, it's very clear what it is that their agenda is about. Small government, shrinking the welfare state, and fundamentally strengthening market forces. So that was one piece of it. In my book with Michael Graetz that I have on the syllabus, we have several chapters that go through that history. But then secondly, the other more specific source of the anti-tax movement goes back to Proposition 13 in California. Many people, this is again, be taking some people down memory lane and introducing others to some history about which they may not be fully informed. So let's go back to June of 1978 in California. - Good evening. Here in California in the primary tomorrow, people have the rare and no doubt pleasing opportunity to vote their taxes down, to tell the politicians that they will pay this much and no more. Proposition 13, it's called, and it's an absolute flat ban on how much property tax they can charge homeowners. It is thought to be about as much a vote against big, expensive, wasteful government as it is against the property tax. And it seems that nobody loves government anymore. Here's Don Harris. - By far the most controversial of the tax reform measures is Proposition 13. Simply put, this amendment would roll back the assessments on all property to the 1975, '76 levels.

It will allow assessments to increase at the rate of only 2% per year and it would limit property taxes to 1% of that assessed value. In terms of taxes paid, that means the owner of a \$60,000 home in Los Angeles would find his taxes reduced from about \$1,400 a year to about \$600 a year. Proposition 13 applies to all property, businesses as well as homes. Big companies would get big tax reductions. Pacific Telephone, for example, will receive a tax cut of about 130 million dollars if Proposition 13 passes. - So Proposition 13 promises huge tax cuts to all California tax payers. This is a so called ballot initiative which we think of as something like a referendum. You vote only on this question and the result was indeed, a landslide. Here is Governor Jerry Brown. Those of you who are younger here and remember Governor Jerry Brown, you don't know perhaps that he had an earlier tour as governor when he looked a little different than the Jerry Brown you might know. So here he is. - Over four million of our fellow citizens have sent a message to city hall, to Sacramento, and to all of us. The message is that the property tax must be sharply curtailed and that government spending, wherever it is, must be held in check. We must look forward to lean and frugal budgets. It's a great challenge and we will meet it. We must do everything possible to minimize the human hardship and maximize the total number of state jobs created in our economy. Proposition 13 takes place on July 1st. We have only three weeks to act, three weeks to decide multi-billion dollars of fiscal questions, to set a new direction for the 5,000 units of government throughout our state. It's time to put aside partisan differences, the vote represented democrats or republicans, people from the north and the south, old and young, and all parts of our wonderful state. We must follow three basic principles. No new state taxes. Voters have told us they want a tax cut.

They don't want a shell gain. Number two, the state must share the burden. We must adopt a thoughtful, austere budget. Already, I have imposed a hiring freeze. There will be no new

hiring and when someone leaves the state service, he or she will not be replaced. I will propose budget cuts of at least 300 million dollars. I appeal to you to rise above the partisan temptations to work together as a body to fashion a bill that keeps faith with our fiscal realities and with the mood and the philosophy of the people which we serve. As for business, business will reap savings on the order of three billion dollars. Many individual businesses will save tens of millions of dollars. These people, these corporate presidents, have a moral obligation to invest that money in California. We have a very monumental task. There is not much time. The people are waiting for us to act. - So there it was, actually the legislature had tried to head this off when they saw how powerful the movement was. They came up with an alternative called Proposition 8 which would have cut taxes somewhat more modestly, but the victory was overwhelming. It was a 2/3 vote and Jerry Brown, although he was a democrat, felt as you can see, compelled to go with the result and so it wasn't challenged in court or anything like that. They went forward. So the entrepreneur for this cause was actually an Orange County businessman by the name of Howard Jarvis whose picture you saw up there. And just to get a flavor of his worldview, here was an interview with him that was done the following day. - is filled with moochers and loafers right up to their ears. And they have a great idea. The object of the lot of them is to get the job and sit there until they get a paycheck. And in the meantime, they don't move in any direction. And if you think that isn't so, just go over there this morning to city council's office and you walk through 15 city councilmen's office. You'll see more people asleep and reading Playboy than you do in a hotel.

You've got so many consumer protection agency in this state, and city, and county, that they're like a bunch of rabbits in a field and they multiply about as fast and they all go into different directions and the whole thing, it's a whole flop. They know about as much about consumer protection as I do about swimming. This is gonna be introduced pretty soon in Michigan, Oklahoma, New Hampshire, Connecticut, Massachusetts, and Pennsylvania that I know about. I might say that I get calls from the BBC. I might say that I got an invitation to go to Canada. They want to start it there. And the thing is, it's just sweeping the country and it's beyond my capacity to really comprehend it if you want to know the truth about it. - So there he was and he encapsulates this idea that Ronald Reagan would later articulate that government is the problem and we have to wage a frontal assault on it. And as he intimated with the invitations he was getting and the notion that this was being picked up in other states, this was indeed really the starting point of this anti-tax crusade that played itself out over the next several decades and in which we're still in the midst of. But I want to take a little step back now and think a little bit more analytically about the logic of what we call these initiatives, referendums, or voter initiatives on single issues. And just to go somewhere else for a minute, let's talk a little bit about Brexit because I think Brexit, there's a dimension of Brexit that really encapsulates the nature of referendum politics. So here's a paradox about Brexit. Britain had an election in 2015 and elected two parties to the House of Parliament, two of the two major parties. They were overwhelmingly pro-remain. 2/3 of both the Labor party elected in 2015 and the Conservative party, maybe not quite 2/3, but a very comfortable majority of the Conservative party were pro remaining in the European Union. David Cameron had made this promise to have a referendum because he was

worried about UKIP, but nobody really believed that the referendum was gonna come out as it ultimately did.

2016, we had this referendum and the British public votes by 52 to 48 to leave the European Union and the Brexit process begins. But here's the more puzzling question. In 2017, exactly a year off the referendum, Britain had another general election and it elected a parliament that was actually more pro-remain than the 2015 parliament. And not only that, Theresa May, who by then had replaced David Cameron as prime minister who had voted for remain but was now tasked with negotiating Britain's departure from the European Union, her cabinet of 24 people, 17 of them were pro-remainers. So how can it be, how can it be that the British electorate on one year before this referendum and one year after this referendum elect a parliament and a government that's overwhelmingly pro-remain, but nonetheless, in the referendum, they vote to leave. Any thoughts about that? Are they schizophrenic? Anyone got a? We need the microphone. I've been seeing the videos of these lectures and nobody can hear the questioners, so yeah. Yes, sir. Take the microphone and talk. - They vote against their own self interest. - Well, but how does that explain? I'm not asking whether it was in their interest to leave or stay. Why would they vote one way in 2015, a different way in 2016, and a third way in 2017? Yeah? - I think when you look at a referendum - Take the microphone, yeah. - When we're looking at a referendum, it's always a single issue. It's easier to vote in a single issue and not look at the total ramifications of that decision, whereas in an electoral campaign, there are tons of issues that are affecting one another and that are on the ballot. Whereas here, I also compare to what happened in Quebec with the sovereignty issue. It's much easier to put on an easy one liner question and not think of the ramifications of that decision. - Why is it easier? - Because you're only taking into account facts that are directly linked to that one question and you're not taking into account the possible larger consequences of the yes or the no answer.

- Okay, I think you've nailed it. So that's exactly what goes on in that when you think about what parties do when they're putting together platforms, they have to bundle lots of issues, right? And they have to bundle them in ways that will try and appeal to a broad swath of voters. And so in doing that, they will discount everything they propose by everything else they propose to try and create what they think is the best overall bundle. If you're only voting on one issue, you don't have to do that discounting, right? So just to give another example which I think will help us get back to the tax issue today. If you ask American voters in any poll would you like to get rid of a tax? 2/3 will say yes. Even the estate tax that almost nobody pays. At least 2/3 will say yes. But if you say, and some of the subsequent polling on the estate tax confirms this, would you like to get rid of the estate tax if doing that also meant getting rid of prescription drug benefits for senior citizens? Then they say no. Why? Because in the second case, they're discounting their preference for a tax cut by their preference for losing prescription drug benefits for seniors, right? And so what referendums with single issue politics does is it enables people to vote on questions without doing that discounting. So it's a little bit like having a child eat as much candy as they want without thinking about the stomach aches and the doctors bills coming later. So referendum politics, single issue voting, it sounds terrifically democratic, let the people decide every issue, but in fact, it's an invitation to people to engage in choosing things without considering the costs.

So in the case of California, there would be downstream costs on local government. That actually when we talk about next time there were gonna be downstream costs on the California school systems and so on.

Now, you might say, well, the activists, people like Jarvis don't care about that because their idea is starve the beast, starve the beast, but most of the people who are voting are instead thinking about one issue at a time. This is what I mentioned Kahneman and Twersky in connection with loss aversion last time. Another one of their great contributions is the idea of framing effects, that how you frame an issue has a lot to do with what people will say about it. So if you frame an issue saying would you like a tax cut? Should we get rid of the estate tax? Should we get rid of the death tax? And everybody says, 69% say yes. You can go and say 69% of the American people want to get rid of the death tax. But if you ask a question with prescription drug benefits, then a majority says no. So what public opinion actually is, it's not that clear, right? It depends how you frame the choices. It depends how you frame the issue. And so when you turn tax cutting into single issue politics, you're gonna be able to pick up the ball and run with it in a way that the anti-tax movement subsequently did. And as you saw in the Norquist interview, this would become the test for republican politicians that he created this group called Americans For Tax Reform that we're gonna hear more about in a few minutes that became enormously powerful in Washington and had meetings every Wednesday morning and everyone who was anyone in the lobbying world in Washington had to go to those meetings. And among the things that he did was create this pledge that he was, you could see him ambivalent about not wanting to be seen to criticize Ronald Reagan on The Daily Show, but in the years subsequent to Reagan, it became non-negotiable for republicans to support tax cuts. And so you can see here. - And I'm the one who will not raise taxes. My opponent now says he'll raise them as a last resort or a third resort, but when a politician talks like that, you know that's one resort he'll be checking into.

My opponent, my opponent won't rule out raising taxes. But I will and the congress will push me to raise taxes and I'll say no. And they'll push and I'll say no. And they'll push again and I'll say to them, "Read my lips, no new taxes." - And that became the instrument of his undoing in 1991 when off the Gulf War, he was at the 99% popularity rating. The country was in a pretty significant fiscal crisis and he did indeed raise taxes. And that caused the anti-tax movement to turn on him led by Newt Gingrich who was at that time, the leader of the republican minority in congress. But it was Gingrich on this anti-tax platform who was to orchestrate the republican take over of the House of Representatives in 1994. And Gingrich declared open war on George Herbert Walker Bush as a traitor to the anti-tax cause and is widely believed by consultants to have been a major factor in his defeat by Bill Clinton in 1992, that he was so badly damaged. And Gingrich who would then become the house speaker had something called a contract with America which was essentially the manifesto of the anti new deal coalition on taxes. It was going to require 2/3 votes in both houses to raise taxes. Every republican was now required to sign the anti-tax pledge, pledging that you wouldn't raise taxes. And it really was quite stunning when you think about the sweep of American history that from 1932 until 1994, congress had been controlled by, the house had been controlled by democrats for all but four of those 62 years, 58 years, and the senate

had been controlled by democrats for all but 10 of those 62 years. So the democrats believed they were the natural party of government and seemed to be the natural party of government. You see the presidents are in the middle there. So you can see from time to time, there were republican presidents, but they basically had to govern with democratic congresses. Now, if you look at what 1994 ushers in, it's a completely different world.

The republicans control the house for much of that time, all but six years from then until now and they control the senate also for the bulk of the time. So this really is, 1994 is a pivot point. It is a sea change. And the glue that held this crusade together was the anti-tax movement. And I want to now zero in on the repeal of the estate tax because as I said at the beginning, this is a tax that almost nobody paid. It was the most progressive tax in the code and yet it was repealed with substantial bipartisan support. So here's candidate Bush running for election and listen to him on the estate tax. - I will use this moment of opportunity to bring common sense and fairness to the tax code and I will act on principle, on principle, every family, every farmer and small business person should be free to pass on their life's work to those they love, so we will abolish the death tax. - And interestingly, when you interview the people who ran that campaign, they said they were actually surprised that he got these vast applause lines for saying he'll abolish the death tax. Now, calling it the death tax, that was one of Frank Luntz's ideas actually. It's sometimes attributed to Norquist, but the truth is calling it the death tax increases the support from mid 60's to around 70% saying yes, get rid of it. It's not that big of a difference, but obviously, they decided that it had a certain ring to it and that why should you stop off at the tax man on the way to the undertaker? And much of the argument was arguments about small businesses, the vast majority of which didn't pay estate taxes. We'll come back to that. And then there were other arguments made like it's double taxation. People have already earned the money and paid taxes on it. Why should they pay taxes on it again? But of course, the tax code is filled with double, triple, quadruple, and quintuple taxation. Sales taxes are taxes on, you're paying taxes again on money that you paid taxes on before.

So no more double taxation than many other taxes in the code, but they were surprised at how much resonance this got. Indeed, if you look at the contract form with America, at that time, the threshold below which you didn't have to pay estate taxes was \$675,000. And all they proposed was putting it up a little bit, putting the threshold up a little bit. They didn't think that they could really get rid of this tax because they thought how would you get the coalition to do it? Nonetheless, in June of 2001, George W. Bush signed the Economic Growth and Tax Relief Reconciliation Act. I'm gonna talk a little bit about why it was called reconciliation in a little while. And it was one of the principle components of that act that it was gonna get rid of the estate tax. And just to give a sense of proportionality here, this was a bill that was gonna cost 1.3 trillion dollars over the next decade in terms of lost revenues. And as you can see, the bulk of it came from almost half of a billion dollars of income taxes, but then the other major pieces were a big increase in child tax credits and the estate tax and getting rid of the so-called marriage penalty. So it's gonna cost the federal government. It's not chump change in 2001 dollars. It was gonna cost the federal government 138 billion dollars over 10 years to repeal this tax. And a couple of other things worth pointing out about the repeal. In the American system, in order to pass a bill in the senate, you need 60

votes because the minority can filibuster with 100 senators but the minority can filibuster a bill and you can only end a filibuster if you have 60 votes. And the republicans didn't have 60 votes in the senate. And although they had some democrats who were willing to support this, in the end, they had eight senate democrats ended up supporting this, they didn't have 60 votes and they knew they weren't gonna have 60 votes. And so the way that you got around this, this is why it was called the word reconciliation appears in the title, was the so-called procedure of budget reconciliation which President Trump used again in 2017 to get his tax bill through.

And the good news about reconciliation if you're trying to pass a bill is you only need a majority. So you only need 50 votes because the vice president breaks ties in the senate. So you get 50 votes, you've got 51 out of 100. That's the good news. The bad news is that if you do something through the budget reconciliation process, it has to balance over a 10 year period. And so the problem was how to do a massive tax cut and have the budget balance over 10 years. And in those days, the congressional budget office that scores this legislation, it was as it still is, it's manned by career professionals who use their own methods for scoring bills. And there was a big fight which has since been lost by the CBO as to whether or not to use so-called dynamic scoring of bills. So dynamic scoring of bills is informed by the idea, well, what effect will these tax cuts have on the economy? Because it's a standard belief among republicans that if you cut taxes, you'll get more growth, you'll get more revenue, and so there will be a dynamic effect. And these theories are always controversial and we'll see the predictions of the 2017, the dynamic predictions behind the 2017 act have gone the way of other dynamic predictions. But in any event, the CBO refused to do this. They refused to do at that time dynamic scoring. This is now changed. It tells you something about how far the goal posts have shifted. CBO will do dynamic scoring of bills. So the numbers, you couldn't do fuzzy math as George W. Bush used to call it. The CBO did the math and it had to balance. And so the way they got around this as you can see from here is that they phased it in. So they phased it in over 10 years and so what they did was they gradually raised the exemption. As I said, it had been \$675,000 to a million dollars in 2002.

You have to double all these numbers for a married couple, so two million for a married couple. And they gradually increased the exemption to 2009 to 3,500. They had to repeal. They repealed the bill, the tax completely in 2010, and then worse if it was not extended, it was gonna come back in 2011 as it would have gone back to 675,000. So some people call this bill the push granny off the bus in 2010 bill because if you died in 2010 as George Steinbrenner who was the owner of the New York Yankees had the good fortune to die in 2010, or his children had the good fortune that he died in 2010. There was no estate tax. But if you died in 2011, there was gonna be an estate tax again at a 56% rate with a \$675,000 threshold. So you don't have to worry about the rest of it, but so you can see they gradually brought the tax rate down but it would have gone back up. So it's a kind of bizarre piece of legislation because nevermind throwing granny off the bus, people don't know when they're gonna die so how do you prepare? How do you do tax planning? Should you be buying insurance with respect to covering what you may or may not have to pay out of your estate? So they were basically banking on the idea that these tax cuts would be extended. And by the way, this was true. The whole bill. I'm just focusing now on the estate

tax piece of it, but the whole bill would have to be extended because if it had been by reconciliation. So essentially, it was a tax cut with a sunset clause where the default of doing nothing would be to repeal the cuts in 10 years down the road. In politics, one year is 1,000 lifetimes. 10 years, who knows what's gonna be going on 10 years later? So that was the estate tax repeal and they felt they had to get a full repeal because that was part of their rallying cry. Get rid of the death tax even if it was only guaranteed initially for the year 2010. So how was it done? As I said, almost nobody paid this tax. How did they put together a coalition to do it? And it had to be a diverse coalition.

So let's just listen again to our friend Grover. - When Reagan came to Washington, he was almost the only Reaganite in town. When George W. Bush came in, there was a town full of Reaganites at the airport greeting him. And when he says, "I think we oughta do X," there are institutions and newsletters, and magazines, and think tanks, and whole trade associations that go, "Boy, yes," and we have that written up. - The people at Grover Norquist's Wednesday meetings all have different interests, but the glue that holds this coalition together is tax cuts. Norquist has been toiling away for tax cuts for a long time. He invented the no new taxes pledge that's now considered a political requirement for candidates in many parts of the country. He helped mastermind Newt Gingrich's contract with America and he helped popularize the republican's new name for the estate tax, the death tax. - When you think about Grover's influence on the conservative movement, you would really have to say that Grover Norquist is the Ralph Nader of the right. - Stephen Moore is the President of the Club for Growth which supports conservative republican candidates in primary challenges against other republicans it considers too moderate. - Right often fails because we tend to find ourselves in circular firing squads. And what Grover says quite correctly is look folks, at least if we're gonna be in a circular firing squad, let's put Dick Gephardt in the middle. And that's the kind of tactician that he is. - One of the signs of maturity on the right is that you don't ask a president to win votes that's not there. My job is to get the death tax ready for repeal, to have the votes in the house and senate for repeal, and to make the world safe for a president to cheerfully sign it so that he's proud and happy to sign it. It's a political winner for him to sign it. The central question in American politics is the size of government. It's gonna get bigger or smaller.

Of the resources that you and your family put together, more of it go to the state or more of it stay with you. - When the tax cut is enacted, Grover Norquist says, there will be much less money available to the government, fewer resources that the state can use to bother the members of what Norquist calls the leave us alone coalition. Grover Norquist's long term goal is simple and very radical. He wants to cut the size of government in half over the next 25 years. That's a serious and reasonable goal, he says, and one he's willing to advance with as blunt a metaphor as possible. - I don't want to abolish government. I simply want to reduce it to the size where I could drag it into the bathroom and drown it in the bathtub. - Shrink government to the size where you can drown it in the bathtub, and this became a famous phrase of his. So he saw it as his job to work with the groups outside and put together the coalition to do this. And one of the things you can do with single issue politics is you can get all kinds of people who wouldn't agree on anything else, but will agree on this. And so this is what was done to create the coalition to get rid of the estate tax. Just to

talk about a few people who were important players. This is Frank Blethen, the owner of The Seattle Times, a political liberal, and he poured a huge amount of effort and energy into this campaign to get rid of the estate tax. Why? Because he saw that the family owned newspapers were being gobbled up by the big corporate conglomerates, Gannett, and so forth. And he thought that if family owned newspapers couldn't be passed on to his next generation, it was gonna accelerate this process of getting rid of family owned newspapers. Bob Johnson, founder of Black Entertainment Television. He was on the liberal democrat. Gave a lot of money to liberal democrats and interestingly when the momentum was building to repeal the estate tax, Bill Gates and a few other millionaires published a letter in The New York Times and The Wall Street Journal and The Washington Post saying, "No, we should keep the estate tax.

" And they had about 20 or 30 wealthy individuals who signed up for this. And Johnson was so angry that he ran a counter ad and he got a counter ad calling for the repeal of the estate tax. And I went and interviewed him about that and I said, "Why did you do that?" And he said, "Well, doesn't matter to me. "I'm gonna be dead, "but for the first time in American history, "we have African American millionaires "and some African American billionaires. "If they have to sell their businesses "to pay the estate tax, "do you think that money "is gonna be reinvested in the Black community? "I don't." Then he said, you know, if you could exempt African Americans from paying the tax for 50 years, I might think differently, but when we finally get some wealthy African Americans, this is the time when we're gonna get rid of the estate tax? I don't think so. And then he said, "And besides, "Gates didn't call me. "He didn't call Oprah. "Who does he think he is?" So part of it was personal. But basically, he had a story that he told himself about why this was actually bad for African Americans. Congressman Albert Wynn, one of the strange things about this was the White House, not the White House, the democratic leadership on the hill were stunned that the Congressional Black Caucus came out in favor of getting rid of the estate tax. And when I interviewed Albert Wynn about why did you get, he was Maryland's fourth district, somewhat centrist, but certainly not a conservative democrat. Why did you support it? He said, "Well, we have lots of small business in Maryland. "My district has got the 10th largest number "of small businesses in America "and I was getting a lot of pressure "from small business constituents to support this." He didn't see any cost. And I think the interview with him was very revealing on this point about bundling because what the coalition to get this done would do is they would run all of these single issue polls, getting polls to get people to say they want to repeal the death tax, and then they would go into congress congressional offices and say to the congressmen, or the congresswomen, or the senator, "Look, this huge support for this.

"You're not gonna lose your seat over this. "This is not a voting issue "for most people in a general election, "so it's a free vote. "It's a free vote to vote for it, "but it might not be a free vote to vote against it "because if you vote against it, "we could make your life difficult." So for instance, Senator Blanche Lincoln of Arkansas, a centrist democrat, she voted for this repeal and you interview her staff basically. They said she hated this, but here it is, it's a free vote if you do it. If you don't, who lives in Arkansas? Well, the Walton family live in Arkansas of Walmart. And the Walton family can make any sitting senator from Arkansas' life very

difficult if they want to. And so why infuriate one of the most, the wealthiest, probably the wealthiest family in your state over a vote that's not gonna cost you anything electorally if you go the other way. So a lot of these people felt that sort of pressure on the one side and didn't see any cost on the other. Neil Abercrombie, the only congressman from Hawaii at that time. He's since been a three term governor. A liberal democrat, he supported it. A great puzzle to me. A very, very liberal democrat he was, at least at that time. When I went to interview him, I got a big part of the answer which was that his office was right next door to the office of the principle supporter of the bill and her name was Jennifer Dunn, a very smart republican congresswoman also from the west and since deceased, but her office was next door to his and she went to work on him and found out what he needed in his district. And so it did things for him and it was personal. He didn't see why he shouldn't support her.

Again, there was not gonna be any electoral cost. So there were these kind of people and then there were arguments like we didn't have gay marriage at that time, as you know. This is 2001. And so gay groups came out in support of the repeal on the grounds that the estate tax discriminates against gay people because if you're a heterosexual married couple, you could double the exemption, but gay people couldn't double the exemption. So that's unfair to gay people. So gay groups came out in support of it. So it's a very cleverly orchestrated coalition of very strange bedfellows that nonetheless could be brought either to support this or not to oppose it. And then when you think about the opposition, the opposition to this bill. First of all, one thing to say about it is that they really didn't take it seriously until it was a long way toward happening. They didn't take it seriously because they thought it would be electorally unpopular and the republicans had been voting this up in the house in the last years of the Clinton Administration and the senate and there was always the security that President Clinton would veto it anyway if it passed, but they didn't take it that seriously until it was done. But where was the opposition? Where was organized labor? Well, we know from the last lecture, organized labor by this point is so far back on its heels that they don't really care about tax issues. I interviewed the lobbyist for the AFL-CIO in Washington and basically what he said was, "We have four lobbyists in Washington now. "One of them spends a quarter of his time "on all tax issues." He couldn't even remember what had been at stake. So it's a kind of thing that three or four decades earlier, organized labor would have been very active against, but they were much more involved in other issues at this time like getting the NLRB to be more friendly to card check and systems of organizing that might help reverse their decline. This just was not an issue for them.

Non-profit groups, non-profit groups, Yale gets hundreds of millions of dollars every year partly because people want to avoid estate taxes. They don't want to give it to the government, so they give it to Yale. But the difficulty is it's very difficult to say, well, we should have a tax so that you'll have an incentive to avoid the tax in order to give it to us. It's not an easy argument to make. Insurance industry. There were at least four big insurance companies that stood to lose a huge amount from this because there are people who buy tax planning insurance from them. I interviewed one of their lobbyists and they said, "Well, "we're a very republican industry. "It's very difficult for us to oppose any tax cut, "and besides, we knew President Clinton would veto this." And I said, "Well, but there was an election coming up," and they said, "Well, we thought Gore would win." And I said, "And

you sell insurance?" So the insurance industry was largely mute. And then what about liberal democrats? At best, they were split. So you had this campaign which was extremely well organized, well resourced. It was funded by a tax planner called Patricia Saldarno. She was a tax planner who worked for very wealthy individuals and she came to Washington once a month and spent a week meeting with the coalition groups. It had very smart strategy and leadership. And particularly in managing conflicts within the coalition because there were conflicts of interest. You can tell that there must have been conflicts from the divided dollar game that we have talked about already. For example, the rates versus the threshold. Huge conflict because if you're a small business, you're gonna have an estate worth seven or eight million dollars, whether the threshold is two million dollars or four million dollars is huge, right, because if you're married, the four million dollar threshold is gonna be eight million dollars. You might not pay anything at all. So for small businesses, it's all about the threshold.

If you're a billionaire, whether the threshold is two million or four million is chump change. What matters to you is the rate, right? If it's 56% or 40%, there's hundreds of millions of dollars at stake for you, right? So there are plenty of sources of potential conflict within the coalition. Another one is farmers versus small businesses. So they needed the small businesses to get it through the house and they needed to farmers to get it through the senate because the senate, farm states are massively overrepresented in the senate. And of course, when the democrats finally realized, when the democrats finally realized that this was serious, they tried to split the coalition. They tried to do exactly what you would do if you understand the divided dollar game. They came and offered the farmers an immediate permanent exemption which is better than they were gonna get in the bill 'cause the bill, we saw there's a phase in and then it sunsets in 2010 and who knows what's gonna be the case after that? So the democrats offered the farmers a better deal. You have a permanent exemption from the estate tax. Now, they were trying to split them off the coalition and some of the most difficult meetings of the coalition were over these sorts of fights. I interviewed a number of the members of this coalition and they gave two answers as to how they held it together and it was very interesting. One was they said, I must have interviewed maybe 15 or 20 people who had been in this coalition over a period of three or four months. And so at least five or six of them said, well, there were all these possibilities, but we realized that if we got off the idea of total repeal for at least one year, total repeal, which would then generate all the math to squash in the rates and the thresholds to get to total repeal within the 10 year window and meet the budget reconciliation target, if we got off the idea of total repeal, we wouldn't know what we could agree on. We knew we wouldn't be able to agree on anything else.

And so it was as if they intuited the logic of the divided dollar game and that total repeal, we can all get behind. We can rally it. We've gotta repeal the death tax. We've gotta repeal the death tax. Once we get into other kinds of formulations of the problem, they sensed the whole thing would fall apart. So the rallying cry of total repeal was hugely important. But it wasn't just that, but it was also that they had a kind of moral narrative. So we're now in the realm of ideas, ideologies, right? Not just interests, ideologies. They had this idea that this is a morally repugnant tax. You're taxing people for dying and they've been taxed before and

it's wrong. And multiple people I interviewed including I interviewed some of these farmers who were in the coalition. I said here, you were actually being offered a better deal, a predictable immediate exemption from the estate tax, permanent. Why wouldn't you take it? And they said things like this is a crusade. This is a moral cause. How could I look at myself in the mirror and know I had been bought off? How could I tell my children that I had sold out on this movement because we had been offered a better deal? And so there was this moral narrative that they used as a kind of way of heading off the splintering potential of divide a dollar. And this narrative, by the way, was not just used in the coalition. They used it in congress. They brought people to testify with horrific stories about how a family that had died and had had to pay the estate tax had had to sell things. And they brought famously a tree farmer from Mississippi called Chester Thigpen to testify before the House Ways and Means Committee. And Chester, you can read his testimony there. He says, "It took us half a century, "but Rosett and I have managed to turn our land "into a working tree farm "that has been a source of pride "and income for my entire family. "Our tree farm made it possible "to put our five children through college.

"It made us possible to leave a legacy "that makes me very proud "because forests and ponds "that can live on for many, many years "after my wife and I pass on. "We also want to leave the tree farm in our family. "Right now, people tell me my tree farm "could be worth more than a million dollars. "All that value's tied up in land or trees. "We're not rich people. "My son and I do almost all the work on our land ourselves, "but my children might have to break up the tree farm "or sell off timber to pay the estate taxes when I die." He actually, he died the next year and he didn't owe any estate tax, but Chester Thigpen, there was Chester, you know? And so this was the moral face of the repeal and the ideas were important in sustaining this coalition as I said of heading off the impulse to break it. So let's just now zoom out a little bit and talk about tax cuts and the republican coalition and why this social movement as I'm saying is so important. And it's one of the recurring phrases you hear from consultants and academics alike is that tax cuts are the one issue that unites the entire republican party. And if you think about this, I'm gonna just put a little flesh on this. I said that when we think about the median voter and so forth, one reason why people don't vote as the median voter says they should could be that there's a second dimension like race, right? Remember when I put the, I had the second dimension up. So the tax cutting, it might seem not to be about money, but listen to Lee Atwater on this topic of tax cuts. Lee Atwater was a republican strategist who worked in the Reagan White House. - Here's how I would approach that issue as a statistician for political science, or no, as a psychologist, which I'm not, is how abstract you handle the race thing. In other words, you start out and now y'all are gonna quote me on this. All right, I won't do it. You start out in 1954, by saying, "Nigger, nigger, nigger." By 1968, you can't say nigger.

That hurts you. It backfires, so you say stuff like forced busing, state's rights and all that stuff. And you're getting so abstract now, you're talking about cutting taxes and all of these things you're talking about are totally economic things. And the byproduct driving the media is blacks get hurt worse than whites. And subconsciously, maybe that is part of it. I'm not saying that, but I'm saying that if it is getting that abstract and that coded that we're doing away with the racial problem one way for the other. You following me? 'Cause obviously

sitting around saying we want to cut taxes, we want to cut this, is much more abstract than even the busing thing and a hell of a lot more abstract than nigger, nigger, you know? So any way you look at it, race is coming on the back burner. - So that's a pretty candid admission of the proposition which the Edsel and Edsel book on the syllabus which became actually a kind of almost a manifesto for the 1992 Clinton campaign makes explicitly, namely that the tax cutting agenda is linked to the racial agenda because the notion that's pushed as in Ronald Reagan's welfare queens speech, the notion that is pushed is that most of this money is spent on the undeserving poor and probably undeserving poor who are not white. And we'll come back to this later when we talk about the kind of resentment that people like found in Louisiana when she spent a lot of time with poor white voters there. So the tax cutting agenda is not an alternative to the southern strategy, but actually becomes an expression of it. And then the second thing about the tax cutting agenda is that it heads off the divide a dollar game by giving something to everybody. So what's interesting about the Bush tax cut as you can see, you can look through these at your leisure when I post the slides, but the take away point is that everybody got a tax cut. Every rate was cut. So that is quite remarkable. It's a way of saying we don't have to worry about who's gonna split the coalition.

Everybody's getting a tax cut, right? When you framed the issue that way, it tends to take the divided dollar problem away. So how far have the goal posts shifted? Well, in 2010, President Obama was now president and the country was still in recession after the financial crisis and the democrats controlled the whole of congress at that time, but it was very, very broad consensus that if you put in a tax increase in the middle of this recession, it was gonna be bad. So they extended the tax cuts for two years to 2012, by which time, of course, the democrats had lost the midterms and so there was republican control of Capitol Hill and there was a long negotiation, the result of which, basically you can see that it turns out to being a pretty good bet way back in 2001 because the bill that Obama signed in 2012 kept 82% of the Bush tax cuts that they're now permanent. And if you dig into the legislation, all of the income tax cut rates were kept except that the incomes above 400,000 go back up to the 39.6% rate that had prevailed before 2001. So the vast majority of the Bush tax cuts were kept and if you look at the estate tax, you can see that here in 2010, it's repealed. In 2011 and '12, it's put back at around five million. And then in the new legislation, it increases rapidly. So now, in other words, today, the exemption is 22.8 million for a married couple and their rate is a 40% rate as opposed to 55% rate which they got rid of in the 2001 bill. So it turned out not to have been a bad bet to do this wonky legislation through the budget reconciliation process. We might end by asking how effective has it been with respect to Grover Norquist's agenda of shrinking the size of government. The answer is not very. If you measure government by the number of employees, it looks like federal employees have remained flat. They've actually fallen some, but that's misleading for two reasons. One is that if you look at state and local government, there's been a lot of devolution of government to stay at the local levels.

By employees, the government has grown. Not only that. As we will be talking about in the next lecture, a lot of what used to be done by the government has now been privatized and contracted out and doesn't show up as federal workers. But if you look at federal spending

per capita, you can see comparing receipts to spending that the tax cuts have not starved the beast in any form that has led to a shrinking of government spending. Here, you can look at government spending. That's from 1969 to 2029, not 1069, but you can see that what you're seeing here is the trillion dollar deficits that are projected by the CBO for the next year. So what's happening is the republican's context, they're continuing to increase spending because that's what their constituents want them to do and that's the cost of unbundling. These pictures, you can look at at your leisure as I post them, but they basically tell the same story that whether you look at deficits or debt, there's a secular increases now going on and it's not partisan. So you can see here and in the Reagan years, the deficits go up, and in the Clinton years, they come down. In the Bush years, this is the Iraq War and so forth, they go up. And then this is the financial crisis. They've been coming down since the financial crisis, but now, Trump's agenda is driving them back up. These is just either pictures of the same thing with some details. that you can peruse at your leisure. And again, here you can see there's no partisan story. If you take the long look over American history since World War II which was a very high point of public debt, it came down under democratic control and then it's bounced around and it's now going up substantially under republican control. And it's not just that republicans spend money on guns and democrats spend money on butter. If you look at Medicare Part D which is prescription drugs, when republicans controlled all three branches of government in 2003, they put in Medicare Part D and it's a program which had not cost as much as the CBO projected at the time, but it's now costing a billion to a 100 billion dollars a year and will cost therefore a trillion over the next 10, over the next decade.

And as for the Trump tax cut, as you can see, Steve Mnuchin predicted it would reduce the deficit by a trillion dollars, when in fact because of growth, it had a they reckon about a 0.07% effect on growth for a year and now it's gonna add 1.9 trillion dollars to the deficit over the next decade. And much of that in the red on the slides which again you can see is basically Trump's additional new spending which is approaching half a trillion dollars per year. So the idea that cutting off the supply of money to the government would be a way of shrinking government has not played out even though it's politically so potent. Instead, we've moved from a world of funding government through taxes to funding government through debt that will be paid by people who have yet to be born but they don't vote now.

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