

The Political Economy of The Bush Tax Cuts

Andrew DeWit

Introduction

This paper examines the political economy of federal tax and associated fiscal policy under the Bush regime. It explores the implications of the Bush regime's tax cut policies as well as the reasons they were adopted. As I seek to demonstrate, the policies are opposed across the political spectrum of the attentive public. Many observers argue that the Bush regime are building a supply-side¹⁾ fiscal state by dismantling what remains of the ability to pay-centred fiscal structure of postwar America. But in the process, they are defunding the federal government and taking an enormous risk that America will be incapable of or unwilling to return to sustainable finances (Altman, 2004; Hacker and Pierson, 2005).

But the Bush Administration's radical reforms were not implemented by dictatorial fiat. They were instead passed with majority support by the US Congress, though the reforms faced intense criticism from informed observers. And note that large-scale tax cuts were passed during each year of Bush's first term, even as the United States embarked on an open-ended "war on terror" that entailed massive increases in defence spending, the creation of an entirely new federal bureaucracy (Homeland Security) and associated costs. Thus what requires explaining are the reasons the Bush regime devised repeated tax cut policies and the means through which they managed to get them implemented in spite of the seemingly inhospitable political context.

1) Supply-side means tax cuts favour the wealthy and are legitimated by the theory that they will invest the money in new plant and equipment and hire more workers. This is supposed to lead to higher productivity, faster economic growth and thus increased tax revenues, even though the actual rates are lower.

The layout of this paper is as follows. First, I will argue that the Bush regime's tax cuts and its fiscal policies more generally are worth examining as one of our era's most interesting and potentially most influential political phenomena. I show this through the use of data as well as through the assessments of various highly reputable agencies and specialists.

But the second section confronts the hard problem of determining what the tax cuts mean, both in terms of the ideas and political actors that drove them as well as their implications for America and the rest of the world. That interpretation requires a political economy analysis and thus I make a brief digression into the methods used in contemporary political economy. I also do this in order to justify using an eclectic approach especially when it comes to the Bush regime and to show how that approach differs from the alternatives. An eclectic approach does not mean abandoning the academic concern for getting at the main forces and interests driving a phenomenon rather than getting lost in a fascination with such superficial, journalistic factors as personalities. Eclecticism means highlighting the historical forces as well as more short-range interests at work on a very large-scale political phenomenon.

We would probably not need such a broader account of what the Bush regime itself is becoming had Bush not been returned to office through reelection on November 2, 2004. Right after the election, in which the Republicans also gained strong control of the Senate and increased their control of the House of Representatives²⁾, Bush announced that he was committed to an even more radical application of his tax and associated fiscal policies. Had Bush lost the election, giving the Democrats a stronger hand in tax policy, American politics would likely have gone through a highly partisan fight over defining the fiscal mess and how to clean it up. The increasing scale of the US federal budget crisis, coupled with the power of a new president's leadership in US politics, would have produced workable compromises through some combination of tax increases and expenditure cuts. This outcome would have meant generally returning to the template of taxes and expenditures that predated the rise of the Bush regime.

In short, a Bush Administration loss in the 2004 election would have left the single-term presidency to be studied as a distinct and truncated period of radical poli-

2) The 2004 general election in the US saw the Republicans strengthen their majorities in the 100 member Senate to 55 members and gain 4 seats in the 435 seat House of Representatives to 231 members (leaving the Democrats with 200 seats and 1 seat held by an Independent).

tics. But the 2004 win of the Bush regime allowed it to consolidate its hold on politics and policy. Bushism is thus an enduring regime that is in the midst of redefining the American state and politics, fiscal and otherwise. It will almost certainly leave a legacy even more profound than the Reagan regime of the 1980s, which itself had a massive influence on the rest of the world.

The Looking Glass World of Supply Side Tax Policies

First, let us have a brief look at the Bush regime's tax policies and the assessments that moderate observers and specialists have made of them. We see these tax cuts and their estimated costs displayed in Figure 1. The precise details of the tax cuts themselves are not only extremely complex, but they have also been covered thoroughly in other readily available sources³⁾. What is most germane to this chapter is that the cuts were enormous, inequitable and lacked a visible and convincing policy rationale. Let us take each of these points in turn.

Figure 1

Tax Cut Year	Revenue Loss	2001-11 Interest	Cost Total
2001	1,349	344	1692
2002	47	44	91
2003	354	125	479

Source: Gale and Orzag: 2004, 106

The aggregate cost of the cuts exceeds US\$2 trillion over the period of implementation (2001 to 2011). In the 5 years from 2001, the cuts cost an aggregate of \$860 billion, or \$929 billion if interest costs are added (Price, 2006). The distribution of benefits from the cuts was also strikingly inequitable. The Centre for Budget and Policy Priorities, using data from America's Congressional Budget Office (a federal agency), determined that the top 20 percent of households received 59.9% of the benefit of the cuts whereas the lowest 20 percent received only 2.8 percent of the benefits. But even these figures understate how concentrated the benefits were, as the top 1 percent of households were calculated to receive fully 24.6 percent of the benefits. In addition, the effects of cuts to corporate and estate taxes (with full elimination of the

3) See, for example, Hacker and Pierson, 2005; Price, 2006

latter in 2010) are not included in the above calculations, meaning that the benefits are even more concentrated among the rich (Kamin and Shapiro, 2004; Hacker and Pierson, 2005).

Moreover, the reasons advanced for these tax cuts shifted remarkably over time. In the 2000 election campaign, Bush talked about the need for tax cuts in order to return the revenue surplus “to the people.” These surpluses were in fact only painstakingly achieved from 1998 after several tax increases and much spending restraint in the wake of the disastrous Reaganite tax cuts of 1981⁴⁾. After winning the presidential election, Bush then started talking about the need to cut taxes in order to prevent a recession due to the spectacular collapse of the bubble economy. And when the economy failed to rebound strongly in the wake of the 2001 tax cut (some of which was effective from July of the same year), then the Bush regime began insisting that tax cuts were necessary to stimulate the economy and provide jobs. In other words, the policy remained the same while the rationale for it changed to suit the prevailing circumstances (Fritz et al, 2004).

But this is not all. One of the most notable features of the tax cuts are the so-called “sunset” provisions and other features that virtually ensure even deeper cuts in the future. For example, under the 2001 and 2003 legislation the maximum tax rate on dividends was slated to go from 39.1 percent in 2001 to 15 percent from 2003 through to 2008. But then the rate was set to rise to 35 percent in 2009 and 2010 and returns to 39.6 percent in 2011. The maximum rate on capital gains was similarly though less strikingly set up for a sunset followed by, so to speak, the rise of another day with the same old tax rates. It was set to go from 20 percent in 2002 to 15 percent from 2004 through to 2008 and then return to 20 percent in 2009.

But the most notable use of the sunset approach was seen with the estate tax. This tax cut was put into the 2001 tax cut package as a gradual reduction from 55 percent in 2001 to 45 percent in 2007, along with an increase of the exemption⁵⁾ from \$675,000 to \$3.5 million in 2009. This is followed by full repeal of the tax itself in 2010, meaning that no one will have to pay any tax at all on any estate. And then

4) These tax cuts brought about the largest federal deficits as a percentage of GDP in the past 5 decades. Fiscal Year 1983's deficit was 6 percent of GDP, with the next highest deficit recorded in the period being the 5.1 percent of GDP in 1985.

5) This refers to the value of the estate that can be deducted from total before the tax is calculated.

the very next year, in 2011, the tax rate returns to the rate that prevailed before any of the cuts (55 percent) and the exemption is set at \$1 million. In other words, the tax is only repealed for one year. That is why Paul Krugman jokingly deemed it the “throw momma from the train” tax measure in a May 29, 2001 column in the *New York Times*. As he put it, “If your ailing mother passes away on December 30, 2010, you inherit her estate tax-free. But if she makes it to January 1, 2011, half the estate will be taxed away. That creates some interesting incentives” (Krugman, 2003).

The real point of Krugman’s and others’ critiques, however, was the political incentives. The sunset clauses were in part a response to budgetary rules that allowed the tax cut packages to be passed with a bare majority in the Senate so long as there was an agreement between the Senate and the House of Representatives to use what is called the “budget reconciliation process.” But the extensive use of sunset provisions on several taxes makes it seem that the most significant motive was to get a foot in the door via a series of staggered tax cuts and repeals, and then make them permanent. This is because no powerful group in American politics would simply allow its tax burden to increase by such an enormous amount in such a short space of time. Even though the return to the original tax rate reflected conditions prior to a “temporary” tax cut, the lobbying of powerful interests virtually guarantees that these tax cuts will be made permanent. The bipartisan Concord Coalition (an organization founded by moderate Democrats and Republicans) declared that the removal of the sunsets would approximately double the cost of the tax cuts over the next decade (Concord Coalition, 2003).

Lobbying to remove the sunset provisions has indeed been intense, and particularly for upper-income interests. In fact, as of this writing (March, 2006), the Republican-dominated legislative and executive arms are seeking to maximize cuts for wealthy interests even at the expense of middle-income tax relief. Through much of early 2006, the focus for the Republican leadership in the Senate and the House of Representatives was on extending the 15 percent rate on dividends and capital gains and repealing the estate tax (Donmoyer, 2006). They achieved much of their agenda, meaning that “every major tax cut passed in Bush’s first term will be set to expire on the same day [January 1 of 2010] five years from now” (Weisman, 2006).

These costs are enormous but hard to appreciate in and of themselves, so it makes more sense to look at the effect the cuts have so far had on America’s fiscal health. When the Bush regime entered office in January of 2001, projections by the

Congressional Budget Office suggested that America's federal government would enjoy a continuing surplus of several hundred billions of dollars per year. However, in the wake of the Bush regime's tax cuts, these surpluses have been replaced by deficits. Current projections by the CBO which are very conservative⁶⁾ show deficits of \$493 billion for 2005 and \$516 billion for 2006 (CBO, 2006). Not all of the deficits are due to the tax cuts, of course. Much is due to extra spending for the so-called "war on terror," for homeland defence, and other programmes. But according to studies of the Centre for Budget and Policy Priorities, even in the period 2001-2003 about half the deficits were due to the tax cuts (Kamin and Shapiro, 2004). The shift from fiscal surpluses to deficits was faster and at a steeper rate (calculated in terms of GDP) than any time in the previous 50 years. From 2000 to 2004, the fiscal shift was a full 6.1 percent of GDP whereas even under during the first four years of Reaganism (1981-1985), the fiscal shift was only a decline of 2.6 percent of GDP (Lilly, 2004).

Moreover, by 2004 America's federal tax burden had been cut back to about 15.7% of GDP, the lowest level since 1950 (when it was 14.4%). This is a huge decline compared to the general trend in federal revenues through the postwar years. The average burden of federal revenues from 1946 through to 2004 was 18.1% of GDP and the peak was reached in 2000, when federal revenues claimed 20.9% of GDP as a result of tax increases that Bush's father and Clinton had implemented to deal with the problem of the Reagan deficits. Also, the bubble economy in 2000 artificially inflated revenues, which was why careful analysts warned that it would not be wise to take that year's revenue projections seriously. Partly as a result of the tax cuts and the ensuing deficits, the American problem of the "twin deficits" has worsened greatly. American dependence on foreign financing had reached 5.7 percent of GDP in 2004 (Roach, 2004). This was already an unprecedented level for a large, modern economy, but it continued to balloon. "In 2005, the US needed about \$3 billion of foreign capital inflows each business day of the year-up dramatically from the \$2 billion daily funding requirement just two years ago in 2003 (Roach, 2006). The larger this number becomes, the greater the damage to the American and global economies in the event of a swift dollar collapse or other catastrophic scenarios.

For tax experts, the most amazing thing about Bush's fiscal agenda is that he

6) By law, the CBO must base its projections on current law. Thus, it cannot realistically cost such policies as the war in Iraq.

has so far managed to get away with tax cuts and other reforms that are so blatantly inequitable and risky for the American economy. That may seem like a highly partisan, unacademic thing to write. But consider the fact that on February 11 of 2003, no fewer than 10 Nobel-prize winning economists as well as several hundred other well-known economists, published a full-page advertisement in the New York Times opposing the Bush regime's tax proposals for 2003, which were largely an acceleration of the cuts implemented in 2001. They argued "Regardless of how one views the specifics of the Bush [tax cut] plan, there is wide agreement that its purpose is a permanent change in the tax structure and not the creation of jobs and growth in the near-term." They also warned that the expansion of deficits would hinder economic growth and impair the capacity to cope with the costs of the impending wave of baby-boomer retirements.

There is an old joke about economists, that they find it impossible to agree on anything. So the fact that so many mainstream economists agree that the Bush tax cuts are ill-advised, and in addition they are willing to pay money to publish their critique, is a good measure of how radical Bushism is⁷⁾. And that is one major reason why, in this paper, the tax cuts are not dealt with as economic policy per se. The Bush tax cuts outraged most economists because they are clearly political rather than economic policy.

As with US tax experts, so with the international community of observers. In the international business journals, tax and spending policies are usually analyzed with plenty of restrained commentary. But the Bush regime's policies have become so unprecedentedly reckless, at least for a major industrialized country, that they have consistently attracted withering criticism from media and individuals who do not generally make rash comments. This criticism has gone on for years. For example, in a blistering critique of the Bush administration's May 2003 outline of their third tax cut, an editorial in the ordinarily staid Financial Times declared in editorial that "on the management of fiscal policy, the lunatics are in now charge of the asylum." (Financial Times, 2003). Later, on May 18 of 2004, an extraordinarily broad, bipartisan coalition of the Brookings Institution, the New America Foundation, the Progressive Policy Institute, the Center on Budget and Policy Priorities, the Concord Coali-

7) Indeed, the example ironically bears out Blinder's Law, which argues that economists have the least influence on policy where they know the most and are most agreed; and have the most influence on policy where they know the least and disagree most vehemently.

tion Committee on Economic Development, the Committee for a Responsible Federal Budget, the Heritage Foundation, and the Urban Institute, held a conference called “Restoring Fiscal Sanity While We Still Can.”⁸⁾ At this meeting, Republican Senator John McCain declared concerning his own political party that “The party that was long known to be the guardian of the treasury is now its routine raider.”

Even the usually sedate and accommodating IMF has repeatedly warned that America’s unprecedented reliance on overseas financing for its “twin deficits” poses a distinct threat to the well-being of the global economy. On January 7 of 2004 the IMF released a report on the US deficit, including a raft of helpful suggestions on how to raise taxes (Mulheisen and Towe, 2004). More recently, the British newspaper *The Economist* which has steadfastly supported the Bush war on Iraq sharply criticized the Bush regime for trying to “claim the mantle of fiscal responsibility, even as it pushes for increased defence spending and an extension of Mr Bush’s budget-busting tax cuts” (Economist, 2006). And echoing continuing criticism from the quality US press, the Los Angeles Times editorialized on the Bush regime and Republican Party’s “fiscal and intellectual bankruptcy” (Los Angeles Times, 2006).

Let us look at the Bush regime’s fiscal record in a little more detail. According to the very conservative calculations of the Congressional Budget Office, US federal finances have indeed fallen off a cliff, dropping from a projected 10 year surplus of \$5.6 trillion in 2001 to what is now a 10 year projected deficit of \$3.9 trillion. Much of this is due to the Bushies’ three big tax cuts for the wealthy. And yet as of early 2006 the Bush regime and their Republican allies in Congress are ready to cut taxes again. This shows that the Nobel Prize winners, the IMF and the other observers have good reason to be concerned. Indeed, the projections of red ink from the early 2000s are based on such assumptions as strong economic growth, restricted federal spending, conservative assumptions of the cost of the Iraq War, and the abrupt termination of Bush’s various “sunset clause” tax cuts, all of which are unrealistic or politically unlikely.

Employing a Political Economy Analysis

In a routine academic treatise on the political economy of the Bush tax cuts, we would employ one or another of the standard methodological paradigms in political

8) See <http://www.brookings.edu/comm/op-ed/20040518budget.htm>

economy and seek to show that it best explains the case. In other words, we would use the case ie, the Bush tax cuts to argue that one branch of the literature most persuasively explains what happened and what is continuing to happen in the wake of Bush's 2004 reelection. But in this paper, as I noted earlier, I want to argue for a methodological eclecticism. This is not a retreat from in-depth, serious analysis or a sneaky way of advancing my own pet theoretical perspective without putting it to a proper academic test. Rather, one problem is that the battle among partisans of various theories in political economy has generated a lot of smoke but little light to illuminate socio-political reality. This is especially true of such large-scale phenomena as the rise and increasing fiscal recklessness of the Bush administration, as I demonstrate below. The second problem is that heavily academic treatments emphasize tightly defining the relationship between the independent and dependent variables⁹⁾. But with multiple tax reforms and a radical reform programme in full bloom, Bushism is too big a phenomenon to be summarized with a single analytical approach. Moreover, the programme itself is in many respects an independent variable that is determining the actions of the interests, institutions and ideas in American politics

But first, let us have a brief and simple survey of methodologies in political economy. It would be remiss not to cover them and discuss why they exist as well as how they have influenced how much if not most scholarship views what politics is about. In the course of the review, however, I will address the deficiencies of the various arguments.

Political Economy: its Contexts and Levels of Analysis

The first point to make about political economy is that it changes with the historical periods it seeks to describe. The classical literature of Adam Smith, Karl Marx and other thinkers centred on the emerging capitalist system as a whole and the classes capitalists, workers and landowners that composed it. The system was governed by a small elite who controlled a comparatively simple state mechanism. This

9) The independent variables are the actors, interests or institutions whose independent actions determine the dependent variable, which is the fixed quantity or fact that is to be explained. For example, if we chose a particular tax cut as the dependent variable, we would try to quantify the role that political parties, interest groups, and other independent variables had on the outcome.

rendered fiscal and other forms of policymaking relatively simple to interpret. Specialization in the social sciences saw this holistic approach decline in favour of progressively more and more focused inquiry on specific aspects of the rapidly diversifying and complicated political economies of the latter 20th century. In particular, the extension of the vote to virtually all citizens, especially women and minorities, during the 20th century has seen the focus of inquiry shift to how the citizenry controls the policymaking process through voting. In addition, over the past five decades, we have seen a profound shift from more general inquiries about power and related concepts to very specific investigations of policy inputs and outputs. In other words, individuals and their actions and rationality are the implicit focus of most political economy research.

This latter focus on individuals is a micro-level focus. It is legitimated with the claim that, in the end, it is individuals (rather than such entities as organizations and states) who make the decisions and take the actions that determine politics. This perspective has indeed become the mainstream in political economy. But reflecting on the above, we can see that there are in fact three levels of analysis. The micro-level centres on individuals and small groups; the meso-level centres on organizations, such as the Ministry of Finance and its organizational interests; and the macro-level centres on such variables as socio-economic classes, cultural identities, gender and so on. All theoretical approaches centre on one of these levels to explain politics. On this, see Alford and Freidland (1985).

The trend towards the micro-level of analysis has also shifted the critical focus of political economy away from the traditional concerns with social justice and other explicitly normative issues. The emphasis in a positivistic approach is to be scientific and empirical, and this means the role of ideas and other hard-to-quantify influences are left out of the study. Most of the literature seems content to show that actors maximize a narrowly defined self-interest. And reform options are thus aimed at reducing opportunities for rent-seeking in political and economic markets. The core idea of these models is that politics is essentially a matter of individuals pursuing their self-interest, and only their self-interest, in diverse settings. The focus is thus the individual actor, rather than social class, culture, organizations and the other phenomena that were once believed important to politics.

There is a special irony in this development because the many of the assumptions of the economistic political economy models are derived from the American

experience (Anderson, 2003; Ross, 1992). Were the American political economy and sociopolitical order truly representative of modernity and the so-called “West” (as is often assumed in Japan as well as America), this rootedness in the American experience would not be so much of a problem. As the “modernization” literature of the 1950s and 1960s stressed, we could comfortably regard all countries as essentially heading in the direction of the American model and therefore increasingly a story of individuals struggling to maximize their self-interest. But even in the US this is a problematic assertion. America’s highly deregulated economy means there is certainly extreme individualism in the market, but this very same “winner take all” system appears to promote a powerful groupism at the societal level. We see this in particular in American religiosity, which has no counterpart among the other advanced societies. Numerous studies have shown that religiosity in the US – defined as the percentage of poll respondents who answered that religion was very important to them – was more than double that of the other advanced societies. Though economic development generally leads to a decline in religiosity, this has not been the case in the United States. In fact, religiosity in the US has strengthened sharply over the past two decades, leading the students of religious fundamentalism to include the American evangelical movement as a prominent case study¹⁰.

The Limitations of Both the Old and the New Paraqigms

The old political economy approaches, which often stressed macro-level approaches, certainly were encumbered by a lack of methodological rigour and too great a willingness to assume that empirical coincidence equated with causality. This problem was, for example, evident in Marxian approaches that assumed coherent class interests as well as the mechanisms for coordinating them, and then pointed to them as the cause inequitable fiscal and other policies. Feminist and critical race arguments, too, often suffered from these shortcomings, as the root causes of often complex social problems were laid at the feet of an all-powerful and politically coordinated patriarchy or the dominant ethnic group. But the new, ostensibly more scientific approaches have their own serious shortcomings. These shortcomings are all the more serious because the models have come to dominate the discipline, restricting and distorting its con-

10) As Jeremy Rifkin (2004) notes, 60 percent of Americans are religious, versus only 12 percent in Japan, 11 percent in France and even lower levels in Scandinavia.

cerns in a period when one would expect a flourishing of inquiry into normative issues. As Paul Hirst (2003) eloquently argued in October 2002, shortly before his untimely death, this domination of economic models in political analysis has led to:

“the concept of the economic actor as a rational interest-maximising agent with a clear schedule of preferences as the model for all social action. It has thus treated all social action as if it were strategic, in the pursuit of interest, rather than as deriving from affect, from belief or from morality. The latter motivations are treated as irrational residuals, to be explained away. It has dissolved institutions into the actions of individuals, not only because of its commitment to methodological individualism, but because it has no extended account of such things as institutions except as necessary to the pursuit of utility. It ignores solidarity, community, loyalty and belief.”

In light of this trend as well as the background of the past few years, one of my purposes in this paper is to put politics back into political economy. But one does not bring politics back into political economy (or even back into politics, for that matter) simply by throwing on self-styled radical garb and dismissing mainstream approaches out of hand. Frustration at the myopia of mainstream approaches has often led to this, as they tend to ignore inequalities of wealth and power and how those phenomena shape the micro-level politics that they focus on. But we clearly need to integrate some of the lessons of the emphasis on self-interest and strategic calculation at the micro-level, since those behaviours are evident everywhere. Indeed, with the increasing individuation and atomization encouraged by privatization, deregulation and other means of deepening the role of markets in society, self-interested behaviour is clearly being increasingly fostered.

The question is how to integrate insights from various approaches and yet still provide a coherent explanation for Bushism's tax policies. A first step in this direction is to understand that in any study of the methodological approaches in political economy or any of the other social sciences for that matter the first task is to categorize them by level of analysis. To repeat an earlier point: there are three levels of analysis: the macro, meso and micro-level approaches (Alford and Friedland, 1985). The first emphasize broad, system-wide influences on individual and political outcomes. We can see macro-level assertions at work when political society is defined as being made up of distinct socio-economic classes, as in the Marxian approach. At its

simplest formulation, the Marxian approach posits two classes, capital and labour, and deduces contemporary politics from the clashes between the opposed economic interests of these classes. As political actors, individuals and organizations (such as the state) are thus defined not by their particular features and interests, but by the interests ascribed to them by virtue of belonging to a particular class or operating on behalf of the interests of a particular class. In instrumental versions of Marxian theory, for example, the state itself was seen as an agency that acted at the behest of capitalism. This was later modified by Althusserian and other functionalist accounts to a state that more or less generally acted on behalf of capital, but the principle of being identified with the interests of a particular class remained.

Other macro-level approaches include the feminist and racial analysis that I alluded to in the above. Like their Marxian counterparts, they see political outcomes as being in large measure dictated by the interests of the dominant gender or ethnic group. Individual differences are thus subsumed under these larger, macro-level categories.

Culturalist accounts share this aspect of ascribing individual actions to the dictates of larger structural or ideological forces, in this case values and the other elements of cultural identity or national character. These approaches have been used in the study of tax politics, although not very persuasively (Webber and Wildavsky, 1986). Culturalist approaches are also very popular referents in comparative accounts of Japan. Thus in these accounts, Japanese are often said to act according to such cultural imperatives as groupism and the pursuit of harmony whereas their “Western” counterparts (the usual contrasting group in these formulations) are said to be motivated by the norms of individualism and a “contract society.” But such culturalist arguments are almost always based on stereotypes of Japanese and American society (the latter often believed to embody “the West”), ignoring diversity and contradictions in favour of familiar but egregiously unscientific and untested assumptions about “national character,” tradition versus modernity, and so on¹¹). Even the more limited assertion that values drive politics runs into the problem of what values and why, since in any society there are always a multiplicity of ideas concerning appropriate responses to public policy challenges (Steinmo, 1994). As we shall see, ideas are impor-

11) There are many good critiques of the “theory of the Japanese” (*nihonjinron*) ; see for example, Befu (2001).

tant in politics but not without the politics that makes them important.

We will look at the core ideas of micro-level approaches in more depth below, as we assess the politics of Bush's tax policies. So that leaves meso-level approaches to be summarized here. In general, these can be summed up as institutionalist arguments that examine, in particular, how organizations such as political parties shape politics and individuals' actions and ideas. These differ from micro-level approaches in that they regard institutions as being prior to the individuals who act within them and see institutions as persisting over time. Put more simply, this distinction means that the structure of rules and organizations such as a university, an office or a political system shape not only how actors behave but what they want as well. That is why the meso-level institutionalism sees the rationality of actors as shaped by institutions and not vice-versa.

Finding a Balance Between Complexity and Elegance

There are, in short, a host of methodologies for explaining outcomes in fiscal politics and other areas of inquiry. All of them represent trade-offs between complex and reductionist descriptions. The former of which good newspaper journalism is one example provide much detail but often get lost in it and offer a multiplicity of causes. Sorting out which cause or causes are the most significant is often left to an educated guess on the part of the analyst and sometimes even the reader. Approaches that rely on reductionism, on the other hand, purport to offer more scientific explanations that cut through complexity and isolate the most significant influences on outcomes. In recent years, with the spread of economics into the other social sciences, including politics, the approach is often backed up with mathematical treatments of data. This is particularly evident in rational choice formulations, and adds to the appearance of rigorous analytical treatment. In some limited circumstances, especially when the data are relatively unambiguous, such as electoral outcomes, these approaches can offer elegant and concise accounts of political action.

But just as excessive detail can obscure the most relevant independent variables amidst a mass of trivia, the reductionist approaches can neglect important contextual factors. In general, methodologies focus on one level of analysis, and their advocates explicitly or implicitly seek to prove competing approaches wrong and theirs right. All methodologies suffer from this tendency. This is because they are used by academics in search of approval by their peers, access to research grants and other psychological

and pecuniary rewards. So we need to keep an open and critical frame of mind, not only towards the dominant approach of the day but also towards its critics.

The Tax-Cutting Regime

A second step in integrating approaches and levels of analyses is to recognize that political economy is about the interrelationships between ideas, interests and institutions (Steinmo, et al., 1992). In particular, we need to go broad and learn from all of the approaches we have examined in order to understand the Bush tax cuts because they are just one aspect of a larger question. In most cases, the difficult thing to explain in tax politics outcomes, especially in the United States, is why even powerful interests were unable to block increases in their tax burdens. We saw this in the 1986 Reagan tax reform, which generated a large literature that sought to account for how tax increases passed in spite of there being so many access points in American politics for well-organized interest groups (Birnbaum and Murray, 1988). This access is due to the fact that the American political system divides authority over budget policy between the White House and the Congress. The numerous committees and multiple rules involved in US federal budget policymaking plus the openness of the proceedings, means that well-financed interests have lots of opportunities to influence the outcomes, both to promote policies they want adopted as well as block measures they dislike. (This system is a sharp contrast to the relatively closed and centralized budget policymaking process in parliamentary regimes, where state actors have more autonomy from interests groups). That the Reagan tax cuts of 1981 passed surprised few observers, because they were a massive give-away to organized interests. But the elimination of many exemptions and deductions in the 1986 reform imposed significant costs on powerful interests, and thus their passage was considered unusual and demanded serious study (Birnbaum and Murray, 1988).

Indeed, making tax cuts is virtually always easy politics in any country. It certainly was in postwar Japan (Ohtake, 1991). But it is perhaps most especially easy in America, where there is a profoundly anti-state political culture that has been nurtured by over two decades of intensive criticism from the Republicans and allied interests.

Like Reagan in 1981, the Bush regime has cut taxes on virtually all interests. And Bush has cut taxes repeatedly, as well as via the “sunset clauses” and other gimmicks set up future rounds of tax cuts. Since his election to the presidency, Bush has

in fact not sought to raise taxes on any group, which is of course why the IMF and other agencies are making suggestions as to how they might go about imposing tax increases. What generally restricts governments from opting for huge tax cuts are the potential problems of funding the deficits that they seem inevitably to bring¹²⁾. But the Bush regime has elected to ignore those problems and has not suffered electorally for it.

Another reason that this is not normal politics is that we are not analyzing a single event. The Bush regime has cut taxes no less than four times, most recently being the summer of 2004, so Bushism is clearly a protracted phenomenon¹³⁾. This large-scale phenomenon is not amenable to a tight analytical focus on a single event, as the dependent variable in this case is not one tax cut but rather a tax cutting regime. Moreover, we are not just going to look at the forces that shaped the regime and the tax cuts that it implemented but also what the regime intends through its cuts. As we saw earlier, it is with good reason that the expert community does not generally believe the Bush regime's claims that the tax cuts were for stimulating the economy.

Is Contemporary Political Economy Realistic ?

So let us return again to the micro-level bias of contemporary political economy, especially the so-called median voter model, and use it as a point of departure for getting to the roots of the Bush regime. The model simplifies politics to what approximates a marketplace in which there are essentially three actors: voters, politicians and bureaucrats. In this model, voters are consumers who express their preferences primarily by voting (with other forms of activity, such as lobbying and making political contributions, being far less significant). Politicians are motivated by the desire to win office and get reelected. Bureaucrats, on the other hand, are state managers whose interests generally lie in maximizing their budgets. The roots of the model are largely found in the work of Anthony Downs, especially his "An Economic

12) Many supply-siders would disagree, however. Conservative columnist and Republican Vice Presidential nominee Jack Kemp argued in the October 9, 1996 Vice Presidential debate that "Every time this country... has cut tax rates across the board, revenues went up and the economy grew."

13) The summer 2004 cut was a product of Congress but helped along by the fiscal recklessness of Bushism.

Theory of Democracy” (Downs, 1957). The theory seeks to explain political outcomes as the choice of the median voter; ie, the individual or group of individuals who stand between polarized positions that reflect partisan commitment to parties or opposed political ideologies. The implications of the theory are not only that policy will turn in the direction favoured by the median voter, but that parties and candidates will also moderate their stands in order to attract the median voter. This is because politicians are assumed to be rational, interest-maximizing agents whose sole purpose is in winning elections. The theory also assumes that committed voters will vote regardless of their parties’ position. This allows the party or candidate to take more centrist stands in the hopes of picking up support from moderates and thus gaining the support of a more representative majority of the voters. In consequence, policy will be pushed towards centrist positions.

The institutional implications of this theory include the assumption that moderate candidates will be numerous. But in recent American politics, the number of moderates has been dwindling. Even if we restrictively define a moderate as a political representative who is willing to vote against his or her party from time to time¹⁴, then we find a striking decline over time. As a 2004 study by the Cato Institute’s William Niskanen (Niskanen, 2004) pointed out, partisan votes in the 1970s saw the average member of congress support his or her party 65 percent of the time. In the 1980s, this figure rose to 73 percent; in the 1990s to 81 percent; and in the first two years of the 2000s to 87 percent.

But American politics has long been notable for its very narrow political debate especially over such issues as redistribution and the proper role of the state as compared to the political systems found elsewhere in the industrialized world. So we need to look more closely at the content of the positions that divided the parties in the US, in order to get a better sense of what partisanship actually means. The formulation above leaves one with the impression that the two parties the Democrats and the Republicans were taking equally extremist positions that led to polarization.

In fact, what has happened to US politics over the past two decades is a profound shift to the right, or neoliberal, end of the political spectrum. This shift has to some extent been true of virtually all the industrialized states, as the collapse of the

14) This is possible in the American system, where the legislature and the executive are institutionally separated and thus defeat on a major proposal of the executive is not interpreted as a loss of confidence from the legislature, leading to defeat of the government per se.

Keynesian demand-management paradigm left Social Democratic and other centre-left parties without a theoretical rationale for large-scale redistribution and the highly progressive taxation it implied. Most of these regimes sought a “third way” approach to reform that would revise the safety net developed in the 20th century in light of the challenges evident as we entered the new millenium. In consequence, we have seen the Swedish Social Democrats refocus their welfare state model on upskilling the population (ie, through the “knowledge society”; Jinno, 2002) in order to meet the challenges posed by globalization and the rapid revolution in information technology.

But in the US, the 3rd Way was Clintonism (1993 2001). This regime failed to institute nationalized health insurance (the real “global standard” among the industrialized countries) and afterwards emphasized tactical compromises with the increasingly radical positions of the Republicans (Todd, 2005). Keep in mind that the United States started its neoliberal retrenchment from the position of a “welfare laggard” with a welfare system oriented toward food stamps and other minimalist programmes. Moreover, these programmes were focused on distinct minorities, especially the black American underclass. Hence, the Reagan revolution in reforming the welfare state was less a matter of adapting the system to emergent needs than it was one of tapping middle and lower-middle class white voters’ hostility to programmes that were seen as a subsidy to lazy and often criminally inclined blacks. That image was the focus of the Reagan regime’s rhetoric about “welfare queens” who allegedly rode up in Cadillacs to get their cheques. This message was married tightly to an argument that taxes were excessive and directed mostly towards waste. As Reagan put it in his first inaugural address: “government is the problem.”

This manipulation of voter sentiment has been aided by the fact that most voters either do not follow politics closely or have been encouraged to ignore their economic interests in favour of symbolic issues. In the first case, mainstream theory concedes that voters do not possess all the information to assess policymaking. But then it insists that voters are “rationally ignorant” and that they instead focus on the key items relevant to their own preferences. The median voter is especially important here, because their preferences for moderate policies are assumed to push policymaking in that direction. Academics who employ this approach to analyze tax politics, and particularly the Bush tax cuts, thus rely heavily on public opinion data that suggest majority support for cuts.

But opinion polls from 2003 indicate that half of the American public did not

know even there was a tax cut in 2001. Moreover, as we have seen, opinion polls on tax cuts are the easiest politics of all. Respondents do not have to choose, as in the real world, between competing alternatives. When people understand that tax cuts mean lower spending on services, their responses change dramatically. Voters overwhelmingly support services instead of tax cuts, and they overwhelmingly oppose tax cuts that distribute the greatest share of the benefits to the wealthy (Jacobs and Hacker, 2004). That is one reason the Bush regime did not talk about cuts in services and consistently misrepresented the distributional impact of the tax cuts, suggesting that the benefits would mostly go to lower-income and middle-class voters. The effort to sell this image was so strong that executives turning out for a Bush pro-tax cut rally were even encouraged to “dress down” and wear hard hats in order to look like ordinary workers (Jacobs and Hacker, 2004).

Moreover, many people appear to find it difficult to understand their own economic and other interests and vote in accordance with them. One cause of this phenomenon is that the labour unions and other organizations that used to mobilize and educate voters on economic issues have largely weakened through state policy as well as the inroads of globalization. This institutional change means that the media’s role is even more important, as it is the primary means through which voters get the facts that they need for making informed choices. But providing detailed information on and informed interpretations of public policy has now been left almost entirely to the print media, especially elite newspapers such as the *New York Times*, which most people do not read. Most adult Americans, like citizens elsewhere in the developed world, get their news from television. This is a problem because television has never been good at imparting information as opposed to leaving viewers with impressions of character. Party organizations know this, and so have become increasingly expert in crafting ads as well as staging the events (e.g., speeches by the president) that the broadcast media cover. Moreover, television news focuses on “sound bites”¹⁵⁾ interspersed with commercial messages, so it is no wonder that viewers come away with vague impressions of parties’ positions and the options in public policy.

To make matters worse, we have seen a sharp bias towards news that entertains and misleads rather than informs. This trend is strongly connected to the rise

15) That is, very short and dramatic segments of a speech or interview, often no longer than 15 seconds. With such brief presentations of complex issues, it is small wonder that political discourse is increasingly being reduced to cheap slogans.

of Fox News, which most objective media analysts regard as a propaganda arm of the Bush Administration¹⁶⁾.

These problems were highlighted by a PEW research centre study, "The State of the News Media 2004," that was released on May 23 of 2004. The study was based on interviews with 547 editors, producers and reporters from America's national and local media. Among the study's most interesting findings was that 69 percent of respondents cited Fox News as "especially conservative in its coverage." Moreover, the study also revealed major concern that financial pressures are making news organizations reluctant to cover complex issues, timid in the face of the Bush administration, and prone to make errors due to staff shortages.

We also saw the results of these trends in the 2004 presidential election in America. Just prior to the election, on October 21, results of an opinion poll by the highly respected Program on International Policy Attitudes (<http://www.pipa.org/>), showed that supporters of Bush and the Republicans believed in an "alternative reality." Their understanding of the Bush regime's policies was largely shaped by a very biased media and was strikingly at odds with reality¹⁷⁾. Moreover, polls taken at the exits of polling places on election day indicate that voters who supported Bush did so heavily on the basis of the moral issues (especially gay marriage) as well as the so-called "war on terror" (Kaneko and DeWit, 2005).

Indeed, a deep sense of crisis helped both parties increase their total vote during the 2004 presidential election. For example, a Newsweek Poll from Oct. 27-29, 2004 asked "Are you satisfied or dissatisfied with the way things are going in the United States at this time?" and found that only 39 percent of respondents were satisfied while 56 percent were dissatisfied (5 percent were unsure). Voter turnout went up from below 50 percent in previous elections to 60 percent this time around. Such dissatisfaction and increased turnout was supposed to favour the Democrats. But they failed to match the Republicans' top political strategist, Karl Rove, and his particularly skillful use of war and homophobia.

But Rove was helped immensely, and in some respects even pushed along, by

16) According to FAIR (Fairness and Accuracy in Reporting), a non-partisan media monitoring organization, Fox was profoundly biased in its coverage even before the 9/11 terrorist attacks and later events: <http://www.fair.org/extra/0108/fox-main.html>

17) For example, Bush supporters tended to think that his unprecedentedly unilateral regime was in support of the Kyoto climate accords and other multilateral policies.

right-wing religious organizations. In 11 states, 3 of them key battleground states, a ban on gay marriage was on the ballot. The proposals, which all passed, were put there by right-wing religious organizations that collected the signatures to get the initiatives on the ballot and then mobilized their members to vote. There was even local campaign rhetoric in West Virginia and Arkansas about Democrat plans to ban the Bible. These issues brought to the polls religious zealots who might not otherwise have voted. The PEW research centre estimates that evangelicals were about a quarter of the total eligible electorate and that nearly 80% of the evangelicals who voted went for Bush.

Fear and Faith versus Finance

There was, in other words, no median voter response in the 2004 election. In the 2000 election, Bush ran as a “compassionate conservative” because welfare had already been radically reformed and there were few “undeserving poor” to attack, as in the Reagan strategy. But Bushism is instead eroding the fiscal base for programmes that the middle-class supports. There is, therefore, a drastic gap between, on the one hand, the fiscal policies that people say they want (in opinion polls) and what the Bush regime claimed to be implementing, and on the other hand the policies that actually have been delivered. The question is why is the Bush regime won reelection in spite of this.

Look at the matter from the meso and macro levels. Winning elections and then governing is about building coalitions. That may include appealing to moderates, as the median voter approach argues, but in the 2004 election the Bush campaign strategists decided to appeal to the base. Let us look more closely at the Bush electoral coalition that has shaped politics over the past few years. In the November 15, 2004 *New Republic*, senior editor John b. Judis noted that Bush built a voter coalition from “Brooks Brothers and Wal Mart, the upper class and the lower middle class (Judis, 2004),” the latter being largely lower-income and generally not very well-educated white voters. The rich voters got big tax breaks and the rest little tax cuts and a lot of moralizing. The big money in the Bush coalition is largely from the financial industry, pharmaceuticals, and big oil. These interests too get tax breaks along with deregulation, the prospect of privatization of social security and public health care, and a long list of other benefits.

In short, this is a coalition within the Republican Party and centred on rural

and religious votes as well as finances from some of the leading sectors of the American economy. The coalition united the fervent religious faith of large numbers of suburban and rural white evangelicals with very modern money. It also quite ironically united these two forces in a period when inequality in the distribution of income and wealth in America is returning to levels that prevailed in the 1920s. The richest 5 percent of households in the US control about 60 percent of the country's wealth while the bottom 40 percent of households held just 0.3 percent of the wealth. Gains in the share of income were even more startlingly polarized. From 1979 to 2001, the richest 5 percent of households saw their income increase by 81 percent whereas the middle 20 percent of households saw only a 17 percent increase and the bottom 20 percent saw only a 3 percent increase (Phillips, 2006).

These two interests at the heart of the Bush coalition are not natural allies, as white, evangelical voters are not well off. But this bloc of religious voters to some extent ranks its economic interests as secondary to moral issues and as we saw above is also readily manipulated by well-crafted media messages. Thus our emphasis on an eclectic approach in understanding how these phenomena work together to provide a solid if somewhat irrational basis for Bushism.

The same approach is needed for understanding the changing character of conservatism and the Republican Party. Thirty percent of Americans identify themselves as Republicans in opinion polls, and about two-thirds of them say that they are conservative. The definition of conservative has changed considerably over the past several decades, however, as the party itself and the broader society have changed. What used to be a party with a fairly wide base centred on the New England states, and dominated by fiscal conservatism, has seen a profound geographical, demographic and ideological shift over the past 2 or 3 decades.

In these years, the centres of economic power and population in the United States shifted from the northeastern states to the south and the west. The Republican Party's base of support shifted as well. For example, the South and border states contributed only about 5 percent of Republican seats in the House and Senate in 1948. But now the same states account for 40 percent of the Republican seats. Moreover, the conservatives in the south and the west are unlike their cousins in the northeast. One of the most striking differences is that conservatives in the south and west are less willing to accommodate the redistribution and regulation of even the limited welfare state that America produced in response to the Depression and the Second World War.

The fiscal conservatism of the northeastern states, with its emphasis on limited taxation together with balanced budgets, has thus been replaced by a fiscal radicalism that emphasizes limiting taxes as much as possible. That is why we have seen the emergence of the new Republican leadership..

All in the Family: The Bush Family Morph with the Party

The two Bushes father and son and their presidencies can to a large extent be seen as embodiments of these changes. Bush the elder is a product of the northeastern Establishment, and never fit very well in the Republican Party that had evolved during the Reagan years. Bush alienated a lot of the Republican Party's core of anti-tax activists, the religious right, gun enthusiasts, and so on by breaking a promise not to increase taxes, by not cozying up with evangelicals, and by signing a ban on "assault weapons." These were all, of course, common-sense policies. So was Bush's labelling of supply-side economic theory as "voodoo economics" back in 1980 when he ran against Ronald Reagan for the Republican nomination. But Bush's unwillingness to pander to the very conservative core of his own party was a big factor in his 1992 loss to Bill Clinton (Phillips, 2004).

The younger Bush is very different from the father. He is not part of the northeastern establishment, but is rather a clear product of Texas and especially of the very conservative, laissez-faire political culture found outside the central region. Michael Lind, Senior Fellow of the New America Foundation, published a book on Bush in 2002 and titled it "Made in Texas." He argues that Texas has two political cultures. One is that of Central Texas, where immigrant German pioneers left a culture of public-private cooperation and modernization that produced the Democrat President Lynden Johnson and high-tech business in such cities as Austin and San Antonio. But elsewhere in Texas, according to Lind (who has written 5 previous books on Texan political history), there is "a society with a primitive extraction economy based on agriculture, livestock, petroleum, and mining, whose poorly educated workers lack health protection and job safety."

Indeed, the main reason this area and the entire South has a modern economy is the infrastructural spending (especially for electrification) during the New Deal. Using that federally funded infrastructure, the South has gradually taken jobs away from the north by competing on the basis of lower wages and benefits.

Being a product of this “primitive extraction” kind of environment, and having virtually no interest in history, Bush perhaps assumed that its economic development was spontaneous. Certainly he evinces little sense of the need for equity nor any appreciation of the role of the state in a modern economy, beyond the nightwatchman functions of defence and the protection of private property. And as we have seen, in behind Bush stand a slew of other actors whose narrow interests reinforce this bias towards supply-side tax cuts.

The broader context of the changing Republican Party and Bush family is, of course, the United States economy itself. The finance industries that are at the core of the Bush coalition are part of America’s shift towards what former Republican Party political strategist Kevin Phillips warns is “an emphasis on finance and services overproduction.”¹⁸⁾ Moreover, propelled in an increasingly neoliberal direction by the Reaganite years, America has become even more markedly unequal than the other advanced societies (Smeedling, 2004). Its public sector is also far smaller and less redistributive than the average, especially compared to Europe. Though these aspects of the American political economy are commonly thought of as a necessary trade-off for high economic growth and high social mobility, the correlations seem dubious. Much of the relatively high US per-capita GDP explained by such factors as longer and more privatized commuting, inefficient health care provision, and other factors that increase consumption. Moreover, there is no conclusive evidence that the US has more social mobility than the big European countries. Indeed, plenty of credible studies suggest that there are few significant differences or that the US has an even stronger tendency for people to get trapped at the lower levels of the income distribution (Alesina and Glaeser, 2004).

The growing inequality is of particular significance for our concerns here because of the impact it has on politics. Great inequalities of wealth and opportunity always register on politics, as wealthy interests are adept at protecting their interests as well as expanding them whenever there is an opportunity. As the old Northeastern

18) Phillips was himself in large part responsible for the Republican shift to the southern states, in his role as political strategist during the Nixon years. But he has been deeply dismayed by the economic policies adopted by the Republicans since then and warns persuasively of parallels between contemporary America’s income polarization and “financialization” and the pattern of decline seen in previous economic powers as the UK, Holland and Spain (Phillips, 2002).

establishment of the US Republican Party faded in its influence, so did the institutions and ideas (such as a sense of noblesse oblige) that kept the rapacity of wealth in check through much of the 20th century (Phillips, 2002). The political culture of the ascendant and radical south not only encourages the deepening of inequality through such state policies as tax and expenditure cuts, but it also denies that there may be negative fallout from inequality. The emphasis in the rhetoric and practice of the new Republican Party is on fostering incentives for investment and restricting the safety nets that protect individuals as well as industries from the ravages of the unrestricted market. Criticism of this approach is dismissed as “class warfare,”¹⁹⁾ a very effective retort in a country whose public debate is heavily biased towards free markets. Indeed, even much of the mainstream academic literature in political science ignore inequality in spite of its massive increase over the past two decades²⁰⁾.

The tax cuts are at the centre of this shift in ideas, institutions and interests. The Bush regime supply-side economic advisers clearly see reducing the burden on wealth and capital as the key for encouraging investment (Altman, 2004). Other interests in the Bush coalition may agree with this particular logic or may find the reasoning dubious if they reflect on the failure of the 1981 Reagan tax cuts to perform as advertised. But many of these interests and individuals clearly see tax cuts as a means to enforce smaller government by “starving the beast” of the state of funding. In other words, the supply that they are emphasizing is revenue rather than capital, and they seek to minimize the latter in order to reduce spending. For example, Republican Senator Rick Santorum declared that “I am no longer a deficit hawk. I’ll tell you why. I had to spend the surpluses. Deficits make it easier to say no” (Nichols, 2003). Keep in mind that this is a US Senator claiming that he had to help drive the big OECD countries’ smallest (as a percent of GDP) public sector into massive deficits in order to control spending. That is a measure of the radicalism in

19) This sloganeering was brilliantly skewered by Warren Buffett, the Chairman of Berkshire Hathaway (<http://www.berkshirehathaway.com/>) and the wealthiest man in the world in 2004 according to Forbes Magazine. In his 2003 letter to shareholders of Berkshire Hathaway, Buffett dryly observed that “If class warfare is being waged in America, my class is clearly winning.”

20) This has begun to change, however. On June 7, 2004, the American Political Science Association itself released a 2 year study “American Democracy in an Age of Rising Inequality” that documents the “devastating erosion of political equality in America” (see: <http://www.apsanet.org/Inequality/index.cfm>).

charge of contemporary America.

Conclusion

I have argued that an eclectic approach to the Bush tax cuts can help us understand their roots. The broader perspective on the tax cuts and the Bush regime sacrifices the elegance of mathematical modeling used in much modern political economy. But at the same time, the eclectic approach allows the observer to examine a number of highly relevant phenomena that would otherwise be left out of the analysis. Certainly the broader approach is more effective than an argument that, for example, attributes the tax politics to the preferences of the median voter.

The deficits that are a product of the tax cuts will perhaps not become a catastrophic economic problem for some time, unless there is a drastic decline in the dollar in the short term. Over the next several years, however, the deficit will generally continue to grow. The second-term Bush presidency has, in fact, tried to use the deficits as another argument for privatizing social security and other welfare state functions. It seems highly unlikely that the tax cuts will pay for themselves through increased growth (Irons and Price, 2006) or that the Bush regime will move to increase taxes.

The short-term questions are whether the Bush regime has created a stable coalition and whether it can build on that through the fiscal policies it in the wake of the November 2004 presidential elections continues to enact. It is impossible to forecast whether the program's inevitable costs on the middle and lower-middle classes will alienate enough of them to threaten the Republican power base in the 2006 mid-term and 2008 Presidential elections. But as we have already seen, the peculiar nature of American society sees especially in the highly conservative southern states increasing religious fervency result from unstable personal circumstances²¹⁾. Religious faith has reemerged as one of the defining features of American politics. The Democrats may be able to harness this fervency in reaction to inequity, as they have in past eras of progressivism and civil rights (Morone, 2003). But this is hardly an inevitable outcome, especially as the Republicans create politically useful new enemies in the war on

21) As Harvard University's David Gergen observed, the Republicans have managed to attract large numbers of lower-income people who "don't have much faith in government producing for them anymore." Gergen argues that these voters are "looking for security. And they find it in a wartime president, and in their cultural beliefs." He regards this a very "worrisome" development for the Democrats (in Wenner, 2004).

terror (eg, Iran) and embolden old ones such as Al Qaeda and its affiliates. Another terrorist attack on American soil could very well deepen the radicalization of American politics. In any event, it is high irony that in the world's most modern democracy huge deficits and straitened circumstances which ordinarily spell doom for the party in power could be trumped by religious ideology.

References

- Alesina, Alberto and Edward L. Glaeser (2004). *Fighting Poverty in the US and Europe*. Oxford: Oxford University Press.
- Alford, Robert and Roger Friedland (1985). *The Powers of Theory: Capitalism, the State and Democracy*. New York: Cambridge University Press.
- Allen, Mike (2004). "Bush to Change Economic Team," *Washington Post*, November 29.
- Altman, Daniel (2004). *Neoeconomy*. New York, Public Affairs.
- Anderson, Lisa (2003). "The Global Reach of American Social Science," *The Chronicle of Higher Education* 50(5).
- Befu, Harumi (2001). *Hegemony of Homogeneity: An Anthropological Analysis of Nihonjinron*. Melbourne: TransPacific Press.
- Birnbaum, Jeffrey and Alan Murray (1988). *Showdown at Gucci Gulch: Lawmaker, Lobbyists and the Unlikely Triumph of Tax Reform*. New York: Vintage.
- Concord Coalition (2003). "Sunsets Hide More than Half of Revenue Loss From Recent Tax Cuts," Concord Coalition, May 28.
- CBO (2006). "Current Budget Projections, March 3 2006. Congressional Budget Office.
- Donmoyer, Ryan (2006). "Republicans Set Aside Middle Income Tax Cuts to Focus on Rich," Bloomberg, May 8.
- Downs (1957). *An Economic Theory of Democracy*. New York: Harper.
- Dubose, Lou, Jan Reid, and Carl M Cannon (2003) *Boy Genius: Karl Rove, the Brains Behind the Remarkable Political Triumph of George W Bush*. New York, Public Affairs Reports.
- Economist (2006). "Bush's Bulging Deficits," *The Economist*, February 7.
- Financial Times (2003). "Tax Lunacy The U.S. administration throws prudence out the window," *Financial Times*, May 23.
- Fritz, Ben, Bryan Keefer and Brendan Nyhan (2004). *All the President's Spin*. New York, Touchstone.

- Gale, William and Peter Orzag (2004). "Bush Administration Tax Policy: Revenue and Budget Effects," *Tax Notes*, October 4.
- Hacker, Jacob and Paul Pierson (2005). *Off Center: The Republican Revolution and the Erosion of American Democracy*. New Haven, CT: Yale University Press.
- Hacker, Jacob and Paul Pierson (2003). "Abandoning the Middle: The Revealing Case of the Bush Tax Cut," APSA 2003.
- Hirst, Paul (2003). "The Future of Political Studies," *European Political Studies* 3(1).
- Irons, John and Lee Price (2006). "Bush's Tax and Budget Policies Fail to Promote Economic Growth," Center For American Progress, February 16.
- Jinno, Naohiko (2002). The Economics of a "Human Recovery" (in Japanese). Tokyo: Iwanami.
- Kamin, David and Isaac Shapiro (2004). "Studies Shed New Light on Effects of Administration's Tax Cuts," Center for Budget and Policy Priorities, September 13.
- Kaneko, Masaru and Andrew DeWit (2005). *Media Crisis* (in Japanese). Tokyo: NHK Books.
- Krugman, Paul (2003). "Into the Sunset," *New York Times*, May 9.
- Lilly, Scott (2004). "An Analysis of the Recent Deterioration in the Fiscal Condition of the US Government," Center for American Progress, September.
- Lind, Michael (2002) *Made In Texas: George W. Bush and the Southern Takeover of American Politics*. New York: Basic Books.
- Los Angeles Times (2006). "Give and Take in Washington," *Los Angeles Times* (editorial), May 11.
- Muhleisen, Martin and Christopher Towe (2004) "U.S. Fiscal Policies and Priorities for Long Run Sustainability," International Monetary Fund Occasional Paper 227, January 7.
- Morone, James (2003). *Hellfire Nation*. Cambridge: Yale University Press.
- Nichols, Hans (2003). "Leadership lines up with deficit doves," *The Hill*, January 5.
- Niskanen, William (2004). "US Elections Are Increasingly Biased Against Moderates," *The Cato Journal*, 23(3) Winter.
- Ohtake Hideo, "Hatoyama, Kishi Jidai no Chiisai Seifuron" [The Small State Debate of the Hatoyama and Kishi Era], in *Seijigaku Nenpo* 1991.
- Phillips, Kevin (2006). *American Theocracy*. New York: Viking.
- Phillips, Kevin (2004). *American Dynasty*. New York: Penguin.
- Phillips, Phillips (2002). *Wealth and Democracy*. New York: Random House.

- Price, Lee (2006). "The Boom that wasn't," Economic Policy Institute Briefing Paper, March 2006
- Rifkin, Jerry (2004). *The European Dream*. New York, Tarcher.
- Roach, Stephen (2006). "Tripwires," Morgan Stanley Economic Forum, March 13.
- Roach, Stephen (2004) "Cracked Facade," Morgan Stanley Economic Forum, October 25.
- Ross, Dorothy (1992). *The Origins of American Social Science*. Cambridge: Camnbridge University Press.
- Singer, Peter (2004). *The President of Good and Evil: Questioning the Ethics of George Bush*. New York: Plume.
- Steinmo, Sven (1994). "American Exceptionalism Reconsidered: Culture or Institutions ?" (manuscript)
- Steinmo, Sven Kathleen Thelen und Frank Longstreth (1992). *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press.
- Smeedling, Timothy (2004) Public Policy and Economic Inequality: The United States in Comparative Perspective," Working Paper 367 Maxwell School of Citizenship and Public Affairs, Syracuse University, February.
- Todd, Chuck (2005). "Clintonism, RIP," *The Atlantic*, January February.
- Webber, Carolyn and Aaron Wildavsky (1986). *A History of Taxation in the Western World*. New York: Simon and Schuster.
- Weisman, Jonathan (2006). "Tax Deal Sets Day of Reckoning," *Washington Post*, May 4.