

## How Republicans Win, Even When They Lose

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In politics, patience is indeed a virtue. Over the last forty years the Republican Party has demonstrated a remarkable capability for patience in advancing its agenda, so much so that a casual review of Republican economic ideas reveals an extraordinary trend. In almost every case, initiatives that started on the far-right fringe of the GOP gradually came to be seen as mainstream not only by Republican lawmakers but also the American public. By planting seeds early and possessing extraordinary discipline, the Republican Party has shifted the country significantly rightward. To exhibit this accomplishment let us examine the evolution of two initiatives, one successful and the other deemed a failure: supply-side tax cuts and social security privatization.

### Tax Cuts

The American income tax's beginning was modest as Congress initially set the top rate at a mere 7% on income over \$4000. As the revenue needs of the country grew, the amount of income subject to the tax and the rates themselves were raised dramatically under both Republican and Democratic administrations. For example, in June 1932 Herbert Hoover increased the top rate from 25% to 63%. FDR followed suit by raising it to 94%. After America's victory in World War II, a bipartisan consensus emerged over the setting of tax rates at the level needed to balance the federal budget.

In the mid-1970s, America was mired in stagflation and prominent economists such as Arthur Laffer rebelled against the balanced budget accord that had taken over both political parties. Drawing on Austrian thinking, supply-side economists advocated large reductions in marginal income and capital gains tax rates. The resulting federal deficits would be temporary, they argued, as lowering tax rates would raise the needed revenue by causing faster economic growth.

Supply-side economics found few initial champions within the GOP beyond quarterback-turned-Congressman Jack Kemp. Therefore conservative think tanks like the Heritage Foundation and American Enterprise Institute stepped in to fill the void left by Republican politicians. Using donated money from corporations and right-leaning foundations, these think tanks honed their message of massive income and business tax cuts. Supply-side theory grew in prominence among Republican circles, but it lacked the perfect salesperson to truly take off. Supply-siders found their man in former California Governor Ronald Reagan, and his 1980 victory catapulted conservative economic ideas onto the national stage.

Liberated conservatives decoupled tax rates from balanced budgets and no longer had to insist on fiscal responsibility. The theory was political genius that was easily sold to the American public – all the growth with none of the sacrifice. Republicans were transformed from a balanced-budget party to a tax-cutting party. In 1981, Reagan slashed the marginal rates for the top tax bracket from 70% to 50%. Later he further reduced the rate to 28%. Simultaneously, anti-tax organizers on the right formed groups like Americans for Tax Reform to support the President's efforts. ATR distributed the "Taxpayer Protection Pledge," a written promise by legislators and candidates for office that commits them to oppose

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any tax increases. Delineation from this pledge was a crime punishable by political death. President George H.W. Bush witnessed this first-hand when he raised the top marginal rate to 31% in 1990, breaking his infamous “no new taxes” pledge. He ultimately lost his re-election bid due largely to this unforgivable sin. In the years since the anti-tax forces on the right have further solidified and driven from office virtually every Republican who broke from party orthodoxy.

The messaging efforts of Republican administrations and third-party organizations have clearly had tremendous impact on the broader public as well. Rasmussen Reports published a survey in March that 55% of likely voters believe tax cuts help the economy. And even with rates at forty-year lows, 60% of the electorate still believes they’re overtaxed. Obama’s capitulation on extending the Bush tax cuts was a subtle recognition that the GOP has dominated the debate.

Although the American public disfavors taxes as a whole, opinion polls continue to show support for a progressive income tax. Yet Republicans are chipping away at all forms of progressivity in the code. Former Minnesota Governor Tim Pawlenty recently unveiled his “Better Deal” economic plan which proposes a two-rate individual income tax system, with a top rate of 25% instead of today’s 35%. Additionally, he proposes the elimination of all capital gains, dividends and interest income taxes. According to the nonpartisan Tax Policy Center, half of Pawlenty’s \$7.6 trillion in tax cuts over the next ten years would accrue to people who earn \$500,000 per year or more.

For a major Republican candidate to propose a plan that reduces taxes beyond anything Reagan could ever imagine demonstrates the evolution that has taken place within the GOP. Though no other candidate to date has released an economic plan as comprehensive as Pawlenty’s, all of the GOP hopefuls propose making the Bush cuts permanent and reject raising taxes in any form.

### **Social Security Privatization**

In the early 1980s a 24-year-old Harvard Law School student first concocted the idea of radically reforming the country’s oldest safety net program by creating individual private accounts. The newly formed Cato Institute - a libertarian think tank in Washington - learned of the idea and quickly the privatization scheme became a central goal of right-wing policy wonks. Before long Cato was joined by Heritage and AEI in collaboration on the privatization mission. By the beginning of Reagan’s second term, all three had published policy white papers declaring the inevitable failure of the Social Security system as it currently stood and suggested privatization as the only plausible remedy.

The privatization idea remained on the fringes of political debate throughout the ‘80s. Ronald Reagan cut a deal with Senate Democrats to shore up Social Security under its current structure and the vast majority of the Republican Party preferred to stick with the system that had worked well since the 1930s. In 1988, former Delaware Governor Pierre DuPont IV became the first presidential candidate to endorse partial privatization of Social Security. But the old guard of the GOP shot him down. Then-Vice President George H.W. Bush, running against DuPont, said it was “nutty to fool around with the Social Security system.” The Republican electorate agreed. DuPont finished next to last in the New Hampshire primary and dropped out of the race.

Although Republicans were out of the White House from 1993-2001 Social Security privatization continued to gain traction, but this time it was in the Democratic Party. Clinton administration members Erskine Bowles and Bruce Reed secretly negotiated a partial privatization deal with Newt Gingrich, but it blew up with Clinton’s sex scandal. When George W. Bush campaigned on creating personal accounts for Social Security, the idea no longer seemed nutty. While the topic did not drive a large number of voters to the polls in 2000, Bush filled his administration with think tank wonks who had worked for years on the concept. Fresh off his reelection victory over John Kerry in 2004, Bush made Social Security privatization his main expenditure of political capital. The pieces seemed to be in place for reform as Republicans had majorities in both houses of Congress and personal account legislation had already been introduced by Representative Paul Ryan (more from him later).

The plan ran into a buzz saw when Democrats temporarily grew a backbone and were unified in their opposition. Centrist Democrats like Nebraska Senator Ben Nelson - who the Bush administration had hoped to win over - retreated. Progressives held rallies across the country and used personal stories from Social Security recipients to demonstrate the

program's importance. Meanwhile, the normally on-message Bush administration stepped all over itself attempting to define terms like "price-indexing" to a skeptical American public. Three months after Bush launched his drive to privatize Social Security, a majority of Americans disapproved of his plan. Smelling blood in the water, Republicans abandoned the President on the issue and it was ultimately scuttled.

It's important to note that the plan was temporarily shelved but it didn't die. Less than six years after Bush's aborted promotional tour, the GOP has been calmly rebuilding the needed infrastructure for when they recapture the White House. Paul Ryan's widely-publicized "Roadmap for the Future" budget proposal renewed the call for Social Security privatization. Groups like the Free Enterprise Fund were formed to raise money for television advertising supporting privatization. And recently elected tea party members of the Republican House of Representatives introduced a bill that would allow employers to immediately send their matching Social Security contributions into private accounts.

Characterizing Bush's privatization attempt as a singular failure would be incorrect as it was part of a much larger Republican playbook. In football terms, think of it as a three-yard run setting up a deep touchdown pass on the next play. The GOP sits waiting for public opinion on Social Security privatization to slowly shift and that strategy appears to be paying off. According to a 2010 NBC New/Wall Street Journal poll, Democrats enjoyed a mere four-point advantage over Republicans (30%-26%) on the issue of "dealing with Social Security." That's down from the 28-point advantage (48%-20%) they enjoyed in 2006. Conservatives understand that implementing their vision of America takes years to realize.

### Republicans and the Overton Window

Joseph Overton, former Vice President of the Mackinac Center for Public Policy, described a "window" in which a range of policies are considered to be politically acceptable in the current climate of public opinion. As long as a politician stays within that window, he or she is not deemed too radical for the American electorate. After Overton's death, the concept of moving the window emerged from the observation that political thinkers would deliberately promote policies beyond the fringe of ideas, with the intention of making the current fringe of ideas acceptable by comparison. Republicans have successfully shifted the Overton Window by methodically advancing further-right ideas over a forty year period. Agenda items that would have been deemed unacceptable to the electorate in 1971 now are considered thoroughly mainstream.

There is little evidence that this will stop anytime soon. The GOP's latest reform initiative - Paul Ryan's Medicare overhaul - is another example of the party's long-term strategy. On the surface the plan appears to an unprecedented lurch to the fringe, but in fact it is part of an initiative to dismantle Medicare that has been in the works for over a decade. In 1997 Republicans successfully fought for the partial-privatization of Medicare benefits known as Part C or "Advantage" plans. Instead of the traditional fee-for-service standard Medicare benefit package, under Part C the government pays private health insurance companies a fixed amount every month. Although one of the original intents of Part C was to save Medicare money, the private plans have had the opposite effect. Taxpayers pay, on average, 14% more for treatment of a Part C enrollee than a comparable patient would have cost in a traditional Medicare plan. Notwithstanding their cost, Advantage plans proved to be surprisingly popular as today one-quarter of Medicare beneficiaries are members. The Affordable Care Act curtailed Part C enrollment by drastically reducing the payments to health insurers. Republicans cried foul with crocodile tears because they knew Medicare Advantage effectively introduced privatization into Medicare, setting the stage perfectly for Ryan.

When Kathy Hochul won the special election to fill the open congressional seat in upstate New York, Democrats appeared to halt Ryan's Medicare overhaul. Upon closer examination, it was a temporary setback. The Republican Party has mastered their long-term strategy so effectively that whether Paul Ryan's plan succeeds or fails in the 112<sup>th</sup> Congress is irrelevant because it has pushed the Overton Window further right. True, Ryan's Medicare proposal seems radical to the American public now (a recent CNN/Opinion Research poll found 54% of conservatives even opposite it). But simply wait twenty years. Between now and 2031 there will no doubt be many Republican Medicare "reforms" introduced that gradually erode the program. By that point Ryan's plan will seem downright mainstream in comparison.

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