year. As it is, civil servants rush to spend everything in their budget at the end of the fiscal year, fearful that if they give anything back they will not receive an increased appropriation in the next year. But if agencies knew that they would have to meet a productivity goal every year, and that they could keep some of the money saved, a wasteful cycle in discretionary spending would be stopped.

The idea would also be in keeping with the overarching approach that progressives should pursue in these next two years of divided government. We need to return to an era of clear, straightforward, and bipartisan legislation so that every citizen can understand what the trade-offs are. This is the real secret to the series of painful choices before us. No grand ideas, no 1,000-page bills. The entire political establishment needs some successes if they are to convince the country to entrust them with greater responsibility. How about some common sense, fairness, and an approach to governing that takes it one step at a time? D

Inequality and Its Casualties

Paul Pierson

Over the past generation, the American economy has become winner-take-all. The tilt in resources to the economic elite has been staggering. The income share of the top tenth of 1 percent—households now making an average of $7 million per year—more than quadrupled between 1978 and 2007. This tiny group went from bringing in about $1 out of every $50 earned to bringing in $1 of every $12.

Apologists for this massive shift in income distribution often attribute it to impersonal forces of technological change and globalization. In the words of former Treasury Secretary Henry Paulson, rising inequality "is simply an economic reality, and it is neither fair nor useful to blame any political party." Yet other advanced democracies have not followed our economic path, even though they employ these very same technologies and are typically far more exposed to international trade than we are. Elsewhere, economic growth has been just as fast as ours, but the upward tilt of economic rewards has been much less pronounced. The overwhelming majority of the big winners in our new economy are not media superstars or extraordinary innovators, but those positioned to benefit from the dramatic rise of finance and the explosion of executive pay.

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As Jacob Hacker and I have argued in our book *Winner-Take-All Politics*, this new economy has developed hand in hand with a new politics. In a not-so-virtuous cycle, Washington fostered the emergence of a winner-take-all economy even as sharply rising inequality had a pronounced effect on how Washington operates. In the last few years, the dangerous ramifications of this growing imbalance of economic and political power have been increasingly evident. Not only did it foster policies that helped bring about the worst economic crisis since the Great Depression; it has made it increasingly difficult for government to address long-standing economic challenges.

Since the 1970s, both the balance of political organization and the role of money in politics have evolved in ways that favor the wealthiest Americans. After suffering serious defeats over issues like consumer and environmental protection in the early 1970s, business counter-mobilized on a massive scale. With unions in decline, groups representing business and the most affluent Americans have increasingly dominated organized political activity on economic issues.

Moreover, while money has always mattered in Washington, the onset of rising inequality came right around the time that campaigns were becoming dramatically more expensive. And money flowed not just through campaigns, but through vastly expanded lobbying efforts. Indeed, the smart money in Washington—that coming from the organized groups for whom writing political checks is a vocation rather than a hobby—goes mainly to lobbying rather than elections. Lobbying expenditures, narrowly defined, topped $3.5 billion in 2009, compared to the roughly $400 million that political action committees donated to all candidates in the 2010 congressional elections. The goal is to influence governance, shaping what policies get enacted and how they are carried out regardless of who wins a particular campaign.

LORDS OF FINANCE, LORDS OF POLICY

Over the past generation, this pronounced slant in organization and money has had dramatic effects on both parties, with policy-makers becoming much more responsive to the demands of those at the top of the economic ladder. The change in the Republican Party has been most evident, as the GOP has moved from hostility toward selected aspects of the Great Society to increasingly vigorous opposition to long-settled features of the American social contract developed during the Progressive Era and the New Deal. Limiting the wealthy's exposure to taxes and curbing regulatory oversight of businesses have become the cornerstones of Republican economic policy.

While Democrats have been more ambivalent about this new economic world, in practice they too have come to accommodate it. The party has muted its progressive economic message in order to curry favor with the formidable business lobbies, and to fashion appeals to the wealthy individuals whose financial support has become essential for ever-more expensive campaigns. Beginning with the Clinton Administration, Democrats built much tighter connections to the rapidly expanding empires of finance. Wall Street became the crucial supplier of funds for a reinvigorated Democratic Party apparatus. High finance also became the major source of manpower for a new generation of Democratic policy elites, a shift that was accompanied by the development of a revolving door connecting the corridors of political power to unprecedented private-sector riches.

The tightening relationship between economic and political power has contributed to major policy victories benefiting top income groups. Sharp reductions in tax rates for the wealthy began in the late 1970s, even before Reagan came to office, and became a staple of economic policy thereafter. Financial deregulation occurred through a series of initiatives well before the formal repeal of the Glass-Steagall Act in 1999.

Perhaps even more important than these new laws, however, were sustained efforts to block legislative and regulatory initiatives that might have allowed us to confront with greater vigor the new challenges that have come with rapid economic change. Political obstruction blocked efforts to update our industrial relations system in ways that might have made union organization feasible in the new American economy. As finance pushed aggressively into new and ever riskier territory, its allies strenuously resisted effective political oversight. High-level corporate executives successfully minimized regulatory scrutiny even as executive pay exploded to levels unparalleled outside the United States.

The GOP defended its new, more radical stance on economic issues by expanding its use of tools of obstruction—especially the filibuster, which saw a dramatic rise the last couple of years. Its efforts to promote gridlock were often supported by moderate Democrats, increasingly eager to adopt a business-friendly stance on important economic issues. Even a spectacular *fin de siècle* wave of corporate scandals did little to alter the picture. Phil Gramm, the powerful GOP chair of the Senate Banking Committee, summarized the attitude that continued to reign when he admonished Securities and Exchange Commission head Arthur Levitt in 2002 to keep a low profile: "Unless the waters are crimson with the blood of investors, I don't want you embarking on any regulatory flights of fancy."

THE HURTING MIDDLE CLASS

The effect of these policy trends on the middle class has been severe. Even before the Great Recession hit, the United States's record stood alone. Even though we were the affluent democracy whose pre-tax inequality had grown the most in the preceding quarter-century, we were one of only a small handful of countries (far more egalitarian Sweden and the Netherlands being the others) in which the tax-and-transfer system had become significantly *less* redistributive over the same period.

Nonetheless, until the eve of the Great Recession, defenders of the winner-take-all economy argued loudly that the new drift of policy, which gave the market's winners a freer hand and allowed them to keep more of their vastly expanded share of the national income, benefited all. Even before the economy imploded, this was a difficult case to make.

Over the previous three decades, as inequality skyrocketed, middle-class America made extremely limited economic progress—far less than it had in previous decades. The fruits of rising productivity were no longer widely shared but concentrated at the top. Even the limited middle-class gains, which saw inflation-adjusted household incomes in the middle quintile of the population increase from $42,900 in 1979 to $52,100 in 2006, stemmed almost entirely from increased hours worked. They were accompanied, moreover, by a huge rise in household debt, which jumped from around 100 percent of GDP in 1980 to almost 175 percent of GDP in 2009, leaving families more vulnerable to an economic downturn. More broadly, middle-class households experienced a marked increase in exposure to economic risks. The rising share of Americans without health insurance was just the most dramatic sign that both the country's public and employment-based safety nets had grown more threadbare. In 1979, less than 15 percent of the nonelderly population lacked health insurance; by 2006, the proportion had passed 18 percent.

It is not just the distribution of income that has shifted. So has the vision of policy-makers, which now focuses almost solely on economic winners.

Of course, the intellectual defenses of winner-take-all look much weaker in the aftermath of a financial crisis that ravaged the entire economy. The financial sector itself—bolstered by a series of government initiatives dedicated to restoring its profitability—has begun to recover. With the recovery has come a rapid return to the practice of doling out huge paychecks. For the rest of the economy, however, the deepest economic downturn in 70 years has not been so easy to shake off. It is likely to be many years before the economy returns to full employment. Widespread long-term unemployment and the continuing devastation of household and public-sector balance sheets will have enduring effects on the development of human and social capital.

Yet while gearing policy to the concerns of the economy's highest fliers contributed heavily to the debilitating economic developments of the past few years, this has not been the only cost of rising inequality. More subtle, but equally significant, are the ways in which the strong slant of economic policy toward those at the top imperils broader, long-term economic performance. To a striking degree, the construction of policies that might address long-term national challenges has become subject to an effective veto by powerful, concentrated economic interests. As the winner-take-all economy has consolidated, three giant economic sectors—energy, finance, and health care—have expanded their reach (and profits) even as the massive negative externalities associated with them have become increasingly evident. For each of these behemoths, effective public policy—putting some sort of price on carbon, truly limiting systemic risk in banking, and generating serious cost containment in health care—constitutes a potentially mortal threat.

Of course, the American system of checks and balances has always strongly advantaged defenders of the status quo. Yet the increasingly pervasive links between economic elites and the GOP, along with the likelihood that local economic imperatives will lead at least a few Democrats to join them, have heightened barriers to reform. The new ubiquity of the filibuster adds yet another challenge. In combination, these obstacles have given the big winners from the winner-take-all economy a heightened capacity to protect their interests, even when doing so imposes heavy burdens on the economy.

The strategic choices of the Obama Administration in the last couple of years have been revealing. The Administration signaled early on that it felt the status quo in health care, finance, and energy constituted huge, neglected threats to the country's long-term economic performance. In each case, problems had been left to fester for decades. Revealingly, even after the economic crisis and the 2008 elections produced circumstances as favorable to serious reforms as we have witnessed in the past three decades, the Administration pursued negotiations with powerful economic interests on almost every occasion. In the cases of health care and financial regulation, meaningful reforms squeaked through—but only reforms that left the major economic stakeholders intact, along with their capacities to generate huge profits even at the expense of the larger economy.

That even these modest economic reforms barely cleared the congressional obstacle course suggests that the Administration's concessions were necessary in order to win the occasional victory. In the case of energy and climate, it turned out to be impossible to square the circle. The end came with the BP disaster in the Gulf of Mexico. An event that should have strengthened the hands of reformers all but killed reform. Why? Because it meant that those resisting change could not be bought off with an expansion of offshore drilling—a policy that the disaster had rendered off-limits. With the disappearance of this option, the beneficiaries of the economic status quo and their allies decided the best deal was no deal at all.

Of course, the prospect of using public policy to address the mounting imbalances that accompanied the rise of the winner-take-all economy emerged only for a moment. Now, the reform window has closed, hard. With remarkable speed, elite policy discourse seems to have lost interest in the shattering events of 2007 and 2008, or even the economic devastation that still lingers. Instead, attention has returned to an agenda of cuts in domestic spending, preservation of high-end tax cuts, and energetic efforts to hamstring regulators. The increasing concentration of economic rewards has generated clout sufficient to deflect any serious political challenge. Gridlock helps the beneficiaries of the economic status quo. It pushes the action back to the private sector, rendering government's role less and less significant over time even as the middle class desperately needs government to address changing economic realities.

It is not just the distribution of income that has shifted over the past three decades. So has the vision of policy-makers, which now focuses on the narrowing circle of economic winners. The very capacity of government to address the economic health of the nation is now in doubt—unless, that is, reforms that are proposed dovetail with the immediate interests of those at the top. In a democracy worthy of the name, this should not be the litmus test for government action. **D**

The Triumph of Taxophobia

Jonathan Chait

The conservative movement's embrace of taxophobia is probably the most important development in American political life over the last three decades. It is the one quality that most distinguishes American conservative elites from conservative elites in other countries. They're more likely to question climate science, more sanguine about people dying for lack of health insurance, and less xenophobic (which is rather nice). But above all—far above all—they hate taxes.

Taxophobia has spawned an epistemology of its own and has completely reshaped the landscape of American politics. It more than anything else has

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